



ANDERSON SMITH & WIKE PLLC

Certified Public Accountants

October 16, 2013

To the Board of Education
Troy, North Carolina

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Montgomery County Board of Education (the Board) for the year ended June 30, 2013, and have issued our report thereon dated October 16, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing described in our engagement letter dated November 20, 2012.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Board are described in Note 1 to the financial statements. As described in Note 6 to the financial statements, the Board implemented Governmental Accounting Standards Board (GASB) Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Statement 65, *Items Previously reported as Assets and Liabilities*, in the fiscal year ending June 30, 2013. In accordance with GASB Statement 63, the Statement of Net Assets has been replaced with the Statement of Net Position. Items on the Statement of Net Position are now classified into Assets, Liabilities, or Net Position.

We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The financial statements include no overly sensitive estimates.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We noted no such misstatements as any significant adjustments made during the audit were brought to our attention by management.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 16, 2013.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Information in Documents Containing Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of members of the Montgomery County Board of Education and management of the Board and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Anderson Smith & Wike PLLC

Anderson Smith & Wike PLLC
Rockingham, North Carolina

**MONTGOMERY COUNTY
BOARD OF EDUCATION
Troy, North Carolina**

*Financial Statements
For the Fiscal Year Ended
June 30, 2013*

MONTGOMERY COUNTY BOARD OF EDUCATION
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ANDERSON SMITH & WIKE PLLC

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Montgomery County Board of Education
Troy, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Montgomery County Board of Education, as of and for the year ended June 30, 2013 and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Montgomery County Board of Education as of June 30, 2013, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General, State Public School, Other Special Revenue and

Federal Grants funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Montgomery County Board of Education's basic financial statements. The individual nonmajor fund schedule, budgetary schedules and the accompanying schedule of expenditures of federal and State awards as required by the U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments and Non-Profit Organizations* and the State Single Audit Implementation Act are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The individual nonmajor fund schedule, budgetary schedules and the accompanying schedule of expenditures of federal and State awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual nonmajor fund schedule, budgetary schedules and the accompanying schedule of expenditures of federal and State awards are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2013 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Montgomery County Board of Education's internal control over financial reporting and compliance.

Anderson Smith & Wike PLLC

October 16, 2013
Rockingham, North Carolina
(910) 997-1418

MONTGOMERY COUNTY BOARD OF EDUCATION MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Montgomery County Board of Education's (the "Board") financial report represents our discussion and analysis of the financial performance of the Board for the year ended June 30, 2013. This information should be read in conjunction with the audited financial statements included in this report.

Financial Highlights

- Average Daily Membership decreased slightly from 4,137 students in the 2011-2012 year to 4,131 students in the 2012-2013 year.
- The Board received several million dollars of American Recovery and Reinvestment Act (ARRA) revenue over the past few years. All ARRA funding except the Race to the Top grant has now expired. Management and the Board of Education are working diligently to maintain a balanced budget and find ways to absorb these lost revenues.
- Financial reporting awards from Association of School Business Officials International and the Government Finance Officers Association were received for the second consecutive year.

Overview of the Financial Statements

The audited financial statements of the Montgomery County Board of Education consist of four components. They are as follows:

- *Independent Auditors' Report*
- *Management's Discussion and Analysis (required supplementary information)*
- *Basic Financial Statements*
- *Supplementary section that presents a nonmajor fund schedule and budgetary schedules for governmental and enterprise funds*

The *Basic Financial Statements* include two types of statements that present different views of the Board's finances. The first is the *Government-wide Statements*. The government-wide statements are presented on the full accrual basis of accounting and include the statement of net position and the statement of activities. The statement of net position includes all of the Board's assets and liabilities. Assets and liabilities are classified in the order of relative liquidity for assets and due date for liabilities. This statement provides a summary of the Board's investment in assets and obligations to creditors. Liquidity and financial flexibility can be evaluated using the information contained in this statement. The statement of activities summarizes the Board's revenues and expenses for the current year. A net (expense) revenue format is used to indicate to what extent each function is self-sufficient.

The second set of statements included in the basic financial statements is the *Fund Financial Statements*, which are presented for the Board's governmental funds and proprietary funds. These statements present the governmental funds on the modified accrual basis of accounting, measuring the near term inflows and outflows of financial resources and what is available at year-end to spend in the next fiscal year. The proprietary funds are presented on the full accrual basis of accounting.

The fund financial statements focus on the Board's most significant funds. Because a different basis of accounting is used in the government-wide statements, reconciliation from the governmental fund financial statements to the government-wide statements is required. The government-wide statements provide information about the Board as an economic unit while the fund financial statements provide information on each of the financial resources of each of the Board's major funds.

MONTGOMERY COUNTY BOARD OF EDUCATION MANAGEMENT'S DISCUSSION AND ANALYSIS

Government-wide Statements

The government-wide statements report information about the unit as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the Board's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the Board's net position and how it has changed. Net position is the difference between the Board's assets and liabilities. This is one way to measure the unit's financial health or position.

- Over time, increases or decreases in the Board's net position are an indicator of whether its financial position is improving or deteriorating.
- To assess the Board's overall health, you need to consider additional non-financial factors such as changes in the County's property tax base and the condition of its school buildings and other physical assets.

The unit's activities are divided into two categories in the government-wide statements:

- *Governmental activities:* Most of the Board's basic services are included here, such as regular and special education, transportation, and administration. County funding and State and federal aid finance most of these activities.
- *Business-type activities:* The Board charges fees to help it cover the costs of certain services it provides. School food service is included here.

The government-wide statements are shown as Exhibits 1 and 2 of this report.

Fund Financial Statements

The fund financial statements provide more detailed information about the Board's funds, focusing on its most significant or "major" funds - not the unit as a whole. Funds are accounting devices the Board uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by State law, such as the State Public School Fund.
- The Board has established other funds to control and manage money for a particular purpose or to show that it is properly using certain revenues, such as in the Federal Grants Fund.

Montgomery County Board of Education has two types of funds:

Governmental funds: Most of the Board's basic services are included in the governmental funds, which generally focus on two things – 1) how cash and other assets that can readily be converted to cash flow in and out, and 2) the balances left at year-end that are available for spending. As a result of this focus, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the coming year to finance the Board's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information at the bottom of the governmental fund statements, in the form of a reconciliation, explains the relationship (or differences) between the government-wide and the fund financial statements. The Board has several governmental funds: the General Fund, the State Public School Fund, the Individual Schools Fund, the Capital Outlay Fund, the Other Special Revenue Fund and the Federal Grants Fund.

The governmental fund statements are shown as Exhibits 3, 4, 5 and 6 of this report.

**MONTGOMERY COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Proprietary fund: Services for which the Board charges a fee are generally reported in the proprietary funds. The proprietary fund statements are reported on the same full accrual basis of accounting as the government-wide statements. The Montgomery County Board of Education's only proprietary fund is an enterprise fund, the School Food Service Fund.

The proprietary fund statements are shown as Exhibits 7, 8, and 9 of this report.

Financial Analysis of the Board as a Whole

Net position is an indicator of the fiscal health of the Board. Assets exceeded liabilities by \$44.7 million as of June 30, 2013 as compared to \$45.3 million as of June 30, 2012, a decrease of \$591,000. The largest component of net position is net investment in capital assets of \$40.7 million, which comprises 91.0% of the total net position. Following is a summary of the Statement of Net Position at June 30, 2013 and 2012:

**Table 1
Condensed Statement of Net Position
As of June 30, 2013 and 2012**

	Governmental Activities		Business-type Activities		Total Primary Government	
	6/30/13	6/30/12	6/30/13	6/30/12	6/30/13	6/30/12
Current assets	\$ 6,212,159	\$ 5,270,854	\$ 719,084	\$ 596,471	\$ 6,931,243	\$ 5,867,325
Capital assets	40,647,785	41,653,655	252,891	297,023	40,900,676	41,950,678
Total assets	<u>46,859,944</u>	<u>46,924,509</u>	<u>971,975</u>	<u>893,494</u>	<u>47,831,919</u>	<u>47,818,003</u>
Current liabilities	1,302,957	1,063,771	32,745	32,275	1,335,702	1,096,046
Long-term liabilities	1,706,349	1,367,661	42,883	16,363	1,749,232	1,384,024
Total liabilities	<u>3,009,306</u>	<u>2,431,432</u>	<u>75,628</u>	<u>48,638</u>	<u>3,084,934</u>	<u>2,480,070</u>
Net investment in						
capital assets	40,482,359	41,653,655	252,891	297,023	40,735,250	41,950,678
Restricted net position	1,088,083	1,114,305	-	-	1,088,083	1,114,305
Unrestricted net position	2,280,196	1,725,117	643,456	547,833	2,923,652	2,272,950
Total net assets	<u>\$ 43,850,638</u>	<u>\$ 44,493,077</u>	<u>\$ 896,347</u>	<u>\$ 844,856</u>	<u>\$ 44,746,985</u>	<u>\$ 45,337,933</u>

The net position of the Board's governmental activities decreased \$642,000 during the year, from \$44.5 million at June 30, 2012 to \$43.9 million at June 30, 2013, indicating a decline in the financial condition of the Board. Unrestricted net position increased by \$555,000, primarily due to an increase in general County appropriations and related cash balances. Net investment in capital assets decreased \$1.2 million due to an excess of depreciation expense over capital additions for the year.

The net position of the Board's business-type activities increased \$51,000 from \$845,000 at June 30, 2012 to \$896,000 at June 30, 2013. This increase of \$51,000 is the net profit generated by our school food service operations during the 2013 fiscal year.

**MONTGOMERY COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following table shows the revenues and expenses of the Board for the current and prior fiscal years:

Table 2
Condensed Statement of Activities
For the Fiscal Years Ended June 30, 2013 and 2012

	Governmental Activities		Business-type Activities		Total Primary Government	
	6/30/13	6/30/12	6/30/13	6/30/12	6/30/13	6/30/12
Revenues:						
Program revenues:						
Charges for services	\$ 1,046,648	\$ 1,104,666	\$ 603,287	\$ 621,453	\$ 1,649,935	\$ 1,726,119
Operating grants and contributions	27,933,014	28,694,384	2,285,063	2,290,673	30,218,077	30,985,057
Capital grants and contributions	165,428	-	-	-	165,428	-
General revenues:						
County appropriations	5,953,731	4,803,174	-	-	5,953,731	4,803,174
State appropriations	1,855,381	1,374,852	-	-	1,855,381	1,374,852
Other revenues	545,332	278,887	896	10,928	546,228	289,815
Total revenues	37,499,534	36,255,963	2,889,246	2,923,054	40,388,780	39,179,017
Expenses:						
Governmental activities:						
Instructional services	29,375,963	29,389,524	-	-	29,375,963	29,389,524
System-wide support services	7,433,360	6,782,926	-	-	7,433,360	6,782,926
Ancillary services	7,748	-	-	-	7,748	-
Interest on long-term debt	-	-	-	-	-	-
Unallocated depreciation	1,242,733	1,243,575	-	-	1,242,733	1,243,575
Business-type activities:						
School food service	-	-	2,919,924	2,921,171	2,919,924	2,921,171
Total expenses	38,059,804	37,416,025	2,919,924	2,921,171	40,979,728	40,337,196
Excess (deficiency) before transfers	(560,270)	(1,160,062)	(30,678)	1,883	(590,948)	(1,158,179)
Transfers in (out)	(82,169)	(83,365)	82,169	83,365	-	-
Increase (decrease) in net position	(642,439)	(1,243,427)	51,491	85,248	(590,948)	(1,158,179)
Beginning net position	44,493,077	45,736,504	844,856	759,608	45,337,933	46,496,112
Ending net position	\$ 43,850,638	\$ 44,493,077	\$ 896,347	\$ 844,856	\$ 44,746,985	\$ 45,337,933

Total governmental activities generated revenues of \$37.5 million while expenses in this category totaled \$38.1 million for the year ended June 30, 2013, resulting in the aforementioned decrease in net position of \$642,000 (including transfers to business-type activities of \$82,000). Comparatively, revenues were \$36.3 million, expenses totaled \$37.4 million and transfers out were \$83,000 for the year ended June 30, 2012, resulting in a decrease in net position of \$1.2 million.

MONTGOMERY COUNTY BOARD OF EDUCATION MANAGEMENT'S DISCUSSION AND ANALYSIS

In comparing the two years, revenues increased \$1.2 million while expenses increased by \$644,000. The increase in revenues is primarily attributable to a \$1.2 million increase in appropriations from Montgomery County. The increase in expenses is primarily attributable to increases in administrative salaries and transportation costs. A rise in employer retirement contribution and health insurance rates also contributed to the increase in expenses.

The Board's primary sources of revenues were funding from the State of North Carolina, Montgomery County, and the United States Government, which respectively comprised 68.7%, 15.6% and 8.2% of our total revenues. As would be expected, the major component of our expenditures was instructional services which accounted for 77.2% of our total expenditures during the most recent fiscal year. Of the remaining 22.8% of our total expenditures, 19.5% was attributable to system-wide support services.

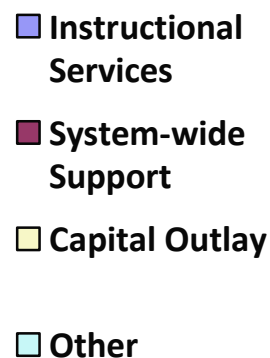
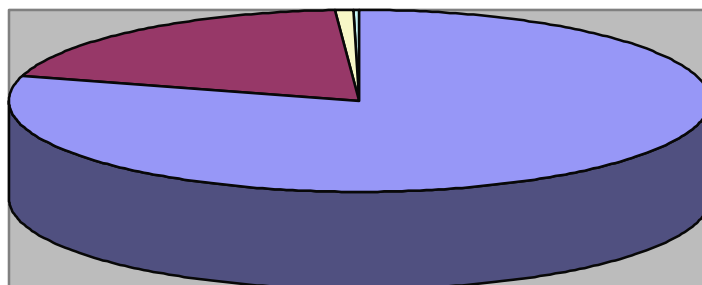
Our business-type activities generated revenues of \$2.9 million while expenses in this category also totaled \$2.9 million for the year ended June 30, 2013. For the year, net position increased by \$51,000 (including transfers in of \$82,000). Comparatively, revenues and expenses were both \$2.9 million for the year ended June 30, 2012, resulting in an increase in net position of \$85,000 (including transfers in of \$83,000). In comparing the two years, there were no significant changes in revenues or expenditures.

Financial Analysis of the Board's Funds

Governmental Funds: The focus of Montgomery County Board of Education's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Board's financing requirements.

The Board's governmental funds reported a combined fund balance of \$5.9 million at June 30, 2013, an increase of \$772,000 over the \$5.1 million reported at June 30, 2012. The Board's General and Other Special Revenue funds each reported increases in fund balance for the year ended June 30, 2013 of \$503,000, \$272,000, respectively (including the \$72,000 decrease in reserve for inventories in the General Fund). The Capital Outlay and Individual Schools funds each reported slight decreases in fund balance of \$2,000 each. Overall, total governmental fund revenues increased by \$1.2 million while total expenditures increased by \$837,000 over the prior year. As noted previously, the increase in revenues is primarily attributable to a \$1.2 million increase in appropriations from Montgomery County and the increase in expenditures is primarily attributable to increases in administrative salaries, transportation costs and a rise in employer health insurance and retirement contribution rates.

Categorization of Expenditures for Governmental Funds



Expenditures presented on modified accrual basis of accounting.

**MONTGOMERY COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Proprietary Fund: The Board's business-type fund, the School Food Service Fund, reported an increase in net position of \$51,000 for the fiscal year ended June 30, 2013 compared to an increase of \$85,000 for the same 2012 period, a decline of \$34,000. Overall, revenues and expenses remained comparable from year to year.

General Fund Budgetary Highlights

The Board made no revisions to the General Fund budget during the year. Revenues from Montgomery County exceeded budget by \$940,000 during the year. This was due to the County having to provide an additional appropriation to the Board during the year to meet a State matching requirement for Low Wealth funding. For the year, the General Fund reported an increase in fund balance of \$503,000 (net of a decrease in reserve for inventories) compared to a decrease in the prior year of \$272,000. The year-over-year improvement of \$775,000 is primarily attributable to the additional County funding received.

Capital Assets

Total primary government capital assets were \$40.9 million at June 30, 2013 compared to \$42.0 million at June 30, 2012, a decline of 2.5%. More detailed information about the Board's capital assets is contained in Note 3.A.4 to the financial statements. The following is a summary of the Board's capital assets, net of depreciation, at June 30, 2013 and 2012:

**Table 3
Summary of Capital Assets
As of June 30, 2013 and 2012**

	Governmental Activities		Business-type Activities		Total Primary Government	
	6/30/13	6/30/12	6/30/13	6/30/12	6/30/13	6/30/12
Land	\$ 568,931	\$ 568,931	\$ -	\$ -	\$ 568,931	\$ 568,931
Buildings and improvements	39,294,978	40,471,312	-	-	39,294,978	40,471,312
Equipment and furniture	349,567	415,966	252,891	297,023	602,458	712,989
Vehicles	434,309	197,446	-	-	434,309	197,446
Total	<u>\$ 40,647,785</u>	<u>\$ 41,653,655</u>	<u>\$ 252,891</u>	<u>\$ 297,023</u>	<u>\$ 40,900,676</u>	<u>\$ 41,950,678</u>

Economic Factors

County funding is a major source of income for the Board; therefore the County's economic outlook directly affects the school district. The following factors have affected the economic outlook of Montgomery County:

- As of June 30, 2013, Montgomery County experienced an unemployment rate of approximately 10.2% as compared to an unemployment rate of approximately 12.5% at June 30, 2012. Montgomery County's unemployment rate is well above the June 30, 2012 State of N.C. and national unemployment rates of 9.3% and 7.8%, respectively.
- Due to limited regional growth, the Board expects enrollment to remain consistent for the next year.

**MONTGOMERY COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Requests for Information

This report is intended to provide a summary of the financial condition of Montgomery County Board of Education. Questions or requests for additional information should be addressed to:

Kathy Johnson, Chief Financial Officer
Montgomery County Board of Education
Post Office Box 427
Troy, NC 27371-0427

MONTGOMERY COUNTY BOARD OF EDUCATION
STATEMENT OF NET POSITION
June 30, 2013

Exhibit 1

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 5,725,757	\$ 603,366	\$ 6,329,123
Due from other governments	203,304	65,753	269,057
Receivables	113,259	91	113,350
Inventories	169,839	49,874	219,713
Capital assets:			
Land	568,931	-	568,931
Other capital assets, net of depreciation	40,078,854	252,891	40,331,745
Total capital assets	40,647,785	252,891	40,900,676
Total assets	46,859,944	971,975	47,831,919
Liabilities			
Accounts payable and accrued expenses	131,719	-	131,719
Accrued salaries and wages payable	213,880	-	213,880
Due to other governments	13,485	-	13,485
Unavailable revenue	-	5,567	5,567
Long-term liabilities:			
Due within one year	943,873	27,178	971,051
Due in more than one year	1,706,349	42,883	1,749,232
Total liabilities	3,009,306	75,628	3,084,934
Net position			
Net investment in capital assets	40,482,359	252,891	40,735,250
Restricted for:			
Stabilization by State statute	113,259	-	113,259
School capital outlay	534,845	-	534,845
Instructional services	67,165	-	67,165
Individual schools activities	372,814	-	372,814
Unrestricted	2,280,196	643,456	2,923,652
Total net position	\$ 43,850,638	\$ 896,347	\$ 44,746,985

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

MONTGOMERY COUNTY BOARD OF EDUCATION
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2013

Exhibit 2

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
Instructional services:							
Regular instructional	\$ 17,479,131	\$ -	\$ 15,688,263	\$ -	\$ (1,790,868)	\$ -	\$ (1,790,868)
Special populations	3,803,480	-	3,819,611	-	16,131	-	16,131
Alternative programs	2,760,341	-	1,994,580	-	(765,761)	-	(765,761)
School leadership	2,173,110	-	1,295,333	-	(877,777)	-	(877,777)
Co-curricular	1,237,955	1,030,069	-	-	(207,886)	-	(207,886)
School-based support	1,921,946	-	1,566,189	-	(355,757)	-	(355,757)
System-wide support services:							
Support and development	133,761	-	100,362	-	(33,399)	-	(33,399)
Special population support and development	169,920	-	125,823	-	(44,097)	-	(44,097)
Alternative programs and services support and development	225,146	-	223,654	-	(1,492)	-	(1,492)
Technology support	615,737	-	124,379	-	(491,358)	-	(491,358)
Operational support	4,695,372	-	2,347,838	165,428	(2,182,106)	-	(2,182,106)
Financial and human resource services	875,411	16,579	226,501	-	(632,331)	-	(632,331)
Accountability	59,240	-	55,699	-	(3,541)	-	(3,541)
System-wide pupil support	115,225	-	-	-	(115,225)	-	(115,225)
Policy, leadership and public relations	543,548	-	307,061	-	(236,487)	-	(236,487)
Ancillary services	7,748	-	2,435	-	(5,313)	-	(5,313)
Payments to other governments	-	-	55,286	-	55,286	-	55,286
Unallocated depreciation expense**	1,242,733	-	-	-	(1,242,733)	-	(1,242,733)
Total governmental activities	38,059,804	1,046,648	27,933,014	165,428	(8,914,714)	-	(8,914,714)
Business-type activities:							
School food service	2,919,924	603,287	2,285,063	-	-	(31,574)	(31,574)
Total primary government	\$ 40,979,728	\$ 1,649,935	\$ 30,218,077	\$ 165,428	(8,914,714)	(31,574)	(8,946,288)
General revenues:							
Unrestricted county appropriations - operating					5,953,731	-	5,953,731
Unrestricted State appropriations - operating					1,855,381	-	1,855,381
Investment earnings, unrestricted					12,052	194	12,246
Miscellaneous, unrestricted					533,280	702	533,982
Transfers					(82,169)	82,169	-
Total general revenues and transfers					8,272,275	83,065	8,355,340
Change in net position					(642,439)	51,491	(590,948)
Net position - beginning					44,493,077	844,856	45,337,933
Net position - ending					\$ 43,850,638	\$ 896,347	\$ 44,746,985

**This amount excludes the depreciation that is included in the direct expenses of the various programs.

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, 2013

Exhibit 3

	Major Funds					Non-major Fund	Total Governmental Funds
	General	State Public School	Federal Grants	Other Special Revenue	Capital Outlay	Individual Schools	
Assets							
Cash and cash equivalents	\$ 4,141,948	\$ 13,485	\$ -	\$ 662,665	\$ 534,845	\$ 372,814	\$ 5,725,757
Due from other governments	-	183,820	19,484	-	-	-	203,304
Accounts receivable	46,345	-	-	66,914	-	-	113,259
Inventories	169,839	-	-	-	-	-	169,839
Total assets	<u>\$ 4,358,132</u>	<u>\$ 197,305</u>	<u>\$ 19,484</u>	<u>\$ 729,579</u>	<u>\$ 534,845</u>	<u>\$ 372,814</u>	<u>\$ 6,212,159</u>
Liabilities and Fund balances							
Liabilities:							
Accounts payable and accrued liabilities	\$ 130,729	\$ -	\$ -	\$ 990	\$ -	\$ -	\$ 131,719
Accrued salaries and wages payable	8,365	183,820	19,484	2,211	-	-	213,880
Due to other governments	-	13,485	-	-	-	-	13,485
Total liabilities	<u>139,094</u>	<u>197,305</u>	<u>19,484</u>	<u>3,201</u>	<u>-</u>	<u>-</u>	<u>359,084</u>
Fund balances:							
Nonspendable:							
Inventories	169,839	-	-	-	-	-	169,839
Restricted:							
Stabilization by State statute	46,345	-	-	66,914	-	-	113,259
School capital outlay	-	-	-	-	534,845	-	534,845
Instructional services	-	-	-	67,165	-	-	67,165
Individual schools	-	-	-	-	-	372,814	372,814
Assigned:							
Subsequent year's expenditures	922,013	-	-	-	-	-	922,013
Special revenues	-	-	-	592,299	-	-	592,299
Unassigned	3,080,841	-	-	-	-	-	3,080,841
Total fund balances	<u>4,219,038</u>	<u>-</u>	<u>-</u>	<u>726,378</u>	<u>534,845</u>	<u>372,814</u>	<u>5,853,075</u>
Total liabilities and fund balances	<u>\$ 4,358,132</u>	<u>\$ 197,305</u>	<u>\$ 19,484</u>	<u>\$ 729,579</u>	<u>\$ 534,845</u>	<u>\$ 372,814</u>	

Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

40,647,785

Some liabilities, including those for compensated absences and installment purchases, are not due and payable in the current period and therefore are not reported in the funds.

(2,650,222)

Net position of governmental activities

\$ 43,850,638

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
For the Fiscal Year Ended June 30, 2013

Exhibit 4

	Major Funds					Non-major Fund	Total Governmental Funds
	General	State Public School	Federal Grants	Other Special Revenue	Capital Outlay	Individual Schools	
Revenues:							
State of North Carolina	\$ -	\$ 25,627,649	\$ -	\$ -	\$ 165,428	\$ -	\$ 25,793,077
Montgomery County	5,953,731	-	-	-	-	-	5,953,731
U.S. Government	-	-	2,966,035	115,496	-	-	3,081,531
Other	486,221	-	-	1,189,466	21,230	1,030,069	2,726,986
Total revenues	6,439,952	25,627,649	2,966,035	1,304,962	186,658	1,030,069	37,555,325
Expenditures:							
Current:							
Instructional services:							
Regular instructional	1,426,605	15,205,117	518,138	213,449	-	-	17,363,309
Special populations	18,507	2,775,237	984,533	-	-	-	3,778,277
Alternative programs	37,349	1,005,581	1,013,631	685,489	-	-	2,742,050
School leadership	574,810	1,583,900	-	-	-	-	2,158,710
Co-curricular	197,810	-	-	-	-	1,031,942	1,229,752
School-based support	172,845	1,547,159	55,473	133,734	-	-	1,909,211
System-wide support services:							
Support and development	32,513	99,208	1,154	-	-	-	132,875
Special population support and development	-	139,392	29,402	-	-	-	168,794
Alternative programs and services support and development	-	-	223,654	-	-	-	223,654
Technology support	390,009	197,301	24,347	-	-	-	611,657
Operational support	2,282,167	2,262,154	3,515	-	-	-	4,547,836
Financial and human resource services	380,877	360,575	56,884	-	-	-	798,336
Accountability	3,148	55,699	-	-	-	-	58,847
System-wide pupil support	114,461	-	-	-	-	-	114,461
Policy, leadership and public relations	228,206	311,740	-	-	-	-	539,946
Ancillary services	5,313	2,417	18	-	-	-	7,748
Non-programmed charges	-	-	55,286	-	-	-	55,286
Debt service:							
Principal retirement	-	-	-	-	165,428	-	165,428
Capital outlay	-	-	-	-	354,062	-	354,062
Total expenditures	5,864,620	25,545,480	2,966,035	1,032,672	519,490	1,031,942	36,960,239
Revenues over (under) expenditures	575,332	82,169	-	272,290	(332,832)	(1,873)	595,086
Other financing sources (uses):							
Transfers to other funds	-	(82,169)	-	-	-	-	(82,169)
Installment purchase obligations issued	-	-	-	-	330,854	-	330,854
Total other financing sources (uses)	-	(82,169)	-	-	330,854	-	248,685
Net change in fund balance	575,332	-	-	272,290	(1,978)	(1,873)	843,771
Fund balances:							
Beginning of year	3,715,961	-	-	454,088	536,823	374,687	5,081,559
Decrease in reserve for inventories	(72,255)	-	-	-	-	-	(72,255)
End of year	\$ 4,219,038	\$ -	\$ -	\$ 726,378	\$ 534,845	\$ 372,814	\$ 5,853,075

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

MONTGOMERY COUNTY BOARD OF EDUCATION**Exhibit 5****RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2013**

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - total governmental funds	\$ 843,771
Change in fund balance due to change in reserve for inventory	(72,255)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(1,005,870)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(165,426)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Compensated absences	<u>(242,659)</u>
Total changes in net position of governmental activities	<u>\$ (642,439)</u>

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

MONTGOMERY COUNTY BOARD OF EDUCATION
GENERAL FUND AND ANNUALLY BUDGETED MAJOR SPECIAL REVENUE FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2013

Exhibit 6

	General Fund			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues:				
State of North Carolina	\$ -	\$ -	\$ -	\$ -
Montgomery County	5,013,297	5,013,297	5,953,731	940,434
U.S. Government	-	-	-	-
Other	245,000	245,000	486,221	241,221
Total revenues	5,258,297	5,258,297	6,439,952	1,181,655
Expenditures:				
Current:				
Instructional services	4,793,623	4,618,550	2,427,926	2,190,624
System-wide support services	3,752,770	3,927,675	3,431,381	496,294
Ancillary services	5,145	5,313	5,313	-
Non-programmed charges	-	-	-	-
Total expenditures	8,551,538	8,551,538	5,864,620	2,686,918
Revenues over (under) expenditures	(3,293,241)	(3,293,241)	575,332	3,868,573
Other financing uses:				
Transfers to other funds	-	-	-	-
Fund balance appropriated	3,293,241	3,293,241	-	(3,293,241)
Net change in fund balance	\$ -	\$ -	575,332	\$ 575,332
Fund balances:				
Beginning of year			3,715,961	
Decrease in reserve for inventories			(72,255)	
End of year			\$ 4,219,038	

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

MONTGOMERY COUNTY BOARD OF EDUCATION **Exhibit 6 (continued)**
GENERAL FUND AND ANNUALLY BUDGETED MAJOR SPECIAL REVENUE FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2013

	State Public School Fund			Variance with
	Original Budget	Final Budget	Actual	Final Budget Positive (Negative)
Revenues:				
State of North Carolina	\$ 26,379,587	\$ 26,038,457	\$ 25,627,649	\$ (410,808)
Montgomery County	-	-	-	-
U.S. Government	-	-	-	-
Other	-	-	-	-
Total revenues	<u>26,379,587</u>	<u>26,038,457</u>	<u>25,627,649</u>	<u>(410,808)</u>
Expenditures:				
Current:				
Instructional services	23,399,106	22,337,625	22,116,994	220,631
System-wide support services	2,895,116	3,613,052	3,426,069	186,983
Ancillary services	-	5,611	2,417	3,194
Non-programmed charges	-	-	-	-
Total expenditures	<u>26,294,222</u>	<u>25,956,288</u>	<u>25,545,480</u>	<u>410,808</u>
Revenues over (under) expenditures	85,365	82,169	82,169	-
Other financing uses:				
Transfers to other funds	(85,365)	(82,169)	(82,169)	-
Fund balance appropriated	-	-	-	-
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Fund balances:				
Beginning of year			-	
Decrease in reserve for inventories			-	
End of year			<u>\$ -</u>	

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

MONTGOMERY COUNTY BOARD OF EDUCATION **Exhibit 6 (continued)**
GENERAL FUND AND ANNUALLY BUDGETED MAJOR SPECIAL REVENUE FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2013

	Federal Grants Fund			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues:				
State of North Carolina	\$ -	\$ -	\$ -	\$ -
Montgomery County	-	-	-	-
U.S. Government	4,112,997	4,493,762	2,966,035	(1,527,727)
Other	-	-	-	-
Total revenues	<u>4,112,997</u>	<u>4,493,762</u>	<u>2,966,035</u>	<u>(1,527,727)</u>
Expenditures:				
Current:				
Instructional services	2,589,035	3,550,488	2,571,775	978,713
System-wide support services	432,693	560,020	338,956	221,064
Ancillary services	-	300	18	282
Non-programmed charges	<u>1,091,269</u>	<u>382,954</u>	<u>55,286</u>	<u>327,668</u>
Total expenditures	<u>4,112,997</u>	<u>4,493,762</u>	<u>2,966,035</u>	<u>1,527,727</u>
Revenues over (under) expenditures	-	-	-	-
Other financing uses:				
Transfers to other funds	-	-	-	-
Fund balance appropriated	-	-	-	-
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
Fund balances:				
Beginning of year			-	
Decrease in reserve for inventories			-	
End of year			<u>\$ -</u>	

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

MONTGOMERY COUNTY BOARD OF EDUCATION **Exhibit 6 (continued)**
GENERAL FUND AND ANNUALLY BUDGETED MAJOR SPECIAL REVENUE FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2013

	Other Special Revenue Fund			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues:				
State of North Carolina	\$ -	\$ -	\$ -	\$ -
Montgomery County	-	-	-	-
U.S. Government	85,000	85,000	115,496	30,496
Other	<u>1,121,900</u>	<u>1,121,900</u>	<u>1,189,466</u>	<u>67,566</u>
Total revenues	<u>1,206,900</u>	<u>1,206,900</u>	<u>1,304,962</u>	<u>98,062</u>
Expenditures:				
Current:				
Instructional services	1,206,900	1,206,900	1,032,672	174,228
System-wide support services	-	-	-	-
Ancillary services	-	-	-	-
Non-programmed charges	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>1,206,900</u>	<u>1,206,900</u>	<u>1,032,672</u>	<u>174,228</u>
Revenues over (under) expenditures	-	-	272,290	272,290
Other financing uses:				
Transfers to other funds	-	-	-	-
Fund balance appropriated	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	272,290	<u>\$ 272,290</u>
Fund balances:				
Beginning of year			454,088	
Decrease in reserve for inventories			<u>-</u>	
End of year			<u>\$ 726,378</u>	

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

MONTGOMERY COUNTY BOARD OF EDUCATION
STATEMENT OF NET POSITION
PROPRIETARY FUND TYPE
June 30, 2013

Exhibit 7

	<u>Enterprise Fund</u> <u>Major Fund</u> <u>School Food</u> <u>Service</u>
Assets	
Current assets:	
Cash and cash equivalents	\$ 603,366
Due from other governments	65,753
Receivables	91
Inventories	49,874
Total current assets	<u>719,084</u>
Noncurrent assets:	
Capital assets:	
Furniture and office equipment, net	<u>252,891</u>
Total assets	<u>971,975</u>
Liabilities	
Current liabilities:	
Compensated absences	27,178
Unavailable revenue	<u>5,567</u>
Total current liabilities	<u>32,745</u>
Noncurrent liabilities:	
Compensated absences	<u>42,883</u>
Total liabilities	<u>75,628</u>
Net position	
Net investment in capital assets	252,891
Unrestricted	<u>643,456</u>
Total net position	<u>\$ 896,347</u>

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

MONTGOMERY COUNTY BOARD OF EDUCATION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND TYPE
For the Fiscal Year Ended June 30, 2013

Exhibit 8

	Enterprise Fund Major Fund School Food Service
Operating revenues:	
Food sales	\$ 603,287
Operating expenses:	
Food cost:	
Purchase of food	1,105,871
Donated commodities	141,056
Salaries and benefits	1,459,415
Indirect costs	200,763
Materials and supplies	117,808
Repairs and maintenance	14,311
Depreciation	50,063
Contracted services	24,830
Other	6,065
Total operating expenses	3,120,182
Operating loss	(2,516,895)
Nonoperating revenues:	
Federal reimbursements	2,132,682
Federal commodities	141,056
State reimbursements	11,325
Indirect costs not paid	200,258
Interest earned	194
Other	702
Total nonoperating revenues	2,486,217
Loss before transfers	(30,678)
Transfers from other funds	82,169
Change in net position	51,491
Net position, beginning of year	844,856
Net position, end of year	\$ 896,347

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

MONTGOMERY COUNTY BOARD OF EDUCATION
STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE
For the Fiscal Year Ended June 30, 2013

Exhibit 9

	Enterprise Fund
	Major Fund
	School Food Service
Cash flows from operating activities:	
Cash received from customers	\$ 603,824
Cash paid for goods and services	(1,266,852)
Cash paid to employees for services	(1,350,534)
Net cash used by operating activities	(2,013,562)
Cash flows from noncapital financing activities:	
Federal and State reimbursements	2,143,694
Other	702
Net cash provided by noncapital financing activities	2,144,396
Cash flows from capital and related financing activities:	
Purchase of capital assets	(5,931)
Cash flows from investing activities:	
Interest earned on investments	194
Net increase in cash and cash equivalents	125,097
Cash and cash equivalents, beginning of year	478,269
Cash and cash equivalents, end of year	\$ 603,366
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (2,516,895)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	50,063
Donated commodities	141,056
Salaries paid by special revenue fund	82,169
Indirect costs not paid	200,258
Changes in assets and liabilities:	
Decrease in accounts receivable	212
Decrease in inventories	2,585
Decrease in accounts payable and accrued liabilities	(47)
Increase in unavailable revenue	325
Increase in compensated absences payable	26,712
Total adjustments	503,333
Net cash used by operating activities	\$ (2,013,562)

NONCASH OPERATING AND NONCAPITAL FINANCING ACTIVITIES:

The School Food Service Fund received donated commodities with a value of \$141,056 during the fiscal year. The receipt of these commodities is reflected as a nonoperating revenue on Exhibit 8. The consumption of these commodities is recorded as an operating expense.

Indirect costs of \$200,258 that would be due to the Other Special Revenue Fund were not paid. These unpaid costs are reflected as a nonoperating revenue and an operating expense on Exhibit 8.

The State Public School Fund paid salaries and benefits of \$82,169 to administrative personnel of the School Food Service Fund during the fiscal year. The payment is reflected as an operating transfer in and an operating expense on Exhibit 8.

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

MONTGOMERY COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Montgomery County Board of Education conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

A. Reporting Entity

The Montgomery County Board of Education (Board) is a Local Education Agency empowered by State law [Chapter 115C of the North Carolina General Statutes] with the responsibility to oversee and control all activities related to public school education in Montgomery County, North Carolina. The Board receives State, local, and federal government funding and must adhere to the legal requirements of each funding entity. The Board has no component units.

B. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities display information about the Board. These statements include the financial activities of the overall government. Eliminations have been made to minimize the effect of internal activities upon revenues and expenses. These statements distinguish between the *governmental* and *business-type activities* of the Board. Governmental activities generally are financed through intergovernmental revenues and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the Board and for each function of the Board'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 expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and 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 are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the Board's funds. Separate statements for each fund category – *governmental and proprietary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities. All expenses are considered to be operating expenses.

The Board reports the following major governmental funds:

General Fund. The General Fund is the general operating fund of the Board. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund. This fund is the "Local Current Expense Fund," which is mandated by State law [G.S. 115C-426].

State Public School Fund. The State Public School Fund includes appropriations from the Department of Public Instruction for the current operating expenditures of the public school system.

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Federal Grants Fund. The Federal Grants Fund includes appropriations from the U.S. Government for the current operating expenditures of the public school system.

Other Special Revenue Fund. The Other Special Revenue Fund is used to account for revenues from reimbursements, including indirect costs, fees for actual costs, tuition, sales tax refunds, gifts and grants restricted as to use, federal and State grants restricted as to use, federal and State appropriations made directly to local school administrative units, funds received for prekindergarten programs and special programs.

Capital Outlay Fund. The Capital Outlay Fund accounts for financial resources to be used for the acquisition and construction of major capital facilities (other than those financed by proprietary funds and trust funds). It is mandated by State law [G.S.115C-426]. Capital projects are funded by Montgomery County appropriations, restricted sales tax moneys, proceeds of county debt issued for public school construction, lottery proceeds as well as certain State assistance.

The Board reports the following nonmajor governmental funds:

Individual Schools Fund. The Individual Schools Fund includes revenues and expenditures of the activity funds of the individual schools. The primary revenue sources include funds held on the behalf of various clubs and organizations, receipts from athletic events, and proceeds from various fund raising activities. The primary expenditures are for athletic teams, club programs, activity buses, and instructional needs.

The Board reports the following major enterprise fund:

School Food Service Fund. The School Food Service Fund is used to account for the food service program within the school system.

C. Measurement Focus and Basis of Accounting

Government-wide and Proprietary Fund Financial Statements. The government-wide and proprietary fund 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 Board gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants and donations. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements. 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 Board considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. These could include federal, State, and county grants, and some charges for services. Expenditures are recorded when the related fund liability is incurred, except for claims and judgments and compensated absences which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Acquisitions under capital leases are reported as other financing sources.

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

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D. Budgetary Data

The Board's budgets are adopted as required by the North Carolina General Statutes. Annual budgets are adopted for all funds, except for the individual schools special revenue funds, as required by the North Carolina General Statutes. No budget is required by State law for individual school funds. All appropriations lapse at the fiscal year-end. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the purpose level for all annually budgeted funds. Any revisions that alter the total expenditures of any fund or require a transfer between purpose codes within a fund must be approved by the Board of Education prior to any expenditures being made. During the year, several amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

E. Assets, Liabilities, and Fund Equity

1. Deposits and Investments

All deposits of the Board are made in board-designated official depositories and are secured as required by State law [G.S. 115C-444]. The Board may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Board may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit. The Board also has money credited in its name with the State Treasurer and may issue State warrants against these funds.

State law [G.S. 115C-443] authorizes the Board to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; the North Carolina Capital Management Trust (NCCMT), an SEC-registered (2a-7) money market mutual fund; and the North Carolina State Treasurer's Short Term Investment Fund (STIF). The STIF is managed by the staff of the Department of State Treasurer and operated in accordance with State laws and regulations. It is not registered with the SEC. It consists of an internal portion and an external portion in which the Board participates. Investments are restricted to those enumerated in G.S. 147-69.1.

The Board's investments are reported at fair value as determined by quoted market prices. The NCCMT Cash Portfolio's securities are valued at fair value, which is the NCCMT's share price. The STIF securities are reported at cost and maintain a constant \$1 per share value. Under the authority of G.S. 147-69.3, no unrealized gains or losses of the STIF are distributed to external participants of the fund.

2. Cash and Cash Equivalents

The Board pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents.

3. Inventories

The inventories of the Board are valued at cost and the Board uses the first-in, first-out (FIFO) flow assumption in determining cost. The inventories of the Board's General Fund consist of expendable materials and supplies which are recorded as expenditures when purchased. The General Fund inventories do not reflect current appropriable resources and, thus, an equivalent portion of fund balance is classified as nonspendable. Proprietary Fund inventories consist of food and supplies and are recorded as expenses when consumed.

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4. Capital Assets

The Board's capital assets are recorded at original cost. Donated assets are listed at their estimated fair value at the date of donation or forfeiture. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. Certain items acquired before July 1, 1990 are recorded at an estimated original historical cost. The total of these estimates is not considered large enough that any errors would be material when capital assets are considered as a whole.

For capital assets utilized in governmental activities, it is the policy of the Board to capitalize those assets costing more than \$5,000 with an estimated useful life of two or more years, while for capital assets utilized in business-type activities, it is the policy of the Board to capitalize those assets costing more than \$500 with an estimated useful life of two or more years. The cost of normal repairs and maintenance that do not add to the value of the asset or materially extend asset lives is not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings and improvements	20 - 50
Equipment and furniture	3 - 10
Vehicles	6

Depreciation for assets that serve multiple purposes cannot be allocated ratably and is therefore reported as "unallocated depreciation" on the Statement of Activities.

5. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

6. Compensated Absences

The Board follows the State's policy for vacation and sick leave. Employees may accumulate up to thirty (30) days earned vacation leave with such leave being fully vested when earned. For the Board, the current portion of the accumulated vacation pay is not considered to be material. The Board's liability for accumulated earned vacation and the salary-related payments as of June 30, 2013 is recorded in the government-wide and proprietary fund financial statements on a FIFO basis. An estimate has been made based on prior years' records of the current portion of compensated absences.

The sick leave policy of the Board provides for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the Board has no obligation for accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

7. Net Position/Fund Balances

Net Position

Net position in the government-wide and proprietary fund financial statements is classified as net investment in capital assets; restricted; and unrestricted. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments, or imposed by law through State statute.

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Fund Balances

In the governmental fund financial statements, fund balance is composed of three classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

The governmental fund types classify fund balances as follows:

Nonspendable fund balance – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Inventories - portion of fund balance that is not an available resource because it represents the year-end balance of ending inventories, which are not spendable resources.

Restricted fund balance – This classification includes amounts that are restricted to specific purposes externally imposed by creditors or imposed by law.

Restricted for Stabilization by State statute - portion of fund balance that is restricted by State Statute [G.S. 115C-425(a)].

Restricted for school capital outlay - portion of fund balance that can only be used for school capital outlay. [G.S. 159-18 through 22]

Restricted for instructional services – grant and other revenues restricted for expenditure for various instructional services, as allowable by the funding source.

Restricted for Individual Schools – revenue sources restricted for expenditures for the various clubs and organizations, athletic events, and various fund raising activities for which they were collected.

Assigned fund balance – portion of fund balance that the Board of Education intends to use for specific purposes.

Subsequent year's expenditures – portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted. The Board of Education approves the appropriation.

Special revenues – portion of fund balance that represents the residual amount of revenues from certain grants, reimbursements, indirect costs and other financial resources in excess of related expenditures that the Board of Education has assigned to be expended for educational services. This amount can be expended on instructional services, system-wide support services, ancillary services or non-programmed charges.

The Board of Education has a management policy for revenue spending that provides guidance for programs with multiple revenue sources. The Finance Officer will use resources in the following hierarchy: bond proceeds, federal funds, State funds, local non-board of education funds, board of education funds. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in-order by committed fund balance, assigned fund balance and lastly unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it is in the best interest of the Board of Education.

8. Reconciliation of Government-wide and Fund Financial Statements

- a. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position

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The governmental fund balance sheet includes a reconciliation between *fund balance - total governmental funds* and *net position - governmental activities* as reported in the government-wide statement of net position. The net adjustment of \$37,997,563 consists of several elements as follows:

<u>Description</u>	<u>Amount</u>
Capital assets used in governmental activities are not financial resources and are therefore not reported in the funds (total capital assets on government-wide statement in governmental activities column)	\$ 71,417,676
Less accumulated depreciation	<u>(30,769,891)</u>
Net capital assets	40,647,785
Liabilities that, because they are not due and payable in the current period, do not require current resources to pay and are therefore not recorded in the fund statements:	
Installment purchases	(165,426)
Compensated absences	<u>(2,484,796)</u>
Total adjustment	<u>\$ 37,997,563</u>

b. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balance and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. There are several elements of that total adjustment of (\$1,486,210) as follows:

<u>Description</u>	<u>Amount</u>
Capital outlay expenditures recorded in the fund statements but capitalized as assets in the statement of activities	\$ 348,402
Change in fund balance due to change in reserve for inventory	(72,255)
Depreciation expense, the allocation of those assets over their useful lives, that is recorded on the statement of activities but not in the fund statements	(1,354,272)
New debt issued during the year is recorded as a source of funds on the fund statements; it has no effect on the statement of activities - it only affects the government-wide statement of net position	(330,854)
Principal payments on debt owed are recorded as a use of funds on the fund statements but again affect only the statement of net position in the government-wide statements	165,428
Expenses reported in the statement of activities that do not require the use of current resources to pay are not recorded as expenditures in the fund statements:	
Compensated absences are accrued in the government-wide statements but not in the fund statements because they do not use current resources	<u>(242,659)</u>
Total adjustment	<u>\$ (1,486,210)</u>

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NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Excess of Expenditures Over Appropriations

During the fiscal year ended June 30, 2013, the Board reported expenditures within the Capital Outlay Fund that violated State law [G.S. 115C-441] because they exceeded the amount appropriated in the budget ordinance for operating expenditures by \$329,854. The violation was attributable to an oversight by management in budgeting for a non-cash transaction for installment purchase proceeds and related expenditures for school buses. The net effect of recording these transactions in the Capital Outlay Fund was \$0 since installment purchase proceeds equaled expenditures. Management will monitor budgets monthly and make necessary amendments to avoid expenditures in excess of appropriations.

NOTE 3 - DETAIL NOTES ON ALL FUNDS

A. Assets

1. Deposits

All of the Board's deposits are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits exceeding the federal depository insurance coverage level are collateralized with securities held by the Board's agents in the unit's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Board, these deposits are considered to be held by the agent in the entity's name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Board or with the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Board under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Board has no policy regarding custodial credit risk for deposits.

At June 30, 2013, the Board had deposits with banks and savings and loans with a carrying amount of \$3,791,245 and with the State Treasurer of \$13,485. The bank balances with the financial institutions and the State Treasurer were \$3,955,190 and \$95,534, respectively. Of these balances, \$887,636 was covered by federal depository insurance and \$3,163,088 was covered by collateral held by authorized escrow agents in the name of the State Treasurer.

2. Investments

At June 30 2013, the Board had \$2,524,393 invested with the State Treasurer in the Short Term Investment Fund (STIF). The STIF is unrated and had a weighted average maturity of 1.6 years at June 30, 2013. The Board has no policy for managing interest rate risk or credit risk.

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3. Accounts Receivable

Receivables at the government-wide level at June 30, 2013 are as follows:

	Due from other governments	Other	Total
Governmental activities:			
General Fund	\$ -	\$ 46,345	\$ 46,345
Other governmental activities	<u>203,304</u>	<u>66,914</u>	<u>270,218</u>
Total governmental activities	<u>\$ 203,304</u>	<u>\$ 113,259</u>	<u>\$ 316,563</u>
Business-type activities:			
School Food Service Fund	<u>\$ 65,753</u>	<u>\$ 91</u>	<u>\$ 65,844</u>

Due from other governments consists of the following:

Governmental activities:		
State Public School Fund	\$ 183,820	Operating funds from DPI
Federal Grants Fund	<u>19,484</u>	Federal grant funds
Total	<u>\$ 203,304</u>	
Business-type activities:		
School Food Service Fund	<u>\$ 65,753</u>	Federal grant funds

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4. Capital Assets

Capital asset activity for the year ended June 30, 2013 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 568,931	\$ -	\$ -	\$ 568,931
Capital assets being depreciated:				
Buildings and improvements	65,153,305	-	-	65,153,305
Equipment and furniture	1,055,898	-	-	1,055,898
Vehicles	4,291,140	348,402	-	4,639,542
Total capital assets being depreciated	70,500,343	348,402	-	70,848,745
Less accumulated depreciation for:				
Buildings and improvements	24,681,993	1,176,334	-	25,858,327
Equipment and furniture	639,932	66,399	-	706,331
Vehicles	4,093,694	111,539	-	4,205,233
Total accumulated depreciation	29,415,619	1,354,272	-	30,769,891
Total capital assets being depreciated, net	41,084,724			40,078,854
Governmental activity capital assets, net	<u>\$ 41,653,655</u>			<u>\$ 40,647,785</u>
	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
School Food Service Fund:				
Capital assets being depreciated:				
Equipment and furniture	\$ 1,330,134	\$ 5,931	\$ 7,398	\$ 1,328,667
Vehicles	23,986	-	-	23,986
Total capital assets being depreciated	1,354,120	5,931	7,398	1,352,653
Less accumulated depreciation for:				
Equipment and furniture	1,033,111	50,063	7,398	1,075,776
Vehicles	23,986	-	-	23,986
Total accumulated depreciation	1,057,097	50,063	7,398	1,099,762
School Food Service capital assets, net	<u>\$ 297,023</u>			<u>\$ 252,891</u>

Depreciation was charged to governmental functions as follows:

System-wide support services	\$ 111,539
Unallocated depreciation	<u>1,242,733</u>
Total	<u>\$ 1,354,272</u>

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B. Liabilities

1. Pension Plan and Other Postemployment Obligations

a. Teachers' and State Employees' Retirement System

Plan Description. Montgomery County Board of Education contributes to the statewide Teachers' and State Employees' Retirement System (TSERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. TSERS provides retirement benefits to plan members and beneficiaries. Article 1 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Teachers' and State Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for TSERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. Plan members are required to contribute six percent of their annual covered salary and the Board is required to contribute at an actuarially determined rate. The current rate is 8.33% of annual covered payroll. The contribution requirements of plan members and Montgomery County Board of Education are established and may be amended by the North Carolina General Assembly. The Board's contributions to TSERS for the years ended June 30, 2013, 2012, and 2011 were \$1,872,770, \$1,697,040, and \$1,157,514, respectively, equal to the required contributions for each year.

b. Other Postemployment Benefits

Healthcare Benefits

Plan Description. The postemployment healthcare benefits are provided through a cost-sharing multiple-employer defined benefit plan administered by the Executive Administrator and the Board of Trustees of the Comprehensive Major Medical Plan (the Plan). The Executive Administrator and the Board of Trustees of the Plan establishes premium rates except as may be established by the General Assembly in an appropriation act. The Plan's benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3 of the General Statutes and may be amended only by the North Carolina General Assembly. By General Statute, the Plan accumulates contributions from employers and any earnings on those contributions in the Retiree Health Benefit Fund. These assets shall be used to provide health benefits to retired and disabled employees and their applicable beneficiaries. These contributions are irrevocable. Also by law, these assets are not subject to the claims of creditors of the employers making contributions to the Plan.

The State of North Carolina issues a publicly available financial report that includes financial statements and required supplementary information for the State's Comprehensive Major Medical Plan (also, referred to as the State Health Plan). An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Funding Policy. The Comprehensive Major Medical Plan is administered by the Executive Administrator and Board of Trustees of the Plan, which establish premium rates except as may be established by the General Assembly in an appropriation act. The healthcare benefits for retired and disabled employees are the same as for active employees, except that the coverage becomes secondary when former employees become eligible for Medicare. For employees first hired on and after October 1, 2006, future coverage as retired employees is subject to the requirement that the future retiree have 20 or more years of retirement service credit in order to receive coverage on a noncontributory basis. Employees first hired on and after October 1, 2006 with 10 but less than 20 years of retirement service credit are eligible

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for coverage on a partially contributory basis. For such future retirees, the State will pay 50% of the State Health Plan's total noncontributory premium. For employees hired before October 1, 2006, healthcare benefits are provided to retirees (at no charge to the retirees) who have at least five years of contributing retirement membership prior to disability or retirement. In addition, persons who became surviving spouses of retirees prior to October 1, 1986, receive the same coverage as retirees at the State's expense.

Contributions are determined as a percentage of covered monthly payroll. Annually, the monthly contribution rates to the Plan, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill. For the fiscal years ended June 30, 2013, 2012, and 2011, the School Board paid all annual required contributions to the Plan for postemployment healthcare benefits of \$1,191,558, \$1,140,484, and \$1,150,470, respectively. These contributions represented 5.30%, 5.00%, and 4.90% of covered payroll, respectively.

Long-term Disability Benefits

Plan Description. Short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan. The DIPNC is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System. Long-term disability benefits are payable as another postemployment benefit from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes and may be amended only by the North Carolina General Assembly. The Plan accumulates contributions from employers and any earnings on those contributions in the Disability Income Plan Trust Fund. The plan does not provide for automatic post-retirement benefit increases.

The State of North Carolina issues a publicly available financial report that includes financial statements and required supplementary information for the DIPNC. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Funding Policy. An employee is eligible to receive long-term disability benefits provided the following requirements are met: (1) the employee has five or more years of contributing membership service in the Teachers' and State Employees' Retirement System of North Carolina, earned within 96 months prior to the end of the short-term disability period or cessation of salary continuation payments, whichever is later; (2) the employee must make application to receive long-term benefits within 180 days after the conclusion of the short-term disability period or after salary continuation payments cease or after monthly payments for Workers' Compensation cease (excluding monthly payments for permanent partial benefits), whichever is later; (3) the employee must be certified by the Medical Board to be mentally or physically disabled for the further performance of his/her usual occupation; (4) the disability must have been continuous, likely to be permanent, and incurred at the time of active employment; (5) the employee must not be eligible to receive an unreduced retirement benefit from the Retirement System; and (6) the employee must terminate employment as a permanent, full-time employee. An employee is eligible to receive an unreduced retirement benefit from the Retirement System after (1) reaching the age of 65 and completing five years of creditable service, or (2) reaching the age of 60 and completing 25 years of creditable service, or (3) completing 30 years of creditable service, at any age.

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For members with five or more years of membership service as of July 31, 2007, the monthly long-term disability benefit is equal to 65% of one-twelfth of an employee's annual base rate of compensation last payable to the participant or beneficiary prior to the beginning of the short-term disability period, plus the like percentage of one twelfth of the annual longevity payment to which the participant or beneficiary would be eligible. The monthly benefits are subject to a maximum of \$3,900 per month reduced by any primary Social Security disability benefits and by monthly payments for Workers' Compensation to which the participant or beneficiary may be entitled. The monthly benefit shall be further reduced by the amount of any monthly payments from the Department of Veterans Affairs, any other federal agency or any payments made under the provisions of G.S.127A-108, to which the participant or beneficiary may be entitled on account of the same disability. Provided in any event, the benefits payable shall be no less than \$10 a month. When an employee qualifies for an unreduced service retirement allowance from the Retirement System, the benefits payable from DIPNC will cease, and the employee will commence retirement under the TSERS. For members who obtain five years of membership service on or after August 1, 2007, the monthly long-term disability benefit is reduced by the primary Social Security retirement benefit to which the member might be entitled should the member become age 62 during the first 36 months. After 36 months of long-term disability, there will be no further payments from the DIPNC unless the member is approved for and is in receipt of primary Social Security disability benefits. It is payable so long as the member remains disabled and is in receipt of a primary Social Security disability benefit until eligible for an unreduced service retirement benefit. When an employee qualifies for an unreduced service retirement allowance from the Retirement System, the benefits payable from DIPNC will cease, and the employee will commence retirement under the TSERS.

The Board's contributions are established in the Appropriations Bill by the General Assembly. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes and may be amended only by the North Carolina General Assembly. The contributions cannot be separated between the amounts that relate to other postemployment benefits and employment benefits for active employees. Those individuals who are receiving extended short-term disability benefit payments cannot be separated from the number of members currently eligible to receive disability benefits as an other postemployment benefit. For the fiscal years ended June 30, 2013, 2012, and 2011, the Board paid all annual required contributions to the DIPNC for disability benefits of \$98,922, \$118,610, and \$122,091, respectively. These contributions represented 0.44%, 0.52%, and 0.52% of covered payroll, respectively.

2. Accounts Payable

Accounts payable as of June 30, 2013 are as follows:

	<u>Vendors</u>	<u>Due to Other Governments</u>	<u>Total</u>
Governmental activities:			
General Fund	\$ 130,729	\$ -	\$ 130,729
Other governmental activities	<u>990</u>	<u>13,485</u>	<u>14,475</u>
Total governmental activities	<u>\$ 131,719</u>	<u>\$ 13,485</u>	<u>\$ 145,204</u>

3. Unavailable Revenues

The balance in unavailable revenues at year-end is composed of the following elements:

Business-type activities:	
Prepayments of meals (School Food Service Fund)	<u>\$ 5,567</u>

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For the Fiscal Year Ended June 30, 2013

4. Risk Management

The Board is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board participates in the North Carolina School Boards Trust (the Trust), a member funded risk management program administered by the North Carolina School Boards Association. Through the Trust, the Board maintains general liability and errors and omissions coverage of \$1 million per claim. The Trust has an annual aggregate limit for both general liability and errors and omissions of \$3,150,000 each. The Trust is reinsured through commercial companies for losses in excess of \$150,000 per claim for errors and omissions and general liability coverage. Statutory workers' compensation coverage is purchased through a private insurer for employees to the extent they are paid from federal and local funds. Workers' compensation coverage is provided by the State of North Carolina through a self-insured fund, to the extent employees are paid from State funds. Business property insurance is purchased through a private insurer. The policy coverage insures the tangible property assets of the Board. Buildings and contents are insured on an agreed value basis. A limit of \$5 million per occurrence is provided on flood and earthquake expense and a limit of \$1 million per occurrence is provided on business interruption and extra expense. \$1 million per occurrence is provided on increased cost of construction.

The Board also participates in the Teachers' and State Employees' Comprehensive Major Medical Plan, a self-funded risk financing pool of the State administered by Blue Cross and Blue Shield of North Carolina. Through the Plan, permanent full-time employees of the Board are eligible to receive health care benefits up to a \$5 million lifetime limit. The Board pays the full cost of coverage for employees enrolled in the Comprehensive Major Medical Plan.

In accordance with G.S. 115C-442, the Board's employees who have custody of the Board's monies at any given time are performance bonded through a commercial surety bond. The finance officer is bonded for \$50,000. The remaining employees that have access to funds are bonded under a blanket bond for \$175,000.

The Board carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage in the prior year, and claims have not exceeded coverage in any of the past three fiscal years.

5. Long-Term Obligations

a. Installment Purchases

The Board is authorized to finance the purchase of school buses under G.S. 115C-528(a). Session law 2003-284, section 7.25 authorized the State Board of Education to allot monies for the payments on financing contracts entered into pursuant to G.S. 115C-528. The State has accepted the bid to purchase Thomas Built Buses through special third party financing arrangements. During the 2012-2013 fiscal year, the Board entered into such a financing contract for the purchase of school buses. The financing contract requires four equal principal-only payments of \$82,713 with the first payment due within 10 days of receipt of the buses and the following 3 payments due on the next 3 immediately following November 15th dates.

MONTGOMERY COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2013

The future minimum payments of the installment purchases as of June 30, 2013 are as follows:

Year Ending June 30:	<u>Governmental Activities</u> <u>Principal</u>
2013	\$ 82,713
2014	<u>82,713</u>
	<u>\$ 165,426</u>

b. Long-Term Obligation Activity

The following is a summary of changes in the Board's long-term obligations for the fiscal year ended June 30, 2013:

	<u>July 1, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2013</u>	<u>Current Portion</u>
Governmental activities:					
Installment purchases	\$ -	\$ 330,854	\$ 165,428	\$ 165,426	\$ 82,713
Compensated absences	<u>2,242,137</u>	<u>1,560,570</u>	<u>1,317,911</u>	<u>2,484,796</u>	<u>861,160</u>
Total governmental activities	<u>\$ 2,242,137</u>	<u>\$ 1,891,424</u>	<u>\$ 1,483,339</u>	<u>\$ 2,650,222</u>	<u>\$ 943,873</u>
Business-type activities:					
Compensated absences	<u>\$ 43,349</u>	<u>\$ 71,114</u>	<u>\$ 44,402</u>	<u>\$ 70,061</u>	<u>\$ 27,178</u>

Compensated absences related to governmental activities are typically liquidated by the General and other governmental funds.

C. Interfund Balances and Activity

Transfers to/from other Funds

Transfers to/from other funds during the year ended June 30, 2013 consisted of the following:

From the State Public School Fund to the School Food Service Fund for administrative costs	<u>\$ 82,169</u>
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D. Fund Balance

The following schedule provides management and citizens with information on the portion of General fund balance that is available for appropriation.

Total fund balance - General Fund	\$ 4,219,038
Less:	
Inventories	(169,839)
Stabilization by State statute	(46,345)
Appropriated Fund Balance in 2013-2014 budget	<u>(922,013)</u>
Remaining fund balance	<u>\$ 3,080,841</u>

MONTGOMERY COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2013

NOTE 4 – OTHER SPECIAL REVENUE FUND – OTHER REVENUES

Other revenues for the fiscal year ended June 30, 2013 in the Other Special Revenue Fund consists of the following:

Contracted services	\$ 703,814
Medicaid reimbursement program	174,418
Other reimbursements	100,002
Indirect costs allocated	55,264
Private grants and programs	100,981
Other	<u>54,987</u>
Total other revenues	<u>\$ 1,189,466</u>

NOTE 5 - SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES

Federal and State Assisted Programs

The Board has received proceeds from several federal and State grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant moneys to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant moneys.

NOTE 6 – CHANGE IN ACCOUNTING PRINCIPLES

The Board implemented Governmental Accounting Standards Board (GASB) Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Statement 65, *Items Previously reported as Assets and Liabilities*, in the fiscal year ending June 30, 2013. In accordance with GASB Statement 63, the Statement of Net Assets has been replaced with the Statement of Net Position. Items on the Statement of Net Position are now classified into Assets, Liabilities, or Net Position.

MONTGOMERY COUNTY BOARD OF EDUCATION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
GENERAL FUND
For the Fiscal Year Ended June 30, 2013

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Montgomery County:			
County appropriation	\$ 5,013,297	\$ 5,877,697	\$ 864,400
Timber receipts	-	76,034	76,034
Total Montgomery County	5,013,297	5,953,731	940,434
Other:			
Fines and forfeitures	230,000	184,529	(45,471)
Interest earned on investment	15,000	10,179	(4,821)
Refunds and reimbursements	-	291,513	291,513
Total other	245,000	486,221	241,221
Total revenues	5,258,297	6,439,952	1,181,655
Expenditures:			
Current:			
Instructional services:			
Regular instructional	-	1,426,605	-
Special populations	-	18,507	-
Alternative programs	-	37,349	-
School leadership	-	574,810	-
Co-curricular	-	197,810	-
School-based support	-	172,845	-
Total instructional services	4,618,550	2,427,926	2,190,624
System-wide support services:			
Support and development	-	32,513	-
Technology support	-	390,009	-
Operational support	-	2,282,167	-
Financial and human resource services	-	380,877	-
Accountability	-	3,148	-
System-wide pupil support	-	114,461	-
Policy, leadership and public relations	-	228,206	-
Total system-wide support services	3,927,675	3,431,381	496,294
Ancillary services:			
Nutrition	5,313	5,313	-
Total expenditures	8,551,538	5,864,620	2,686,918
Revenues over (under) expenditures	(3,293,241)	575,332	3,868,573
Fund balance appropriated	3,293,241	-	(3,293,241)
Net change in fund balance	\$ -	575,332	\$ 575,332
Fund balance:			
Beginning of year		3,715,961	
Decrease in reserve for inventories		(72,255)	
End of year		\$ 4,219,038	

MONTGOMERY COUNTY BOARD OF EDUCATION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
INDIVIDUAL SCHOOLS FUND
For the Fiscal Year Ended June 30, 2013

	Revenues	Expenditures	Net change in fund balance	Fund balances June 30, 2012	Fund balances June 30, 2013
West Montgomery High	\$ 271,981	\$ 276,776	\$ (4,795)	\$ 83,570	\$ 78,775
East Montgomery High	272,002	257,245	14,757	62,651	77,408
West Middle	107,371	121,968	(14,597)	39,976	25,379
East Middle	92,868	85,669	7,199	36,459	43,658
Candor Elementary	34,970	32,172	2,798	14,810	17,608
Green Ridge Elementary	55,962	53,666	2,296	33,244	35,540
Mt. Gilead Elementary	40,540	46,690	(6,150)	22,240	16,090
Page Street Elementary	53,189	55,762	(2,573)	17,716	15,143
Star-Biscoe Elementary	57,214	60,030	(2,816)	48,116	45,300
Troy Elementary	<u>43,972</u>	<u>41,964</u>	<u>2,008</u>	<u>15,905</u>	<u>17,913</u>
Totals	<u>\$ 1,030,069</u>	<u>\$ 1,031,942</u>	<u>\$ (1,873)</u>	<u>\$ 374,687</u>	<u>\$ 372,814</u>

MONTGOMERY COUNTY BOARD OF EDUCATION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
CAPITAL OUTLAY FUND
For the Fiscal Year Ended June 30, 2013

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
State of North Carolina:			
State appropriations - buses	\$ 165,428	\$ 165,428	\$ -
Other:			
Interest earned on investments	-	1,873	1,873
Miscellaneous	-	19,357	19,357
Total other	-	21,230	21,230
Total revenues	165,428	186,658	21,230
Expenditures:			
Debt service:			
Principal retirement	165,428	165,428	-
Capital outlay:			
Buildings and improvements	5,660	5,660	-
Vehicles	18,548	348,402	(329,854)
Total capital outlay	24,208	354,062	(329,854)
Total expenditures	189,636	519,490	(329,854)
Revenues under expenditures	(24,208)	(332,832)	(308,624)
Other financing sources:			
Installment purchase obligations issued	-	330,854	330,854
Fund balance appropriated	24,208	-	(24,208)
Net change in fund balance	\$ -	(1,978)	\$ (1,978)
Fund balance:			
Beginning of year		536,823	
End of year		\$ 534,845	

MONTGOMERY COUNTY BOARD OF EDUCATION
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP)
SCHOOL FOOD SERVICE FUND
For the Fiscal Year Ended June 30, 2013

	Final Budget	Actual	Variance Positive (Negative)
Operating revenues - food sales	\$ 619,500	\$ 603,287	\$ (16,213)
Operating expenditures:			
Business support services:			
Purchase of food	-	1,103,286	-
Donated commodities	-	141,056	-
Salaries and benefits	-	1,432,703	-
Indirect costs	-	200,763	-
Materials and supplies	-	117,808	-
Repairs and maintenance	-	14,311	-
Contracted services	-	24,830	-
Other	-	6,065	-
Capital outlay	-	5,931	-
Total operating expenditures	3,282,859	3,046,753	236,106
Operating loss	(2,663,359)	(2,443,466)	219,893
Nonoperating revenues:			
Federal reimbursements and grants	2,181,268	2,132,682	(48,586)
Federal commodities	132,277	141,056	8,779
State reimbursements	11,000	11,325	325
Indirect costs not paid	250,000	200,258	(49,742)
Interest earned	300	194	(106)
Other	4,100	702	(3,398)
Total nonoperating revenues	2,578,945	2,486,217	(92,728)
Excess (deficiency) of revenues over expenditures before other financing sources	(84,414)	42,751	127,165
Other financing sources:			
Transfers from other funds	84,414	82,169	(2,245)
Net change in fund balance	\$ -	124,920	\$ 124,920
Reconciliation of modified accrual to full accrual basis:			
Reconciling items:			
Depreciation		(50,063)	
Equipment purchases		5,931	
Increase in compensated absences payable		(26,712)	
Decrease in inventories		(2,585)	
Change in net position (full accrual)		\$ 51,491	



ANDERSON SMITH & WIKE PLLC

Certified Public Accountants

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*

To the Montgomery County Board of Education
Troy, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Montgomery County Board of Education, North Carolina, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprises the Montgomery County Board of Education, North Carolina's basic financial statements and have issued our report thereon dated October 16, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Montgomery County Board of Education's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

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 a 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. 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.

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 that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Anderson Smith & Wike PLLC

*October 16, 2013
Rockingham, North Carolina*

Report On Compliance with Requirements Applicable to Each Major Federal
Program and Internal Control Over Compliance in Accordance with OMB
Circular A-133 and the State Single Audit Implementation Act

To the Montgomery County Board of Education
Troy, North Carolina

Report on Compliance for Each Major Federal Program

We have audited Montgomery County Board of Education, North Carolina's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the Board's major federal programs for the year ended June 30, 2013. The Montgomery County Board of Education's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Montgomery County Board of Education's major federal programs based on our audit of the types of compliance requirements referred to above. 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*, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act 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 on compliance for each major federal program. However, our audit does not provide a legal determination on the Montgomery County Board of Education's compliance.

Opinion on Each Major Federal Program

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, 2013.

Report on Internal Control Over Compliance

Management of the Montgomery County Board of Education is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered the 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 a 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. A significant deficiency in internal control over compliance is a deficiency, or 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.

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. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Anderson Smith & Wike PLLC

*October 16, 2013
Rockingham, North Carolina*



ANDERSON SMITH & WIKE PLLC

Certified Public Accountants

Report On Compliance with Requirements Applicable to Each Major State
Program and Internal Control Over Compliance in Accordance with Applicable Sections of
OMB Circular A-133 and the State Single Audit Implementation Act

To the Montgomery County Board of Education
Troy, North Carolina

Report on Compliance for Each Major State Program

We have audited Montgomery County Board of Education, North Carolina's compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission that could have a direct and material effect on each of the Board's major State programs for the year ended June 30, 2013. The Montgomery County Board of Education's major State programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its State programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Montgomery County Board of Education's major state programs based on our audit of the types of compliance requirements referred to above. 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 applicable sections of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act 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 State 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 on compliance for each major state program. However, our audit does not provide a legal determination of the Montgomery County Board of Education's compliance.

Opinion on Each Major State Program

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 State programs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with applicable sections of section OMB Circular A-133 as described in the *Audit Manual for Governmental Auditors in North Carolina* and which is described in the accompanying schedule of findings and questioned costs as item 13-01. Our opinion on each major State program is not modified with respect to this matter.

The Montgomery County Board of Education's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Board's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Montgomery County Board of Education is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Montgomery County Board of Education's internal control over compliance with the types of requirements that could have a direct and material effect on a major State program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major state program and to test and report on internal control over compliance 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 State 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 State program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state 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.

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. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Anderson Smith & Wike PLLC

October 16, 2013
Rockingham, North Carolina

**MONTGOMERY COUNTY BOARD OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2013**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	<i>Unmodified</i>
Internal control over financial reporting:	
• Material weakness(es) identified?	<i>No</i>
• Significant deficiency(ies) identified that are not considered to be material weaknesses	<i>None Reported</i>
Noncompliance material to financial statements noted	<i>No</i>

Federal Awards

Internal control over major federal programs:	
• Material weakness(es) identified?	<i>No</i>
• Significant deficiency(ies) identified that are not considered to be material weaknesses	<i>None Reported</i>
Type of auditors' report issued on compliance for major federal programs	<i>Unmodified</i>
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133	<i>No</i>

Identification of major federal programs:

CFDA Numbers	Names of Federal Program or Cluster
84.010	Title I, Grants to Local Educational Agencies
84.367	Improving Teacher Quality

Dollar threshold used to distinguish between Type A and Type B Programs	<u><i>\$ 300,000</i></u>
Auditee qualified as low-risk auditee?	<i>Yes</i>

**MONTGOMERY COUNTY BOARD OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2013**

Section I - Summary of Auditors' Results (Continued)

State Awards

Internal control over major State programs:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified that are not considered to be material weaknesses None Reported

Type of auditors' report issued on compliance for major State programs

Unmodified

Any audit findings disclosed that are required to be reported in accordance with the State Single Audit Implementation Act

Yes

Identification of major State programs:

Program Name

State Public School Fund

Section II - Financial Statement Findings

No findings were noted that are required to be reported under *Government Auditing Standards*.

Section III - Federal Award Findings and Questioned Costs

No findings and questioned costs related to the audit of federal awards aggregating \$10,000 or more were noted.

MONTGOMERY COUNTY BOARD OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2013

Section IV - State Award Findings and Questioned Costs

Finding 13-01

N.C. Department of Public Instruction
 Program Name: State Public School Fund

NONCOMPLIANCE
Period of Availability

Criteria:	Management is required to ensure that all items purchased using State Public School Fund grant proceeds are received prior to payment.
Condition:	Management wrote a check in June 2013 from State PRC 014 vocational education program support funds to pay for classroom chairs. The chairs were ordered in May 2013 but were not received until July 2013.
Effect:	The Board is not in compliance with the aforementioned criteria.
Cause:	Management ordered the chairs and was under the impression from the vendor that they would be delivered prior to June 30, 2013. However, the vendor notified management in June that the order was taking longer than expected. Management wrote the check for the chairs in June and held the check until the chairs were received in July 2013.
Questioned Cost:	\$12,256.85
Recommendation:	We recommend that the Board implement procedures to ensure that checks are not written for goods that have not been received.

Views of responsible officials and planned corrective actions:

The Board agrees with the finding and will implement procedures to ensure that checks are not written for goods that have not been received.

MONTGOMERY COUNTY BOARD OF EDUCATION
CORRECTIVE ACTION PLAN
For the Fiscal Year Ended June 30, 2013

Finding 13-01

Name of Contact Person: Phillip Brown, Director of Secondary Ed/CTE
Kathy Johnson, Chief Financial Officer

Corrective Action Plan: Management will implement procedures to ensure that checks are not written for goods that have not been received.

Proposed Completion Date: Immediately

**MONTGOMERY COUNTY BOARD OF EDUCATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Fiscal Year Ended June 30, 2013**

There were no audit findings reported in the prior year.

MONTGOMERY COUNTY BOARD OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Fiscal Year Ended June 30, 2013

Page 1 of 2

Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	State/ Pass-through Grantor's Number	Expenditures
Federal Grants:			
<u>U.S. Department of Agriculture</u>			
Passed-through the N.C. Department of Public Instruction:			
Child Nutrition Cluster:			
Noncash Assistance (Commodities):			
National School Lunch Program	10.555		\$ 141,056
Cash Assistance:			
School Breakfast Program	10.553		661,880
National School Lunch Program	10.555		1,394,646
Cash Assistance Subtotal			2,056,526
Total Child Nutrition Cluster			2,197,582
Passed-through the N.C. Department of Health and Human Services:			
Summer Food Service Program for Children	10.559		21,226
Fresh Fruit and Vegetable Grant	10.582		54,930
Total U.S. Department of Agriculture			2,273,738
<u>U.S. Department of Education</u>			
Passed-through the N.C. Department of Public Instruction:			
Title I, Grants to Local Educational Agencies	84.010	PRC 050	1,263,579
Migrant Education (Title I of IASA)	84.011	PRC 051	38,302
Improving Teacher Quality	84.367	PRC 103	239,704
Language Acquisition Grant	84.365	PRC 104	47,919
Rural and Low Income Schools	84.358	PRC 109	60,881
Race to the Top - ARRA	84.395	PRC 156	233,960
Title I - School Improvement	84.010	PRC 105	12,485
Special Education Cluster:			
Grants to States - IDEA, Part B (611)	84.027	PRC 060	879,987
Special Needs Targeted Assistance	84.027	PRC 118	8,110
Special Education - Risk Pool	84.027	PRC 114	52,313
Preschool Grants - IDEA, Part B (619)	84.173	PRC 049	46,674
Preschool Targeted Assistance	84.173	PRC 119	1,145
Total Special Education Cluster			988,229
Title VI-B, Education of the Handicapped	84.323	PRC 082	12,615
Career and Technical Education - Basic Grants to States Program Development	84.048	PRC 017	68,361
Total U.S. Department of Education			2,966,035

MONTGOMERY COUNTY BOARD OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Fiscal Year Ended June 30, 2013

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<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/ Pass-through Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Department of Defense</u>			
Direct Program:			
ROTC	None		<u>115,496</u>
Total Federal Assistance			<u>5,355,269</u>
State Grants:			
<u>N.C. Department of Public Instruction:</u>			
Cash Assistance:			
State Public School Fund			24,105,259
Vocational Education			
State Months of Employment		PRC 013	1,181,194
Program Support Funds		PRC 014	210,178
Driver Training		PRC 012	65,674
School Technology Fund		PRC 015	49,951
Cash assistance subtotal			<u>25,612,256</u>
Non-Cash Assistance:			
State Buses Appropriation			165,428
Textbooks		PRC 130	<u>15,393</u>
Total NC Department of Public Instruction			<u>25,793,077</u>
<u>N.C. Department of Agriculture:</u>			
State Reduced Breakfast Program			<u>11,325</u>
Total State Assistance			<u>25,804,402</u>
Total Federal and State Assistance			<u>\$ 31,159,671</u>

Notes to the Schedule of Expenditures of Federal and State Awards:

1. Basis of Presentation

The accompanying schedule of expenditures of federal and State awards includes the federal and State grant activity of Montgomery County Board of Education and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and the State Single Audit Implementation Act. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.