

THE MONTGOMERY INSTITUTE
FINANCIAL STATEMENTS
August 31, 2010 and 2009

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INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF DIRECTORS OF
THE MONTGOMERY INSTITUTE
MERIDIAN MISSISSIPPI

We have audited the accompanying statements of financial position of The Montgomery Institute (a nonprofit corporation) as of August 31, 2010 and 2009 and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits. The prior year summarized comparative information has been derived from The Montgomery Institute's 2009 financial statements and, in our report dated February 10, 2010, we expressed an unqualified opinion on those financial statements.

We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Montgomery Institute as of August 31, 2010 and 2009 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2011, on our consideration of The Montgomery Institute's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Rea, Shaw, Giffin & Stuart, LLP

REA, SHAW, GIFFIN & STUART, LLP

THE MONTGOMERY INSTITUTE
STATEMENTS OF FINANCIAL POSITION
August 31, 2010 and 2009

	2010	2009
ASSETS		
CURRENT ASSETS		
Cash	\$ 273,304	\$ -
Grants receivable	123,161	376,078
Prepaid expenses	<u>156,046</u>	<u>3,761</u>
Total current assets	<u>\$ 552,511</u>	<u>\$ 379,839</u>
EQUIPMENT , net	<u>\$ 6,822</u>	<u>\$ 9,167</u>
OTHER NON-CURRENT ASSETS		
Endowment cash - restricted	\$ 361,049	\$ 205,742
Endowment investments - restricted	<u>668,452</u>	<u>749,798</u>
Total other non-current assets	<u>\$ 1,029,501</u>	<u>\$ 955,540</u>
Total assets	<u>\$ 1,588,834</u>	<u>\$ 1,344,546</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	<u>\$ 102,724</u>	<u>\$ 232,356</u>
Total current liabilities	<u>\$ 102,724</u>	<u>\$ 232,356</u>
NET ASSETS		
Unrestricted	\$ 71,980	\$ (301,940)
Permanently restricted	<u>1,414,130</u>	<u>1,414,130</u>
Total net assets	<u>\$ 1,486,110</u>	<u>\$ 1,112,190</u>
Total liabilities and net assets	<u>\$ 1,588,834</u>	<u>\$ 1,344,546</u>

The Notes to Financial Statements are an integral part of these statements.

THE MONTGOMERY INSTITUTE

STATEMENTS OF ACTIVITIES

For the Years Ended August 31, 2010 and 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2010 Total</u>	<u>2009 Total</u>
SUPPORT AND REVENUE					
Contributions and grants from foundations, businesses, universities or individuals	\$ 272,249	\$ -	\$ -	\$ 272,249	\$ 12,840
Grants from departments of the federal government	1,364,838	-	-	1,364,838	1,590,538
Program service fees	1,190	-	-	1,190	-
Rent income	8,185	-	-	8,185	-
Consulting fee income	33,333	-	-	33,333	-
Gain (loss) on sale of investments	17,541	-	-	17,541	(305,531)
Unrealized gain on investments	45,182	-	-	45,182	103,953
Interest income	435	-	-	435	36
Investment income, net	<u>11,238</u>	<u>-</u>	<u>-</u>	<u>11,238</u>	<u>36,723</u>
Total support and revenue	<u>\$ 1,754,191</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,754,191</u>	<u>\$ 1,438,559</u>
EXPENSES					
Program services					
Leadership development	\$ 209,011	\$ -	\$ -	\$ 209,011	\$ 316,265
Strategic thinking and analysis	439,285	-	-	439,285	559,282
Information dissemination	602,318	-	-	602,318	624,076
Support services					
Management and general	<u>129,657</u>	<u>-</u>	<u>-</u>	<u>129,657</u>	<u>120,422</u>
Total expenses	<u>\$ 1,380,271</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,380,271</u>	<u>\$ 1,620,045</u>
Change in net assets	\$ 373,920	\$ -	\$ -	\$ 373,920	\$ (181,486)
Net assets, beginning of year	<u>(301,940)</u>	<u>-</u>	<u>1,414,130</u>	<u>1,112,190</u>	<u>1,293,676</u>
Net assets, end of year	<u>\$ 71,980</u>	<u>\$ -</u>	<u>\$ 1,414,130</u>	<u>\$ 1,486,110</u>	<u>\$ 1,112,190</u>

The Notes to Financial Statements are an integral part of these statements.

THE MONTGOMERY INSTITUTE

STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended August 31, 2010 and 2009

	Program Services			Support Services	2010 Total	2009 Total
	Leadership Development	Strategic Thinking and Analysis	Information Dissemination	Management General		
Contracts	\$ 77,911	\$ 77,911	\$ 493,438	\$ -	\$ 649,260	\$ 827,475
Depreciation	-	-	-	2,858	2,858	3,668
Insurance	-	-	-	3,647	3,647	5,416
Meeting expense	15,599	-	-	-	15,599	2,402
Office expense	2,821	10,809	3,256	3,198	20,084	12,592
Professional fees	-	-	-	16,210	16,210	10,394
Rent	4,818	18,458	5,561	5,462	34,299	33,967
Salaries, payroll taxes and benefits	84,901	325,230	97,991	96,247	604,369	665,490
Telephone and communication	791	3,029	913	896	5,629	7,261
Travel	21,165	-	-	-	21,165	43,881
Utilities	1,005	3,848	1,159	1,139	7,151	7,499
Total expenses	\$ 209,011	\$ 439,285	\$ 602,318	\$ 129,657	\$ 1,380,271	\$ 1,620,045

The Notes to Financial Statements are an integral part of these statements.

THE MONTGOMERY INSTITUTE

STATEMENTS OF CASH FLOWS

For the Years Ended August 31, 2010 and 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 373,920	\$ (181,486)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	2,858	3,668
(Gain) loss on investments	(17,541)	305,531
Unrealized gain on investments	(45,182)	(103,953)
Change in grants receivable	252,917	(162,320)
Change in prepaid expenses	(152,285)	(3,761)
Change in accrued interest receivable	-	1,259
Change in accounts payable	<u>(129,632)</u>	<u>100,362</u>
Net cash provided by (used in) operating activities	<u>\$ 285,055</u>	<u>\$ (40,700)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest for reinvestment	\$ (5,189)	\$ (6,541)
Proceeds from sale of investments	259,424	650,479
Purchase of investments	(110,166)	(570,357)
Purchase of equipment	<u>(513)</u>	<u>(6,696)</u>
Net cash provided by investing activities	<u>\$ 143,556</u>	<u>\$ 66,885</u>
Net increase in cash and cash equivalents	\$ 428,611	\$ 26,185
Cash and cash equivalents, beginning of year	<u>205,742</u>	<u>179,557</u>
Cash and cash equivalents, end of year	<u>\$ 634,353</u>	<u>\$ 205,742</u>

The Notes to Financial Statements are an integral part of these statements.

THE MONTGOMERY INSTITUTE
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Nature of activities

The Montgomery Institute (the "Institute") is a Mississippi non-profit corporation. The Institute's mission is to support regional community building programs which advance leadership development, strategic thinking and analysis, and information dissemination among the people of East Mississippi and West Alabama.

Basis of presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. If donor-imposed restrictions are met in the same period as the gift or investment income is received, the amount is reported as unrestricted revenue. Accordingly, net assets of the Institute and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets that are available for use, but expendable only for those purposes specified by the grantor.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Institute.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and cash equivalents

For purposes of the statements of cash flows, the Institute considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents, unless those investments are held for endowment purposes.

Note 1. Summary of Significant Accounting Policies (continued)

Investments

The Institute's investments consist of marketable equity and debt securities that are reported at their fair values in the statements of financial positions. Unrealized gains and losses are reported in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

Accounting Standards Codification ("ASC") 820 defines fair value and establishes a framework for measuring fair value in U.S. generally accepted accounting principles and expands disclosures about fair value measurements. ASC 820 applies only to fair value measurements that are already required or permitted by other accounting standards and is expected to increase the consistency of those measurements. The definition of fair value focuses on the exit price, i.e., the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, not the entry price, i.e., the price that would be paid to acquire the asset or received to assume the liability at the measurement date.

In accordance with ASC 820, the Institute groups its assets measured at fair value in three levels, based on the markets in which such assets are traded and the reliability of the assumptions used to determine fair value. This hierarchy requires the Institute to maximize the use of observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. Each fair value measurement is placed into the proper level based on the lowest level of significant input. These levels are:

- Level 1 – Inputs to the valuation methodology are based upon quoted prices for identical instruments traded in active markets.
- Level 2 – Inputs to the valuation methodology are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3 – Inputs to the valuation methodology are generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect our own estimates of assumptions that market participants would use in pricing the asset.

Marketable equity and debt securities are the Institute's only assets carried at fair value. The Institute has no liabilities that are carried at fair value.

Note 1. Summary of Significant Accounting Policies (continued)

Property and equipment

Purchased property and equipment, consisting primarily of office equipment, is recorded at cost and is depreciated using the straight-line method over its estimated useful life.

Net Assets

Permanently restricted net assets are endowment funds consisting of cash equivalents and investments which are restricted in perpetuity to continue the tradition of the Institute. Income generated by the assets is to be used in accordance with donor stipulations.

Contributions

Contributions, including unconditional promises to give, are recorded when received. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Expense allocation

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are allocated among the programs and supporting services benefited. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide overall support and direction of the Institute.

Income taxes

The Institute is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Institute has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(b)(1) of the Internal Revenue Code.

The Institute adopted the provisions of FASB ASC 740-10, Accounting for Uncertainty in Income Taxes, on September 1, 2009. The Institute's status as a 501(c)(3) not-for-profit has been determined to be valid and the adoption of FASB ASC 740-10 did not result in a change to net assets.

Reclassifications

Certain 2009 amounts have been reclassified to conform to the 2010 presentation.

Note 1. Summary of Significant Accounting Policies (continued)

Risks and Uncertainties

The Institute invests or holds a variety of investment vehicles including governmental obligations and mutual funds. These investments are exposed to interest rate, market, credit, and other risks depending upon the nature of the investment. Accordingly, it is reasonably possible that these factors will result in changes in the value of the Institute's investments, which could materially affect amounts reported in the financial statements.

Accounting Standards Codification

In June 2009, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162*. This statement modifies the Generally Accepted Accounting Principles ("GAAP") hierarchy by establishing only two levels of GAAP, authoritative and non-authoritative accounting literature. Effective July 2009, the FASB Accounting Standards Codification ("ASC"), also known collectively as the "Codification," is considered the single source of authoritative U.S. accounting and reporting standards, except for additional authoritative rules and interpretive releases issued by the Securities and Exchange Commission ("SEC"). Non-authoritative guidance and literature would include, among other things, FASB Concepts Statements, American Institute of Certified Public Accountants Issue papers and Technical Practice Aids and accounting textbooks. The Codification was developed to organize GAAP pronouncements by topic so that users can more easily access authoritative guidance.

Note 2. Endowment

The Institute follows the Uniform Management of Institutional Funds Act of 1972 (UMIFA) and its own governing documents. UMIFA requires the historical dollar amount of a donor-restricted endowment fund to be preserved. In the absence of donor restrictions, the net appreciation on a donor-restricted endowment fund is spendable under UMIFA.

An endowment account was created during fiscal 2001 to provide permanent operating support for the Institute. Contributions to the endowment that are restricted by the donor are permanently restricted to that purpose and segregated from the general operating funds of the Institute. The endowment account may be invested in a variety of investment vehicles as outlined in the Institute's investment policy. The income from the investments will provide funds for operating support, while the principal will remain permanently restricted.

Note 2. Endowment (continued)

As of August 31, 2010 and 2009 the investments and cash in the endowment account totaled \$1,029,501 and \$955,540, respectively. Included in these amounts are cash balances of \$361,049 and \$205,742 and investment balances of \$668,452 and \$749,798 for the years ended August 31, 2010 and 2009, respectively.

During 2005 and 2006, the Board of Directors authorized the use of funds from the endowment for general operating purposes. The Institute expects the funds to be returned to the endowment through the total return of the remaining funds invested in the endowment and as contributions for general operating purposes become available to transfer to the endowment. As of August 31, 2010 and 2009, the permanently restricted contributions in the endowment totaled \$1,414,130. As of August 31, 2010 and 2009, the remaining deficit in the endowment as a result of these withdrawals and changes in the market values of the investment securities is \$384,629 and \$458,590, respectively.

Note 3. Grants and Related Receivables

U.S. Department of Labor Employment and Training Administration

During fiscal 2010, the Institute received a grant for \$4,519,625 from the U.S. Department of Labor Employment and Training Administration for the purpose of the Health Care Sector grant entitled "Building Health Care Ladder Opportunities for Unemployed and Dislocated Workers in East Central Mississippi." This grant ends February 28, 2013. As of August 31, 2010, the Institute received \$76,569 of this grant and \$18,013 is included in grants receivable.

Mississippi Department of Employment Security

In fiscal 2009, the Institute received a grant for \$500,000 from the U.S. Department of Labor through the Mississippi Department of Employment Security (MDES) for the purpose of completing an entrepreneur support and training system by providing assistance to community colleges in Mississippi and the University of Southern Mississippi. This grant continues the support previously provided by the Community Development Block Grants through the U.S. Department of Housing and Urban Development - Mississippi Development Authority. The MDES grant ended February 28, 2010. As of August 31, 2010, the Institute received \$349,072 of this grant.

In fiscal 2010, the Institute received the second portion of the above grant for \$188,165 from the U.S. Department of Labor through the Mississippi Department of Employment Security (MDES) for the same purpose as described above. This grant ended June 30, 2010. As of August 31, 2010, the Institute received \$70,325 of this grant and \$25,362 is included in grants receivable.

Note 3. Grants and Related Receivables (continued)

Mississippi Department of Employment Security (continued)

In fiscal 2010, the Institute received a grant for \$289,000 from the U.S. Department of Labor through the Mississippi Department of Employment Security (MDES) for the same purpose as described above. This grant ends December 31, 2010. As of August 31, 2010, the Institute received \$17,184 of this grant and \$74,225 is included in grants receivable.

In fiscal 2010, the Institute received a grant for \$155,000 from the U.S. Department of Labor through the Mississippi Department of Employment Security (MDES) for the purpose of purchasing a 24-month extension of the Amatrol license to extend access to the Amatrol Anytime Anywhere e-Learning System to facilitate services to be provided through the Wal-Mart Foundation "America Works Initiative" grant. This grant ends May 31, 2012. As of August 31, 2010, the Institute received the full amount of this grant.

University of Alabama

In fiscal 2009, the Institute received a sub-grant for \$103,000 from Alabama Department of Economic and Community Affairs through the University of Alabama for the purpose of providing the administrative support for Project LEARN. This grant ends September 30, 2010. As of August 31, 2010, the Institute received \$102,353 of this grant.

In fiscal 2009, the Institute entered into an agreement with the University of Alabama to provide economic community development and planning in Southwest Alabama related to the Institute's mission in Southwest Alabama in the amount of \$60,000. This grant ended May 2010. As of August 31, 2010, the Institute received the full amount of this grant.

U.S. Department of Labor - Workforce Innovation in Regional Economic Development (WIRED) Initiative

In fiscal 2006, the Institute received a sub-grant for \$996,665 from the Alabama Department of Economic and Community Affairs (the recipient of the U.S. Department of Labor WIRED grant), temporarily restricted to the purpose of providing needed services for the WIRED Initiative. During fiscal 2010, the grant was modified to \$4,241,979. The grant agreement ended June 30, 2010. As of August 31, 2010, the Institute received \$4,197,277 of this grant.

Note 3. Grants, and Related Receivables (continued)

U.S. Department of Housing and Urban Development - Neighborhood Initiatives

In fiscal 2008, the Institute received a sub-grant for \$195,000 from the Department of Housing and Urban Development through Mississippi Community College Foundation, the recipient of a \$198,000 Department of Housing and Urban Development Neighborhood Initiative grant, for the purpose of providing entrepreneurship assistance and coordination in neighborhood initiatives. As of August 31, 2010, the Institute received \$163,548 of this grant, and \$2,561 is included in grants receivable.

U.S. Department of Housing and Urban Development - Mississippi Development Authority

In fiscal 2008, the Institute received two grants from the U.S. Department of Housing and Urban Development through the Mississippi Development Authority. A Community Development Block Grant for \$280,000 was provided to offer technical assistance to low-to-moderate income communities located in the districts of Mississippi Delta Community College, Coahoma Community college, Northwest Community College, Northeast community College, and Itawamba Community College. During 2009, the grant amount was modified to \$248,025.

A Community Development Block Grant using disaster relief funds resulting from Hurricane Katrina for \$347,000 was provided to offer similar assistance to low-to-moderate income and Katrina-impacted communities in the districts of Mississippi Gulf Coast Community College, Pearl River Community College, Southwest Mississippi Community College, Copiah-Lincoln Community College, Hinds Community College, and Holmes Community College. The grant agreement ended May 31, 2009. As of August 31, 2010, the Institute received \$346,825 and 248,025 of these grants.

Walmart Foundation, Inc.

In fiscal 2010, the Institute received a grant from the Wal-Mart Foundation, Inc. in the amount of \$400,000 for the purpose of the "America Works" initiative. This grant ends March 1, 2012. As of August 31, 2010, the Institute received \$200,000 of this grant.

Mississippi State University National Institute for Rural Community Colleges

In fiscal 2010, the Institute received a grant from Mississippi State University National Institute for Rural Community Colleges in the amount of \$50,000 as a matching fund commitment to the Walmart Foundation "America Works" Initiative grant. This grant ended during fiscal 2010. As of August 31, 2010, the Institute received \$15,000 of this grant.

Note 3. Grants, and Related Receivables (continued)

Bevill State Community College

In fiscal 2010, the Institute entered into a contract with Bevill State Community College in the amount of \$15,000 for the purpose of providing an extension of the contract with Amatrol for access to the Amatrol e-learning system. This contract ended during fiscal 2010. As of August 31, 2010, the Institute received \$15,000 of this contract and \$3,000 is included in grants receivable.

Note 4. Investments

Investments are carried at fair value, and realized and unrealized gains and losses are reflected in the Statements of Activities and changes in net assets. The fair values above were determined using only Level 1 inputs.

The investment portfolio consisted of the following at August 31:

	<u>2010</u>	<u>2009</u>
Mutual Funds	\$ 594,842	\$ 530,385
Corporate Bonds	<u>73,610</u>	<u>219,413</u>
	<u>\$ 668,452</u>	<u>\$ 749,798</u>

Investment activities for the years ending August 31 are as follows:

	<u>2010</u>	<u>2009</u>
Investments, beginning of the year	\$ 749,798	\$ 1,024,957
Sale of investments	(259,424)	(650,479)
Purchases	110,166	570,357
Interest income reinvested	5,189	6,541
Unrealized and realized gains (losses)	<u>62,723</u>	<u>(201,578)</u>
	<u>\$ 668,452</u>	<u>\$ 749,798</u>

Note 5. Line of Credit

The Institute renewed a \$40,000 line of credit with Community Bank on August 2, 2010, with interest of 5.00%. No draws were made from the line of credit during fiscal year 2010. The line of credit matures August 15, 2011.

Note 6. Rent Income

During fiscal 2010, the Institute entered into agreements to provide office space, utilities, telecommunications, security, internet access, and office equipment to other non-profit organizations with compatible missions and with a desire to align and coordinate activities of mutual benefit. These agreements have no end dates; however, the agreements cannot extend beyond the lease agreement of the operating facilities which ends June 30, 2012. Rental income for the year ended August 31, 2010 was \$8,185.

Note 7. Consulting Income

During fiscal 2010, the Institute entered into an agreement to provide consulting services to the Monroeville/Monroe County Economic Development Authority (MMCEDA) to provide management and leadership services to assist in leading and guiding the day-to-day operations and the long-term strategic planning for the MMCEDA. This contract end date is September 30, 2010. Consulting income for the year ending August 31, 2010 was \$33,333.

Note 8. Lease Commitments

The Institute is obligated under a lease agreement for its operating facilities through June 30, 2012. Rent is \$2,308 per month. Rent expense for the years ended August 31, 2010 and 2009 was \$34,299 and \$33,967, respectively .

Future minimal annual rental commitments with initial or remaining terms in excess of one year are as follows:

For the year ending:	
August 31, 2011	\$27,696
August 31, 2012	\$23,080

Note 9. Concentrations

The Institute places its cash with financial institutions and at times has deposits in excess of federal insurance limits. Concentrations of credit risk with respect to grants occur because of the volume of business transacted with grantors.

Note 10. Transfer of Equipment

In fiscal 2009, the Alabama Department of Economic and Community Affairs (ADECA) transferred equipment to the Institute. The equipment was previously purchased and expensed by the Institute with ADECA grant funds. According to ADECA's purchasing procedures, ADECA retains ownership of equipment purchased with grant funds. To record the transfer of equipment from ADECA to the Institute an adjustment of \$5,840 was made during 2009 to equipment. A corresponding entry was made to unrestricted contributions.

Note 11. Subsequent Events

Management has evaluated subsequent events through March 18, 2011, the date on which the financial statements were available to be issued.

THE MONGTOMERY INSTITUTE
SUPPLEMENTAL INFORMATION

THE MONTGOMERY INSTITUTE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended August 31, 2010

Federal Grantor/ Pass-through Grantor Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
MAJOR FEDERAL AWARD			
U.S. Department of Labor			
Passed through State of Alabama Department of Economic and Community Affairs	17.261	Grant No. 5S290003	\$ 775,050
U.S. Department of Labor			
Passed through Mississippi Department of Employment Security	17.258 17.259 17.260	8-S90-040-W6727-1 8-S90-040-W6727-2 9-S90-040-672-1	433,102
ARRA - U.S. Department of Labor			
Passed through Mississippi Department of Employment Security	17.258 17.259 17.260	S90-040-6528-1	<u>17,184</u>
TOTAL MAJOR FEDERAL AWARD			<u>\$ 1,225,336</u>
OTHER FEDERAL AWARDS			
U.S. Department of Labor			
Passed through State of Alabama Department of Economic and Community Affairs Passed through University of Alabama	17.269	09-058	\$ 8,584
U.S. Department of Labor			
Passed through State of Alabama Department of Economic and Community Affairs Passed through University of Alabama			39,543

THE MONTGOMERY INSTITUTE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (continued)

For the Year Ended August 31, 2010

Federal Grantor/ Pass-through Grantor Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
U.S. Department of Labor Employment and Training Administration	17.275	GJ-20039-10-60-A-28	76,569
U.S. Dept. of Housing and Urban Development Passed through Mississippi Community College Foundation	14.251	B-06-NI-MS-0030	<u>14,806</u>
TOTAL OTHER FEDERAL AWARDS			<u>\$ 139,502</u>
TOTAL FEDERAL AWARDS			<u>\$ 1,364,838</u>

THE MONTGOMERY INSTITUTE

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended August 31, 2010

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of The Montgomery Institute and is presented on the 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. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. Subrecipients

The Montgomery Institute provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided</u>
University of Alabama	17.261	\$ 296,845
University of Southern Mississippi	17.258; 17.259; 17.260	\$ 22,909
Southwest Mississippi Community College	17.258; 17.259; 17.260	\$ 8,907
Pearl River Community College	17.258; 17.259; 17.260	\$ 5,733
Mississippi Gulf Coast Community College	17.258; 17.259; 17.260	\$ 393
Copiah Lincoln Community College	17.258; 17.259; 17.260	\$ 2,755
Hinds Community College	17.258; 17.259; 17.260	\$ 21,921
Holmes Community College	17.258; 17.259; 17.260	\$ 32,037
Coahoma Community College	17.258; 17.259; 17.260	\$ 20,363
Mississippi Delta Community College	17.258; 17.259; 17.260	\$ 14,760
Northeast Mississippi Community College	17.258; 17.259; 17.260	\$ 9,788

Note 2. Subrecipients (continued)

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided</u>
Northwest Mississippi Community College	17.258; 17.259; 17.260	\$ 33,205
Itawamba Community College	17.258; 17.259; 17.260	\$ 32,462
Meridian Community College	17.258; 17.259; 17.260	\$ 999
East Mississippi Community College	17.258; 17.259; 17.260	\$ 650
Network for Tea	17.258; 17.259; 17.260	\$ 5,880
MS Technical	17.258; 17.259; 17.260	\$ 695
Amatrol	17.258; 17.259; 17.260	\$ 155,000

THE MONTGOMERY INSTITUTE
SPECIAL REPORTS



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

TO THE BOARD OF DIRECTORS OF
THE MONTGOMERY INSTITUTE
MERIDIAN, MISSISSIPPI

We have audited the financial statements of The Montgomery Institute as of and for the year ended August 31, 2010, and have issued our report thereon dated March 18, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered The Montgomery Institute's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Montgomery Institute's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect 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.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Montgomery Institute'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*.

This report is intended solely for the information and use of management, The Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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**INDEPENDENT AUDITORS' REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

TO THE BOARD OF DIRECTORS OF
THE MONTGOMERY INSTITUTE
MERIDIAN, MISSISSIPPI

Compliance

We have audited the compliance of The Montgomery Institute with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended August 31, 2010. The Montgomery Institute's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of The Montgomery Institute's management. Our responsibility is to express an opinion The Montgomery Institute's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about The Montgomery Institute's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of The Montgomery Institute's compliance with those requirements.

In our opinion, The Montgomery Institute 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 August 31, 2010.

Internal Control Over Compliance

Management of The Montgomery Institute is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered The Montgomery institute's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance with OMB 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 Institute's internal control over compliance.

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

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

This report is intended solely for the information and use of management, The Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Rea, Shaw, Giffin & Stuart, LLP

REA, SHAW, GIFFIN, & STUART, LLP

THE MONTGOMERY INSTITUTE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

THE MONTGOMERY INSTITUTE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended August 31, 2010

SECTION I: SUMMARY OF AUDITORS' RESULTS

Financial Statements

- | | |
|---|-------------|
| 1. Type of auditor's report issued: | Unqualified |
| 2. Internal control over financial reporting: | |
| a. Material weaknesses identified? | No |
| b. Significant deficiencies identified that are not considered to be material weaknesses? | No |

Federal Awards

- | | |
|---|---------------|
| 1. Internal control over major programs: | |
| a. Material weaknesses identified? | No |
| b. Significant deficiencies identified that are not considered to be material weaknesses ? | None reported |
| 2. Type of auditor's report issued on compliance for major programs: | Unqualified |
| 3. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? | No |

Major Programs

- | | |
|--|---------------------------------|
| 1. U.S. Department of Labor passed through State of Alabama Department of Economic and Community Affairs Grant No. 5S290003: | CFDA No. 17.261 |
| U.S. Department of Labor passed through Mississippi Department of Employment Security | CFDA No. 17.258, 17.259, 17.260 |
| 2. Dollar threshold used to distinguish between Type A and Type B programs: | \$300,000 |
| 3. Auditee qualified as low-risk auditee? | Yes |

THE MONTGOMERY INSTITUTE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For the Year Ended August 31, 2010

SECTION II: FINANCIAL STATEMENT FINDINGS

None.

SECTION III: FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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

THE MONTGOMERY INSTITUTE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

THE MONTGOMERY INSTITUTE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended August 31, 2010

The Montgomery Institute did not have any findings at August 31, 2009.