

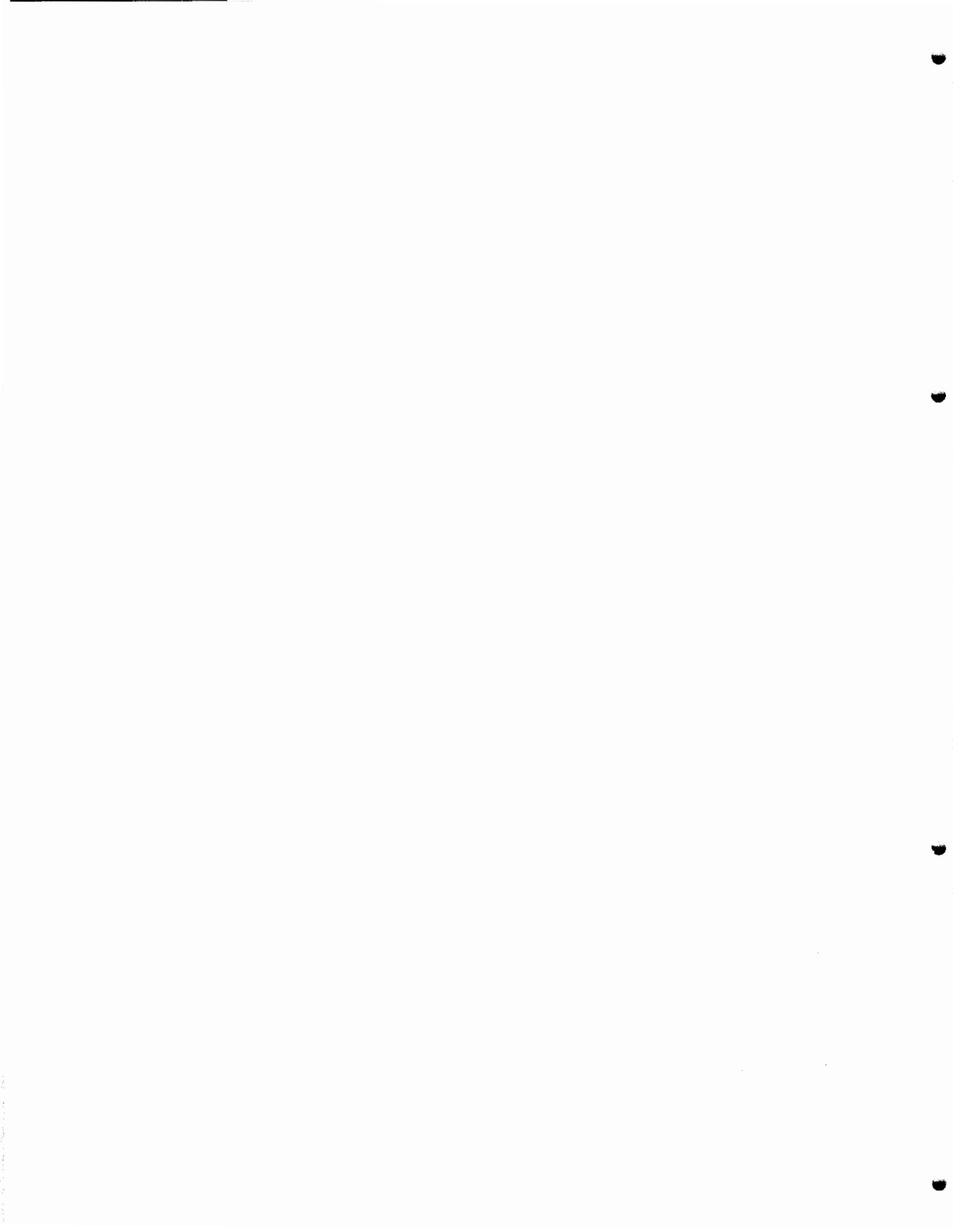


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PONTOTOC CITY SCHOOL DISTRICT

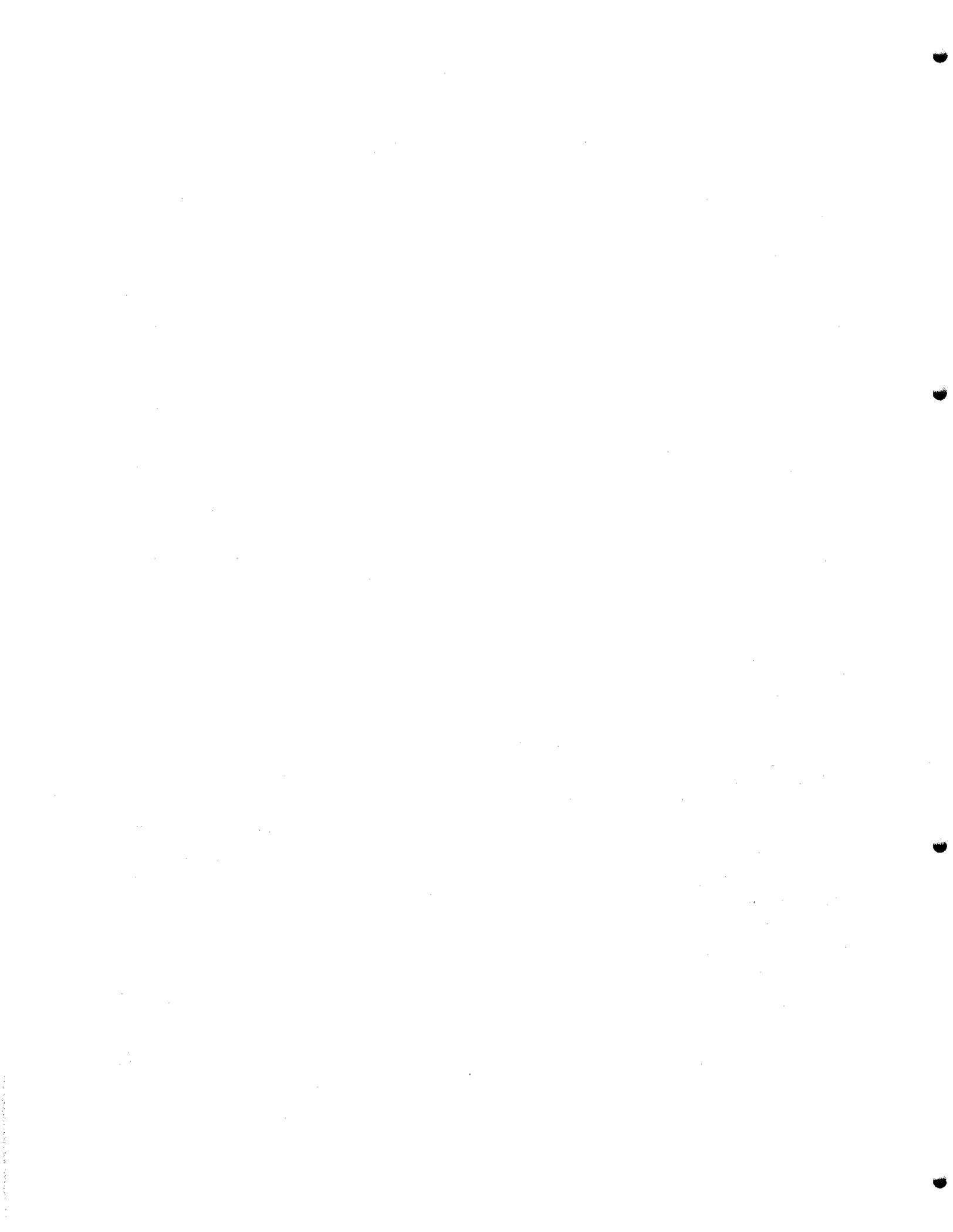
AUDITED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2005



**PONTOTOC CITY SCHOOL DISTRICT
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JUNE 30, 2005**

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**INDEPENDENT AUDITORS' REPORT
ON THE BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

Superintendent and School Board
Pontotoc City School District

We have audited the accompanying financial statements of the governmental activities, each major fund and aggregate remaining fund information of the Pontotoc City School District as of and for the year ended June 30, 2005, which collectively comprise the Pontotoc City School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Pontotoc City School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Pontotoc City School District at June 30, 2005, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 27, 2005, on our consideration of the Pontotoc City School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3 through 10 and the Budgetary Comparison Schedules and corresponding notes on pages 32 through 35 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Pontotoc City School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Pontotoc City School District. In addition, the Schedule of Instructional Administrative, and Other Expenditures –

Governmental Funds is presented for purposes of additional analysis. 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 financial statements taken as a whole.

Brawner, VanStey + CO P.A.

September 27, 2005
Booneville, Mississippi

**PONTOTOC CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005**

The discussion and analysis of the Pontotoc City School District's financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 2005. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the School District's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in this district's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the district's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

FINANCIAL HIGHLIGHTS

- Total net assets increased \$1,764,726, which represents a 16.63% increase from fiscal year 2004. After meeting the needs of the students, the District was conservative with expenditures for FY 2005 in anticipation of capital building projects.
- General revenues account for \$13,263,844, or 82.62% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$2,790,117 or 17.38% of total revenues.
- The District had \$14,439,235 in expenses; only \$2,790,117 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$13,263,844 were adequate to provide for these programs.
- Among major funds, the General Fund had \$12,634,287 in revenues and \$11,622,008 in expenditures. The General Fund's fund balance decreased \$182,644 over the prior year. This was mainly due to a transfer of \$1,207,552 to the Capital Projects Fund in anticipation of capital building projects.
- Capital assets, net of accumulated depreciation, decreased by \$175,807. The district acquired land in the amount of \$135,000 and purchased two buses for \$95,000 during the year.
- Long-term debt decreased by \$769,009.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. These statements are prepared using the accrual basis of accounting and include all assets and liabilities.

The statement of net assets presents information on all the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

**PONTOTOC CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005**

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal years.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, non-instructional and interest on long-term liabilities.

The government-wide financial statements can be found on pages 11-12 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's current financing requirements. Governmental Funds are reported using modified accrual accounting. This method of accounting measures cash and other assets that can be easily converted to cash. The Governmental Funds Statements provide a detailed short-term view of the school district's operations.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 14 and 16, respectively.

The District maintains individual governmental funds in accordance with the *Financial Accounting Manual for Mississippi Public School Districts* issued by the Mississippi Office of the State Auditor. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for all major funds. All other non-major funds are combined together and presented in these reports as other governmental funds.

The basic governmental fund financial statements can be found on pages 13 and 15 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the District's own programs. The accrual basis of accounting is used for fiduciary funds. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The school district's fiduciary activities are presented in separate Statements of Fiduciary Net Assets on page 17.

**PONTOTOC CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005**

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 18-30 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's budget process.

The District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major fund. This required supplementary information can be found on pages 31-34 of this report. Additionally, a schedule of expenditures of federal awards is required by OMB Circular A-133 and can be found on page 35 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of government's financial position. In the case of the District, assets exceeded liabilities by \$12,374,733 as of June 30, 2005, which represents a 16.63% increase from fiscal year 2004. (See Table 1.)

By far the largest portion of the District's net assets (63.63%) reflects its investment in capital assets (e.g., land, buildings, building improvements, improvements other than buildings, mobile equipment, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending.

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

Table 1 provides a summary of the District's net assets for 2005 compared to 2004:

**Table 1
Condensed Statement of Net Assets**

	<u>2005</u>	<u>2004</u>	<u>Total Percentage Change 2004-2005</u>
Current assets	\$ 4,903,177	\$ 3,746,970	30.85%
Capital assets, net	12,346,574	12,522,381	-1.40%
Total Assets	17,249,751	16,269,351	6.02%
Current liabilities	285,226	300,543	-5.10%
Long-term debt outstanding	4,589,792	5,358,801	-14.35%
Total Liabilities	4,875,018	5,659,344	-13.86%
Net assets:			
Invested in capital assets, net of related debt	7,872,574	7,294,452	7.93%
Restricted	3,726,644	2,372,479	57.08%
Unrestricted	775,515	943,076	-17.77%
Total net assets	\$ 12,374,733	\$ 10,610,007	16.63%

**PONTOTOC CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005**

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

- The district acquired land in the amount of \$135,000 and purchased two buses for \$95,000 during the year.
- Long – term debt was reduced by \$769,009.

Changes in net assets. The District's total revenues increased 6.28% to \$16,053,961. (See Table 2.) State revenues accounted for most of the District's revenue contributing about 59 cents of every dollar raised. (See Figure 1.) Another 22% came from property taxes, 12% from operating grants and contributions, and the remainder from fees charged for services, interest earnings, federal revenue and other sources.

The total cost of all programs and services rose 3.13% to \$14,439,235. The District's expenses are predominantly related to educating students 65%. (See Figure 2.) The \$657,014 or 7.52% increase in instruction costs derives largely from salary increases for teachers and other educational staff.

Total revenues surpassed expenses, increasing net assets \$1,764,726 over last year.

Table 2 shows the changes in net assets for fiscal year 2005 compared to 2004:

**Table 2
Changes in Net Assets**

	<u>2005</u>	<u>2004</u>	<u>Total Percentage Change 2004-2005</u>
Revenues:			
Program revenues	\$ 2,790,117	\$ 2,813,804	-0.08%
General revenues	13,263,844	12,291,189	7.91%
Total revenues	<u>16,053,961</u>	<u>15,104,993</u>	6.28%
Expenses:			
Instruction	9,389,386	8,732,372	7.52%
Support services	4,124,005	4,260,202	-3.20%
Non-instructional	794,017	807,776	-1.70%
Interest on long-term liabilities	131,827	200,252	-34.17%
Total expenses	<u>14,439,235</u>	<u>14,000,602</u>	3.13%
Extraordinary items	<u>150,000</u>	-	-
Increase in net assets	<u>\$ 1,764,726</u>	<u>\$ 1,104,391</u>	59.79%

PONTOTOC CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005

Figure 1
Sources of Revenues for Fiscal Year 2005

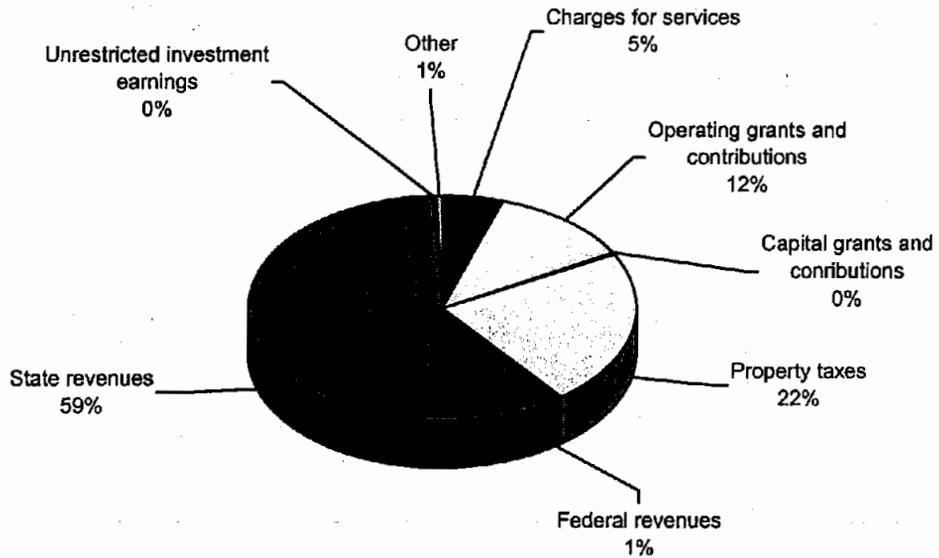
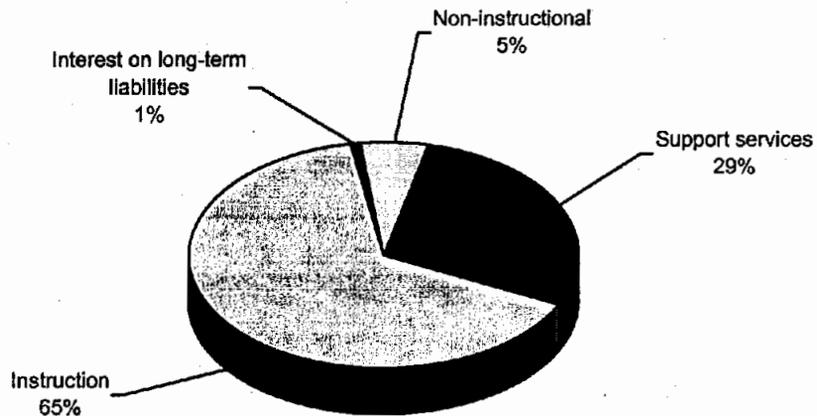


Figure 2
Expenses for Fiscal Year 2005



**PONTOTOC CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005**

Governmental activities. Table 3 presents the cost of four major District functional activities: instruction, support services, non-instructional and interest on long-term liabilities. The table also shows each function's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the State and District's taxpayers by each of these functions.

**Table 3
Net Cost of Governmental Activities**

	Total Expenses		Percentage Change	Net (Expense) Revenue		Percentage Change
	2005	2004	2004-2005	2005	2004	2004-2005
Instruction	\$9,358,386	\$8,732,372	7.17%	\$ (7,970,458)	\$ (7,311,216)	-9.02%
Support services	4,124,005	4,260,202	-3.20%	(3,579,825)	(3,636,435)	-1.56%
Non-instructional	794,017	807,776	-1.70%	32,992	(38,895)	184.82%
Interest on long-term liabilities	131,827	200,252	-34.17%	(131,827)	(200,252)	-34.17%
Total expenses	\$14,439,235	\$ 14,000,602	3.13%	(11,649,118)	\$ (11,186,798)	4.13%

- Net cost of governmental activities \$11,649,118 was financed by general revenue, which is made up of primarily property taxes \$3,531,062 and state revenue of \$9,345,789.
- Investment earnings accounted for \$64,354 of funding.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the District's governmental funds is to provide information on current inflows, outflows and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the District's net resources available for spending at the end of the fiscal year.

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$4,619,053, an increase of \$1,124,667. \$3,196,128 or 69.19% of the fund balance constitutes unreserved and undesignated fund balance, which is available for spending at the District's discretion. The remaining fund balance of \$3,727,749 or 80.71% is reserved or designated to indicate that it is not available for spending because it has already been committed for specified purposes.

The General Fund is the principal operating fund of the District. The decrease in fund balance in the General Fund for the fiscal year was \$182,644 this was mainly due to a transfer of \$1,207,552 to the Capital Projects Fund in anticipation of capital building projects. The increase in fund balance in the Capital Projects Fund for the fiscal year was \$1,217,790 as a result of the transfer from the General Fund.

**PONTOTOC CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005**

BUDGETARY HIGHLIGHTS

Over the course of the year, the District revised the annual operating budget.

- Budget amounts for General Fund local revenue overestimated student activity revenue.
- Budget amounts for General Fund instruction expenditures over estimated student activity expenditures.
- Actual expenditures for General Fund were below budget, primarily because the District budgets from fund balance for unplanned expenditures (contingency). The District didn't spend the entire contingency amount.
- Original Budget amounts for facilities acquisition and construction expenditures did not include the purchase of land for \$135,000.
- Budget amounts for School Food Service Fund local revenue overestimated lunch sales.
- Budget amounts for School Food Service Fund federal revenue underestimated USDA lunch reimbursement and failed to consider donated commodities revenue in the amount of \$42,676.
- Budget amounts for Vocational Education Fund revenue from state sources failed to consider MAEP revenue in the amount of \$90,787.
- Original Budget amounts for Bonded Debt Service Fund other financing sources (uses) did not include proceeds of refunding bonds and payments to refunded bond escrow agent in the amount of \$1,704,000.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2005, the District had invested \$12,346,574 in a broad range of capital assets, including land, school buildings, buses, other school vehicles and furniture and equipment. (See Table 4.) This amount represents a net decrease of \$175,807, or -1.40%, from the previous year. The district acquired land in the amount of \$135,000 and purchased two buses for \$95,000 during the year. Total accumulated depreciation as of June 30, 2005 was \$5,002,696 and total depreciation expense for the year was \$412,659, resulting in total net assets of \$12,346,574.

Additional information of the District's capital assets can be found in Note 5 on page 26 of this report. Table 4 shows fiscal 2005 compared to 2004:

**Table 4
Capital Assets at June 30
(Net of Depreciation)**

	2005	2004	Total Percentage Change 2004-2005
Land	\$ 916,770	\$ 781,770	17.27%
Buildings	8,904,770	9,132,277	-2.49%
Building Improvements	1,879,617	1,972,558	-4.71%
Improvements other than buildings	179,850	191,666	-6.17%
Mobile Equipment	425,231	397,069	7.09%
Furniture and equipment	40,336	47,041	-14.26%
	<u>\$ 12,346,574</u>	<u>\$ 12,522,381</u>	-1.40%

**PONTOTOC CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005**

Debt Administration. At June 30, 2005, the District had \$4,589,792 in general obligation bonds and other long-term debt outstanding, of which \$783,000 is due within one year. Table 5 shows fiscal 2005 compared to 2004:

**Table 5
Outstanding Long-Term Debt at June 30**

	<u>2005</u>	<u>2004</u>	<u>Total Percentage Change 2004-2005</u>
General obligation bonds payable	\$ 1,704,000	\$ 2,195,000	-22.37%
Three-mill notes payable	-	37,929	-100.00%
Limited obligation bonds payable	1,570,000	1,795,000	-12.53%
Qualified zone academy bonds payable	1,200,000	1,200,000	0.00%
Other loans payable	-	3,256	-100.00%
Compensated absences payable	115,792	127,616	-9.27%
Totals	<u>\$ 4,589,792</u>	<u>\$ 5,358,801</u>	-14.35%

Additional information of the District's long-term debt can be found in Note 6 on page 27 of this report.

CURRENT ISSUES

The Pontotoc City School District is financially stable. The District is proud of its community support of the public schools.

The District has committed itself to financial excellence for many years. The millage has decreased 2.35 mills from prior year. In addition, the District system of financial planning, budgeting and internal financial controls are well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

Latest enrollment figures indicate that student enrollment in the District will increase by 2%. The budget for the next fiscal year has taken into account this change in both funding and staffing needs.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Pontotoc City School District, 132 North Main, Pontotoc, MS 38863.

Pontotoc City School District
Statement of Net Assets
June 30, 2005

Exhibit A

	Primary Government Governmental Activities
ASSETS	
Cash and Cash Equivalents (Note 3)	\$ 3,670,548
Restricted Investments (Note 3)	617,449
Due from other governments	568,275
Accrued interest receivable	1,580
Other receivable	2
Inventories and prepaid items	45,323
Capital Assets, net (Note 5)	<u>12,346,574</u>
Total Assets	<u><u>17,249,751</u></u>
LIABILITIES	
Accounts payable and accrued liabilities	243,159
Deferred Revenue	16,152
Interest Payable on Long Term Liabilities	25,915
Long-Term Liabilities (due within one year) (Note 6)	
Capital Related Liabilities	783,000
Long - Term Liabilities (due beyond one year) Note 6)	
Capital Related Liabilities	3,691,000
Non-Capital Liabilities	<u>115,792</u>
Total Liabilities	<u>4,875,018</u>
NET ASSETS	
Invested in capital assets, net of related debt	7,872,574
Restricted Net Assets	
Expendable:	
Inventory	20,510
Food Service	88,910
Debt Service	1,362,403
Capital Improvements	2,182,004
Other	72,817
Unrestricted	<u>775,515</u>
Total Net Assets	<u>12,374,733</u>
Total Liabilities and Net Assets	<u><u>\$ 17,249,751</u></u>

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

**PONTOTOC CITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005**

Exhibit B

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities Total
Governmental Activities					
Instruction	\$ 9,389,386	431,856	915,054	72,018	(7,970,458)
Support services	4,124,005	42,155	502,025		(3,579,825)
Noninstructional services	794,017	321,634	505,375		32,992
Interest on long-term liabilities	131,827	-	-	-	(131,827)
Total Governmental Activities	14,439,235	795,645	1,922,454	72,018	(11,649,118)

General Revenues:

Taxes:

General purpose levies	2,802,765
Debt purpose levies	728,297
Unrestricted grants and contributions	
State	9,345,789
Federal	231,750
Unrestricted investment earnings	64,354
Other	90,889

Total General Revenues	13,263,844
Extraordinary items (Note 12)	150,000

Total General Revenues and Extraordinary items 13,413,844

Change in Net Assets 1,764,726

Net Assets-Beginning-Restated 10,610,007

Net Assets-Ending \$ 12,374,733

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

Pontotoc City School District
Balance Sheet - Governmental Funds
June 30, 2005

	Major Funds						Total Governmental Funds
	General	School	Vocational	Special	Bonded	Other	
	Funds	Food Service	Education Fund	Capital Projects Fund	Debt Fund		
ASSETS							
Cash and cash equivalents (Note 3)	\$ 610,917	113,720	126,868	2,113,210	531,546	174,287	3,670,548
Investments (Note 3)	-	-	-	-	-	617,449	617,449
Due from other governments	343,740	-	-	-	45,978	178,557	568,275
Accrued interest receivable	-	-	-	1,580	-	-	1,580
Due from other funds (Note 4)	12,759	5,181	-	-	-	99	18,039
Inventories and prepaid items	-	20,510	-	-	-	-	20,510
Total Assets	967,416	139,411	126,868	2,114,790	577,524	970,392	4,896,401
LIABILITIES AND FUND BALANCE							
Liabilities							
Accounts payable and accrued liabilities	65,174	29,993	126,868	-	-	21,124	243,159
Due to other funds (Note 4)	10,938	-	-	-	-	7,099	18,037
Deferred Revenue	-	-	-	-	-	16,152	16,152
Total Liabilities	76,112	29,993	126,868	-	-	44,375	277,348
Fund Balances							
Reserved for:							
Retirement of Long Term Debt	-	-	-	-	577,524	784,879	1,362,403
Inventory	-	20,510	-	-	-	-	20,510
Unemployment	-	-	-	-	-	40,012	40,012
Unreserved and Undesignated							
General fund	891,304	-	-	-	-	-	891,304
Special Revenue funds	-	88,908	-	-	-	33,912	122,820
Capital Projects funds	-	-	-	2,114,790	-	67,214	2,182,004
Total Fund Balances	891,304	109,418	-	2,114,790	577,524	926,017	4,619,053
Total Liabilities and Fund Balances	\$ 967,416	139,411	126,868	2,114,790	577,524	970,392	4,896,401

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

Exhibit C-1

**Pontotoc City School District
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2005**

	<u>Amount</u>
Total Fund Balance-Governmental Funds	\$ 4,619,053
Amounts reported for governmental activities in the statement of net assets are different because:	
1. Capital assets are used in governmental activities, are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$5,220,696 (Note 5).	12,346,574
2. Long-term liabilities are not due and payable in the current period and therefore, are not reported in the funds. (Note 6)	(4,589,792)
3. Accrued interest on debt not due and payable in the current period and therefore, not reported in the funds.	(25,915)
4. Bond issuance costs not an expense in the current period.	<u>24,813</u>
Total Net Assets - Governmental Activities	<u>\$ 12,374,733</u>

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

PONTOTOC CITY SCHOOL DISTRICT
Statement of Revenue, Expenditures, and Changes in Fund Balance -
Governmental Funds
For the Year Ended June 30, 2005

	Major Funds						Total (Memorandum Only)
	General Funds	School Food Service	Vocational Education Fund	Special Capital Project Fund	Bonded Debt Fund	Other Governmental	
Revenues							
Local sources	\$ 3,348,424	371,000	-	10,238	585,480	174,833	4,489,975
State sources	9,189,046	4,699	153,735	-	-	396,119	9,743,599
Federal sources	96,817	539,198	-	-	-	1,185,154	1,821,169
Total Revenues	12,634,287	914,897	153,735	10,238	585,480	1,756,106	16,054,743
Expenditures							
Instruction	8,180,682		313,232	-	-	826,024	9,319,938
Support services	3,303,070	95,058	-	-	-	487,578	3,885,706
Noninstructional services	-	777,906	-	-	-	21,134	799,040
Facilities acquisition and construction	135,000	-	-	-	-	-	135,000
Debt Service:							
Principal	3,256	-	-	-	505,000	262,929	771,185
Interest	-	-	-	-	77,440	76,432	153,872
Other Financing Uses	-	-	-	-	50,318	1,750	52,068
Total Expenditures	11,622,008	872,964	313,232	-	632,758	1,675,847	15,116,809
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,012,279	41,933	(159,497)	10,238	(47,278)	80,259	937,934
Other Financing Sources (Uses)							
Extraordinary Item (Note 12)	150,000						150,000
Sale of Other Property	201						201
Operating transfers in	131,299	-	159,497	1,207,552	-	3,075	1,501,423
Operating transfers out	(1,476,423)	(25,000)	-	-	-	-	(1,501,423)
Proceeds of Refunding Bonds					1,704,000		1,704,000
Payment to Refunded Bond Escrow					(1,672,621)		(1,672,621)
Agent							
Total Other Financing Sources (Uses)	(1,194,923)	(25,000)	159,497	1,207,552	31,379	3,075	181,580
Net change in Fund Balance	(182,644)	16,933	-	1,217,790	(15,899)	83,334	1,119,514
Fund Balances, July 1, 2004	1,073,948	87,332	-	897,000	593,423	842,683	3,494,386
Increase in reserve for inventory	-	5,153	-	-	-	-	5,153
Fund Balances, June 30, 2005	\$ 891,304	109,418	-	2,114,790	577,524	926,017	4,619,053

The notes to financial statements are an integral part of these statements.

**Pontotoc City School District
Reconciliation of the Governmental Funds Statement of Revenues,
Expenditures and Changes in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2005**

	<u>Amount</u>
Net Change in Fund Balances - Governmental Funds	\$ 1,119,514
Amounts reported for governmental activities in the statement of activities are different because:	
1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchase amounted to \$236,852 and the depreciation expense amounted to \$412,659. (Note 5)	(175,807)
2. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of activity. (Note 6)	2,461,185
3. Proceeds of long term debt are reported in the governmental funds, but not in the statement of activity. (Note 6)	(1,704,000)
4. Decrease in accrued interest is reported as an adjustment to interest expense in the statement of activity.	22,042
5. Debt issuance costs are expensed in the governmental funds, but not in the statement of activities.	24,813
6. Decrease in compensated absences is reported as an adjustment to support services and noninstructional services.	11,824
7. Increase in inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are increased in the statement of activity.	<u>5,153</u>
Change in Net Assets of Governmental Activities	<u>\$ 1,764,724</u>

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

**PONTOTOC CITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS - FIDUCIARY FUNDS
June 30, 2005**

	<u>Fiduciary Fund Type</u>
	<u>Agency</u>
ASSETS	
Cash and cash equivalents (Note 3)	<u>\$ 508,246</u>
TOTAL ASSETS	<u>508,246</u>
LIABILITIES	
Accounts payable & accrued liabilities	489,811
Due to student club	18,433
Due to other funds	<u>2</u>
TOTAL LIABILITIES	<u>\$ 508,246</u>

**PONTOTOC CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

(1) Summary of Significant Accounting Policies

The accompanying financial statements of the school district have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for governmental accounting and financial reporting principles. The most significant of the school district's accounting policies are described below.

A. Financial Reporting Entity

For financial reporting purposes, the reporting entity includes all funds that are covered by the oversight responsibility of the school district's governing board. As defined by accounting principles generally accepted in the United States of America, the school district is considered an "other stand-alone government." The school district is a related organization of but not a component unit of the City of Pontotoc since the governing authority of the city selects a majority of the school district's board but does not have financial accountability for the school district.

B. Basis of Presentation

The school district's basic financial statement consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-Wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds, if applicable. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues.

The Statement of Net Assets presents the financial condition of the governmental activities of the school district at year-end. The Government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the school district's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the school district, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the school district.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and fiduciary. An emphasis is placed on major funds within the governmental category.

C. Measurement Focus and Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Program revenues on the Statement of Activities consist primarily of state appropriations and federal awards.

**PONTOTOC CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

(1) Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

In the fund financial statements, governmental funds and agency funds are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Property taxes, state appropriations and federal awards associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which is reported when due.

The school district reports the following major governmental funds:

General Fund – This is the school district's primary operating fund. It accounts for all financial resources of the school district, except those required to be accounted for in another fund.

Vocational Education Fund – This fund is used to account for revenues used to provide salaries and fringes benefits, supplies, and materials to provide vocational training to students.

School Food Services – This fund is used to account for revenues and expenditures used to account for operation of providing meals to students.

Special Capital Projects Fund – This fund is used to account for financial resources for acquisition or construction of major capital facilities.

Bonded Debt Fund – This fund accounts for revenues received for payment of bond debt.

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

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than capital projects) that are legally restricted for specific expenditure purposes.

Capital Projects Funds – Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Debt Service Funds – Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

FIDUCIARY FUNDS

Agency Funds – Agency Funds are used to report resources held by the district in a purely custodial capacity (assets equal liabilities) and do not involve measurement of results of operations.

**PONTOTOC CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

(1) Summary of Significant Accounting Policies (Continued)

D. Account Classifications

The account classifications used in the financial statements conform to the classifications prescribed in the *Financial Accounting Manual for Mississippi Public School Districts* issued by the Office of the State Auditor. The classifications in that manual are consistent with the broad classifications recommended in *Financial Accounting for Local and State School Systems, 1990* issued by the U.S. Department of Education.

E. Encumbrances

An encumbrances system is not maintained to account for commitments resulting from approved purchase orders, work orders and contracts.

F. Cash and Other Equivalents

The school district deposits excess funds in the financial institutions selected by the school board. State statutes specify how these depositories are to be selected.

Cash and cash equivalents consist of amounts on deposit in demand accounts and certificates of deposit with maturity of 12 months or less. Cash and equivalents are valued at cost.

G. Investments

The school district can invest its excess funds, as permitted by Section 29-3-113, Miss. Code Ann. (1972), in interest-bearing deposits or other obligations of the types described in Section 27-105-33, Miss. Code Ann. (1972), or in any other type investment in which any other agency, instrumentality or subdivision of the State of Mississippi may invest, except that 100% of said funds are authorized to be so invested.

For accounting purposes, certificates of deposit are classified as investments if they have a maturity greater than 12 months when acquired.

H. Inventories and Prepaid Items

Donated inventories are received from the USDA and are valued at USDA cost. Other inventories are valued at cost (calculated on the first-in, first-out basis).

The costs of governmental fund type inventories are reported as expenditures when purchased.

Prepaid items, such as prepaid insurance, are not reported for governmental fund types since the costs of such items are accounted for as expenditures in the period of acquisition.

I. Capital Assets

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed assets are reported at estimated fair value at the time received.

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets are reported in the government-wide statements and proprietary funds. Depreciation is calculated on the straight-line basis for all assets, except land. The following schedule details those thresholds.

**PONTOTOC CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

(1) Summary of Significant Accounting Policies (Continued)

I. Capital Assets (Continued)

	Capitalization Policy	Estimated Useful Life
Land	\$ -	-
Buildings	50,000	40 years
Building improvements	25,000	20 years
Improvements other than buildings	25,000	20 years
Mobile equipment	5,000	5-10 years
Furniture and equipment	5,000	3-7 years
Leased property under capital leases	*	*

(*) The threshold amount will correspond with the amounts for the asset classifications, as listed. See Note (4) for details.

J. Long-term liabilities

Long-term liabilities are the unmatured principal of bonds, warrants, notes, or other forms of noncurrent or long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments. Long-term liabilities should not be reported as liabilities in governmental funds, but should be reported in the governmental activities column in the government-wide statement of net assets. (See Note (5) for details).

K. Interfund Transactions and Balances

Interfund transactions and balances are the result of timing differences between the date expenses/expenditures occur and the date payments are made.

Short-term (due within one year) interfund loan receivables are reported as "due from other funds" and are considered available expendable resources.

Transfers are used to (a) move revenues from the fund that statute or budget requires to collect to the fund that statute or budget requires to expend them and to (b) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. See Note (3) for details for interfund transactions, including receivables and payables at year-end.

L. Equity Classifications

Government-Wide Financial Statements:

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

**PONTOTOC CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

(1) Summary of Significant Accounting Policies (Continued)

L. Equity Classifications (Continued)

- b. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Financial Statements:

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated.

Fund reserves are portions of fund equity that are legally segregated for a specific future use or are not available for current operations. Following is a description of fund reserves used by the district:

Reserved for inventory – An account that represents a portion of the fund balance which indicates that inventories do not represent available spendable resources even though they are a component of net assets.

Reserved for retirement of long-term debt- An account that represents a portion of the fund balance which indicates that debt service payments do not represent available spendable resources even though they are a component of net assets.

Reserved for unemployment – An account that represents a portion of the fund balance that is legally restricted for payment of unemployment benefits.

M. Property Taxes

Ad valorem property taxes are levied by the governing authority of the city on behalf of the school district based upon an order adopted by the school board of the school district requesting an ad valorem tax effort in dollars. Since the taxes are not levied and collected by the school district, the revenues to be generated by the annual levies are not recognized until the taxes are actually collected by the tax levying authority.

N. Mississippi Adequate Education Program Revenues

Revenues from the adequate education program are appropriated on a fiscal year basis and are recorded at the time the revenues are received from the State of Mississippi.

**PONTOTOC CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

O. Compensated Absences

Employees of the school district accumulate sick leave at a minimum amount as required by state law or at a greater amount provided by school district policy. Some employees are allowed personal leave and/or vacation leave in accordance with school district policy. The district pays for unused leave for employees as required by Section 37-7-307(5), Miss. Code Ann. (1972).

The liability for these compensated absences is recorded as long-term liabilities in the government-wide statements. The current portion of this liability is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources.

(2) Changes In Accounting Standards

As required, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No 40, *Deposit and Investment Risk Disclosures – An Amendment of GASB Statement No. 3* for the current fiscal year. This statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Appropriate note disclosures have been incorporated to comply with the requirements of this standard.

(3) Cash and Cash Equivalents and Investments

Cash and Cash Equivalents

The collateral for public entities' deposits in financial institutions is now held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972).

Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

The carrying amount of the school district's deposits with financial institutions was reported in the governmental funds and fiduciary funds as \$3,670,548 and \$508,246, respectively. The carrying amount of deposits reported in the government-wide statements was Cash and cash equivalents \$3,670,548. The bank balance was \$5,251,012.

Custodial Credit Risk – Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a formal policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2005, none of the district's bank balance of \$5,251,012 was exposed to custodial credit risk.

Investments.

As of June 30, 2005, the district had the following investments. All investments are in an internal investment pool.

**PONTOTOC CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

(3) Investments – Continued

<u>Investment Type</u>	<u>Maturities (in years)</u>	<u>Fair Value</u>	<u>Rating</u>
Federal National Mortgage Note	Less than 1	\$ 338,239	AAA
Goldman Sachs Financial Square Funds Treasury Instruments Fund	Less than 1	110,246	Not Rated
Hancock Horizon Treasury Fund	Less than 1	<u>168,964</u>	AAA
Total Investments		<u><u>\$ 617,449</u></u>	

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

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

Custodial Credit Risk- Investments. Custodial credit risk is defined as the risk that, in the even of a financial institutions failure, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The district does not have a formal investment policy that addresses custodial credit risk. As of June 30, 2005, none of the district's investment balance was exposed to custodial credit risk.

Concentration of Credit Risk. Disclosures of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U. S. Government, investments in mutual funds and external investment pools, and other pooled investments. As of June 30, 2005, the district had the following investments:

<u>Issuer</u>	<u>Fair Value</u>	<u>% of Total Investments</u>
Federal National Mortgage Notes	\$ 338,239	55%

**PONTOTOC CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

(4) Interfund Transactions and Balances

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds:

	<u>Reason for Loan</u>	<u>Due From</u>	<u>Due To</u>
Major funds:			
General fund	\$12,759 loan to other funds in advance of reimbursement	\$ 12,759	\$ 10,938
Other major funds			
School food service	Receivable from district maintenance & activity for catered events	5,181	
Non-major Funds		<u>99</u>	<u>7,099</u>
Total governmental funds		<u>18,039</u>	<u>18,037</u>
Fiduciary funds			
	Loan from General Funds	<u>-</u>	<u>2</u>
Total all funds		<u>\$ 18,039</u>	<u>\$ 18,039</u>

B. Transfers In/Out

	<u>Reason for Transfer</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Major funds:			
General fund	\$25,000 Indirect cost \$1,476,423 support to other fund	\$ 131,299	\$ 1,476,423
Other major fund			
School food service	Indirect cost to Dist.Maint.		25,000
Vocational	Support from Dist. Maint.	159,497	
Special Capital Projects	Support from Dist. Maint.	1,207,552	
Non-major Funds	Support from Dist. Maint.	<u>3,075</u>	
Total funds		<u>\$ 1,501,423</u>	<u>1,501,423</u>

**PONTOTOC CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

(5) Capital Assets

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

	Balance 6/30/2004	Additions	Retirements	Completed Construction	Adjustments	Balance 6/30/2005
<u>Non-depreciable capital</u>						
Land	\$ 781,770	135,000	-	-	-	916,770
Total non-depreciable	781,770	135,000	-	-	-	916,770
<u>Depreciable capital assets:</u>						
Buildings	12,302,560	-	-	-	-	12,302,560
Building Improvements	2,323,508	-	-	-	-	2,323,508
Improvements other than buildings	338,981	-	-	-	-	338,981
Mobile equipment	995,812	95,000	-	-	-	1,090,812
Furniture and equipment	369,787	6,852	-	-	-	376,639
Total depreciable capital	16,330,648	101,852	-	-	-	16,432,500
<u>Less accumulated depreciation</u>						
Buildings	3,170,283	227,507	-	-	-	3,397,790
Building improvements	350,950	92,941	-	-	-	443,891
Improvements other than buildings	147,315	11,816	-	-	-	159,131
Mobile equipment	598,743	66,838	-	-	-	665,581
Furniture and equipment	322,746	13,557	-	-	-	336,303
Total accumulated depreciation	4,590,037	412,659	-	-	-	5,002,696
Total Depreciable capital assets, net	11,740,611	(310,807)	-	-	-	11,429,804
Governmental activities capital assets, net	<u>\$ 12,522,381</u>	<u>(175,807)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,346,574</u>

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 83,038
Support services	328,682
Non-instructional	939
Total depreciation expense	<u>\$ 412,659</u>

There were no commitments under construction contracts at June 30, 2005.

**PONTOTOC CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

(6) Long-term liabilities

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

	Balance 6/30/2004	Additions	Reductions	Balance 6/30/2005	Amounts due within one year
A. General obligations					
bonds payable	\$ 2,195,000	1,704,000	2,195,000	1,704,000	548,000
B. Three-mill					
notes payable	37,929	-	37,929	-	
C. Limited obligation					
bonds payable	1,795,000	-	225,000	1,570,000	235,000
D. Qualified Zone Academy Bonds Payable	1,200,000	-	-	1,200,000	-
E. Other loans payable	3,256	-	3,256	-	
F. Compensated absences payable	127,616	2,989	14,813	115,792	-
	<u>\$ 5,358,801</u>	<u>1,706,989</u>	<u>2,475,998</u>	<u>4,589,792</u>	<u>783,000</u>
* Annual Payment	\$ 505,000				
Advance Refunding	<u>1,690,000</u>				
	<u>\$ 2,195,000</u>				

A. General obligation bonds payable.

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
General Obligation Refunding Bonds Series 2004	2.6%	7/15/04	7/15/07	\$ 1,704,000	1,704,000
Total				<u>\$ 1,704,000</u>	<u>1,704,000</u>

**PONTOTOC CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

(6) Long-term liabilities – (Continued)

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

Year Ending June 30,	Principal	Interest	Total
2006	\$ 548,000	37,323	585,323
2007	570,000	22,773	592,773
2008	586,000	15,295	601,295
	<u>\$ 1,704,000</u>	<u>75,391</u>	<u>1,779,391</u>

This debt will be retired from the Bonded Debt Fund.

The amount of bonded indebtedness that can be incurred by the school district is limited by state statute. Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to the then last completed assessment for taxation unless certain conditions, as set forth in state statutes, have been met. As of June 30, 2005, the amount of outstanding bonded indebtedness was equal to 2.53% of property assessments as of October 1, 2004.

B. Three-mill notes payable.

This debt was paid in full during the year.

Current Refunding.

On July 15, 2004 the district issued \$1,704,000 in General Obligation Refunding Bonds series 2004 with an interest rate of 2.61% percent to advance refund \$1,690,000 of outstanding General Obligation Bonds with an average interest rate of 2.61% percent. The net proceeds of \$1,688,394, after payments, of \$31,379 for issuance costs were deposited in an irrevocable trust with an escrow agent to provide for current payment on the General Obligation Bonds.

As a result, the General Obligation Bonds Series 1995 have been redeemed and removed from long-term liabilities.

The district advance refunded the General Obligation Bonds Series 1995 to reduce its total debt service payments over the remaining 3 years of debt by approximately \$71,224 and to obtain an economic gain of \$51,868.

C. Limited obligation bonds payable.

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State aid capital improvement Series 1997	4.25-5.75%	12/18/97	12/01/10	\$ 2,570,000	1,570,000
Total				<u>\$ 2,570,000</u>	<u>1,570,000</u>

**PONTOTOC CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

(6) Long-term liabilities (Continued)

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

Year Ending June 30	Principal	Interest	Total
2006	235,000	64,628	299,628
2007	245,000	54,185	299,185
2008	255,000	43,185	298,185
2009	265,000	31,613	296,613
2010	280,000	19,350	299,350
2011	290,000	6,525	296,525
Total	<u>\$ 1,570,000</u>	<u>219,486</u>	<u>1,789,486</u>

The state aid capital improvement bonds are secured by an irrevocable pledge of certain revenues the district receives from the State of Mississippi pursuant to the Mississippi Accountability and Adequate Education Program Act, Sections 37-151-1 through 37-151-7, Miss. Code Ann. (1972). The state aid capital improvement bonds are not included in the computation of the debt limit percentage. This debt will be retired from the MAEP note retirement fund.

D. Qualified zone academy bonds payable.

As more fully explained in Note 9, debt has been issued by the school district that qualifies as Qualified Zone Academy bonds. Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Qualified Zone	N/A	7/20/00	7/20/10	\$ 1,200,000	1,200,000
Total				<u>\$ 1,200,000</u>	<u>1,200,000</u>

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

E. Other loans payable.

This debt was paid in full during the year.

F. Compensated absences payable.

As more fully explained in Note 1, compensated absences payable is adjusted on an annual basis as required by Section 37-7-307(5), Miss. Code Ann. (1972). Compensated absences will be paid from the fund from which the employees' salaries were paid.

(7) Defined Benefit Pension Plan

Plan Description. The school district contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Benefit provisions are established by State law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to Public Employee Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling (601) 359-3589 or 1-800 444-PERS.

**PONTOTOC CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

(7) Defined Benefit Pension Plan - Continued

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary and the school district is required to contribute at an actuarially determined rate. The current rate is 9.75% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The Pontotoc City School District's contributions to PERS for the years ending June 30, 2005, 2004, and 2003, were \$835,557, \$744,112, and \$712,445, respectively, equal to the required contributions for each year.

(8) Risk Management

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

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 127 school districts and covers risks of loss arising from injuries to the school district's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by BancorpSouth Bank in Jackson. The funds in the trust account are used to pay any claim up to \$400,000. for a claim exceeding \$400,000, MSBAWCT has insurance, which will pay the excess up to \$25,000,000. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

(9) Contingencies

The school district receives Federal Grants for specific purposes that are subject to review and audit by Federal agencies. Such audits could result in a request for reimbursement by the Federal agencies for expenditures disallowed under the terms and conditions of the appropriate agency. In the opinion of the school district, such disallowances, if any, would not be significant to the district's financial statements.

(10) Qualified Zone Academy Bonds

Section 226 of the Taxpayer Relief Act of 1997 (Public Law 105-34) provides for a source of capital at no or nominal interest rates for costs incurred by certain public schools in connection with the establishment of special academic programs for kindergarten through secondary school, in partnership with the business community.

On March 14, 2000, the Pontotoc City School District board of trustees adopted a resolution authorizing the issuance of a one million two hundred thousand dollars (\$1,200,000) limited-tax note of the district designating the note to be a qualified zone academy bond (the "Note") and awarding the sale of the note to the purchaser. The note resolution also authorized the superintendent to execute all documents necessary to effect the issuance of the note.

A trust agreement dated July 20, 2000, was executed by and between the school district and Trustmark National Bank, as trustees. The trust agreement authorized the issuance of trust certificates in the principal amount of \$1,200,000. Approximately \$1,150,435 was used to provide financing for the renovation, repair and equipping the Pontotoc Junior High School (the "Academy"); the remainder of approximately \$49,565 used to pay the cost of issuance.

**PONTOTOC CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

(10) Qualified Academy Bonds – Continued

The agreement establishes a method of repayment for a qualified interest-free debt instrument. The agreement requires the school district to deposit funds annually into a sinking fund account on or before July 1. The debt repayment shall be made from an annual levy of a special tax, which shall not exceed three (3) mills on the dollar of assessed value of the taxable property within the district. The amount accumulated in the sinking fund at the end of the ten-year period is expected to be sufficient to retire the debt. The following schedule reports the yearly deposits to be made to the sinking fund by the school district.

Year Ending June 30,	Principal
2006	\$ 110,000
2007	106,000
2008	96,000
2009	95,000
2010	95,000
	\$ 502,000

(11) Vocational Education Consortium

The school district has entered into a Vocational Education Agreement dated January 31, 1984, creating the Pontotoc Ridge Career and Technical Center. The consortium was created pursuant to the provisions of Sections 37-31-73, Miss. Code Ann. (1972), and approved by the Mississippi Department of Education. The consortium includes the Pontotoc County School District and the Pontotoc City School District.

Section 37-31-73, Miss. Code Ann. (1972), authorizes the above noted entities to enter into an agreement that would provide for the construction or operation of a regional vocational education center. Any such agreement should provide for a designated fiscal agent, providing the method of financing the construction and operation of such facilities, the manner in which such facilities are to be controlled and staffed and detailed procedures for student admission and transportation services for those students.

The Pontotoc County School District has been designated as the fiscal agent for the Pontotoc Ridge Career and Technical Center, and the operations of the consortium are included in its financial statements.

(12) Extraordinary Item

The school district had built an additional building and after completion had incurred cost repairing the building that was out of the ordinary. They recovered \$150,000 from the contractor to cover this cost.

Pontotoc City School District
 Budgetary Comparison Schedule for the General Fund
 For the Year Ended June 30, 2005

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
	Original	Final		Original to Final	Final to Actual
Revenue					
Local Sources	\$ 3,488,500	3,348,424	3,348,424	(140,076)	-
State Sources	9,261,362	9,238,359	9,189,046	(23,003)	(49,313)
Federal Sources	63,054	47,503	96,817	(15,551)	49,314
Total Revenues	12,812,916	12,634,286	12,634,287	(178,630)	1
Expenditures					
Instruction	8,253,497	8,175,679	8,180,682	77,818	(5,003)
Support Services	4,197,068	3,278,070	3,303,070	918,998	(25,000)
Facilities Acquisition & Construction		160,000	135,000	(160,000)	25,000
Debt Service: Principal	5,801	3,256	3,256	2,545	-
Total Expenditures	12,456,366	11,617,005	11,622,008	839,361	(5,003)
Excess (Deficiency) of Revenues over Expenditures	356,550	1,017,281	1,012,279	660,731	(5,002)
Other Financing Sources (Uses)					
Insurance Cost Recoveries	-	150,000	150,000	150,000	-
Sale of Other Property	-	201	201	201	-
Operating Transfers In	1,008,750	131,299	131,299	(877,451)	-
Operating Transfers Out	(1,157,462)	(1,476,423)	(1,476,423)	(318,961)	-
Total Other Financing Sources (Uses)	(148,712)	(1,194,923)	(1,194,923)	(1,046,211)	-
Net Change in Fund Balance	207,838	(177,642)	(182,644)	(385,480)	(5,002)
Fund Balances					
July 1, 2004	1,073,853	1,073,853	1,073,948	-	95
June 30, 2005	\$ 1,281,691	\$ 896,211	\$ 891,304	\$ (385,480)	\$ (4,907)

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

Pontotoc City School District
Budgetary Comparison Schedule for School Food Service
For the Year Ended June 30, 2005

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
	Original	Final		Original to Final	Final to Actual
Revenue					
Local Sources	\$ 482,000	371,000	371,000	(111,000)	-
State Sources	7,000	4,699	4,699	(2,301)	-
Federal Sources	437,159	539,198	539,198	102,039	-
Total Revenues	<u>926,159</u>	<u>914,897</u>	<u>914,897</u>	<u>(11,262)</u>	<u>-</u>
Expenditures					
Support Services	98,488	95,058	95,058	3,430	-
Instructional Services	797,539	777,906	777,906	19,633	-
Total Expenditures	<u>896,027</u>	<u>872,964</u>	<u>872,964</u>	<u>23,063</u>	<u>-</u>
Excess (Deficiency) of Revenue over Expenditures	<u>30,132</u>	<u>41,933</u>	<u>41,933</u>	<u>11,801</u>	<u>-</u>
Other Financing Sources (Uses)					
Operating Transfers Out	(27,000)	(25,000)	(25,000)	2,000	-
Total Other Financing Sources (Uses)	<u>(27,000)</u>	<u>(25,000)</u>	<u>(25,000)</u>	<u>2,000</u>	<u>-</u>
Net Change in Fund Balance	<u>3,132</u>	<u>16,933</u>	<u>16,933</u>	<u>13,801</u>	<u>-</u>
Fund Balances					
July 1, 2004	<u>87,332</u>	<u>87,332</u>	<u>87,332</u>	<u>-</u>	<u>-</u>
Increase in Reserve For Inventory		<u>5,153</u>	<u>5,153</u>	<u>5,153</u>	<u>-</u>
June 30, 2005	<u>\$ 90,464</u>	<u>109,418</u>	<u>109,418</u>	<u>18,954</u>	<u>\$ -</u>

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

Pontotoc City School District
 Budgetary Comparison Schedule for Vocational Education Fund
 For the Year Ended June 30, 2005

Schedule 1
 Continued

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
	Original	Final		Original to Final	Final to Actual
Revenue					
State Sources	\$ 70,253	153,735	153,735	83,482	
Total Revenues	<u>70,253</u>	<u>153,735</u>	<u>153,735</u>	<u>83,482</u>	<u>-</u>
Expenditures					
Instruction	210,941	313,232	313,232	(102,291)	-
Total Expenditures	<u>210,941</u>	<u>313,232</u>	<u>313,232</u>	<u>(102,291)</u>	<u>-</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(140,688)</u>	<u>(159,497)</u>	<u>(159,497)</u>	<u>(18,809)</u>	<u>-</u>
Other Financing Sources (Uses)					
Operating Transfers In	137,625	159,497	159,497	21,872	-
Total Other Financing Sources (Uses)	<u>137,625</u>	<u>159,497</u>	<u>159,497</u>	<u>21,872</u>	<u>-</u>
Net Change in Fund Balance	<u>(3,063)</u>	<u>-</u>	<u>-</u>	<u>3,063</u>	<u>-</u>
Fund Balances					
July 1, 2004	-	-	-	-	-
June 30, 2005	<u>\$ (3,063)</u>	<u>-</u>	<u>-</u>	<u>3,063</u>	<u>-</u>

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

**PONTOTOC CITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2005**

(1) Basis of Presentation

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

(2) Budget amendments and revisions

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

(3) Budget Overruns

The General Fund exceeded the budgeted amount by \$5,003. The excess amount was the result of an audit adjustment and therefore is not a violation of state law.

**Pontotoc City School District
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2005**

Schedule 1

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
U.S. Department of Agriculture		
Passed-through Mississippi Department of Education:		
Non-cash Assistance:		
Food distribution	10.550	\$ 42,676
Child Nutrition Cluster:		
School breakfast program	10.553	138,320
National school lunch program	10.555	348,966
Total Child Nutrition Cluster		487,286
Special Supplemental Program for Women, Infants and Children	10.557	21,134
Total Passed-through MDE		551,096
Total U.S. Department of Agriculture		551,096
U.S. Department of Education		
Direct:		
Carol M. White Physical Education Program	84.215	190,005
Passed-through Mississippi Department of Education:		
Special Education Cluster		
Special education - grants to states	84.027	395,190
Special education - preschool grants	84.173	16,408
Total Special Education Cluster		411,598
Title I - grants to local educational agencies	84.010	383,983
Safe and drug-free schools and communities - state grants	84.186	11,629
Innovative education program strategies	84.298	8,929
Comprehensive school reform demonstration	84.332	74,197
Improving Teacher Quality - state grants	84.367	124,749
Educational Technology - state grants	84.318	7,414
Grants for State Assessments and related activities	84.369	919
Total Passed-through MDE		1,023,418
Total U.S. Department of Education		1,213,423
Total for All Federal Awards		\$ 1,764,519

Notes to Schedule

1. This schedule was prepared using the same basis of accounting and the same significant accounting policies, as applicable, used for the basic financial statements.
2. The expenditure amounts include transfers out.
3. The pass through entities did not assign identifying numbers to the school district.

Schedule 2

Pontotoc City School District
Schedule of Instructional, Administrative and Other Expenses- Governmental Funds
June 30, 2005

<u>Expenditures</u>	<u>Total</u>	<u>Instructional</u>	<u>Administrative</u>	<u>Other</u>
Salaries and fringe benefits	\$ 11,232,292	8,294,558	1,060,712	1,877,022
Other	<u>3,884,517</u>	<u>1,025,380</u>	<u>165,329</u>	<u>2,693,808</u>
Total	<u>\$ 15,116,809</u>	<u>9,319,938</u>	<u>1,226,041</u>	<u>4,570,830</u>
Total number of students	<u>2,189</u>			
Cost per student	<u>\$ 6,906</u>	<u>4,258</u>	<u>560</u>	<u>2,088</u>

For purposes of this schedule, the following columnar descriptions are applicable:

Instruction----includes the activities dealing directly with the interaction between teachers and students. Included here are the activities of teachers, teachers aides or classroom assistants of any type----all the 1000 functional codes.

Administrative----includes expenditures for the following functions: Support Services, General Administration (2300s); Support Services----School Administration (2400s); Support Services----Business (2500s).

Other -- includes all expenditure functions not included in instruction or administrative.

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



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

Superintendent and School Board
Pontotoc City School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Pontotoc City School District as of and for the year ended June 30, 2005, which collectively comprise the Pontotoc City School District's basic financial statements and have issued our report thereon dated September 27, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the school district's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We did not note any matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance.

This report is intended solely for the information and use of the school board, management, entities with accreditation overview, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Brauner, Van-Steig & Co. P.A.

September 27, 2005
Booneville, Mississippi



Certified Public Accountants

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

Superintendent and School Board
Pontotoc City School District

Compliance

We have audited the compliance of the Pontotoc City School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The school district'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 school district's management. Our responsibility is to express an opinion on the school district's compliance based on our audit.

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

In our opinion, Pontotoc City School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of the Pontotoc City School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the school district's internal control over compliance with 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We did not note any matters involving internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the school board, management, entities with accreditation overview, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Brauner Vanstony & Co. P.A.

September 27, 2005
Booneville, Mississippi



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Superintendent and School Board
Pontotoc City School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Pontotoc City School District as of and for the year ended June 30, 2005, which collectively comprised Pontotoc City School District's basic financial statements and have issued our report thereon dated September 27, 2005. We conducted our audit in accordance with auditing standards, generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Section 37-9-18(3), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure that the school district is complying with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), relating to classroom supply funds." As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain other state laws and regulations. However, providing an opinion on compliance with all state laws and regulations was not an objective of an audit and, accordingly, we do not express such an opinion.

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$30,213 of classroom supply funds carried over from previous years.

The results of procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements did not disclose any instances of noncompliance with other state laws and regulations.

This report is intended solely for the information and use of the school board, management, entities with accreditation overview, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Brawner, Vanstory & Co. P.A.

September 27, 2005
Booneville, Mississippi

**PONTOTOC CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005**

Section 1: Summary of Auditors' Results

Financial Statements:

- | | | |
|----|---|-------------|
| 1. | Type of auditors' report issued on the financial statements: | Unqualified |
| 2. | Material noncompliance relating to the financial statements? | No |
| 3. | Internal control over financial reporting: | |
| a. | Material weakness(es) identified? | No |
| b. | Reportable conditions identified that are not considered to be material weaknesses? | No |

Federal Awards:

- | | | |
|----|---|-------------|
| 4. | Type of auditors' report issued on compliance for major federal programs: | Unqualified |
| 5. | Internal control over major programs: | |
| a. | Material weakness(es) identified? | No |
| b. | Reportable conditions identified that are not considered to be material weaknesses? | No |
| 6. | Any audit findings reported as required by Section __.510(a) of OMB Circular A-133? | No |
| 7. | Federal programs identified as major programs: | |

CFDA # 10.553	Child Nutrition Cluster
10.555	
CFDA # 84.027	Special Education Cluster
84.173	
CFDA # 84.215	Carol M. White Physical Education Program

**PONTOTOC CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005**

Section 1: Summary of Auditors' Results (Continued)

- | | | |
|-----|--|-----------|
| 8. | The dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 9. | Auditee qualified as a low-risk auditee? | Yes |
| 10. | Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section __.315(b) of OMB Circular A-133? | No |

Section 2: Financial Statement Findings

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

Section 3: Federal Award Findings and Questioned Costs

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