

MONTGOMERY COUNTY BOARD OF EDUCATION
MOUNT VERNON, GEORGIA

ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2011
(Including Independent Auditor's Reports)

MONTGOMERY COUNTY BOARD OF EDUCATION

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FINANCIAL

DEPARTMENT OF AUDITS AND ACCOUNTS

270 Washington Street, S.W., Suite 1-156
Atlanta, Georgia 30334-8400

Greg S. Griffin
STATE AUDITOR
(404) 656-2174

September 25, 2012

Honorable Nathan Deal, Governor
Members of the General Assembly
Members of the State Board of Education
and
Superintendent and Members of the
Montgomery County Board of Education

INDEPENDENT AUDITOR'S COMBINED REPORT ON BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION - SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Ladies and Gentlemen:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information (Exhibits A through H) of the Montgomery County Board of Education, as of and for the year ended June 30, 2011, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Montgomery County Board of Education'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 Board'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 Board of Education, 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.

The Montgomery County Board of Education has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2012, on our consideration of the Montgomery County Board of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual, as presented on page 23, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Montgomery County Board of Education's financial statements as a whole. The accompanying supplementary information consists of Schedules 2 through 5, which includes the Schedule of Expenditures of Federal Awards as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* are presented for purposes of additional analysis and are not a required part of the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

A copy of this report has been filed as a permanent record in the office of the State Auditor and made available to the press of the State, as provided for by Official Code of Georgia Annotated section 50-6-24.

Respectfully submitted,

Greg S. Griffin
State Auditor

GSG:as
2011ARL-11

MONTGOMERY COUNTY BOARD OF EDUCATION

MONTGOMERY COUNTY BOARD OF EDUCATION
STATEMENT OF NET ASSETS
JUNE 30, 2011

EXHIBIT "A"

	GOVERNMENTAL ACTIVITIES
ASSETS	
Cash and Cash Equivalents	$ 1,294,811.55
Investments	10,311.00
Accounts Receivable, Net	
Taxes	270,651.62
State Government	745,557.20
Federal Government	340,940.18
Inventories	20,746.57
Capital Assets, Non-Depreciable	202,017.00
Capital Assets, Depreciable (Net of Accumulated Depreciation)	10,223,156.00
Total Assets	$ 13,108,191.12
LIABILITIES	
Accounts Payable	$ 120,372.69
Salaries and Benefits Payable	1,169,390.85
Long-Term Liabilities	
Due Within One Year	26,727.12
Due in More Than One Year	57,099.49
Total Liabilities	$ 1,373,590.15
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	$ 10,341,346.39
Restricted for	
Continuation of Federal Programs	40,522.99
Capital Projects	1,178,090.69
Continuation of State Programs	28,569.94
Unrestricted	146,070.96
Total Net Assets	$ 11,734,600.97
Total Liabilities and Net Assets	$ 13,108,191.12

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

MONTGOMERY COUNTY BOARD OF EDUCATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

EXHIBIT "B"

	EXPENSES	PROGRAM REVENUES: CHARGES FOR SERVICES	PROGRAM REVENUES: OPERATING GRANTS AND CONTRIBUTIONS	NET (EXPENSES) REVENUES AND CHANGES IN NET ASSETS
GOVERNMENTAL ACTIVITIES				
Instruction	$ 6,943,425.46	$ 7,018.77	$ 5,172,665.60	$ -1,763,741.09
Support Services				
Pupil Services	223,151.61		61,461.13	-161,690.48
Improvement of Instructional Services	126,829.46		125,526.52	-1,302.94
Educational Media Services	186,083.29		139,200.29	-46,883.00
General Administration	458,148.69		375,186.84	-82,961.85
School Administration	1,021,093.87		493,252.22	-527,841.65
Business Administration	131,151.83		90,942.20	-40,209.63
Maintenance and Operation of Plant	723,602.10		314,539.89	-409,062.21
Student Transportation Services	549,026.06		247,933.35	-301,092.71
Other Support Services	82,867.38		26,202.69	-56,664.69
Operations of Non-Instructional Services				
Enterprise Operations	76,140.68	76,140.68		0.00
Food Services	584,739.96	61,094.52	528,211.35	4,565.91
Interest on Short-Term and Long-Term Debt	4,900.83			-4,900.83
Total Governmental Activities	$ 11,111,161.22	$ 144,253.97	$ 7,575,122.08	$ -3,391,785.17
General Revenues				
Taxes				
Property Taxes				
For Maintenance and Operations				$ 2,245,327.43
Railroad Cars				11,070.10
Sales Taxes				
Special Purpose Local Option Sales Tax				
For Capital Projects				576,137.52
Other Sales Tax				21,732.18
Grants and Contributions not Restricted				
to Specific Programs				392,904.00
Investment Earnings				16,899.00
Miscellaneous				288,381.67
Total General Revenues				$ 3,552,451.90
Change in Net Assets				$ 160,666.73
Net Assets - Beginning of Year				11,573,934.24
Net Assets - End of Year				$ 11,734,600.97

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

MONTGOMERY COUNTY BOARD OF EDUCATION
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011

EXHIBIT "C"

	GENERAL FUND	DISTRICT-WIDE CAPITAL PROJECTS FUND	TOTAL
ASSETS			
Cash and Cash Equivalents	$ 93,292.26	$ 1,201,519.29	$ 1,294,811.55
Investments	10,311.00		10,311.00
Accounts Receivable, Net			
Taxes	221,191.80	49,459.82	270,651.62
State Government	745,557.20		745,557.20
Federal Government	340,940.18		340,940.18
Inventories	20,746.57		20,746.57
Total Assets	$ 1,432,039.01	$ 1,250,979.11	$ 2,683,018.12
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts Payable	$ 47,484.27	$ 72,888.42	$ 120,372.69
Salaries and Benefits Payable	1,169,390.85		1,169,390.85
Deposits and Deferred Revenue	157,993.79		157,993.79
Total Liabilities	$ 1,374,868.91	$ 72,888.42	$ 1,447,757.33
FUND BALANCES			
Nonspendable	$ 20,746.57		$ 20,746.57
Restricted	48,346.36	$ 1,178,090.69	1,226,437.05
Unassigned (Deficit)	-11,922.83		-11,922.83
Total Fund Balances	$ 57,170.10	$ 1,178,090.69	$ 1,235,260.79
Total Liabilities and Fund Balances	$ 1,432,039.01	$ 1,250,979.11	$ 2,683,018.12

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

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

EXHIBIT "D"

Total Fund Balances - Governmental Funds (Exhibit "C")		$ 1,235,260.79
Amounts reported for Governmental Activities in the Statement of Net Assets are different because:		
Capital Assets used in Governmental Activities are not financial resources and therefore are not reported in the funds. These assets consist of:		
Land	$ 159,074.00	
Construction in Progress	42,943.00	
Land Improvements	604,008.00	
Buildings	13,013,920.00	
Equipment	1,905,961.00	
Accumulated Depreciation	-5,300,733.00	
Total Capital Assets		10,425,173.00
Taxes that are not available to pay for current period expenditures are deferred in the funds.		
Property Taxes		157,993.79
Capital Leases, which are Long-Term Liabilities, are not due and payable in the current period and therefore are not reported as liabilities in the funds.		-83,826.61
Net Assets of Governmental Activities (Exhibit "A")		$ 11,734,600.97

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

MONTGOMERY COUNTY BOARD OF EDUCATION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2011

EXHIBIT "E"

	GENERAL FUND	DISTRICT-WIDE CAPITAL PROJECTS FUND	TOTAL
REVENUES			
Property Taxes	$ 2,216,269.37		$ 2,216,269.37
Sales Taxes	21,732.18	$ 576,137.52	597,869.70
State Funds	6,225,815.36		6,225,815.36
Federal Funds	1,742,210.72		1,742,210.72
Charges for Services	144,253.97		144,253.97
Investment Earnings	5,570.67	11,328.33	16,899.00
Miscellaneous	288,381.67		288,381.67
Total Revenues	$ 10,644,233.94	$ 587,465.85	$ 11,231,699.79
EXPENDITURES			
Current			
Instruction	$ 6,543,690.20	$ 73,802.88	$ 6,617,493.08
Support Services			
Pupil Services	223,151.61		223,151.61
Improvement of Instructional Services	126,829.46		126,829.46
Educational Media Services	184,826.03		184,826.03
General Administration	450,625.92	6,021.01	456,646.93
School Administration	1,018,108.37		1,018,108.37
Business Administration	131,151.83		131,151.83
Maintenance and Operation of Plant	667,365.92	48,556.26	715,922.18
Student Transportation Services	433,493.91	56,353.00	489,846.91
Other Support Services	82,867.38		82,867.38
Enterprise Operations	76,140.68		76,140.68
Food Services Operation	562,379.64		562,379.64
Capital Outlay		88,174.29	88,174.29
Debt Services			
Principal		25,581.23	25,581.23
Interest		4,900.83	4,900.83
Total Expenditures	$ 10,500,630.95	$ 303,389.50	$ 10,804,020.45
Net Change in Fund Balances	$ 143,602.99	$ 284,076.35	$ 427,679.34
Fund Balances - Beginning	-86,432.89	894,014.34	807,581.45
Fund Balances - Ending	$ 57,170.10	$ 1,178,090.69	$ 1,235,260.79

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

MONTGOMERY COUNTY BOARD OF EDUCATION
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2011

EXHIBIT "F"

Total Net Change in Fund Balances - Governmental Funds (Exhibit "E")		$ 427,679.34
Amounts reported for Governmental Activities in the Statement of Activities are different because:		
Capital Outlays are reported as expenditures in Governmental Funds. However, in the Statement of Activities, the cost of Capital Assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:		
Capital Outlay	$ 180,799.00	
Depreciation Expense	-415,343.00	
Excess of Capital Outlay over Depreciation Expense		-234,544.00
Taxes reported in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		40,128.16
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, donations, and disposals) is to decrease net assets.		-98,178.00
Repayment of Long-Term Debt is reported as an expenditure in Governmental Funds, but the repayment reduces Long-Term Liabilities in the Statement of Net Assets. In the current year, these amounts consist of Capital Lease Payments.		25,581.23
Change in Net Assets of Governmental Activities (Exhibit "B")		$ 160,666.73

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

MONTGOMERY COUNTY BOARD OF EDUCATION
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2011

EXHIBIT "G"

	AGENCY FUNDS
ASSETS	
Cash and Cash Equivalents	$ 10,152.16
LIABILITIES	
Funds Held for Others	$ 10,152.16

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

NOTE 1: DESCRIPTION OF SCHOOL DISTRICT AND REPORTING ENTITY

REPORTING ENTITY

The Montgomery County Board of Education (School District) was established under the laws of the State of Georgia and operates under the guidance of a school board elected by the voters and a Superintendent appointed by the Board. The Board is organized as a separate legal entity and has the power to levy taxes and issue bonds. Its budget is not subject to approval by any other entity. Accordingly, the School District is a primary government and consists of all the organizations that compose its legal entity.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The School District's basic financial statements are collectively comprised of the District-wide financial statements, fund financial statements and notes to the basic financial statements of the Montgomery County Board of Education.

District-wide Statements:

The Statement of Net Assets and the Statement of Activities display information about the financial activities of the overall School District, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the School District's governmental activities.

- Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expenses (expenses of the School District related to the administration and support of the School District's programs, such as office and maintenance personnel and accounting) are not allocated to programs.
- Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements:

The fund financial statements provide information about the School District's funds. Eliminations have been made to minimize the double counting of internal activities. Separate statements for each category (governmental and fiduciary) are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

The School District reports the following major governmental funds:

- General Fund is the School District's primary operating fund. It accounts for and reports all financial resources not accounted for and reported in another fund.
- District-wide Capital Projects Fund accounts for and reports financial resources including Special Purpose Local Option Sales Tax (SPLOST) that are restricted to the expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

The School District reports the following fiduciary fund type:

- Agency funds account for assets held by the School District as an agent for various funds, governments or individuals.

BASIS OF ACCOUNTING

The basis of accounting determines when transactions are reported on the financial statements. The District-wide governmental and fiduciary financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the School District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, sales taxes, grants and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from sales taxes is recognized in the fiscal year in which the underlying transaction (sale) takes place. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The School District uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The School District considers all revenues reported in the governmental funds to be available if they are collected within sixty days after year-end. Property taxes, sales taxes and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Acquisitions under capital leases are reported as other financing sources.

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

The State of Georgia reimburses the School System for teachers' salaries and operating costs through the Quality Basic Education Formula Earnings program (QBE). Generally teachers are contracted for the school year (July 1 – June 30) and paid over a twelve month contract period, generally September 1 through August 31. In accordance with the respective rules and regulations of the QBE program, the State of Georgia reimburses the School System over the same twelve month period in which teachers are paid. At June 30, the amount of teachers' salaries incurred but not paid until July and August of the subsequent year are accrued. Since the State of Georgia recognizes its QBE liability for the July and August salaries at June 30, the School System recognizes the same QBE as a receivable and revenue, consistent with symmetrical recognition.

NEW ACCOUNTING PRONOUNCEMENTS

In fiscal year 2011, the School District adopted the Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The provisions of this Statement establish accounting and financial reporting standards for all governments that report governmental funds. It establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental funds.

CASH AND CASH EQUIVALENTS

Composition of Deposits

Cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition in authorized financial institutions. Official Code of Georgia Annotated Section 45-8-14 authorizes the School District to deposit its funds in one or more solvent banks, insured Federal savings and loan associations or insured chartered building and loan associations.

INVESTMENTS

Composition of Investments

Investments made by the School District in nonparticipating interest-earning contracts (such as certificates of deposit) and repurchase agreements are reported at cost. Participating interest-earning contracts and money market investments with a maturity at purchase of one year or less are reported at amortized cost. Both participating interest-earning contracts and money market investments with a maturity at purchase greater than one year are reported at fair value. The Official Code of Georgia Annotated Section 36-83-4 authorizes the School District to invest its funds. In selecting among options for investment or among institutional bids for deposits, the highest rate of return shall be the objective, given equivalent conditions of safety and liquidity. Funds may be invested in the following:

1. Obligations issued by the State of Georgia or by other states,
2. Obligations issued by the United States government,
3. Obligations fully insured or guaranteed by the United States government or a United States government agency,
4. Obligations of any corporation of the United States government,
5. Prime banker's acceptances,
6. The Georgia Fund 1 administered by the State of Georgia, Office of the State Treasurer,
7. Repurchase agreements, and
8. Obligations of other political subdivisions of the State of Georgia.

The School District does not have a formal policy regarding investment policies that address credit risk, concentration of credit risk, interest rate risks or foreign currency risks.

RECEIVABLES

Receivables consist of amounts due from property and sales taxes, grant reimbursements due on Federal, State or other grants for expenditures made but not reimbursed and other receivables disclosed from information available. Receivables are recorded when either the asset or revenue recognition criteria has been met. Receivables recorded on the basic financial statements do not include any amounts which would necessitate the need for an allowance for uncollectible receivables.

PROPERTY TAXES

The Montgomery County Board of Commissioners fixed the property tax levy for the 2010 tax digest year (calendar year) on September 15, 2010 (levy date). Taxes were due on December 20, 2010 (lien date). Taxes collected within the current fiscal year or within 60 days after year-end on the 2010 tax digest are reported as revenue in the governmental funds for fiscal year 2011. The Montgomery County Tax Commissioner bills and collects the property taxes for the School District, withholds 2.5% of taxes collected as a fee for tax collection and remits the balance of taxes collected

to the School District. Property tax revenues, at the fund reporting level, during the fiscal year ended June 30, 2011, for maintenance and operations amounted to $2,205,199.27.

The tax millage rate levied for the 2010 tax year (calendar year) for the Montgomery County Board of Education was as follows (a mill equals $1 per thousand dollars of assessed value):

School Operations	12.10 mills

SALES TAXES

Special Purpose Local Option Sales Tax, at the fund reporting level, during the year amounted to $576,137.52 and is to be used for capital outlay for educational purposes. This sales tax was authorized by local referendum and the sales tax must be re-authorized at least every five years.

INVENTORIES

Food Inventories

On the basic financial statements, inventories of donated food commodities used in the preparation of meals are reported at their Federally assigned value and purchased foods inventories are reported at cost (first-in, first-out). The School District uses the consumption method to account for inventories whereby donated food commodities are recorded as an asset and as revenue when received, and expenses/expenditures are recorded as the inventory items are used. Purchased foods are recorded as an asset when purchased and expenses/expenditures are recorded as the inventory items are used.

CAPITAL ASSETS

Capital assets purchased, including capital outlay costs, are recorded as expenditures in the fund financial statements at the time of purchase (including ancillary charges). On the District-wide financial statements, all purchased capital assets are valued at cost where historical records are available and at estimated historical cost based on appraisals or deflated current replacement cost where no historical records exist. Donated capital assets are recorded at estimated fair market value on the date donated. Disposals are deleted at depreciated recorded cost. The cost of normal maintenance and repairs that do not add to the value of assets or materially extend the useful lives of the assets is not capitalized. Depreciation is computed using the straight-line method. The School District does not capitalize book collections or works of art. During the fiscal year under review, no events or changes in circumstances affecting a capital asset that may indicate impairment were known to the School District.

Capitalization thresholds and estimated useful lives of capital assets reported in the District-wide statements are as follows:

	Capitalization Policy	Estimated Useful Life
Land	Any Amount	N/A
Land Improvements	$ 10,000.00	15 to 80 years
Buildings and Improvements	$ 10,000.00	50 to 80 years
Equipment	$ 5,000.00	5 to 30 years
Construction in Progress	$ 10,000.00	N/A
Intangibles - Software	$ 100,000.00	10 years
All Other Intangibles	$ 10,000.00	20 years

Depreciation is used to allocate the actual or estimated historical cost of all capital assets over estimated useful lives, with the exception of intangible assets which are amortized.

Amortization of intangible assets such as water, timber, and mineral rights, easements, patents, trademarks, copyrights and internally generated software is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 20 years.

NET ASSETS

The School District's net assets in the District-wide Statements are classified as follows:

Invested in capital assets, net of related debt - This represents the School District's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted net assets - These represent resources for which the School District is legally or contractually obligated to spend resources for bus replacement, continuation of Federal Programs, continuation of State Pre-K Programs and capital projects in accordance with restrictions imposed by external third parties.

Unrestricted net assets - Unrestricted net assets represent resources derived from property taxes, sales taxes, grants and contributions not restricted to specific programs, charges for services, and miscellaneous revenues. These resources are used for transactions relating to the educational and general operations of the School District, and may be used at the discretion of the Board to meet current expenses for those purposes.

FUND BALANCES

The School District's fund balances are classified as follows:

Nonspendable – Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – Constraints are placed on the use of resources are either (1) externally imposed conditions by creditors, grantors, contributors, or laws and regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation.

Committed – Amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Education. The Board of Education is the School District's highest level of decision-making authority, and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution approved by the Board. Committed fund balance also should incorporate contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – Amounts that are constrained by the School District's *intent* to be used for specific purposes, but are neither restricted nor committed. The intent should be expressed by (1) the Board of Education or (2) the budget or finance committee, or the Superintendent, or designee, to assign amounts to be used for specific purposes.

Unassigned – The residual classification for the General Fund. This classification represents fund balances that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund.

Fund Balances of the Governmental Funds at June 30, 2011, are as follows:

Nonspendable		
Inventories		$ 20,746.57
Restricted		
Bus Replacement	$ 16,153.00	
Continuation of Federal Programs	19,776.42	
Continuation of State Pre-K Programs	12,416.94	
Capital Projects	1,178,090.69	1,226,437.05
Unassigned		-11,922.83
Fund Balance, June 30, 2011		$ 1,235,260.79

It is the goal of the School District to achieve and maintain a financially healthy committed, assigned, and unassigned fund balance in the general fund at fiscal year-end of not less than 1% of annual operating expenditures, not to exceed 15% of the total budget of the subsequent fiscal year, in compliance with Official Code of Georgia Annotated Section 20-2-167(a)5. If the unassigned fund balance at fiscal year-end falls below the goal, the School District shall develop a restoration plan to achieve and maintain the minimum fund balance.

When multiple categories of fund balance are available for expenditure, the School District will start with the most restricted category and spend those funds first before moving down to the next category with available funds.

DEFICIT FUND BALANCES

Funds and individual non-major funds reporting a deficit fund balance at June 30, 2011, are as follows:

Fund Type/Fund Name	Deficit Balance
Governmental Fund	
General Fund	$ 11,922.83

USE OF ESTIMATES

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 3: DEPOSITS AND INVESTMENTS

COLLATERALIZATION OF DEPOSITS

Official Code of Georgia Annotated (O.C.G.A.) Section 45-8-12 provides that there shall not be on deposit at any time in any depository for a time longer than ten days a sum of money which has not been secured by surety bond, by guarantee of insurance, or by collateral. The aggregate of the face value of such surety bond and the market value of securities pledged shall be equal to not less than 110 percent of the public funds being secured after the deduction of the amount of deposit insurance. If a depository elects the pooled method (O.C.G.A. Section 45-8-13.1) the aggregate of the market value of the securities pledged to secure a pool of public funds shall be not less than 110 percent of the daily pool balance.

Acceptable security for deposits consists of any one of or any combination of the following:

1. Surety bond signed by a surety company duly qualified and authorized to transact business within the State of Georgia,
2. Insurance on accounts provided by the Federal Deposit Insurance Corporation,
3. Bonds, bills, notes, certificates of indebtedness or other direct obligations of the United States or of the State of Georgia,
4. Bonds, bills, notes, certificates of indebtedness or other obligations of the counties or municipalities of the State of Georgia,
5. Bonds of any public authority created by the laws of the State of Georgia, providing that the statute that created the authority authorized the use of the bonds for this purpose,
6. Industrial revenue bonds and bonds of development authorities created by the laws of the State of Georgia, and
7. Bonds, bills, notes, certificates of indebtedness, or other obligations of a subsidiary corporation of the United States government, which are fully guaranteed by the United States government both as to principal and interest or debt obligations issued by or securities guaranteed by the Federal Land Bank, the Federal Home Loan Bank, the Federal Intermediate Credit Bank, the Central Bank for Cooperatives, the Farm Credit Banks, the Federal Home Loan Mortgage Association, and the Federal National Mortgage Association.

CATEGORIZATION OF DEPOSITS

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. At June 30, 2011, the bank balances were $1,732,125.29. The amounts exposed to custodial credit risk are classified into three categories as follows:

Category 1 - Uncollateralized,
Category 2 - Cash collateralized with securities held by the pledging financial institution, or
Category 3 - Cash collateralized with securities held by the pledging financial institution's trust department or agent but not in the School District's name.

The School District's deposits by custodial risk category at June 30, 2011, are as follows:

Custodial Credit Risk Category	Bank Balance
1	$ 0.00
2	158,809.96
3	1,002,674.32
Total	$ 1,161,484.28

CATEGORIZATION OF INVESTMENTS

At June 30, 2011, the fair value of the School District's total investments was $10,311.00 and this entire amount consisted of common stock, which were held by the School District.

NOTE 4: NON-MONETARY TRANSACTIONS

The School District receives food commodities from the United States Department of Agriculture (USDA) for school breakfast and lunch programs. These commodities are recorded at their Federally assigned value. See Note 2 - Inventories

NOTE 5: CAPITAL ASSETS

The following is a summary of changes in the Capital Assets during the fiscal year:

	Balances July 1, 2010	Increases	Decreases	Balances June 30, 2011
Governmental Activities				
Capital Assets, Not Being Depreciated:				
Land	$ 159,074.00		$ 0.00	$ 159,074.00
Construction Work In Progress	0.00	$ 42,943.00		42,943.00
Total Capital Assets, Not Being Depreciated	$ 159,074.00	$ 42,943.00	$ 0.00	$ 202,017.00
Capital Assets, Being Depreciated:				
Buildings and Improvements	$ 13,013,920.00			$ 13,013,920.00
Equipment	1,891,780.00	$ 112,359.00	$ 98,178.00	1,905,961.00
Land Improvements	578,511.00	25,497.00		604,008.00
Less: Accumulated Depreciation:				
Buildings and Improvements	3,401,378.00	294,804.00		3,696,182.00
Equipment	1,219,732.00	84,948.00		1,304,680.00
Land Improvements	264,280.00	35,591.00		299,871.00
Total Capital Assets, Being Depreciated, Net	$ 10,598,821.00	$ -277,487.00	$ 98,178.00	$ 10,223,156.00
Governmental Activity Capital Assets - Net	$ 10,757,895.00	$ -234,544.00	$ 98,178.00	$ 10,425,173.00

Capital assets being acquired under capital leases as of June 30, 2011, are as follows:

	Governmental Funds
Equipment	$ 139,380.00
Less: Accumulated Depreciation	20,907.00
	$ 118,473.00

Current year depreciation expense by function is as follows:

Instruction		$ 300,557.00
Support Services		
Educational Media Services	$ 977.00	
General Administration	1,167.00	
School Administration	2,320.00	
Maintenance and Operation of Plant	3,167.00	
Student Transportation Services	89,780.00	97,411.00
Food Services		17,375.00
		$ 415,343.00

NOTE 8: RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors or omissions; job related illness or injuries to employees; acts of God and unemployment compensation.

The School District has obtained commercial insurance for risk of loss associated with torts, assets, errors or omissions, and job related illness or injuries to employees. The School District has neither significantly reduced coverage for these risks nor incurred losses (settlements) which exceeded the School District's insurance coverage in any of the past three years.

The School District has elected to self-insure for all losses related to acts of God. The School District has not experienced any losses related to this risk in the past three years.

The School District is self-insured with regard to unemployment compensation claims. The School District accounts for claims within the General Fund, with expenses/expenditures and liability being reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated.

Changes in the unemployment compensation claims liability during the last two fiscal years are as follows:

	Beginning of Year Liability	Claims and Changes in Estimates	Claims Paid	End of Year Liability
2010	$ 7,153.00	$ 8,896.04	$ 16,049.04	$ 0.00
2011	$ 0.00	$ 2,265.00	$ 615.00	$ 1,650.00

The School District has purchased surety bonds to provide additional insurance coverage as follows:

Position Covered	Amount
Superintendent	$ 25,000.00
Each Principal	$ 10,000.00
Each Assistant Principal	$ 10,000.00
Finance Director	$ 10,000.00
Payroll Clerk	$ 10,000.00
Each Bookkeeper	$ 10,000.00
School Food Service Director	$ 10,000.00
All Employees	$ 100,000.00

NOTE 10: SHORT-TERM DEBT

The School District issues tax anticipation notes in advance of property tax collections, depositing the proceeds in its General Fund. This short-term debt is to provide cash for operations until property tax collections are received by the School District.. Article IX, Section V, Paragraph V of the Constitution of the State of Georgia limits the aggregate amount of short-term debt to 75 percent of the total gross income from taxes collected in the preceding year and requires all short-term debt to be repaid no later than December 31 of the calendar year in which the debt was incurred.

Short-term debt activity for the fiscal year is as follows:

	Beginning Balance	Issued	Redeemed	Ending Balance
Tax Anticipation Notes	$ 200,000.00	$ 300,000.00	$ 500,000.00	$ 0.00

NOTE 11: LONG-TERM DEBT

CAPITAL LEASES

The Montgomery County Board of Education entered into a lease agreement for buses.. This lease agreement qualifies as a capital lease for accounting purposes, and, therefore, has been recorded at the present value of the future minimum lease payments as of the date of its inception.

The changes in Long-Term Debt during the fiscal year ended June 30, 2011, were as follows:

	Governmental Funds				
	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011	Due Within One Year
Capital Leases	$ 109,407.84	$ 0.00	$ 25,581.23	$ 83,826.61	$ 26,727.12

At June 30, 2011, payments due by fiscal year which includes principal and interest for these items are as follows:

	Capital Leases	
	Principal	Interest
Fiscal Year Ended June 30:		
2012	$ 26,727.12	$ 3,754.94
2013	27,924.34	2,557.72
2014	29,175.15	1,306.91
Total Principal and Interest	$ 83,826.61	$ 7,619.57

NOTE 12: ON-BEHALF PAYMENTS

The School District has recognized revenues and costs in the amount of $29,333.33 for health insurance and retirement contributions paid on the School District's behalf by the following State Agencies.

Georgia Department of Education
Paid to the Georgia Department of Community Health
For Health Insurance of Non-Certificated Personnel
In the amount of $20,658.88

Paid to the Teachers' Retirement System of Georgia
For Teachers' Retirement System (TRS) Employer's Cost
In the amount of $2,123.45

Office of the State Treasurer
Paid to the Public School Employees' Retirement System
For Public School Employees' Retirement (PSERS) Employer's Cost
In the amount of $6,551.00

NOTE 13: SIGNIFICANT CONTINGENT LIABILITIES

Amounts received or receivable principally from the Federal government are subject to audit and review by grantor agencies. This could result in requests for reimbursement to the grantor agency for any costs which are disallowed under grant terms. The School District believes that such disallowances, if any, will be immaterial to its overall financial position.

The School District (MCBOE) is a defendant and counterclaim plaintiff in a lawsuit filed by DeLoach Architects, P.C. DeLoach alleges that MCBOE breached its contract with DeLoach for professional services for the design and oversight of construction of a proposed school project when MCBOE terminated the Agreement and failed to remit final payment to DeLoach for services rendered. DeLoach claims that it has incurred $300,000.00 in damages as a result of MCBOE's alleged breach. DeLoach also seeks to recover litigation expense, including attorney's fees, from MCBOE, pursuant to Official Code of Georgia Annotated (O.C.G.A.) §13-6-11. MCBOE is contesting the case vigorously.

MCBOE filed an Answer and Counterclaims in response to DeLoach's Complaint. In addition to answering DeLoach's allegations, MCBOE filed a counterclaim against DeLoach for breach of contract, noting that the school was never built nor was a construction contract ever signed with a contractor to determine actual costs of the building.

Although both the results and cost of litigation are uncertain, MCBOE believes that DeLoach's claims are without merit and will ultimately be unsuccessful. MCBOE is unsure of the outcome of its counterclaims against DeLoach.

In addition, the School District is a defendant in an appeals process related to three employees prior employment termination actions pending before the Montgomery County Superior Court. Each of these three pending actions has a potential of costing the school system approximately $60,000.00 to $100,000.00 per each action.

The School District believes the likelihood of a material adverse outcome for each of these cases are unknown at this time. Accordingly, adjustments, if any, that might result from the resolution of this matter have not been reflected in the basic financial statements.

NOTE 14: POST-EMPLOYMENT BENEFITS

GEORGIA SCHOOL PERSONNEL POST-EMPLOYMENT HEALTH BENEFIT FUND

Plan Description. The Georgia School Personnel Post-employment Health Benefit Fund (School OPEB Fund) is a cost-sharing multiple-employer defined benefit post-employment healthcare plan that covers eligible former employees of public school systems, libraries and regional educational service agencies. The School OPEB Fund provides health insurance benefits to eligible former employees and their qualified beneficiaries through the State Employees Health Benefit Plan administered by the Department of Community Health. The Official Code of Georgia Annotated (O.C.G.A.) assigns the authority to establish and amend the benefit provisions of the group health plans, including benefits for retirees, to the Board of Community Health (Board). The Department of Community Health, which includes the School OPEB Fund, issues a separate stand-alone financial audit report and a copy can be obtained from the Georgia Department of Audits and Accounts.

Funding Policy The contribution requirements of plan members and participating employers are established by the Board in accordance with the current Appropriations Act and may be amended by the Board. Contributions of plan members or beneficiaries receiving benefits vary based on plan election, dependent coverage, and Medicare eligibility and election. On average, plan members pay approximately 25 percent of the cost of the health insurance coverage.

Participating employers are statutorily required to contribute in accordance with the employer contribution rates established by the Board. The contribution rates are established to fund all benefits due under the health insurance plans for both active and retired employees based on projected "pay-as-you-go" financing requirements. Contributions are not based on the actuarially calculated annual required contribution (ARC) which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The combined active and retiree contribution rates established by the Board for employers participating in the School OPEB Fund were as follows for the fiscal year ended June 30, 2011:

For certificated teachers, librarians and regional educational service agencies:

July 2010 - April 2011	21.955%	of covered payroll for August - May Coverage
May 2011 - June 2011	1.429%	of covered payroll for June - July Coverage

For non-certificated school personnel:

July 2010 - December 2010	$162.72	per member per month
January 2011 - May 2011	$218.20	per member per month
June 2011	$246.20	per member per month

The Department of Education was appropriated an additional $25,081,633 for non-certificated personnel health insurance payments. The amount attributable to the School District is reflected in the On-behalf note disclosure.

No additional contribution was required by the Board for fiscal year 2011 nor contributed to the School OPEB Fund to prefund retiree benefits. Such additional contribution amounts are determined annually by the Board in accordance with the School plan for other post-employment benefits and are subject to appropriation.

The School District's combined active and retiree contributions to the health insurance plans, which equaled the required contribution, for the current fiscal year and the preceding two fiscal years were as follows:

Fiscal Year	Percentage Contributed	Required Contribution
2011	100%	$ 1,065,208.79
2010	100%	$ 1,010,236.78
2009	100%	$ 798,112.59

NOTE 15: RETIREMENT PLANS

TEACHERS' RETIREMENT SYSTEM OF GEORGIA (TRS)

Plan Description. The TRS is a cost-sharing multiple-employer defined benefit plan created in 1943 by an act of the Georgia General Assembly to provide retirement benefits for qualifying employees in educational service. A Board of Trustees comprised of active and retired members and ex-officio State employees is ultimately responsible for the administration of TRS. The Teachers' Retirement System of Georgia issues a separate stand-alone financial audit report and a copy can be obtained from the Georgia Department of Audits and Accounts.

On October 25, 1996, the Board created the Supplemental Retirement Benefits Plan of the Georgia Teachers' Retirement System (SRBP-TRS). SRBP-TRS was established as a qualified excess benefit plan in accordance with Section 415 of the Internal Revenue Code (IRC) as a portion of TRS. The purpose of SRBP-TRS is to provide retirement benefits to employees covered by TRS whose benefits are otherwise limited by IRC Section 415. Beginning July 1, 1997, all members and retired former members in TRS are eligible to participate in the SRBP-TRS whenever their benefits under TRS exceed the IRC Section 415 imposed limitation on benefits.

TRS provides service retirement, disability retirement, and survivor's benefits. The benefit structure of TRS is defined and may be amended by State statute. A member is eligible for normal service retirement after 30 years of creditable service, regardless of age, or after 10 years of service and attainment of age 60. A member is eligible for early retirement after 25 years of creditable service.

Normal retirement (pension) benefits paid to members are equal to 2% of the average of the member's two highest paid consecutive years of service, multiplied by the number of years of creditable service up to 40 years. Early retirement benefits are reduced by the lesser of one-twelfth of 7% for each month the member is below age 60 or by 7% for each year or fraction thereof by which the member has less than 30 years of service. It is also assumed that certain cost-of-living adjustments, based on the Consumer Price Index, will be made in future years. Retirement benefits are payable monthly for life. A member may elect to receive a partial lump-sum distribution in addition to a reduced monthly retirement benefit. Death, disability and spousal benefits are also available.

Funding Policy. TRS is funded by member and employer contributions as adopted and amended by the Board of Trustees. Members become fully vested after 10 years of service. If a member terminates with less than 10 years of service, no vesting of employer contributions occurs, but the member's contributions may be refunded with interest. Member contributions are limited by State law to not less than 5% or more than 6% of a member's earnable compensation. Member contributions as adopted by the Board of Trustees for the fiscal year ended June 30, 2011, were 5.53% of annual salary. The member contribution rate will increase to 6.00% effective July 1, 2012. Employer contributions required for fiscal year 2011 were 10.28% of annual salary as required by the June 30, 2008, actuarial valuation. The employer contribution rate will increase to 11.41% effective July 1, 2012.

Employer contributions for the current fiscal year and the preceding two fiscal years are as follows:

Fiscal Year	Percentage Contributed	Required Contribution
2011	100%	$ 649,493.66
2010	100%	$ 652,964.47
2009	100%	$ 643,565.51

PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (PSERS)

Bus drivers, lunchroom personnel, and maintenance and custodial personnel are members of the Public School Employees' Retirement System of Georgia. The System is funded by contributions by the employees and by the State of Georgia. The School District makes no contribution to this plan.

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MONTGOMERY COUNTY BOARD OF EDUCATION
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2011

SCHEDULE "1"

	NONAPPROPRIATED BUDGETS		ACTUAL
	ORIGINAL (1)	FINAL (1)	AMOUNTS
REVENUES			
Property Taxes	$ 2,145,108.00	$ 2,145,108.00	$ 2,216,269.37
Sales Taxes	9,926.00	9,926.00	21,732.18
State Funds	5,694,163.00	5,845,893.00	6,225,815.36
Federal Funds	1,464,154.00	1,514,480.00	1,742,210.72
Charges for Services	116,000.00	116,000.00	144,253.97
Investment Earnings	3,808.00	3,808.00	5,570.67
Miscellaneous	19,452.00	19,452.00	288,381.67
Total Revenues	$ 9,452,611.00	$ 9,654,667.00	$ 10,644,233.94
EXPENDITURES			
Current			
Instruction	$ 5,848,694.67	$ 5,901,313.47	$ 6,543,690.20
Support Services			
Pupil Services	285,639.02	288,407.02	223,151.61
Improvement of Instructional Services	111,059.02	117,291.02	126,829.46
Educational Media Services	196,348.48	196,348.48	184,826.03
General Administration	342,640.78	342,640.78	450,625.92
School Administration	734,320.15	741,638.15	1,018,108.37
Business Administration	250,745.68	250,745.68	131,151.83
Maintenance and Operation of Plant	579,209.89	579,209.89	667,365.92
Student Transportation Services	418,053.67	418,053.67	433,493.91
Other Support Services	20,008.00	20,008.00	82,867.38
Enterprise Operations			76,140.68
Food Services Operation	650,900.00	650,900.00	562,379.64
Total Expenditures	$ 9,437,619.36	$ 9,506,556.16	$ 10,500,630.95
Net Change in Fund Balances	$ 14,991.64	$ 148,110.84	$ 143,602.99
Fund Balances - Beginning	83,231.72	83,231.72	-86,432.89
Adjustments	10,847.77	45,345.57	
Fund Balances - Ending	$ 109,071.13	$ 276,688.13	$ 57,170.10

Notes to the Schedule of Revenues, Expenditures and Changes in Fund Balances Budget and Actual

(1) Original and Final Budget amounts do not include budgeted revenues or expenditures of the various principal accounts.

The accompanying schedule of revenues, expenditures and changes in fund balances budget and actual is presented on the modified accrual basis of accounting which is the basis of accounting used in the presentation of the fund financial statements.

See notes to the basic financial statements.

MONTGOMERY COUNTY BOARD OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011

SCHEDULE "2"

FUNDING AGENCY PROGRAM/GRANT		CFDA NUMBER	PASS-THROUGH ENTITY ID NUMBER	EXPENDITURES IN PERIOD	
Agriculture, U. S. Department of					
Child Nutrition Cluster					
Pass-Through From Georgia Department of Education					
Food Services					
School Breakfast Program	*	10.553	N/A	$ (2)	
National School Lunch Program	*	10.555	N/A	543,277.02	(1)
Total Child Nutrition Cluster				$ 543,277.02	
Other Programs					
Pass-Through From Bright From the Start					
Georgia Department of Early Care and Learning					
Child and Adult Care Food Program		10.558	N/A	(2)	
Total U. S. Department of Agriculture				$ 543,277.02	
Education, U. S. Department of					
Special Education Cluster					
Pass-Through From Georgia Department of Education					
Special Education					
Grants to States	*	84.027	N/A	$ 225,331.27	
Preschool Grants	*	84.173	N/A	7,242.99	
Total Special Education Cluster				$ 232,574.26	
Title I, Part A Cluster					
Pass-Through From Georgia Department of Education					
Title I Grants to Local Educational Agencies	*	84.010	N/A	$ 552,937.81	
Other Programs					
Pass-Through from Banks County Board of Education					
Migrant Education		84.011	N/A	$ 12,806.00	
Pass-Through From Georgia Department of Education					
Career and Technical Education - Basic Grants to States		84.048	N/A	17,056.55	
Education Jobs Fund		84.410	N/A	229,008.00	
Improving Teacher Quality State Grants		84.367	N/A	105,174.00	
Reading First State Grants		84.357	N/A	59,431.18	
Rural Education		84.358	N/A	23,019.57	
Total Other Programs				$ 446,495.30	
Total U. S. Department of Education				$ 1,232,007.37	
Total Expenditures of Federal Awards				$ 1,775,284.39	

N/A = Not Available

Notes to the Schedule of Expenditures of Federal Awards

(1) Includes the Federally assigned value of donated commodities for the Food Donation Program in the amount of $38,092.55.

(2) Expenditures for the funds earned on Child and Adult Care Food Program ($4,687.48) and the School Breakfast Program ($127,986.76) were not maintained separately and are included in the 2011 National School Lunch Program.

Major Programs are identified by an asterisk (*) in front of the CFDA number.

The School District did not provide Federal Assistance to any Subrecipient.

The accompanying schedule of expenditures of Federal awards includes the Federal grant activity of the Montgomery County Board of Education and is presented on the modified accrual basis of accounting which is the basis of accounting used in the presentation of the fund financial statements.

See notes to the basic financial statements.

MONTGOMERY COUNTY BOARD OF EDUCATION
SCHEDULE OF STATE REVENUE
YEAR ENDED JUNE 30, 2011

SCHEDULE "3"

AGENCY/FUNDING	GOVERNMENTAL FUND TYPE GENERAL FUND
GRANTS	
Bright From the Start:	
Georgia Department of Early Care and Learning	
Pre-Kindergarten Program	$ 350,055.51
Education, Georgia Department of	
Quality Basic Education	
Direct Instructional Cost	
Kindergarten Program	224,751.00
Kindergarten Program - Early Intervention Program	217,078.00
Primary Grades (1-3) Program	510,970.00
Primary Grades - Early Intervention (1-3) Program	493,113.00
Upper Elementary Grades (4-5) Program	294,289.00
Upper Elementary Grades - Early Intervention (4-5) Program	339,303.00
Middle School (6-8) Program	648,762.00
High School General Education (9-12) Program	418,832.00
Vocational Laboratory (9-12) Program	342,252.00
Students with Disabilities	590,028.00
Gifted Student - Category VI	141,359.00
Remedial Education Program	262,062.00
Alternative Education Program	51,492.00
English Speakers of Other Languages (ESOL)	44,562.00
Media Center Program	121,748.00
20 Days Additional Instruction	38,120.00
Staff and Professional Development	23,107.00
Indirect Cost	
Central Administration	338,952.00
School Administration	348,130.00
Facility Maintenance and Operations	275,999.00
Categorical Grants	
Pupil Transportation	
Regular	236,147.00
Nursing Services	34,415.00
Vocational Supervisors	7,318.00
Education Equalization Funding Grant	392,904.00
Food Services	18,008.00
Vocational Education	29,500.27
Amended Formula Adjustment	-752,573.00
Other State Programs	
Dual Enrollment	3,313.00
Health Insurance	20,658.88
Math and Science Supplement	2,188.44
Preschool Handicapped Program	24,230.00
Teachers' Retirement	2,123.45
Virtual Schools	25.00
Human Resources, Georgia Department of	
Family Connections	126,041.81
Office of State Treasurer	
Public School Employees' Retirement	6,551.00
	$ 6,225,815.36

See notes to the basic financial statements.

MONTGOMERY COUNTY BOARD OF EDUCATION
SCHEDULE OF APPROVED LOCAL OPTION SALES TAX PROJECTS
YEAR ENDED JUNE 30, 2011

SCHEDULE "4"

PROJECT	ORIGINAL ESTIMATED COST (1)	CURRENT ESTIMATED COSTS (2)	AMOUNT EXPENDED IN CURRENT YEAR (3)	AMOUNT EXPENDED IN PRIOR YEARS (3)	PROJECT STATUS
Improvements and repairs to school system facilities and equipment purchases for use by students and school system staff.	$ 3,500,000.00	$ 3,500,000.00	$ 303,389.50	$ 1,734,839.80	Ongoing

(1) The School District's original cost estimate as specified in the resolution calling for the imposition of the Local Option Sales Tax.

(2) The School District's current estimate of total cost for the project. Includes all cost from project inception to completion.

(3) The voters of Montgomery County approved the imposition of a 1% sales tax to fund the above project. Amounts expended for this project may include sales tax proceeds, state, local property taxes and/or other funds over the life of the project.

See notes to the basic financial statements.

MONTGOMERY COUNTY BOARD OF EDUCATION
GENERAL FUND - QUALITY BASIC EDUCATION PROGRAMS (QBE)
ALLOTMENTS AND EXPENDITURES - BY PROGRAM
YEAR ENDED JUNE 30, 2011

SCHEDULE "5"

DESCRIPTION	ALLOTMENTS FROM GEORGIA DEPARTMENT OF EDUCATION (1) (2)	ELIGIBLE QBE PROGRAM COSTS SALARIES	OPERATIONS	TOTAL
Direct Instructional Programs				
Kindergarten Program	$ 257,155.00	$ 389,218.30	$ 6,371.28	$ 395,589.58
Kindergarten Program-Early Intervention Program	238,615.00	13,850.51		13,850.51
Primary Grades (1-3) Program	601,348.00	925,303.52	10,553.41	935,856.93
Primary Grades-Early Intervention (1-3) Program	536,674.00	174,957.89		174,957.89
Upper Elementary Grades (4-5) Program	336,655.00	614,945.93	4,411.67	619,357.60
Upper Elementary Grades-Early Intervention (4-5) Program	363,558.00	153,023.09		153,023.09
Middle Grades (6-8) Program			2,000.00	2,000.00
Middle School (6-8) Program	734,166.00	1,049,905.17	5,633.68	1,055,538.85
High School General Education (9-12) Program	497,073.00	731,519.38	29,203.53	760,722.91
Vocational Laboratory (9-12) Program	361,204.00	246,564.76	2,631.94	249,196.70
Students with Disabilities	665,419.00			
Category I		296,814.69		296,814.69
Category II		124,056.71	36,002.50	160,059.21
Category III		154,769.08		154,769.08
Gifted Student - Category VI	162,004.00	105,902.91	366.75	106,269.66
Remedial Education Program	290,719.00			
Alternative Education Program	58,321.00		968.70	968.70
English Speakers of Other Languages (ESOL)	48,851.00	55,500.50	174.92	55,675.42
TOTAL DIRECT INSTRUCTIONAL PROGRAMS	$ 5,151,762.00	$ 5,036,332.44	$ 98,318.38	$ 5,134,650.82
Media Center Program	137,532.00	172,513.21	10,657.87	183,171.08
Staff and Professional Development	26,196.00		6,213.40	6,213.40
TOTAL QBE FORMULA FUNDS	$ 5,315,490.00	$ 5,208,845.65	$ 115,189.65	$ 5,324,035.30

(1) Comprised of State Funds plus Local Five Mill Share.

(2) Allotments do not include the impact of the State amended formula adjustment.

See notes to the basic financial statements.

SECTION II

COMPLIANCE AND INTERNAL CONTROL REPORTS

DEPARTMENT OF AUDITS AND ACCOUNTS

270 Washington Street, S.W., Suite 1-156
Atlanta, Georgia 30334-8400

Greg S. Griffin
STATE AUDITOR
(404) 656-2174

September 25, 2012

Honorable Nathan Deal, Governor
Members of the General Assembly
Members of the State Board of Education
and
Superintendent and Members of the
Montgomery County Board of Education

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

Ladies and Gentlemen:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Montgomery County Board of Education as of and for the year ended June 30, 2011, which collectively comprise Montgomery County Board of Education's basic financial statements and have issued our report thereon dated September 25, 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 Board of Education is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Montgomery County Board of Education's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Montgomery County Board of Education's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Montgomery County Board of Education's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses and therefore, there can be no assurances that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We consider items FS-7031-11-01, and FS-7031-11-04 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider items FS-7031-11-02, FS-7031-11-03, and FS-7031-11-05 in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Montgomery County Board of Education's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to management of Montgomery County Board of Education in a separate letter dated September 25, 2012.

Montgomery County Board of Education's response to the findings identified in our audit is described in the accompanying Schedule of Management's Responses. We did not audit Montgomery County Board of Education's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, members of the Montgomery County Board of Education, others within the entity, 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.

Respectfully submitted,

Greg S. Griffin
State Auditor

GSG:as
2011YB-40

DEPARTMENT OF AUDITS AND ACCOUNTS

270 Washington Street, S.W., Suite 1-156
Atlanta, Georgia 30334-8400

Greg S. Griffin
STATE AUDITOR
(404) 656-2174

September 25, 2012

Honorable Nathan Deal, Governor
Members of the General Assembly
Members of the State Board of Education
and
Superintendent and Members of the
Montgomery County Board of Education

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 IN ACCORDANCE WITH OMB CIRCULAR A-133

Ladies and Gentlemen:

Compliance

We have audited Montgomery County Board of Education's compliance with the types of 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. Montgomery County Board of Education's major Federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of Montgomery County Board of Education's management. Our responsibility is to express an opinion on Montgomery County Board of Education'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 Montgomery County Board of Education'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 Montgomery County Board of Education's compliance with those requirements.

In our opinion, the Montgomery County Board of Education complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is

required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item FA-7031-11-01.

Internal Control Over Compliance

Management of Montgomery County Board of Education is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered Montgomery County Board of Education'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 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 Montgomery County Board of Education'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 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. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying Schedule of Findings and Questioned Costs as item FA-7031-11-01. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Montgomery County Board of Education's response to the finding identified in our audit is described in the accompanying Schedule of Management's Responses. We did not audit Montgomery County Board of Education's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of management, members of the Montgomery County Board of Education, others within the entity, 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.

Respectfully submitted,

Greg S. Griffin
State Auditor

GSG:as
2011SA-40

SECTION III

AUDITEE'S RESPONSE TO PRIOR YEAR FINDINGS AND QUESTIONED COSTS

MONTGOMERY COUNTY BOARD OF EDUCATION
AUDITEE'S RESPONSE
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011

PRIOR YEAR FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

FINDING CONTROL NUMBER	AUDITEE'S RESPONSE/STATUS	SEE AUDITOR'S COMMENTS
FS-7031-09-01	Further Action Not Warranted	
FS-7031-09-03	Further Action Not Warranted	
FS-7031-09-04	Further Action Not Warranted	
FS-7031-09-05	Further Action Not Warranted	
FS-7031-10-01	Unresolved - See Corrective Action/Responses	
FS-7031-10-02	Partially Resolved - See Corrective Action/Responses	
FS-7031-10-03	Unresolved - See Corrective Action/Responses	
FS-7031-10-04	Further Action Not Warranted	(1)
FS-7031-10-05	Unresolved - See Corrective Action/Responses	
FS-7031-10-06	Unresolved - See Corrective Action/Responses	

AUDITOR'S COMMENTS

(1) This deficiency was materially resolved in fiscal year 2011. The remaining unresolved discrepancies do not require reporting in the audit report in accordance with *Statements on Auditing Standards* (SAS) 112 or *Governmental Auditing Standards* (Yellow Book), will be communicated in a management letter.

CORRECTIVE ACTION/RESPONSES

CASH AND CASH EQUIVALENTS
REVENUES/RECEIVABLES/RECEIPTS
EXPENDITURES/LIABILITIES/DISBURSEMENTS
GENERAL LEDGER
Inadequate Internal Controls at the Central Office
Finding Control Number: FS-7031-10-01

The Finance Director and/or Superintendent will ensure that all bank accounts are properly reconciled and that this is done timely. Checks over a year old will be investigated and reissued or voided. Documentation will be maintained for Revenues, Expenditures and Journal Entries.

CASH AND CASH EQUIVALENTS
REVENUES/RECEIVABLES/RECEIPTS
EXPENDITURES/LIABILITIES/DISBURSEMENTS
GENERAL LEDGER
Inadequate Controls over the School Activity Accounts
Finding Control Number: FS-7031-10-02

Finance Director will review the School Activity Accounts. School Bookkeepers and Principals will be informed on how to properly handle the different school funds that are managed at the schools. Bank Statements will be reconciled and reviewed timely. Expenditures will be approved prior to items being purchased. In addition, the Cash collected will be recorded and deposited in a timely manner. The individual accounts will be reviewed for deficit fund balances.

MONTGOMERY COUNTY BOARD OF EDUCATION
AUDITEE'S RESPONSE
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011

PRIOR YEAR FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

CORRECTIVE ACTION/RESPONSES

EMPLOYEE COMPENSATION
Inadequate Controls over Payroll Process
Finding Control Number: FS-7031-10-03

Salary changes and calculations are documented and reviewed by the Finance Director for accuracy. A copy of the documentation is kept at the central office and a copy will be provided to the employee.

FINANCIAL REPORTING
Inadequate Controls over Financial Reporting
Finding Control Number: FS-7031-10-05

The Finance Director and other financial staff will attend training on financial reporting and implement the rules learned at the training.

BUDGET PREPARATION/EXECUTION
Deficit Fund Balance
Finding Control Number: FS-7031-10-06

The budget expenditures for FY2012 have been reduced to ensure the school system will no longer be in a deficit financing by personnel reduction and shortening student instructional days.

PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING CONTROL NUMBER	AUDITEE'S RESPONSE/STATUS	SEE AUDITOR'S COMMENTS
FA-7031-08-01	Partially Resolved - See Corrective Action/Responses	(2)
FA-7031-08-02	Unresolved - See Corrective Action/Responses	(2)
FA-7031-08-03	Unresolved - See Corrective Action/Responses	(2)
FA-7031-08-04	Partially Resolved - See Corrective Action/Responses	(3)
FA-7031-08-05	Partially Resolved - See Corrective Action/Responses	(2)
FA-7031-09-01	Unresolved - See Corrective Action/Responses	(3)
FA-7031-09-02	Unresolved - See Corrective Action/Responses	(3)
FA-7031-10-01	Partially Resolved - See Corrective Action/Responses	
FA-7031-10-02	Previously Reported Corrective Action Implemented	
FA-7031-10-03	Previously Reported Corrective Action Implemented	
FA-7031-10-04	Previously Reported Corrective Action Implemented	

AUDITOR'S COMMENTS

(2) These findings are pending review by the Georgia Department of Education and/or Wheeler County Board of Education to determine if a refund is appropriate.

PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

(3) These findings are pending review by the Georgia Department of Education to determine if a refund is appropriate.

CORRECTIVE ACTION/RESPONSES

ACTIVITIES ALLOWED OR UNALLOWED
ALLOWABLE COSTS/COST PRINCIPLES
Inadequate Internal Control Procedures
U. S. Department of Education
Through Georgia Department of Education
Reading First State Grants (CFDA 84.357)
Through Wheeler County Board of Education
Safe Schools/Healthy Students Initiative (CFDA 84.184)
Amount: $44,796.00
Finding Control Number: FA-7031-08-01

The program director will insure that all costs are allowable under the grant rules. The program director and/or the superintendent will sign all invoices and time sheets indicating that the expense is appropriate and allowable. Grant expenditures will be monitored on a quarterly basis by the program director and the finance director to insure that the funds are expended and recorded accurately. The finance director will request reimbursements based on the expenditures for the period.

ACTIVITIES ALLOWED OR UNALLOWED
ALLOWABLE COSTS/COST PRINCIPLES
Time and Attendance Records Not Utilized
U. S. Department of Education
Through Georgia Department of Education
Special Education Cluster (CFDA 84.027, 84.173)
Title 1 Grants to Local Educational Agencies (CFDA (84.010)
Through Wheeler County Board of Education
Safe Schools/Healthy Students Initiative (CFDA 84.184)
Amount: $143,429.00
Finding Control Number: FA-7031-08-02

Semi-annual certifications are signed and filed on employees paid solely out of Federal funds. Monthly time documentation sheets are utilized for employees who are split-funded.

MONTGOMERY COUNTY BOARD OF EDUCATION
AUDITEE'S RESPONSE
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011

PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

CORRECTIVE ACTION/RESPONSES

ALLOWABLE COSTS/COST PRINCIPLES
Excessive Compensation
U. S. Department of Education
Through Wheeler County Board of Education
Safe Schools/Healthy Students Initiative (CFDA 84.184)
Amount: $9,751.00
Finding Control Number: FA-7031-08-03

Employees are paid from a salary schedule and a supplement schedule. The Board approves the schedules. Contracts are written according to the schedules and signed by the employee and the superintendent. Salary changes and calculations will be documented. The Finance Director will review the documentation for accuracy. A copy of the documentation is kept at the central office and a copy is provided to the employee.

PERIOD OF AVAILABILITY OF FEDERAL FUNDS
Expenditures Outside of Grant Period
U. S. Department of Education
Through Georgia Department of Education
Special Education Cluster (CFDA 84.027, 84.173)
Reading First (CFDA 84.357)
Title 1 Grants to Local Educational Agencies (CFDA (84.010)
Amount: $44,990.00
Finding Control Number: FA-7031-08-04

Grants will be monitored closely and expenditures will be expended during the appropriate grant period.

PROCUREMENT AND SUSPENSION AND DEBARMENT
Failure to Implement Procurement Procedures
U. S. Department of Education
Through Georgia Department of Education
Special Education Cluster (CFDA 84.027, 84.173)
Reading First (CFDA 84.357)
Title 1 Grants to Local Educational Agencies (CFDA (84.010)
Through Wheeler County Board of Education
Safe Schools/Healthy Students Initiative (CFDA 84.184)
Finding Control Number: FA-7031-08-05

The Accounts Payable Clerk will insure that a voucher package is prepared that includes a pre-approved purchase order, an invoice indicating the receipt of goods, and a copy of the check for payment. A procurement policy has been established and is enforced.

MONTGOMERY COUNTY BOARD OF EDUCATION
AUDITEE'S RESPONSE
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011

PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

CORRECTIVE ACTION/RESPONSES

ACTIVITIES ALLOWED OR UNALLOWED
ALLOWABLE COSTS/COST PRINCIPLES
Inadequate Internal Control Procedures
U. S. Department of Education
Through Georgia Department of Education
Special Education Cluster (CFDA 84.027, 84.173)
Reading First State Grants (CFDA 84.357)
Amount: $5,936.75
Finding Control Number: FA-7031-09-01

The program director will insure that all costs are allowable under the grant rules. The program director and/or the superintendent will sign all invoices and time sheets indicating that the expense is appropriate and allowable. Grant expenditures and payroll will be monitored on a quarterly basis by the program director and the finance director to insure that the funds are expended and recorded accurately. The finance director will request reimbursements based on the expenditures for the period.

ACTIVITIES ALLOWED OR UNALLOWED
ALLOWABLE COSTS/COST PRINCIPLES
SPECIAL TESTS AND PROVISIONS
Failure to Account for Federal Funds Separately
U. S. Department of Education
Through Georgia Department of Education
ARRA-Education State Grant (CFDA 84.394)
Amount: $45,328
Finding Control Number: FA-7031-09-02

The finance director will follow Georgia Department of Education guidelines in FY2012.

ACTIVITIES ALLOWED OR UNALLOWED
ALLOWABLE COSTS/COST PRINCIPLES
PERIOD OF AVAILABILITY OF FEDERAL FUNDS
Inadequate Internal Control Procedures
U. S. Department of Education
Through Georgia Department of Education
Special Education Cluster (CFDA 84.027)
Reading First State Grant (CFDA 84.357)
Title 1, Part A Cluster (CFDA 84.010)
Education Technology State Grants (CFDA 84.318)
Amount: $103,868.64
Finding Control Number: FA-7031-10-01

The program director will insure that all costs are allowable under the grant rules. The program director and/or the superintendent will sign all invoices and time sheets indicating that the expense is appropriate and allowable. Grant expenditures and payroll will be monitored on a quarterly basis by the program director and the finance director to insure that the funds are expended and recorded accurately.

SECTION IV

FINDINGS AND QUESTIONED COSTS

MONTGOMERY COUNTY BOARD OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011

I SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issue:
Governmental Activities; General Fund; Capital Projects Fund; Aggregate Remaining Fund Information — Unqualified

Internal control over financial reporting:
- Material weaknesses identified? — Yes
- Significant deficiencies identified? — Yes

Noncompliance material to financial statements noted: — No

Federal Awards

Internal Control over major programs:
- Material weakness identified? — No
- Significant deficiency identified? — Yes

Type of auditor's report issued on compliance for major programs:
All major programs — Unqualified

Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section 510(a)? — Yes

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
10.553, 10.555	Child Nutrition Cluster
84.010	Title I, Part A Cluster
84.027, 84.173	Special Education Cluster

Dollar threshold used to distinguish between Type A and Type B programs: $300,000.00

Auditee qualified as low-risk auditee? — No

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

CASH AND CASH EQUIVALENTS
REVENUES/RECEIVABLES/RECEIPTS
EXPENDITURES/LIABILITIES/DISBURSEMENTS
GENERAL LEDGER
Inadequate internal Controls at the Central Office
Material Weakness
Finding Control Number: FS-7031-11-01

Condition:
This is a repeat finding (FS-7301-10-01, FS-7031-09-01, and FS-7031-08-02) from the years ended June 30, 2010, June 30, 2009, and June 30, 2008, respectively. The accounting procedures of the School District were insufficient to provide for adequate internal controls at the Central Office.

Criteria:
The School District's management is responsible for designing and maintaining internal controls that provide reasonable assurance that transactions are processed according to established procedures.

Questioned Cost:
N/A

Information:
Cash and Cash Equivalents

- The bank reconciliation function was not separated from the record keeping and check preparation functions for the School Food Services bank accounts.
- Bank reconciliations for numerous accounts were not performed in a timely manner, lacked review/approval signatures and did not reconcile to the general ledger.
- Several outstanding checks on the June 2011 bank reconciliation were over a year old and should be investigated and reissued or voided and remitted to the Georgia Department of Revenue as unclaimed property.

Revenue/Receivable/Receipts

- The receipt and deposit preparation functions were not separated from the record keeping function.
- Several receipts received by mail were not recorded on the receipt log.
- The receipt log was not compared to the deposits or the general ledger.

Expenditures/Liabilities/Disbursements

- The check writing function was not separated from the purchasing and record keeping functions for School Food Services and SPLOST Accounts.
- A voucher could not be located by the entity.
- Several vouchers did not contain purchase orders, lacked proper approval, had no evidence for the receipt of goods and/or were charged to the improper object/function codes.
- Credit card transactions did not contain adequate documentation or approval.
- The Board paid bank fees in the amount of $330.00 for NSF charges on the General Operating account.
- Various late fees were paid on credit card statements, operating leases and other invoices.

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

General Ledger

- Journal Entries did not include adequate supporting documentation or proper approval.

Cause:

These deficiencies were the result of management's decision to limit the number of administrative staff made responsible for accounting functions and management's failure to ensure that internal controls were established, implemented and functioning at the Central Office.

Effect:

Errors and/or irregularities may not be detected in a timely manner.

Recommendation:

The School District should implement procedures to ensure that the key accounting functions of custody, record keeping and authorization are separated and/or utilize management oversight for these incompatible activities. In addition, management should review the accounting procedures in place, design procedures which would enhance internal controls relative to the above control categories and implement those procedures to strengthen the internal control over these accounting functions.

CASH AND CASH EQUIVALENTS
REVENUES/RECEIVABLES/RECEIPTS
EXPENDITURES/LIABILITIES/DISBURSEMENTS
GENERAL LEDGER
Inadequate controls over the School Activity Accounts
Significant Deficiency
Finding Control Number: FS-7031-11-02

Condition:

This is a repeat finding (FS-7031-10-02) from the year ended June 30, 2010. The accounting procedures of the School District were insufficient to provide for adequate controls over the School Activity Accounts.

Criteria:

The School District's management is responsible for designing and maintaining internal controls that provide reasonable assurance that transactions are processed according to established procedures.

Questioned Cost:

N/A

Information:

Cash and Cash Equivalents

- The bank reconciliation function was not separated from the record keeping and check preparation functions.
- The June 2011 bank accounts were not properly reconciled to the amounts on the general ledger.
- Bank reconciliations were not performed in a timely manner.
- Several outstanding checks on the June 2011 bank reconciliations were over a year old and should be investigated and reissued or voided and remitted to the Georgia Department of Revenue as unclaimed property.

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

- One school could not provide a listing of outstanding checks for their account to support the June 30, 2011, bank reconciliation.
- Numerous bank charges were carried forward each month as reconciling items rather than being recorded.

Revenues/Receivables/Receipts

- The receipt function was not separated from the record keeping function.
- Cash collections were not deposited into the bank accounts in a timely manner.
- Several receipts lacked adequate supporting documentation.
- Gate receipt documentation was lacking and reconciliations were not properly performed.

Expenditures/Liabilities/Disbursements

- The purchasing function was not separated from the approval function for athletic expenditures.
- Several vouchers packages did not include purchase orders, original invoices and/or evidence of receipt of goods.
- Purchase orders were not properly completed and approved before the purchases were made. Some purchase orders were generated after the invoice date. In some cases, the items ordered and purchased were different than the items listed on the purchase orders.
- Numerous check requisitions were blank as to vendor, amount, purchase order number, invoice number, and approval.
- Blank checks were signed prior to the purchase of items.
- Checks were processed for payment with no signature, or with unauthorized/unapproved signatures.

General Ledger

- Numerous governmental and agency funds for the School Activity accounts had deficit fund balances where club/organization funds were being spent in excess of receipts.

Cause:

These deficiencies were a result of management's decision to limit the number of administrative staff made responsible for accounting functions and management's failure to ensure that internal controls were established, implemented and functioning at the school level.

Effect:

Errors and/or irregularities may not be detected in a timely manner.

Recommendation:

The School District should implement procedures to ensure that the key accounting functions of custody, record keeping and authorization are segregated and/or utilize management oversight for these incompatible activities. In addition, management should monitor controls to provide reasonable assurance that transactions are processed according to established procedures and implement procedures deemed necessary to strengthen internal controls over the accounting functions.

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

EMPLOYEE COMPENSATION
Inadequate Controls over Payroll Process
Significant Deficiency
Finding Control Number: FS-7031-11-03

Condition:
This is a repeat finding (FS-7031-10-03, FS-7031-09-03, and FS-7031-08-04) from the years ended June 30, 2010, June 30, 2009, and June 30, 2008, respectively. The School District failed to implement procedures to ensure that salary payments were appropriately posted to the accounting records. In addition, the School District failed to maintain complete personnel files for all employees.

Criteria:
The School District's management is responsible for designing and maintaining internal controls that provide reasonable assurance that employees are paid according to actual hours worked and personnel files are maintained with documentation to support the payments. Additionally, management should ensure that salaries are charged to the correct accounts in the financial records in line with employee duties.

Questioned Cost:
N/A

Information:
Weaknesses in internal controls related to employee compensation records were noted as follows:

- Procedures were not in place to ensure that personnel files included adequate documentation to support salary payments. Contracts were not available for review for two employees.
- An employee was not paid according to the actual hours worked.
- Pay changes were not properly documented.
- Timesheets were incomplete and missing actual hours worked.
- "Extra pay" was not documented.
- IRS I-9 form was incomplete.
- An employee was not paid on the correct step of the State Salary Schedule.
- Three employees' pay was incorrectly adjusted in August, rather than September.
- An employee supplement was not approved.
- Leave earned was not in accordance with number of months worked.
- An employee was paid for work not performed.

Cause:
Management failed to implement and adequately monitor procedures to ensure that payments made to employees were based on an approved rate of pay that was adequately documented in the employees' personnel files and properly posted to the accounting records in accordance with their assigned duties.

Effect:
Errors and/or irregularities may occur and not be detected in a timely manner.

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

Recommendation:
Management should develop and implement controls to ensure that payments made to employees are based on approved rates of pay that are adequately documented in the employees' personnel files and that expenditures are properly charged to the appropriate program. In addition, these controls should ensure that timesheets are approved after the fact based on actual work, deductions in pay are accurately calculated and pay changes are appropriately documented.

FINANCIAL REPORTING
Inadequate Controls over Financial Reporting
Material Weakness
Finding Control Number: FS-7031-11-04

Condition:
This is a repeat finding (FS-7031-10-05, FS-7031-09-05, and FS-7031-08-06) from the years ended June 30, 2010, June 30, 2009, and June 30, 2008, respectively. The School District did not have adequate controls in place over the financial statement reporting process.

Criteria:
Chapter 22A *Annual Financial Reporting* of the Financial Management for Georgia Local Units of Administration indicates that the School Districts must prepare their financial statements in accordance with generally accepted accounting principles.

Questioned Cost:
N/A

Information:
During the audit, the following correcting entries were proposed and accepted by the client to properly present the entity's financial statements:

Prior year Capital Asset corrections were not properly recorded resulting in Expenses and Beginning Net Assets being misstated on the District-wide Financial Statements. A $378,126.00 audit adjustment was necessary to correct these misstatements.

Routine maintenance charges were improperly recorded resulting in Cash and Expenditures being misstated between the Capital Projects Fund and the General Fund. Audit adjustments were necessary to record the expenditures of $52,053.45 in the appropriate fund.

A voided check was not properly recorded resulting in Cash and Expenses being misstated on both the District-wide and Fund level (Capital Projects Fund) financial statements. Audit adjustments were necessary to correct the $98,624.66 misstatement.

Other notable audit entries were made to correctly reflect the financial statements in accordance with Chapter 22A *Annual Financial Reporting* of the Financial Management for Georgia Local Units of Administration.

Cause:
The School District's management failed to review the year-end financial statements to ensure that the statements as presented for audit were accurate. In addition, the School District failed to ensure that personnel over key accounting functions were adequately trained and proficient.

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

Effect:
The School District did not comply with the requirements of the Georgia Department of Education regarding financial reporting. The lack of supervisory review, coupled with ineffective or insufficient training of personnel, could place the School District in a situation where incorrect reporting of financial position could occur. Adjustments were necessary in order for the School District's financial statements to be materially correct and in conformity with generally accepted accounting principles.

Recommendation:
The School District should develop and implement internal controls over the financial statement reporting process to ensure that activity is properly recorded in the general ledger; to verify that financial statements (including note disclosures) properly reflect activity reported in the general ledger; and to include a monitoring process to evaluate the accuracy of the financials presented for audit.

BUDGET PREPARATION/EXECUTION
Deficit Fund Balance
Significant Deficiency
Finding Control Number: FS-7031-11-05

Condition:
This is a repeat finding (FS-7031-10-06) from the year ended June 30, 2010. At June 30, 2011, the general ledger of the Montgomery County Board of Education reported a deficit fund balance in the General Fund. In addition, management failed to abide by follow-up and reporting regulations related to the June 30, 2010, deficit.

Criteria:
Chapter 25, *Governmental Fund Deficits* of the Financial Management for Georgia Local Units of Administration (FMGLUA) states in part: "The seriousness of fund balance deficits cannot be overstated. The Georgia Department of Education requires those LUAs with deficit governmental fund balances to meet certain reporting requirements."

The Official Code of Georgia Annotated (O.C.G.A.) §20-2-67 *Local school system or school subject to corrective action plan for budget deficit; financial operations form; publication; mailing to Department of Education and local governing body*, states in part, "(b)..From the time such irregularity or budget deficit is discovered until the time it is eliminated, the local school superintendent shall present to each member of the local board of education for his or her review and written acknowledgement a monthly report containing all anticipated expenditures by budget function for such school or school system during the current month...(c) Not later than September 30 of the year, each local board of education shall cause to be published in the official county organ wherein the local school system is located once a week for two weeks a statement of the actual financial operations for such schools or school system identified by the Department of Audits and Accounts as having financial irregularities...(d) A copy of the actual financial operations form required to be published by subsection (c) of this code section shall be mailed by each local board of education to the Department of Education and the local county board of commissioners or local municipal governing authority..."

Questioned Cost:
N/A

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

Information:
The School District's General Fund reported a deficit fund balance in the amount of $11,922.83. In addition, the School District failed to abide by follow-up and reporting regulations related to the prior year deficit fund balance.

Cause:
The School District did not properly monitor the financial situation during the fiscal year and make necessary adjustments to decrease expenditures. In addition, the School District did not abide by follow-up and reporting regulations related to the prior year deficit.

Effect:
A financial statement irregularity in accordance with O.C.G.A. §20-2-67.

Recommendation:
The School District should establish policies and procedures designed to ensure that expenditures do not exceed available resources, so that in future periods the School District does not report a deficit fund balance. In the event that a deficit fund balance is reported, the School District should abide by follow-up and reporting regulations as outlined in FMGLUA and the O.C.G.A. §20-2-67.

III FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

ACTIVITIES ALLOWED OR UNALLOWED
ALLOWABLE COSTS/COST PRINCIPLES
Inadequate Internal Control Procedures
Significant Deficiency
U. S. Department of Education
Through Georgia Department of Education
Special Education Cluster (CFDA 84.027)
Title I, Part A Cluster (CFDA 84.010)
Finding Control Number: FA-7031-11-01

Condition:
This is a repeat finding (FA-7031-10-01, FA-7031-09-01 and FA-7031-08-01) from the years ended June 30, 2010, June 30, 2009, and June 30, 2008, respectively. A review of expenditures charged to various Federal programs revealed that costs were not adequately documented to ensure compliance with grant requirements.

Criteria:
Provisions of the OMB Circular A-87, *Cost Principals for State, Local and Indian Tribal Governments*, require that "to be allowable under Federal awards, costs must be...authorized or not prohibited under state or local laws or regulations and supported by underlying documentation".

Questioned Cost:
$1,308.64

Title I, Part A Cluster (CFDA 84.010)	$1,308.64

Information:
A review of various Federal program vouchers revealed the following deficiency:

III FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

- A number of vouchers did not contain purchase orders, contained incomplete purchase orders, did not contain original receipts/documentation, lacked approval for payment, and were erroneously charged to the wrong fund and/or object.

  See Finding Control Number: FS-7031-11-01

A review of Employee Compensation for Federal programs revealed the following deficiency:

- One employee was not paid according to the correct years of experience causing an overpayment of Federal expenditures.

  See Finding Control Number: FS-7031-11-03

Cause:
Management failed to implement controls to ensure that expenditures for these Federal Programs were allowable, properly approved and adequately documented as required by Federal guidelines.

Effect:
Failure to ensure that program costs were allowable, approved and properly documented can result in material noncompliance with Federal grant requirements.

Recommendation:
The School District should implement controls and procedures to ensure that all Federal expenditures are allowable under OMB Circular A-87, approved by appropriate management and properly documented. The Georgia Department of Education should review this matter to determine if a reclaim of funds is appropriate.

SECTION V

MANAGEMENT'S RESPONSES

MONTGOMERY COUNTY BOARD OF EDUCATION
SCHEDULE OF MANAGEMENT'S RESPONSES
YEAR ENDED JUNE 30, 2011

Finding Control Number: FS-7031-11-01

We concur with this finding and have taken steps in FY 2012 to correct.

Cash and Cash Equivalents:

- The bank reconciliation functions have been separated from the recordkeeping and check preparation functions for School Food Services and SPLOST bank accounts. School Food bank account will be reconciled by Finance Director and SPLOST will be reconciled by payroll.
- Bank reconciliations are now being balanced to General Ledger and are being performed monthly. Superintendent is signing off on bank reconciliations and all supporting documents are filed with bank statement.
- Checks over a year old have been investigated and reissued or voided.

Revenues/Receivables/Receipts

- All revenue received except through direct deposit is now being recorded on a receipt log by accounts payable personnel. Receipts are being compared to General Ledger and are being filed with bank reconciliation reports.

Expenditures/Liabilities/Disbursements

- Payroll personnel is responsible for the check writing function for all funds.
- Invoices/Purchase Orders and verification are being attached to copies of checks and filed by vendor name.
- Purchase orders are now being encumbered on PCGenesis prior to purchase.
- Finance Director insures that sufficient funds are available before checks are released.
- Checks are being issued in a timely manner to avoid various late fees.

General Ledger

- Journal entries are now being supported with documentation for entries and approved by superintendent.

Finding Control Number: FS-7031-11-02

We concur with this finding and have taken steps in FY 2012 to correct.
Cash and Cash Equivalents:

- The bank reconciliation function is now being separated from the record keeping and check preparation. The High School bookkeeper reconciles for the Elementary school and the Elementary bookkeeper reconciles the High/Middle School.
- Bank reconciliations are now being performed monthly.
- Outstanding checks over three months old are being investigated and either re-issued or voided.

Revenues/Receivables/Receipts

- The receipt function has been separated from record keeping function.
- Deposits are now being made on a daily basis.
- Gate receipts are being documented and maintained.

Expenditures/Liabilities/Disbursements

- All purchasing is now being approved by the principal.
- Purchase orders are now being issued prior to purchase and are being attached to invoices.

- Voucher packages are now being prepared including Invoices, purchase orders and verification of goods received. This package is approved for payment by administration.

General Ledger

- Deficit fund balances for clubs/organizations are now being handled though inter-fund balance transfers.

Finding Control Number: FS-7031-11-03

We concur with this finding and have taken steps in FY 2012 to correct.

- Salary changes and calculations will be documented and reviewed by the employee and superintendent. A copy of the documentation will be kept at the central office and a copy will be provided to the employee.
- To prevent the supervisor from approving work before it is actually performed we have installed an electronic time clock district wide and payroll is cut off by the 15th of each month.
- A leave form has been implemented to insure that leave deductions are accurate.
- Payroll personnel will work with Finance Director to insure that pay changes are in accordance with grants/budgets to insure that they are properly posted to accounting records in accordance with the employees' assigned duties. Documentation will be provided.

Finding Control Number: FS-7031-11-04

We concur with this finding and have taken steps in FY 2012 to correct.

- Personnel will be attending training offered by the Georgia Department of Education regarding financial reporting.

Finding Control Number: FS-7031-11-05

We concur with this finding and have taken steps in FY 2012 to correct.

- The budget expenditures for FY 2012 have been reduced to insure the school system will no longer be in deficit financing by personnel reduction and shortening student instructional days. Should the school system end in deficit for FY 2012 the system will comply with all legal requirements.

Finding Control Number: FA-7031-11-01

We concur with this finding and have taken steps in FY 2012 to correct.

- The school system has implemented a procedure for the directors of all federal grants to insure that expenditures are in accordance with the approved project applications.
- Project directors sign off on all expenditures to insure that charges are correctly coded to the proper grant.

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