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**PONTOTOC CITY SCHOOL DISTRICT**

**AUDITED FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2007**



**PONTOTOC CITY SCHOOL DISTRICT  
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JUNE 30, 2007**

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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, 2007, 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, 2007, 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 February 10, 2009, 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 considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 12 and the Budgetary Comparison Schedules and corresponding notes on pages 35 through 37 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 inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the 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 not a required part of the basic financial statements. In addition, the Schedule of Instructional, Administrative, and Other Expenditures – Governmental Funds is presented for purposes of additional

analysis 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.

*Brauer, Vansteyn + Co. P.A.*

February 10, 2009  
Booneville, Mississippi

**PONTOTOC CITY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2007**

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, 2007. 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 \$1,919,450, which represents a 13.78% increase from fiscal year 2006. After meeting the needs of the students, the District was conservative with expenditures for FY 2007 in anticipation of capital building projects.
- General revenues account for \$14,579,270 or 82.76% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$3,037,753 or 17.24% of total revenues.
- The District had \$15,688,229 in expenses; only \$3,037,753 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$14,579,270 were adequate to provide for these programs.
- Among major funds, the General Fund had \$13,993,184 in revenues and \$12,923,541 in expenditures. The General Fund's fund balance decreased \$8,237 over the prior year. This was mainly due to a transfer of \$985,000 to the Capital Projects Fund in anticipation of capital building projects.
- Capital assets, net of accumulated depreciation, increased by \$1,411,481. This increase was due primarily to the addition of \$1,594,963 in construction in progress for the cafeteria building project and the acquisition of three buses in the amount of \$178,000.
- Long-term debt decreased by \$663,332, which included a new debt issue of \$248,000 and planned debt reduction of \$912,130.

**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, 2007**

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 13-14 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 16 and 18, respectively.

The District maintains individual governmental funds in accordance with the *Financial Accounting Manual for Mississippi Public School Districts* issued by the Mississippi Department of Education. 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 15 and 17 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 19.

**PONTOTOC CITY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2007**

**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 20-34 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 35-37 of this report. Additionally, a schedule of expenditures of federal awards is required by OMB Circular A-133 and can be found on page 38 of this report. A schedule of instructional, administrative, and other expenditures for governmental funds as required by the Mississippi State Auditor's Office in on page 39

**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 \$15,850,697 as of June 30, 2007, which represents a 13.78% increase from fiscal year 2006. (See Table 1.)

By far the largest portion of the District's net assets (65.32%) 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 2007 compared to 2006:

Table 1  
Condensed Statement of Net Assets

	2007	2006	Total Percentage Change 2006-2007
Current assets	\$ 6,063,153	\$ 5,997,256	1.10%
Capital assets, net	13,574,164	12,162,683	11.61%
<b>Total Assets</b>	<b>19,637,317</b>	<b>18,159,939</b>	<b>8.14%</b>
Current liabilities	438,709	217,449	101.75%
Long-term debt outstanding	3,347,911	4,011,243	-16.54%
<b>Total Liabilities</b>	<b>3,786,620</b>	<b>4,228,692</b>	<b>-10.45%</b>
<b>Net assets:</b>			
Invested in capital assets, net of related debt	10,353,692	8,339,922	24.15%
Restricted	4,753,551	4,846,037	-1.76%
Unrestricted	743,454	745,288	-1.21%
<b>Total net assets</b>	<b>\$ 15,850,697</b>	<b>\$ 13,931,247</b>	<b>13.78%</b>

**PONTOTOC CITY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2007**

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

- The addition of \$1,594,963 in construction in progress for the cafeteria building project.
- The acquisition of land in the amount of \$30,000
- The district purchased three buses for \$178,000 during the year.
- New debt in the amount of \$248,000 was issued.
- The principal retirement of \$912,130 of long-term debt

**Changes in net assets.** The District's total revenues increased 4.79% to \$17,617,023. (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 21% 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 3.41% to \$15,688,229. The District's expenses are predominantly related to educating students 63%. (See Figure 2.)

Total revenues surpassed expenses, increasing net assets \$1,928,794 over last year.

Table 2 shows the changes in net assets for fiscal year 2007 compared to 2006:

**PONTOTOC CITY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2007**

Table 2  
Changes in Net Assets

	2007	2006	Total Percentage Change 2006-2007
<b>Revenues:</b>			
<b>Program revenues:</b>			
Charges for services	\$ 780,575	\$ 768,577	1.56%
Operating grants and contributions	2,178,841	2,034,899	7.07%
Capital grants and contributions	78,337	71,006	10.32%
<b>General revenues:</b>			
Property taxes	3,677,312	3,678,947	-0.04%
<b>Grants and contributions not restricted:</b>			
State	10,386,248	9,847,352	5.47%
Federal	77,313	110,046	-29.74%
Unrestricted investment earnings	306,208	190,688	60.58%
Other	132,189	110,899	19.20%
<b>Total revenues</b>	<b>17,617,023</b>	<b>16,812,414</b>	<b>4.79%</b>
<b>Expenses:</b>			
Instruction	9,925,156	9,792,397	1.36%
Support services	4,834,168	4,453,449	8.55%
Non-instructional	853,681	826,446	3.30%
Interest on long-term liabilities	75,224	98,608	-23.71%
<b>Total expenses</b>	<b>15,688,229</b>	<b>15,170,900</b>	<b>3.41%</b>
Increase in net assets	1,928,794	1,641,514	17.50%
Net Assets, July 1	13,931,247	12,374,733	12.58%
Prior period adjustment	(9,344)	(85,000)	-89.01%
Net Assets, July 1 restated	13,921,903	12,289,733	13.28%
<b>Net Assets, June 30</b>	<b>\$ 15,850,697</b>	<b>\$ 13,931,247</b>	<b>13.78%</b>

PONTOTOC CITY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2007

Figure 1  
Sources of Revenues for Fiscal Year 2007

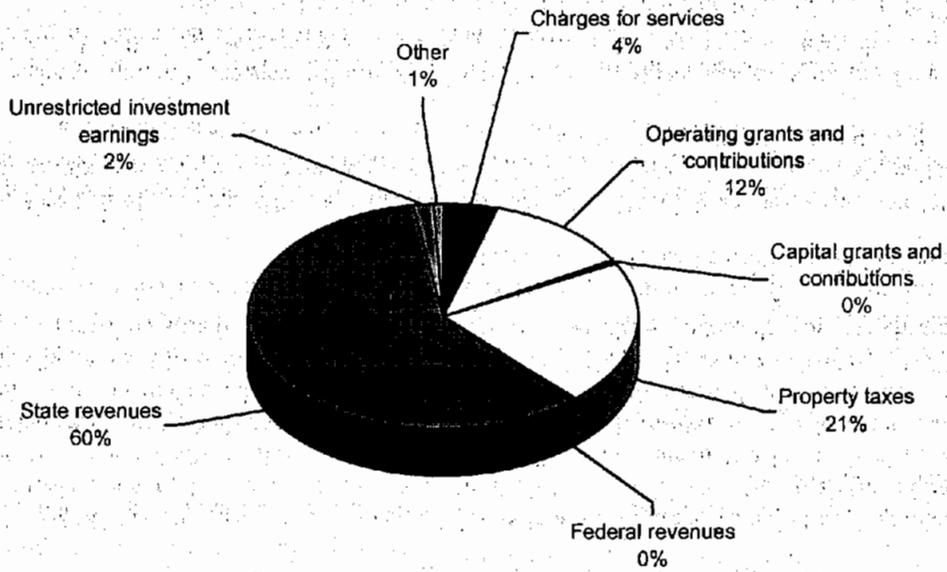
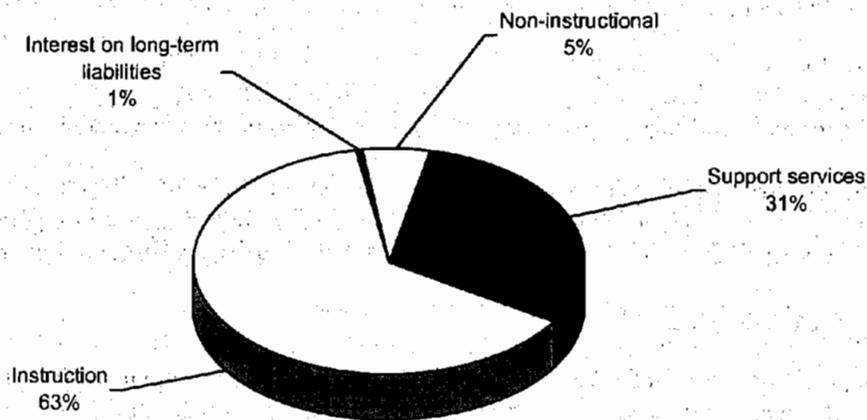


Figure 2  
Expenses for Fiscal Year 2007



**PONTOTOC CITY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2007**

**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	Net (Expense)		Percentage
	2007	2006	Change 2006-2007	2007	2006	Change 2006-2007
Instruction	\$ 9,925,156	\$ 9,792,397	1.36%	\$ (8,342,162)	\$ (8,317,606)	0.30%
Support services	4,834,168	4,453,449	8.55%	(4,272,237)	(3,902,038)	9.49%
Non-instructional	853,681	826,446	3.30%	39,147	21,834	79.30%
Interest on long-term liabilities	75,224	98,608	-23.71%	(75,224)	(98,608)	-23.71%
<b>Total expenses</b>	<b>\$ 15,688,229</b>	<b>\$ 15,170,900</b>	<b>3.41%</b>	<b>\$ (12,650,476)</b>	<b>\$ (12,296,418)</b>	<b>2.88%</b>

- Net cost of governmental activities \$12,650,476 was financed by general revenue, which is made up of primarily property taxes \$3,677,312 and state revenue of \$10,386,248.
- Investment earnings accounted for \$306,208 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 \$5,631,427, a decrease of \$154,634. \$3,856,985 or 68.49% 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 \$1,774,442 or 31.51% 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 \$8,237. This was mainly due to a transfer of \$985,000 to the Capital Projects Fund in anticipation of capital building projects.

**PONTOTOC CITY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2007**

**BUDGETARY HIGHLIGHTS**

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

- Budget amounts for General Fund local revenue underestimated investment earnings in the amount of \$81,997.
- Budget amounts for General Fund revenue from state sources underestimated MAEP revenue in the amount of \$294,525.
- Budget amounts for General Fund revenue from state sources underestimated Master teacher state revenue in the amount of \$39,606.
- 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.
- Budget amounts for Vocational Education Fund revenue from state sources underestimated MAEP state revenue in the amount of \$100,931.
- Budget amounts for Special Capital Projects Fund local revenue underestimated investment earnings in the amount of \$89,798.
- Original Budget amounts for Special Capital Projects Fund facilities acquisition and construction expenditures did not include the \$1,588,213 spent on the cafeteria building project.
- Budget amounts for Special Capital Projects Fund operating transfers in were increased to show additional transfer from the General Fund in the amount of \$985,000.

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, 2007, the District had invested \$13,574,164 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 increase of \$1,411,481, or 11.61%, from the previous year. The increase was mainly due to the addition of \$1,594,963 in construction in progress for the cafeteria building project and the acquisition of three buses in the amount of \$178,000. Total accumulated depreciation as of June 30, 2007 was \$5,769,357 and total depreciation expense for the year was \$439,502 resulting in total net assets of \$13,574,164.

**PONTOTOC CITY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2007**

Table 4 shows fiscal 2007 compared to 2006

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

	2007	2006	Total Percentage Change 2006-2007
Land	\$ 879,770	\$ 849,770	3.53%
Construction in progress	1,666,663	71,700	2224.50%
Buildings	8,449,758	8,677,264	-2.62%
Building Improvements	1,693,737	1,786,677	-5.20%
Improvements other than buildings	211,035	223,767	-5.69%
Mobile Equipment	534,573	448,113	19.29%
Furniture and equipment	82,581	43,194	91.19%
Leased property under capital leases	56,047	62,198	-9.89%
<b>Totals</b>	<b>\$ 13,574,164</b>	<b>\$ 12,162,683</b>	<b>11.61%</b>

Additional information of the District's capital assets can be found in Note 4 on page 28 of this report.

**Debt Administration.** At June 30, 2007, the District had \$3,347,911 in general obligation bonds and other long-term debt outstanding, of which \$877,267 is due within one year.

Table 5 shows fiscal 2007 compared to 2006:

Table 5  
Outstanding Long-Term Debt at June 30

	2007	2006	Total Percentage Change 2006-2007
General obligation bonds payable	\$ 586,000	\$ 1,156,000	-49.31%
Limited obligation bonds payable	1,090,000	1,335,000	-18.35%
Qualified zone academy bonds payable	1,448,000	1,200,000	20.67%
Obligations under capital leases	96,471	131,761	-26.78%
Other loans payable	-	61,840	-100.00%
Compensated absences payable	127,440	126,642	0.63%
<b>Totals</b>	<b>\$ 3,347,911</b>	<b>\$ 4,011,243</b>	<b>-16.54%</b>

Additional information of the District's long-term debt can be found in Note 5 on page 29 of this report.

**PONTOTOC CITY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2007**

**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 increased 2.32 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 less than 1%. 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  
6/30/2007

Exhibit A

	<u>Primary Government Government Activities</u>
<b>ASSETS</b>	
Cash and Cash Equivalents (Note 2)	\$ 3,248,440
Investments	1,250,000
Due from other governments	550,450
Accrued interest receivable	42,513
Other receivable	2
Inventory	36,281
Restricted investments	935,467
Capital Assets -Non-depreciable (Note 4)	
Land	879,770
Construction in progress	1,666,663
Capital Assets, net of accumulated depreciation (Note 4)	
Building	8,449,758
Building Improvements	1,693,737
Improvements Other Than Buildings	211,035
Mobile Equipment	534,573
Furniture and Equipment	82,581
Leased Property Under Capital Leases	56,047
<b>Total Assets</b>	<u>19,637,317</u>
<b>LIABILITIES</b>	
Accounts payable and accrued liabilities	419,696
Unearned Revenue	7,068
Interest Payable on Long Term Liabilities	11,945
Long-Term Liabilities (due within one year) (Note 5)	
Capital Related Liabilities	877,267
Long-Term Liabilities (due beyond one year) (Note 5)	
Capital Related Liabilities	2,343,204
Non-Capital Liabilities	127,440
<b>Total Liabilities</b>	<u>3,786,620</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	10,353,692
Restricted Net Assets	
Expendable:	
School based activities	163,816
Debt Service	1,705,545
Capital Improvement	2,844,033
Unemployment	40,157
Unrestricted	743,454
<b>Total Net Assets</b>	<u>\$ 15,850,697</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, 2007

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
<b>Governmental Activities</b>					<b>Total</b>
Instruction	\$9,925,156	428,405	1,081,997	72,592	(8,342,162)
Support services	4,834,168	47,356	508,830	5,745	(4,272,237)
Noninstructional services	853,681	304,814	588,014	-	39,147
Interest on long-term liabilities	75,224	-	-	-	(75,224)
<b>Total Governmental Activities</b>	<b>15,688,229</b>	<b>780,575</b>	<b>2,178,841</b>	<b>78,337</b>	<b>(12,650,476)</b>
<b>General Revenues:</b>					
<b>Taxes:</b>					
					2,974,332
					702,980
<b>Unrestricted grants and contributions</b>					
					10,386,248
					77,313
<b>Unrestricted investment earnings</b>					
					306,208
<b>Other</b>					
					132,189
					<b>14,579,270</b>
					1,928,794
					13,931,247
					(9,344)
					<b>13,921,903</b>
					<b>\$ 15,850,697</b>

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

Pontotoc City School District  
 Balance Sheet - Governmental Funds  
 June 30, 2007

	Major Funds						Total Governmental Funds
	General Funds	Vocational Education Fund	Special Capital Projects Fund	QZAB Debt Service	Bonded Debt Fund	Other Governmental	
<b>ASSETS</b>							
Cash and cash equivalents ( Note 2)	\$ 577,566	69,780	1,556,254	6,449	603,008	435,383	3,248,440
Investments ( Note 2)	-	-	1,250,000	739,059	-	196,408	2,185,467
Due from other governments	263,533	-	-	3,154	17,558	266,205	550,450
Accrued interest receivable	-	-	41,785	-	-	728	42,513
Due from other funds (Note 3)	86,973	-	-	-	-	4,295	91,268
Inventory	9,561	-	-	-	-	21,757	31,318
<b>Total Assets</b>	<b>937,633</b>	<b>69,780</b>	<b>2,848,039</b>	<b>748,662</b>	<b>620,566</b>	<b>924,776</b>	<b>6,149,456</b>
<b>LIABILITIES AND FUND BALANCE</b>							
<b>Liabilities</b>							
Accounts payable and accrued liabilities	69,645	69,780	248,760	-	-	31,510	419,695
Due to other funds (Note 3)	4,295	-	-	-	6,720	80,251	91,266
Unearned revenue	-	-	-	-	-	7,068	7,068
<b>Total Liabilities</b>	<b>73,940</b>	<b>69,780</b>	<b>248,760</b>	<b>-</b>	<b>6,720</b>	<b>118,829</b>	<b>518,029</b>
<b>Fund Balances</b>							
Reserved for:							
Inventory	-	-	-	-	-	21,757	21,757
Retirement of Long-Term Debt	-	-	-	748,662	613,846	350,020	1,712,528
Unemployment	-	-	-	-	-	40,157	40,157
Unreserved and Undesignated	-	-	-	-	-	-	-
General fund	863,693	-	-	-	-	-	863,693
Special Revenue funds	-	-	-	-	-	149,259	149,259
Capital Projects funds	-	-	2,599,279	-	-	244,754	2,844,033
<b>Total Fund Balances</b>	<b>863,693</b>	<b>-</b>	<b>2,599,279</b>	<b>748,662</b>	<b>613,846</b>	<b>805,947</b>	<b>5,631,427</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 937,633</b>	<b>69,780</b>	<b>2,848,039</b>	<b>748,662</b>	<b>620,566</b>	<b>924,776</b>	<b>6,149,456</b>

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

**Pontotoc City School District  
Reconciliation of the Governmental Funds Balance Sheet to the  
Statement Net Assets  
For the Year Ended June 30, 2007**

	<u>Amount</u>
Total Fund Balances - Governmental Funds	\$ 5,631,427
Amounts reported for governmental activities in the statement of activities are different because:	
1. Capital assets are used in governmental activities and are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$5,769,357.	13,574,164
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(3,347,911)
3. Governmental funds recognize interest on long-term debt when it becomes due, however the Statement of Net Assets recognizes interest as it accrues.	(11,945)
4. Deferred charges for the amortization of bond issuance cost.	4,961
5 Rounding adjustment	<u>1</u>
Total Net Assets - Governmental Activities	<u>\$ 15,850,697</u>

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

Pontotoc City School District  
Statement of Revenues, Expenditures and Changes in Fund Balance-  
Governmental Funds  
For the Year Ended June 30, 2007

Exhibit D

	Major Funds						Total Governmental Funds
	General Funds	Vocational Education Fund	Special Capital Project Fund	QZAB Debt Service	Bonded Debt Fund	Other Governmental	
<b>Revenues</b>							
Local sources	\$ 3,678,043	-	89,798	146,625	604,444	390,387	4,909,297
State sources	10,252,523	167,418	-	-	-	415,511	10,835,452
Federal sources	62,618	-	-	-	-	1,809,668	1,872,286
<b>Total Revenues</b>	<b>13,993,184</b>	<b>167,418</b>	<b>89,798</b>	<b>146,625</b>	<b>604,444</b>	<b>2,615,566</b>	<b>17,617,035</b>
<b>Expenditures</b>							
Instruction	8,724,850	275,529	-	-	-	874,482	9,874,861
Support services	4,128,062	-	3,169	-	-	523,540	4,654,771
Noninstructional services	-	-	-	-	-	850,650	850,650
Facilities acquisition and Construction	30,000	-	1,588,213	-	-	6,750	1,624,963
Debt Service:							
Principal	35,290	-	-	-	570,000	306,840	912,130
Interest	5,339	-	-	600	22,733	63,887	92,559
<b>Total Expenditures</b>	<b>12,923,541</b>	<b>275,529</b>	<b>1,591,382</b>	<b>600</b>	<b>592,733</b>	<b>2,626,149</b>	<b>18,009,934</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>1,069,643</b>	<b>(108,111)</b>	<b>(1,501,584)</b>	<b>146,025</b>	<b>11,711</b>	<b>(10,583)</b>	<b>(392,899)</b>
<b>Other Financing Sources (Uses)</b>							
Proceeds of loans	-	-	-	-	-	248,000	248,000
Sale of Other Property	2,455	-	-	-	-	-	2,455
Operating transfers in	25,000	108,111	985,000	-	3,801	650	1,122,562
Operating transfers out	(1,095,991)	-	-	-	-	(26,571)	(1,122,562)
<b>Total Other Financing Sources (Uses)</b>	<b>(1,068,536)</b>	<b>108,111</b>	<b>985,000</b>	<b>-</b>	<b>3,801</b>	<b>222,079</b>	<b>250,455</b>
<b>Net Change in Fund Balance</b>	<b>1,107</b>	<b>-</b>	<b>(516,584)</b>	<b>146,025</b>	<b>15,512</b>	<b>211,496</b>	<b>(142,444)</b>
<b>Fund Balances, July 1, 2006</b>	<b>871,930</b>	<b>-</b>	<b>3,115,863</b>	<b>602,637</b>	<b>598,334</b>	<b>597,297</b>	<b>5,786,061</b>
<b>Prior Period Adjustment</b>	<b>(9,344)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(9,344)</b>
<b>Fund Balances as Restated</b>	<b>862,586</b>	<b>-</b>	<b>3,115,863</b>	<b>602,637</b>	<b>598,334</b>	<b>597,297</b>	<b>5,776,717</b>
<b>Increase (Decrease) in Reserve for Inventory</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,846)</b>	<b>(2,846)</b>
<b>Fund Balance, June 30, 2007</b>	<b>\$ 863,693</b>	<b>-</b>	<b>2,599,279</b>	<b>748,662</b>	<b>613,846</b>	<b>805,947</b>	<b>5,631,427</b>

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

**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, 2007**

**Exhibit D-1**

	<u>Amount</u>
Net Change in Fund Balances - Governmental Funds	\$ (142,444)
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 \$1,880,733 and the depreciation expense amounted to \$439,502. ( Note 4)	1,441,231
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 5)	912,130
3. Proceeds of long term debt are reported in the governmental funds, but not in the statement of activity. (Note 5)	(248,000)
4. Decrease in accrued interest is reported as an adjustment to interest expense in the statement of activity.	9,198
5. Debt issuance cost are expensed in the governmental funds, but not in the statement of activities.	(9,924)
6. Increase in compensated absences payable is reported as an adjustment to instruction, support services and noninstructional services	(798)
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.	(2,846)
8. Gains and losses on sale or disposal of assets are not reported in the governmental funds, but are reported in the Statement of Activities, net of proceeds.	(29,750)
9 Rounding adjustment.	<u>(3)</u>
Change in Net Assets of Governmental Activities	<u>\$ 1,928,794</u>

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

Pontotoc City School District  
Statement of Fiduciary Assets and Liabilities  
June 30, 2007

Exhibit E

	<u>Fiduciary Fund Type</u>
	<u>Agency</u>
<b>Assets</b>	
Cash and cash equivalents (Note 3)	\$ 542,641
<b>Total Assets</b>	<u>542,641</u>
<b>Liabilities</b>	
Accounts payable & accrued liabilities	535,207
Due to student club	7,432
Due to other funds	2
<b>Total Liabilities</b>	<u>\$ 542,641</u>

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

**PONTOTOC CITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2007**

**(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 school district 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. 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 as are the fiduciary fund financial statements. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of when the related cash flow takes place. 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, 2007**

**(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.

Qualified Zone Academy Bond – This fund is used for renovating school buildings, purchasing equipment, developing curricula, and/or training school personnel.

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 the fund financial statements.

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, 2007**

**(1) Summary of Significant Accounting Policies (Continued)**

**D. Account Classifications**

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing and Financial Reporting* as issued in 2005 by the Government Finance Officers Association and are consistent with the broad classifications recommended in *Financial Accounting for Local and State School Systems, 2003* issued by the U.S. Department of Education.

**E. Encumbrances**

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

**F. Cash and Cash 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 an original maturity of three 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 an original maturity greater than three 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.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid item in both the government-wide and governmental fund financial statements.

**I. Capital Assets**

Capital acquisition and construction are reflected as expenditures in the Governmental Fund Statements and the related assets are reported as capital assets in the governmental activities column in the government wide financial statements.

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.

**PONTOTOC CITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2007**

**(1) Summary of Significant Accounting Policies (Continued)**

**I. Capital Assets (Continued)**

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.

Depreciation is calculated on the straight-line basis for all assets, except land. The following schedule details those thresholds.

	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 un-matured 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. In the government-wide Statement of Net Assets, long-term debt and other long term obligations are reported as liabilities in the governmental activities column. 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:

**PONTOTOC CITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2007**

**(1) Summary of Significant Accounting Policies (Continued)**

**L. Equity Classifications (Continued)**

1. 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.
2. 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.
3. 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 classified as 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 current assets.

Reserved for debt services- 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 benefits – 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, 2007**

**(1) Summary of Significant Accounting Policies (Continued)**

**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 only if the payable has matured, an employee retires.

**(2) Cash and Cash Equivalents and Investments**

**Cash and Cash Equivalents**

The district follows the practice of aggregating the cash of various funds to maximize cash management efficiency and returns. Restrictions on deposits and investments are imposed by statutes as follows:

**Deposits.** The school board must advertise and accept bids for depositories no less than once every three years as required by Section 37-7-333, Miss Code Ann. (1972). The collateral pledged for the school district's deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation.

**Investments.** Section 29-3-113 and 37-59-43, Miss. Code Ann. (1972), authorizes the school board to invest surplus funds in the types of investments authorized by Section 27-105-33(d) and (e), Miss. Code Ann. (1972). This section permits the following types of investments : (a) certificates of deposits and interest bearing accounts with qualified state depositories; (b) direct United States Treasury obligations; (c) United States Government agency, United States Government instrumentality or United States Government Sponsored enterprise obligations, the principal and interest of which are fully guaranteed by the government or enumerated agency of the United States; (d) direct security repurchase agreements and reverse direct security repurchase agreements of any federal book entry of only those securities enumerated in (b) and (c) above (e) direct obligations issued by the United States of America that are deemed to include securities of, or interest in , and open-end or closed-end any management type investment company or investment trust approved by the State Treasurer and the Executive Director of the Department of Finance and Administration. Investment income of \$100 or more of any fund must be credited to that fund. Amounts less than \$100 can be credited to the General Fund.

**Cash and Cash Equivalents.**

The carrying amount of the school district's deposits with financial institutions was reported in the governmental funds and fiduciary funds as \$3,248,440, \$1,250,000 and \$542,641, respectively. The carrying amount of deposits reported in the government-wide statements was Cash and cash equivalents \$3,248,440 and Investments \$1,250,000. The bank balance was \$6,267,840.

**PONTOTOC CITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2007**

**(2) Investments – Continued**

*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, 2007, none of the district's bank balance of \$6,267,840 was exposed to custodial credit risk.

**Investments.**

As of June 30, 2007, the district had the following investments. All investments are in an internal investment pool.

<u>Investment Type</u>	<u>Maturities (in years)</u>	<u>Fair Value</u>	<u>Rating</u>
Federal National Mortgage Note	Less than 1	\$ 632,248	AAA
Certificates of deposit			
First National Bank Pontotoc, Mississippi	Less than 1	\$ 1,250,000	Not Rated
Instruments Fund	Less than 1	106,811	Not Rated
Hancock Horizon Treasury Fund	Less than 1	<u>196,408</u>	AAA
<b>Total Investments</b>		<u>\$ 2,185,467</u>	

\$935,467 of investments are restricted for debt service.

*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 event 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, 2007, 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, 2007, the district had the following investments:

<u>Issuer</u>	<u>Fair Value</u>	<u>% of Total Investments</u>
First National Bank, Pontotoc, Mississippi Certificates of Deposit	\$ 1,250,000	57%

**PONTOTOC CITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2007**

**(3) Interfund Transactions and Balances**

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds:

	<u>Due From</u>	<u>Due To</u>
Major funds:		
General fund	\$ 86,973	\$ 4,295
Other major funds		
Bonded Debt		6,720
Non-major Funds	<u>4,295</u>	<u>80,251</u>
Total governmental funds	<u>91,268</u>	<u>91,266</u>
Fiduciary funds	<u>-</u>	<u>2</u>
Total all funds	<u>\$ 91,268</u>	<u>\$ 91,268</u>

Interfund loans were temporary loans until funds are received from grantors.

B. Transfers In/Out

	<u>Transfers In</u>	<u>Transfers Out</u>
Major funds:		
General fund	\$ 25,000	\$ 1,095,991
Other major fund		
Vocational	108,111	
Bonded Debt	3,801	
Special Capital Project	985,000	
Non-major Funds	<u>650</u>	<u>26,571</u>
Total funds	<u>\$ 1,122,562</u>	<u>1,122,562</u>

Operating transfers were for indirect cost, \$25,000 and support from District Maintenance for \$1,095,991 to Vocational Fund, Bonded Debt Fund and Capital Project Fund. \$1,571 was transferred from a completed debt issue to Bonded Debt Fund.

**PONTOTOC CITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2007**

**(4) Capital Assets**

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

	Balance 7/1/2006	Additions	Retirements	Balance 6/30/2007
<u>Non-depreciable capital</u>				
Land	849,770	30,000	-	879,770
Construction in Progress	\$ 71,700	1,594,963	-	1,666,663
<b>Total non-depreciable</b>	<b>921,470</b>	<b>1,624,963</b>	<b>-</b>	<b>2,546,433</b>
<u>Depreciable capital assets:</u>				
Buildings	12,302,560	-	-	12,302,560
Building Improvements	2,323,508	-	-	2,323,508
Improvements other than buildings	397,036	-	-	397,036
Mobile equipment	1,185,162	197,500	98,537	1,284,125
Furniture and equipment	371,689	58,270	8,450	421,509
Leased property under capital leases	68,350	-	-	68,350
<b>Total depreciable capital</b>	<b>16,648,305</b>	<b>255,770</b>	<b>106,987</b>	<b>16,797,088</b>
<u>Less accumulated depreciation</u>				
Buildings	3,625,296	227,506	-	3,852,802
Building improvements	536,831	92,940	-	629,771
Improvements other than buildings	173,269	12,732	-	186,001
Mobile equipment	737,049	83,366	70,863	749,552
Furniture and equipment	328,495	16,807	6,374	338,928
Leased property under capital leases	6,152	6,151	-	12,303
<b>Total accumulated depreciation</b>	<b>5,407,092</b>	<b>439,502</b>	<b>77,237</b>	<b>5,769,357</b>
<b>Total Depreciable capital assets, net</b>	<b>11,241,213</b>	<b>(183,732)</b>	<b>29,750</b>	<b>11,027,731</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 12,162,683</b>	<b>1,441,231</b>	<b>29,750</b>	<b>13,574,164</b>

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 87,774
Support services	351,728
Non-instructional	-
<b>Total depreciation expense</b>	<b>\$ 439,502</b>

**PONTOTOC CITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2007**

**(4) Capital assets – (Continued)**

Commitments under construction contracts at June 30, 2007, are summarized as follows:

	Remaining Commitment	Required Future Financing
Cafeteria building	\$ 58,008	-
Total	\$ 58,008	-

**(5) Long-term liabilities**

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

	Balance 7/1/2006	Additions	Reductions	Balance 6/30/2007	Amounts due within one year
A. General obligations					
bonds payable	\$ 1,156,000	-	570,000	586,000	586,000
B. Limited obligation					
bonds payable	1,335,000	-	245,000	1,090,000	255,000
C. Shortfall notes					
Payable	61,840	-	61,840	-	-
D. Obligations under					
capital lease	131,761	-	35,290	96,471	36,267
Payable					
E. Qualified zone					
academy bonds payable	1,200,000	248,000	-	1,448,000	-
F. Compensated					
absences payable	126,642	798	-	127,440	-
	\$ 4,011,243	248,798	912,130	3,347,911	877,267

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	586,000
Total				\$ 1,704,000	586,000

**PONTOTOC CITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2007**

**(5) 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
2008	586,000	15,295	601,295
	<u>\$ 586,000</u>	<u>15,295</u>	<u>601,295</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, 2007, the amount of outstanding bonded indebtedness was equal to 1% of property assessments as of October 1, 2006.

**B. 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	1,090,000
Total				<u>\$ 2,570,000</u>	<u>1,090,000</u>

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

Year Ending June 30	Principal	Interest	Total
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>\$ 1,090,000</u>	<u>100,673</u>	<u>1,190,673</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.

**PONTOTOC CITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2007**

**(5) Long-term liabilities – (Continued)**

**C. Obligations under capital leases.**

The School District has entered into a lease agreement that qualifies as a capital lease for accounting purposes. Leased property under this lease is composed of computers and one school bus.

At the end of the lease period, title passes to the School District for the leased computers and school bus.

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

Year Ending 30-Jun	Principal	Interest and Maintenance Charges	Total
2008	\$ 36,267	4,362	40,629
2009	38,096	2,533	40,629
2010	14,556	924	15,480
2011	7,552	188	7,740
<b>Total</b>	<b>\$ 96,471</b>	<b>8,007</b>	<b>104,478</b>

The School District uses the straight-line method of amortization for the lease payments which is not in accordance with accounting principles generally accepted in the United States of America. However, the difference between the effective interest method and the straight-line method is not considered material.

This debt will be retired from the District Maintenance Fund.

**D. Qualified zone academy bonds payable.**

As more fully explained in Note 11, 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
Qualified Zone	N/A	9/15/06	9/15/16	248,000	248,000
<b>Total</b>				<b>\$ 1,448,000</b>	<b>1,448,000</b>

This debt will be retired from the QZAB debt service fund. \$106,600 was transferred to the trust fund in this fiscal year.

**E. 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.

**(6) 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

**PONTOTOC CITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2007**

**(6) Defined Benefit Pension Plan - Continued**

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.

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 11.30% 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, 2007, 2006, and 2005, were \$1,031,402, \$886,979, and \$835,557, respectively, equal to the required contributions for each year.

**(7) Other Commitments**

Commitments under construction are described in Note 4.

**(8) Prior Period Adjustments/Exhibits**

A summary of significant fund equity adjustments is as follows:

<u>Exhibit B - Statement of Activities</u>	
<u>Exhibit D- Statement of Revenues, Expenditures, and Changes in Fund Balance</u>	
Explanation	Amount
To correct a prior period error in recording displaced students funds.	\$ (9,344)
Total	\$ (9,344)

**(9) Risk Management**

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

**Participation in Public Entity Risk Pool.**

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 121 school districts and one community college and covers risks of loss arising from injuries to the member's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by BancorpSouth Bank in Jackson. The funds in the trust account are used to pay any claim up to \$700,000. For a claim exceeding \$700,000, MSBAWCT has insurance, which will pay the excess up to the statutory amount required by the Mississippi Workers Compensation Commission Act. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

**PONTOTOC CITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2007**

**(10) Prior Year Defeasance of Debt**

In prior years, the Pontotoc City School District defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liability for the defeased bonds are not included in the district's financial statements. On June 30, 2007, \$586,000 of bonds outstanding are considered defeased.

**(11) 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.

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 remainder of approximately \$49,565 used to pay the cost of issuance.

A second trust agreement dated September 15, 2006, was executed by and between the school district and Trustmark National Bank, as trustees. This agreement authorizes the issuance of trust certificates in the principal amount of \$248,000. Approximately \$240,739 was used to provide financing for the renovation, repair and equipping the Pontotoc High School; the remainder of approximately \$7,261 was used to pay the cost of issuance.

These agreements establish a method of repayment for a qualified interest-free debt instrument. The agreements require the school district to deposit funds annually into a sinking fund account on or before July 1. 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
2008	\$ 120,800
2009	119,800
2010	119,800
2011	24,800
2012	24,800
2013-2016	99,200
	\$ 509,200

**PONTOTOC CITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2007**

**(12) 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.

Pontotoc City School District  
 Budgetary Comparison Schedule for the General Fund  
 For the Year Ended June 30, 2007

Schedule 1

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
	Original	Final		Original to Final	Final to Actual
<b>Revenue</b>					
Local Sources	\$ 3,559,384	\$ 3,678,044	\$ 3,678,043	\$ 118,660	\$ (1)
State Sources	9,936,458	10,252,523	10,252,523	316,065	-
Federal Sources	58,243	62,618	62,618	4,375	-
<b>Total Revenues</b>	<u>13,554,085</u>	<u>13,993,185</u>	<u>13,993,184</u>	<u>439,100</u>	<u>(1)</u>
<b>Expenditures</b>					
Instruction	9,023,692	8,724,850	8,724,850	298,842	-
Support Services	4,295,168	4,102,776	4,128,062	192,392	(25,286)
Facilities Acquisition & Construction	15,000	55,286	30,000	(40,286)	25,286
Debt Service:					
Principal	35,290	35,290	35,290	-	-
Interest		5,339	5,339	(5,339)	-
<b>Total Expenditures</b>	<u>13,369,150</u>	<u>12,923,541</u>	<u>12,923,541</u>	<u>445,609</u>	<u>-</u>
<b>Excess (Deficiency) of Revenues over Expenditures</b>	<u>184,935</u>	<u>1,069,644</u>	<u>1,069,643</u>	<u>884,709</u>	<u>(1)</u>
<b>Other Financing Sources (Uses)</b>					
Sale of Other Property		2,455	2,455	2,455	-
Operating Transfers In	1,212,496	124,638	25,000	(1,087,858)	(99,638)
Operating Transfers Out	(1,360,133)	(1,195,629)	(1,095,991)	164,504	99,638
<b>Total Other Financing Sources (Uses)</b>	<u>(147,637)</u>	<u>(1,068,536)</u>	<u>(1,068,536)</u>	<u>(920,899)</u>	<u>-</u>
<b>Net Change in Fund Balance</b>	<u>37,298</u>	<u>1,108</u>	<u>1,107</u>	<u>(36,190)</u>	<u>(1)</u>
<b>Fund Balances</b>					
July 1, 2006	874,488	871,930	871,930	(2,558)	-
Prior Period Adjustment		(9,344)	(9,344)	(9,344)	-
July 1, 2006 as Restated	<u>874,488</u>	<u>862,586</u>	<u>862,586</u>	<u>(11,902)</u>	<u>-</u>
June 30, 2007	<u>\$ 911,786</u>	<u>\$ 863,694</u>	<u>\$ 863,693</u>	<u>\$ (48,092)</u>	<u>\$ (1)</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, 2007

Schedule 2

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
	Original	Final		Original to Final	Final to Actual
<b>Revenue</b>					
State Sources	\$ 61,856	167,418	167,418	105,562	-
<b>Total Revenues</b>	<u>61,856</u>	<u>167,418</u>	<u>167,418</u>	<u>105,562</u>	<u>-</u>
<b>Expenditures</b>					
Instruction	204,970	275,529	275,529	(70,559)	-
<b>Total Expenditures</b>	<u>204,970</u>	<u>275,529</u>	<u>275,529</u>	<u>(70,559)</u>	<u>-</u>
<b>Excess (Deficiency) of Revenues over Expenditures</b>	<u>(143,114)</u>	<u>(108,111)</u>	<u>(108,111)</u>	<u>35,003</u>	<u>-</u>
<b>Other Financing Sources (Uses)</b>					
Insurance, Cost Recoveries					
Operating Transfers In	143,114	108,111	108,111	(35,003)	-
<b>Total Other Financing Sources (Uses)</b>	<u>143,114</u>	<u>108,111</u>	<u>108,111</u>	<u>(35,003)</u>	<u>-</u>
<b>Net Change in Fund Balance</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund Balances</b>					
July 1, 2006	-	-	-	-	-
June 30, 2007	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

**PONTOTOC CITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2007**

**(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 October 15. A budgetary comparison is presented for the general fund and each major special revenue fund consistent with accounting principles generally accepted in the United States of America.

**Pontotoc City School District  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2007**

**Schedule 3**

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance #	Federal Expenditures
<b>U. S. Department of Agriculture</b>		
Passed-through MS Department of Education:		
Non-cash Assistance:		
Food Distribution	10.550	\$ 51,221
Child Nutrition Cluster:		
School breakfast program	10.553	149,039
National school lunch program	10.555	392,987
Total Child Nutrition Cluster		542,026
Fresh Fruit and Vegetable Program	10.582	32,817
Total Passed-through MDE		626,064
<b>Total U. S. Department of Agriculture</b>		<b>626,064</b>
<b>Federal Communications Commission</b>		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the universal service fund	32.xx	19,399
Total Federal Communications Commission		19,399
<b>U.S. Department of Education</b>		
Direct:		
Carol M. White Physical Education Program	84.215	15,194
Passed-through Mississippi Department of Education:		
Special Education Cluster		
Special education - grants to states	84.027	470,316
Special education - preschool grants	84.173	12,026
Total Special Education Cluster		482,342
Title I - grants to local education agencies	84.010	507,624
Safe and drug-free schools and communities - state grants	84.186	10,032
State Grants for Innovative Programs	84.298	1,427
Improving Teacher Quality - state grants	84.367	109,193
Educational Technology - state grants	84.318	4,038
English language acquisition grants	84.365	21,770
Teacher Quality Enhancement Grant	84.336	500
Rural Education	84.358	7,434
Total Passed-through MDE		1,144,360
Total U.S. Department of Education		1,159,554
<b>Total for All Federal Awards</b>		<b>\$ 1,805,017</b>

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.

Pontotoc City School District  
 Schedule of Instructional, Administrative and Other Expenditures -Governmental Funds  
 For the Year Ended June 30, 2007

Schedule 4

Expenditures	Total	Instructional and Other Student Instructional Expenditures	General Administration	School Administration	Other
Salaries & Fringe Benefits	\$ 12,269,166	9,666,363	510,734	708,093	1,383,976
Other	5,740,768	1,448,272	103,338	1,686	4,187,472
Total	<u>\$ 18,009,934</u>	<u>11,114,635</u>	<u>614,072</u>	<u>709,779</u>	<u>5,571,448</u>
Total number of students*	<u>2,140</u>				
Cost per student	<u>\$ 8,416</u>	<u>5,194</u>	<u>287</u>	<u>332</u>	<u>2,603</u>

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

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

**General 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.

PONTOTOC CITY SCHOOL DISTRICT

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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 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, 2007, which collectively comprise the Pontotoc City School District's basic financial statements and have issued our report thereon dated February 10, 2009. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the school district's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the school district's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in the internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency 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 significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as Finding 2007-01 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the school district's internal control.

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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

#### 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 or matters that are required to be reported under Governmental Auditing Standards.

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.

*Browner, Vandenberg & Co P.A.*

February 10, 2009  
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, 2007. 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, 2007.

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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the school district's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to administer a federal programs such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance 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 compliance that we consider to be material weaknesses, as defined above.

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

*Brauner, Van Stuy + Co. P.A.*

February 10, 2009  
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, 2007, which collectively comprise Pontotoc City School District's basic financial statements and have issued our report thereon dated February 10, 2009. 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)(a), 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 our audit and, accordingly, we do not express such an opinion.

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$37,348 of classroom supply funds carried over from previous years.

Section 37-9-18(3)(b), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure correct and appropriate coding at the function level. The audit must include a report showing the correct and appropriate functional level expenditure codes by the school district."

The results of our procedures performed to test compliance with the requirements of Section 37-9-18(3)(b), Miss. Code Ann. (1972), disclosed no instances of noncompliance related to incorrect or inappropriate functional level expenditure coding.

As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain other state laws and regulations. However, providing an opinion on compliance with all state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

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

This report is intended solely for the information and use of the school board, 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.

*Brewer, Vanstey & Co. P.A.*

February 10, 2009  
Booneville, Mississippi

**PONTOTOC CITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2007**

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. | Significant deficiency(ies) identified that are not considered to be material weaknesses? | Yes         |

**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. | Significant deficiency(ies) identified that are not considered to be material weaknesses? | None Reported |
| 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

**PONTOTOC CITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2007**

**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?  | No        |
| 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**

Significant Deficiency Not considered to Be a Material Weakness.

**Finding 2007-1 Payroll Expenditures Should Be Supported by Adequate Documentation**

Finding

It is managements responsibility to establish controls for insuring that all payroll expenditures are supported by adequate documentation to support the expenditures.

During the test of payroll expenditures, the supporting documentation examined for time worked was incomplete, therefore some payroll to nonexempt personnel was processed without adequate documentation.

Payment of wages without adequate documentation could result in employees being improperly compensated.

Recommendation

The district should maintain complete and accurate time records to support the payroll expenditures of all nonexempt personnel.

**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.

# ***Pontotoc City School District***

140 Education Drive  
Pontotoc, Mississippi 38863

**CONWELL DUKE, ED.S.**  
SUPERINTENDENT

OFFICE (662) 489-3336  
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As require by Section \_\_\_\_ .315(c) of OMB Circular A-133, the Pontotoc City School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended June 30, 2007:

Finding

Corrective Action Plan Details

2007-1

a. Name of contact person responsible for corrective action:

Beverly Anderson  
School Business Officer  
662-489-3336

b. Corrective Action Planned

The district has purchased a time clock system and is requiring nonexempt employees to use the time clock to record hours worked. Time records for each payroll cut-off period are being used to document payroll expenditure payments. The time record totals to the nearest quarter hour are being used to calculate the amount of salary an employee has earned. These time records are being kept in each monthly payroll file to document the payroll payments.

c. Anticipated Completion Date:

November 1, 2007

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## **PRIOR AUDIT FINDINGS**

As required by Section \_\_\_\_\_ 315 (c) of OMB Circular a-133, the Pontotoc City School District has prepared and hereby submits the following status of findings as of June 30, 2007

### FINDING

### STATUS

2006-1

Corrected November 1, 2007