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PONTOTOC COUNTY SCHOOL DISTRICT

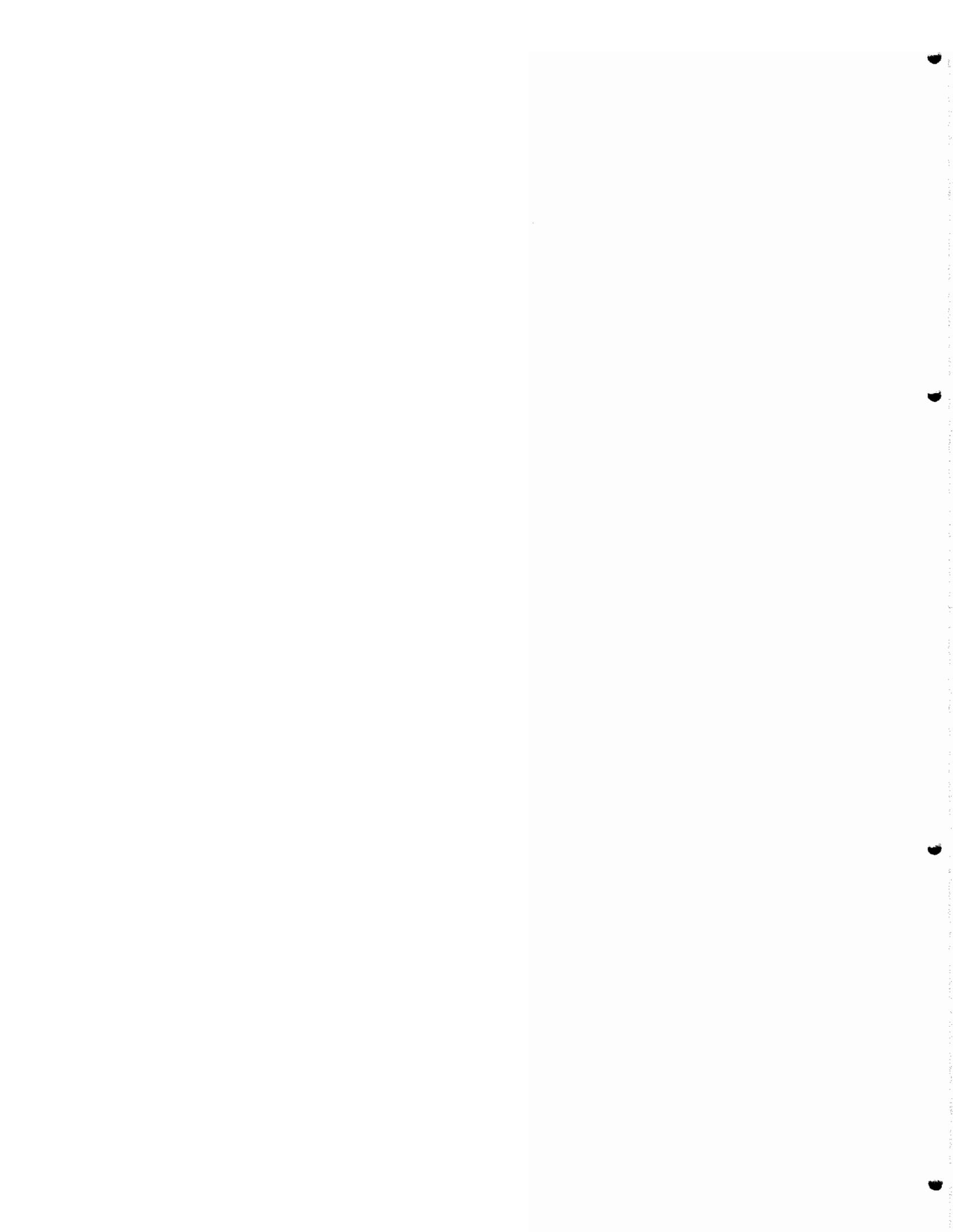
AUDITED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2007



**PONTOTOC COUNTY SCHOOL DISTRICT
TABLE OF CONTENTS
JUNE 30, 2007**

	<u>Page</u>
Independent Auditors' Report on the Basic Financial Statements and Supplemental Information	1-2
Management's Discussion and Analysis	3-12
Financial Statements	
Statement of Net Assets	13
Statement of Activities	14
Balance Sheet – Governmental Funds	15
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	16
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	17
Reconciliation of the Governmental Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	18
Statement of Fiduciary Net Assets	19
Notes to Financial Statements	20-33
Required Supplementary Information	
Budgetary Comparison for Major Funds	34-35
Notes to Required Supplementary Information	36
Supplemental Information	
Schedule of Expenditures of Federal Awards	37
Schedule of Instructional, Administrative and Support Service Expenditures	38
Compliance and Internal Control Reports	
Independent Auditors' 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 <i>Government Auditing Standards</i>	39-40
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	41-42
Independent Auditors' Report on Compliance with State Laws and Regulations	43
Schedule of Findings and Questioned Costs	44-45
Auditee's Corrective Action Plan	46





Certified Public Accountants
Locations in Corinth, MS & Booneville, MS

Lou Ann D. Counce, CPA
Terry E. Cartwright, CPA
Christopher D. Murphy, CPA

A. Braddock Brawner, CPA
Brenda G. Nichols, CPA

106 South First Street
Post Office Box 540
Booneville, Mississippi 38829
Telephone (662) 728-6172
Fax (662) 728-6176

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

Superintendent and School Board
Pontotoc County School District

We have audited the accompany financial statements of the governmental activities, each major fund and aggregate remaining fund information of the Pontotoc County School District as of and for the year ended June 30, 2007, which collectively comprise the Pontotoc County School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Pontotoc County School District's management. Our responsibility is to express an opinion 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 opinion.

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 County 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 October 20, 2008, on our consideration of the Pontotoc County 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 a 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 34 through 35 are not a required part of the basic financial statements but are supplementary information required by Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Pontotoc County School District's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Browner, VanStoy + Co. P.A.

October 20, 2008
Booneville, Mississippi

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

The discussion and analysis of the Pontotoc County 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 \$593,337, which represents a 7.257% 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 \$18,201,656 in revenue, or 80.15% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$4,508,120 or 19.85% of total revenues.
- The District had \$22,237,235 in expenses; only \$4,508,120 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$18,201,656 were adequate to provide for these programs.
- Among major funds, the General Fund had \$18,251,860 in revenues and \$17,891,483 in expenditures. The General Fund's fund balance increased \$4,211 over the prior year.
- Capital assets, net of accumulated depreciation, increased by \$3,005.
- Long-term debt decreased by \$589,959.

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

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.

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.

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

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*. 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.

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 23-33 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 34-36 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Circular A-133 and can be found on page 37 of this report.

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

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 \$8,777,495 as of June 30, 2007, which represents an 7.25% increase from fiscal year 2006. (See Table 1.)

By far the largest portion of the District's net assets (65.2%) reflects its investment in capital assets (e.g., land, buildings, building improvements, improvements other than buildings, mobile equipment, furniture and equipment, leased property under capital leases 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

	<u>2007</u>	<u>2006</u>	Total Percentage Change <u>2007-2006</u>
Current assets	\$3,991,024	\$ 3,970,968	.51%
Capital assets, net	8,978,841	8,975,836	.03%
Total Assets	<u>12,969,865</u>	<u>12,946,804</u>	.18%
Current liabilities	446,579	426,896	4.61%
Long-term debt outstanding	3,745,791	4,335,750	-13.61%
Total Liabilities	<u>4,192,370</u>	<u>4,762,646</u>	-11.97%
Net assets:			
Invested in capital assets, net of related debt	5,722,715	5,207,228	9.9%
Restricted	570,039	573,876	-.67%
Unrestricted	2,484,741	2,403,054	3.40%
Total net assets	<u>\$8,777,495</u>	<u>\$ 8,184,158</u>	7.25%

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

- Capital asset additions for the year totaled \$465,737, including construction of \$137,140, Land \$98,004 and 2 new buses \$113,300.
- \$589,959 of long-term debt was retired.

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

Changes in net assets. The District's total revenues increased 3.82% to \$22,709,776. (See Table 2.) State revenues accounted for most of the District's revenue contributing about 65 cents of every dollar raised. (See Figure 1.) Another 12% came from property taxes, 15% 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 5.01% to \$22,237,235. The District's expenses are predominantly related to educating students 63%. (See Figure 2.) \$633,324 or 4.76% derives from salary increases for teachers and other educational staff.

Total revenues surpassed expenses, increasing net assets \$593,337 over last year.

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

	Table 2		Total Percentage Change 2007-2006
	Changes in Net Assets		
	2007	2006	
Revenues:			
Program revenues			
Charges for services	\$ 1,185,513	\$ 1,131,065	4.81%
Operating grants and contracts	3,315,107	3,297,132	0.55%
Capital grants and contracts	7,500	72,500	-89.66%
General revenues:			
Property taxes	2,737,633	2,828,572	-3.22%
Grants and contracts not restricted	14,999,851	14,218,943	5.49%
Other	464,172	330,827	40.31%
Total revenues	<u>22,709,776</u>	<u>21,879,039</u>	<u>3.80%</u>
Expenditures:			
Instruction	13,937,064	13,303,740	4.76%
Support services	6,715,378	6,380,751	5.24%
Non-instructional	1,420,292	1,317,580	7.80%
Interest on long-term liabilities	164,501	174,897	5.94%
	<u>22,237,235</u>	<u>21,176,968</u>	<u>5.01%</u>
Extraordinary items	120,796	-	100.00%
Increase in Net Assets	<u>593,337</u>	<u>702,071</u>	<u>-15.49%</u>
Net Assets July 1	8,184,158	7,517,549	8.87%
Prior period adjustment	-	(35,462)	-100.00%
Net Assets July 1, Restated	<u>8,184,158</u>	<u>7,482,087</u>	<u>9.38%</u>
Net Assets, June 30	<u>\$ 8,777,495</u>	<u>\$ 8,184,158</u>	<u>7.25%</u>

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

Figure 1
Sources of Revenues for Fiscal Year 2007

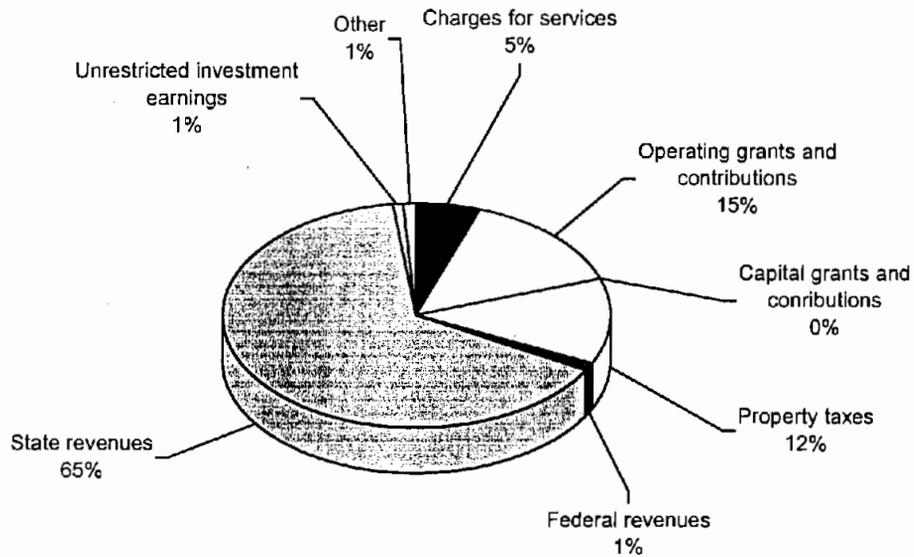
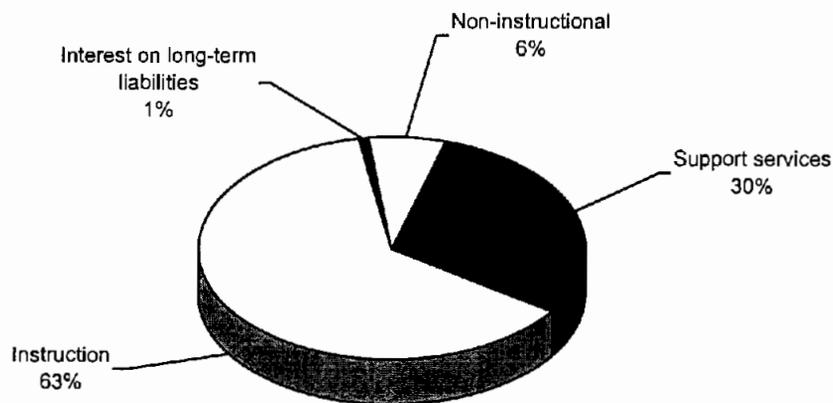


Figure 2
Expenses for Fiscal Year 2007



PONTOTOC COUNTY 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	2007	2006	Change
Instruction	\$ 13,937,064	\$ 13,303,740	4.76%	(11,657,116)	(10,956,960)	6.39%
Support Service	6,715,378	6,380,751	5.24%	(5,830,047)	(5,555,620)	4.94%
Non-instructional	1,420,292	1,317,580	7.80%	(77,451)	11,206	-791.16%
Interest on long-term liabilities	164,501	174,897	-5.94%	(164,501)	(174,897)	-5.94%
Total Expenses	\$ 22,237,235	21,176,968	5.01%	(17,729,115)	\$ (16,676,271)	6.31%

- Net cost of governmental activities \$17,729,115 was financed by general revenue, which is made up of primarily property taxes \$2,737,633 and state revenue of \$14,756,484.
- Investment earnings accounted for \$218,698 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 \$3,625,913 a decrease of \$5,510. \$2,974,407 or 82.03% 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 \$651,506 or 17.97% is reserved or designated to indicate that it is not available for spending because it has already been committed for specified purposes.

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

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$4,211.

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 \$176,094.

Budget amounts for General Fund local revenue overestimated ad valorem tax revenues by \$304,627.

- Budget amounts for General Fund revenue from state sources underestimated MAEP state revenue in the amount of \$1,111,579.

Budget amounts for General Fund revenue from state sources underestimated Master teacher state revenue in the amount of \$99,191.

Budget amounts for General Fund revenue from federal sources underestimated Maximus grant revenue in the amount of \$56,096.

Original Budget amounts for General Fund facilities acquisition and construction expenditures did not include the purchase of land in the amount of \$98,004.

- Budget amounts for General Fund operating transfers in and out were increased to show additional transfer to the General Building & Improvement Fund in the amount of \$100,000.
- Actual expenditures were below budget, because the total project amount for PL 42-142 was budgeted for July 1 – June 30, 2007, but all amounts were not spent until the next fiscal year.

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.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2007, the District had invested \$8,978,841 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 \$3,005, or .03%, from the previous year. Total accumulated depreciation as of June 30, 2007 was \$6,033,556 and total depreciation expense for the year was \$450,842, resulting in total net assets of \$8,978,841.

Table 4 shows fiscal 2007 compared to 2006:

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

	<u>2007</u>	<u>2006</u>	<u>Total Percentage Change 2007-2006</u>
Land	\$189,607	\$ 91,603	106.99%
Construction in progress	116,134	112,100	3.60%
Buildings	7,018,972	7,228,260	-2.9%
Building Improvements	392,666	247,640	58.56%
Improvements other than buildings	155,070	138,646	11.85%
Mobile Equipment	503,130	493,096	2.03%
Furniture and equipment	144,468	154,710	-6.62%
Leased property under capital leases	458,794	509,781	-10.00%
Totals	<u>\$8,978,841</u>	<u>\$ 8,975,836</u>	0.003%

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

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

Debt Administration. At June 30, 2007, the District had \$3,745,791 in general obligation bonds and other long-term debt outstanding, of which \$591,762 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 2007-2006
Limited obligation bonds payable	\$ 560,000	\$ 800,000	-30.00%
Three-mill notes payable	2,313,024	2,448,984	-5.85%
Obligations under capital leases	700,393	909,214	-22.96%
Compensated absences payable	172,374	177,552	-2.92%
	<u>\$ 3,745,791</u>	<u>\$ 4,335,750</u>	<u>-13.61%</u>

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

CURRENT ISSUES

The Pontotoc County 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 .5 mill from 2006 to 2007. 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 103 students. The budget for the next fiscal year has taken into account this increase 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 County School District, 285 Hwy 15 By-Pass South, Pontotoc, MS 38863.

PONTOTOC COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
June 30, 2007

Exhibit A

		<u>Primary Government Governmental Activities</u>
ASSETS		
Cash and cash equivalents (Note 2)	\$	3,095,649
Restricted Investments, (Note2)		59,596
Due from other governments		785,747
Other receivables, net		17,257
Inventories and prepaid items		32,775
Capital assets, not being depreciated (Note 4)		
Land		189,607
Construction in progress		116,134
Capital assets, net of accumulated depreciation		
Buildings		7,018,972
Building improvements		392,666
Improvements other than buildings		155,070
Mobile equipment		503,130
Furniture and equipment		144,468
Leased property under capital leases		458,794
Total Assets		<u><u>12,969,865</u></u>
LIABILITIES		
Accounts payable and accrued liabilities		360,118
Deferred Revenue		4,992
Interest payable on Long Term Debt		81,469
Long Term Liabilities (due within one year) (Note 5)		
Capital Related Liabilities		518,193
Non-capital Liabilities		73,569
Long Term Liabilities (due beyond one year) (Note 5)		
Capital Related Liabilities		2,737,933
Non-capital Liabilities		416,096
Total Liabilities		<u><u>4,192,370</u></u>
NET ASSETS		
Invested in capital assets, net of related debt		5,722,715
Restricted Net Assets		
Expendable:		
School based activities		170,664
Debt Service		176,388
Capital Improvements		168,026
Unemployment Benefits		54,961
Unrestricted		2,484,741
Total Net Assets		<u><u>8,777,495</u></u>
Total Liabilities and Net Assets	\$	<u><u>12,969,865</u></u>

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

PONTOTOC COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2007

Functions/Programs	Program Revenues				Net (Expense)
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
Governmental Activities					Primary Governmental Activities
Instruction	\$ 13,937,064	682,919	1,589,529	7,500	(11,657,116)
Support Services	6,715,378	-	885,331	-	(5,830,047)
Noninstructional services	1,420,292	502,594	840,247	-	(77,451)
Interest on long term debt	164,501	-	-	-	(164,501)
Total Governmental Activities	22,237,235	1,185,513	3,315,107	7,500	(17,729,115)
General Revenues:					
Taxes:					
General purpose levies 2,597,249					
Debt purpose levies 140,384					
Unrestricted grants and contributions:					
State 14,756,484					
Federal 243,367					
Unrestricted investment earnings 218,698					
Other 245,474					
Total General Revenues 18,201,656					
Extraordinary item 120,796					
Total General Revenues and Extraordinary Item 18,322,452					
Change in Net Assets 593,337					
Net Assets - Beginning 8,184,158					
Net Assets - Ending \$ 8,777,495					

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

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

	Major Funds			Total (Memorandum Only)
	General Funds	PL 94-142 Fund	Other Governmental Funds	
ASSETS				
Cash and other deposits	\$ 2,810,267	-	285,382	3,095,649
Restricted Investments (Note 2)	-	-	59,596	59,596
Due from other governments	315,923	119,872	349,951	785,746
Other receivables, net	17,181	-	76	17,257
Due from other funds (Note 3)	287,698	-	150,000	437,698
Inventory of food	-	-	32,775	32,775
Total Assets	<u>3,431,069</u>	<u>119,872</u>	<u>877,780</u>	<u>4,428,721</u>
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable and accrued liabilities	306,662	7,681	45,775	360,118
Due to other funds (Note 3)	150,000	112,191	175,507	437,698
Deferred revenue	-	-	4,992	4,992
Total Liabilities	<u>456,662</u>	<u>119,872</u>	<u>226,274</u>	<u>802,808</u>
Fund Balances				
Reserved for:				
Inventory	-	-	32,775	32,775
Unemployment	-	-	54,961	54,961
Capital Project Funds	-	-	168,026	168,026
Debt Service Funds	-	-	257,857	257,857
Unreserved:				
Undesignated reported in:				
General Fund	2,974,407	-	-	2,974,407
Special Revenue Funds	-	-	137,887	137,887
Total Fund Balances	<u>2,974,407</u>	<u>-</u>	<u>651,506</u>	<u>3,625,913</u>
Total Liabilities and Fund Balances	<u>\$ 3,431,069</u>	<u>119,872</u>	<u>877,780</u>	<u>4,428,721</u>

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

Exhibit C-1

Pontotoc County School District
 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
 June 30, 2007

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 3,625,913
Amounts reported for governmental activities in the statement of net assets are different because:	
1 Capital assets are used in governmental activities, are not financial resources and therefore are not reported in the funds, \$15,012,398 net of accumulated depreciation of \$6,033,557 (Note 4)	8,978,841
2 Long-term liabilities are not due and payable in the current period and therefore, are not reported in the funds. (Note 5)	(3,745,791)
3 Accrued interest on debt is not due and payable in the current period and therefore is not reported in the funds.	(81,469)
4 Rounding	<u>1</u>
Total Net Assets - Governmental Activities	<u>\$ 8,777,495</u>

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

Exhibit D

PONTOTOC COUNTY SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 ALL GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2007

	General Fund	PL 94-142 Fund	Other Governmental Funds	Total (Memorandum Only)
Revenue				
Local Sources	\$ 3,689,724	-	767,661	4,457,385
State Sources	14,315,944	-	1,270,547	15,586,491
Federal Sources	246,192	688,048	1,731,659	2,665,899
Total Revenues	<u>18,251,860</u>	<u>688,048</u>	<u>3,769,867</u>	<u>22,709,775</u>
Expenditures				
Instruction	11,807,937	329,064	1,550,947	13,687,948
Support Services	5,545,902	353,925	665,364	6,565,191
Noinstructional Services	9,343	-	1,400,779	1,410,122
Facilities Acquisition and Construction	273,895	-	134,655	408,550
Debt Service:				
Principal	220,852	-	363,929	584,781
Interest	33,554	-	137,379	170,933
Total Expenditures	<u>17,891,483</u>	<u>682,989</u>	<u>4,253,053</u>	<u>22,827,525</u>
Excess of Revenues Over (Under) Expenditures	<u>360,377</u>	<u>5,059</u>	<u>(483,186)</u>	<u>(117,750)</u>
Other Financing Sources (Uses)				
Insurance Loss Recoveries	120,796	-	-	120,796
Operating Transfers In	8,080	-	485,042	493,122
Operating Transfers Out	(485,042)	(5,059)	(3,021)	(493,122)
Total Other Financing Sources (Uses)	<u>(356,166)</u>	<u>(5,059)</u>	<u>482,021</u>	<u>120,796</u>
Net Change in Fund Balances	<u>4,211</u>	<u>-</u>	<u>(1,165)</u>	<u>3,046</u>
Fund Balance, July 1, 2006	2,970,196	-	661,227	3,631,423
Increase in Reserve for Inventory	-	-	(8,556)	(8,556)
Fund Balance, June 30, 2007	<u>\$ 2,974,407</u>	<u>-</u>	<u>651,506</u>	<u>3,625,913</u>

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

Pontotoc County School District
Reconciliation of the Governmental Funds Statement of Revenues,
Expenditures and Changes in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2007

	<u>Amount</u>
Net Change in Fund Balances - Governmental Funds	\$ 3,046
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 \$465,737 and the depreciation expense amounted to \$450,842. (Note 4)	14,895
4 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)	584,781
5 Decrease in accrued interest is reported as an adjustment to interest expense in the statement of activity.	5,882
6 Decrease in compensated absences is reported as an adjustment to support services and noninstructional services.	5,178
7 Losses on disposition of assets	(11,890)
8 Increase in inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are increased in the statement of activities.	(8,556)
9 Rounding Adjustment	1
Change in Net Assets of Governmental Activities	\$ 593,337

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

**PONTOTOC COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2007**

Exhibit E

Agency
Funds

ASSETS

Cash and Cash Equivalents (Note 3)	<u>\$ 737,010</u>
Total Assets	<u>737,010</u>

LIABILITIES

Accounts payable and accrued payroll	653,986
Other payables	2,248
Due to student clubs	<u>80,776</u>
Total Liabilities	<u>\$ 737,010</u>

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

**PONTOTOC COUNTY 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 a "primary government." The school district is governed by a five member board, which each member was elected by the citizens of each defined county district.

B. Basis of Presentation

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

Government-Wide Financial Statements:

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

The Statement of Net Assets presents the financial condition of the governmental activities of the school district at year-end. The government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the school district's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the school district, with certain limited exceptions. The comparison of direct expenses with program revenues identifies that 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 funds 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. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place, regardless of when the cash flow takes place. Program revenues on the Statement of Activities consist primarily of state appropriations and federal awards.

**PONTOTOC COUNTY 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 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.

Special Education PL 94-142 – This fund accounts for the collection and expenditure of federal revenues and the cost to provide education to Special Education students.

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

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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

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

FIDUCIARY FUNDS

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

D. Account Classifications

The account classifications used in the financial statements conform to the broad classifications recommend 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.

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

(1) Summary of Significant Accounting Policies (Continued)

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 maturities of 12 months or less. Cash and cash equivalents are valued at cost.

G. Investments

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

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

Investments are reported at fair value.

H. Inventories and Prepaid Items

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

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

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

I. Capital Assets

Capital 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.

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets are reported in the government-wide statements and proprietary funds.

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

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

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

J. Long-term liabilities

Long-term liabilities are the unmatured principal of bonds, warrants, notes, or other forms of noncurrent or long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments. In the government-wide Statement of Net Assets, long-term debt and other liabilities 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:

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

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

(1) Summary of Significant Accounting Policies (Continued)

L. Equity Classifications (Continued)

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

Fund Financial Statements:

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

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

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

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

Reserved for capital projects – An account that represents that portion of fund balance in the Capital Projects Fund which was legally restricted and not available for spending for any other purpose than that for which it is restricted.

Restricted for debt service – An account that represents that portion of fund balance in the Debt Service Fund which was legally restricted and not available for spending for any other purpose than that for which it is restricted.

M. Property Taxes

Ad valorem property taxes are levied by the governing authority of the county 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.

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, for example, the employee retires.

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

(2) Cash and Cash Equivalents, and Investments

The district follows the practice of aggregating the cash assets 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 for public entities' 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 Depository 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 on bond funds (Capital Projects), bond sinking funds (Debt Service Funds) must be credited to those funds. Investment income of \$100 or more of any funds 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 in the governmental funds and fiduciary funds was \$3,095,649 and \$737,010 respectively. The carrying amount of deposits reported in the government-wide financial statements was: Cash and Cash Equivalents - \$3,095,649. The bank balance was \$4,152,472.

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 risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits over 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 was exposed to custodial credit risk.

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

(2) Cash, Cash Equivalents and Investments (continued)

Investments – Restricted

The restricted assets represent the balance of funds in investments for the MAEP debt service fund and may not be used for any other purpose than the reduction of this debt.

As of June 30, 2007, the district has 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>
Hancock Horizon Treasury Mutual Fund	Less than 1	\$ 59,596	AAA
Total Investments		<u>\$ 59,596</u>	

Interest Rate Risk

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

Credit Risk

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

Custodial Credit Risk – Investments

Custodial credit risk is defined as the risk that, in the 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 requirements 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 did not have any of these investments.

**PONTOTOC COUNTY 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:

	Due From	Due To
Major Funds:		
General fund	\$ 287,698	150,000
Other Governmental Funds	150,000	287,698
Total Funds	437,698	437,698

Temporary loans were made for \$287,698 until funds received from grantors. \$150,000 was for support.

B. Transfers In/Out

	Transfers In	Transfers Out
Major Funds:		
General Fund	8,080	485,042
Special ED PL94-142		5,059
Other Governmental Funds	485,042	3,021
Total Funds	\$ 493,122	493,122

\$8,080 PL-94-142, and Title I for indirect cost. \$485,042 was transferred out of District Maintenance to Vocational.

**PONTOTOC COUNTY 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	Completed Construction	Adjustments	Balance 6/30/2007
<u>Non-depreciable capital</u>						
Land	\$ 91,603	98,004	-	-	-	189,607
Construction in progress	112,100	137,140			(133,106)	116,134
Total non-depreciable	<u>203,703</u>	<u>235,144</u>	<u>-</u>	<u>-</u>	<u>(133,106)</u>	<u>305,741</u>
<u>Depreciable capital assets:</u>						
Buildings	10,464,375				-	10,464,375
Building Improvements	274,410	29,397			133,106	436,913
Improvements other than buildings	243,735	25,930			-	269,665
Mobile equipment	2,127,566	120,075			-	2,247,641
Furniture and equipment	685,997	55,191	69,702		-	671,486
Leased property under capital leases	616,577				-	616,577
Total depreciable capital	<u>14,412,660</u>	<u>230,593</u>	<u>69,702</u>	<u>-</u>	<u>133,106</u>	<u>14,706,657</u>
Less accumulated						
<u>Depreciation</u>						
Buildings	3,236,115	209,288			-	3,445,403
Building improvements	26,770	17,477			-	44,247
Improvements other than buildings	105,089	9,506			-	114,595
Mobile equipment	1,634,470	110,041			-	1,744,511
Furniture and equipment	531,287	53,543	57,812		-	527,018
Leased property under capital leases	106,796	50,987			-	157,783
Total accumulated depreciation	<u>5,640,527</u>	<u>450,842</u>	<u>57,812</u>	<u>-</u>	<u>-</u>	<u>6,033,557</u>
Total depreciable capital assets, net	<u>8,772,133</u>	<u>(220,249)</u>	<u>11,890</u>		<u>133,106</u>	<u>8,673,100</u>
Governmental activities capital assets, net	<u>\$ 8,975,836</u>	<u>14,895</u>	<u>11,890</u>			<u>8,978,841</u>

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

(4) Capital Assets (Continued)

Depreciation expense was charged to the following governmental functions:

	<u>Amount</u>
Instruction	\$ 270,545
Support services	172,768
Non-instructional	<u>7,529</u>
Total depreciation expense	<u>\$ 450,842</u>

(5) Long-term liabilities

The following is a summary of changes in general long-term debt and other obligations:

	<u>Balance 7/1/2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/2007</u>	<u>Amounts due within one year</u>
A. Limited obligation bonds payable	\$ 800,000	-	240,000	560,000	255,000
B. Three-mill notes payable	2,448,984	-	135,960	2,313,024	121,748
C. Obligations under capital leases	909,214		208,821	700,393	215,014
D. Compensated absences payable	177,552		5,178	172,374	-
	<u>\$ 4,335,750</u>	<u>-</u>	<u>589,959</u>	<u>3,745,791</u>	<u>591,762</u>

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

(5) Long-term liabilities (Continued)

A. 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 Improvements	5.62-5.7%	3/19/87	3/2010	\$ 2,375,000	560,000
Total				<u>\$ 2,375,000</u>	<u>560,000</u>

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

Year Ending June 30,	Principal	Interest	Total
2008	\$ 255,000	23,800	278,800
2009	265,000	12,963	277,963
2010	40,000	1,700	41,700
	<u>\$ 560,000</u>	<u>38,463</u>	<u>598,463</u>

This debt will be retired from the MAEP Note fund.

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 retirement fund.

B. Three-mill notes payable.

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Three Mill Note	4.65%	5/1/01	5/25/11	450,000	204,024
Three Mill Note	Various	10/1/02	10/1/17	2,200,000	2,109,000
				<u>\$ 2,650,000</u>	<u>2,313,024</u>

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

(5) Long-term liabilities (Continued)

B. Three-mill ten-year notes payable (Continued).

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

Year Ending June 30,	Principal	Interest	Total
2008	121,748	96,813	218,561
2009	189,995	91,977	281,972
2010	197,320	84,472	281,792
2011	156,000	76,239	232,239
2012	204,961	67,503	272,464
2013-2017	1,178,000	210,339	1,388,339
2018	265,000	11,263	276,263
Total	<u>\$ 2,313,024</u>	<u>638,606</u>	<u>2,951,630</u>

This debt will be retired from the 2001 Note Fund and 1996 Construction Note Fund, computer labs fund and district maintenance.

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: Relocatable Classrooms, Buses and Lighting.

The various options available to the lessee for this lease are as follows:

At the end of the primary lease period, title passes to the school district for all the above leased property.

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

Year Ending June 30,	Principal	Interest	Total
2008	\$ 215,014	27,361	242,375
2009	223,824	18,551	242,375
2010	176,287	9,371	185,658
2011	85,268	3,198	88,466
Total	<u>\$ 700,393</u>	<u>58,481</u>	<u>758,874</u>

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.

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

E. Compensated absences payable.

As more fully explained in Note 1 (O), 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 employee's 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 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 11.3% 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 County School District's contributions to PERS for the years ending June 30, 2007, 2006 and 2005, were \$1,430,419, \$1,295,783, and \$1,085,537 respectively, equal to the required contributions for each year.

(7) 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. 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 a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 121 school districts and covers risks of loss arising from injuries to the school district's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by BancorpSouth Bank in Jackson. The funds in the trust account are used to pay any claim up to \$700,000. For a claim exceeding \$700,000, MSBAWCT has insurance which will pay the excess 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.

(8) Contingencies

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

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

(9) Litigation

The district is subject to an old federal court order involving religious expression.

(10) Vocational Education Consortium

The school district entered into a Vocational Education Agreement dated January 31, 1984 creating the Pontotoc Ridge Career and Technical Center. This center was created pursuant to the provisions of Section 37-31-73, Mississippi Code Ann. (1972), and approved by the Mississippi Department of Education. The center 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 detail 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.

Statement of Revenues, Expenditures and Changes in Fund Balance – Vocational Funds
For the Year Ended June 30, 2007

Revenues

Local Sources

Tuition from other LEA's within the state:

Pontotoc City School District

\$ 69,780

Total tuition from other LEA's within the state

69,780

Total local sources

69,780

State sources

802,487

Federal sources

52,917

Total Revenues

925,184

Expenditures

Salaries

853,962

Employee benefits

259,292

Purchased property services

60,152

Other purchased services

2,180

Supplies

36,142

Property

48,498

Total Expenditures

1,260,226

Excess (Deficiency) of Revenues Over Expenditures

(335,042)

Other Financing Sources (Uses)

Operating transfers in

335,042

Total Financing Sources (Uses)

335,042

Net Change in Fund Balance

-

Fund Balance:

July 1, 2006

-

June 30, 2007

-

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

	Budgeted Amounts		Actual GAAP Basis	Variances	
	Original	Final		Original to Final	Final to Actual
Revenue					
Local Sources	\$ 3,606,155	3,689,724	3,689,724	83,569	-
State Sources	13,044,260	14,315,944	14,315,944	1,271,684	-
Federal Sources	94,460	246,192	246,192	151,732	-
Total Revenues	<u>16,744,875</u>	<u>18,251,860</u>	<u>18,251,860</u>	<u>1,506,985</u>	<u>-</u>
Expenditures					
Instruction	10,804,654	11,807,937	11,807,937	(1,003,283)	-
Support Services	5,679,992	5,545,902	5,545,902	134,090	-
Noninstructional services	8,000	9,343	9,343	(1,343)	-
Facilities Acquisition and Construction	82,558	273,895	273,895	(191,337)	-
Debt Service:					
Principal	259,248	254,406	220,852	4,842	33,554
Interest	-	-	33,554	-	(33,554)
Total Expenditures	<u>16,834,452</u>	<u>17,891,483</u>	<u>17,891,483</u>	<u>(1,057,031)</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(89,577)</u>	<u>360,377</u>	<u>360,377</u>	<u>449,954</u>	<u>-</u>
Other Financing Sources (Uses)					
Inception of Capital Leases	-	-	-	-	-
Insurance Loss Recoveries	-	120,796	120,796	120,796	-
Sale of Transportation Equipment	-	-	-	-	-
Operating Transfers In	152,203	181,704	8,080	29,501	(173,624)
Operating Transfers Out	(300,000)	(658,666)	(485,042)	(358,666)	173,624
Total Other Financing Sources (Uses)	<u>(147,797)</u>	<u>(356,166)</u>	<u>(356,166)</u>	<u>(208,369)</u>	<u>-</u>
Net Change in Fund Balance	<u>(237,374)</u>	<u>4,211</u>	<u>4,211</u>	<u>241,585</u>	<u>-</u>
Fund Balances					
July 1, 2006	<u>3,078,250</u>	<u>3,078,250</u>	<u>2,970,196</u>	<u>-</u>	<u>(108,054)</u>
June 30, 2007	<u>\$ 2,840,876</u>	<u>3,082,461</u>	<u>2,974,407</u>	<u>241,585</u>	<u>(108,054)</u>

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

Pontotoc County School District
Budgetary Comparison Schedule for P94-142
For the Year Ended June 30, 2007

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
	Original	Final		Original to Final	Final to Actual
Revenues					
Local Sources	\$ -	-	-	-	-
State Sources	-	-	-	-	-
Federal Sources	801,701	688,048	688,048	(113,653)	-
Total Revenues	<u>801,701</u>	<u>688,048</u>	<u>688,048</u>	<u>(113,653)</u>	<u>-</u>
Expenditures					
Instruction	505,818	329,064	329,064	176,754	-
Support Services	292,458	353,925	353,925	(61,647)	-
Total Expenditures	<u>798,276</u>	<u>682,989</u>	<u>682,989</u>	<u>115,287</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>3,425</u>	<u>5,059</u>	<u>5,059</u>	<u>1,634</u>	<u>-</u>
Other Financial Sources (Uses)					
Operating Transfers Out	<u>(3,425)</u>	<u>(5,059)</u>	<u>(5,059)</u>	<u>(1,634)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(3,425)</u>	<u>(5,059)</u>	<u>(5,059)</u>	<u>(1,634)</u>	<u>-</u>
Net Change in Fund Balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:					
July 1, 2006	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
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 COUNTY 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 COUNTY SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2007

Federal Grantor Pass-through Grantor Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
U. S. Department of Agriculture		
Passed-through Mississippi Department of Education		
Non-cash Assistance		
Food Donation	10.550	\$ 76,132
Child Nutrition Cluster		
School breakfast program	10.553	158,837
National school lunch program	10.555	683,868
Total Passed-through MDE		842,705
Total U. S. Department of Agriculture		918,837
U. S. Department of Labor		
Passed-through Three Rivers Planning and Development District:		
Workforce Investment Act Youth Activities	17.259	126,634
Total Passed-through Three Rivers Planning and Development District		126,634
Federal Communications Commission		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the universal service fund	32.xxx	116,720
Total Federal Communications Commission		116,720
U. S. Department of Education		
Passed-through Mississippi Department of Rehabilitation Services		
Vocational rehabilitation - grants to states	84.126	565
Total Passed through MS Department of Rehabilitation Services		565
Passed-through Mississippi Department of Education		
Title I grants to local education agencies	84.010	406,924
Vocational education grants to local educational agencies	84.048	52,917
Safe and drug-free schools and communities-state grants	84.186	13,034
State Grants for innovative programs	84.298	4,812
Education Technology-state grants	84.318	7,279
English language acquisition grants	84.365	15,460
Mathematics & Science Partnership	84.366	159,189
Improving teacher quality - state grants	84.367	10,697
Grants for state assessments and related activities	84.369	60
Special Education Cluster:		
Special education - grants to states	84.027	716,316
Special education - preschool grants	84.173	22,573
Total Special Education Cluster		738,889
Total Passed-through MDE		1,409,261
Total U. S. Department of Education		1,409,826
U.S Department of Health & Human Services		
Passed-through Mississippi Department of Health & Human Services		
Medical Assistance Program	93.778	66,096
Total U. S. Department of Health & Human Services		66,096
Total for All Federal Awards		\$ 2,638,113

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 County School District
Schedule of Instructional, Administrative and Other Expenses- Governmental Funds
June 30, 2007

<u>Expenditures</u>	<u>Total</u>	<u>Instruction and Other Student Instructional Expenditures</u>	<u>General Administration</u>	<u>School Administration</u>	<u>Other</u>
Salaries and fringe benefits	\$ 17,124,372	13,754,469	576,860	1,084,607	1,708,436
Other	5,703,153	1,703,288	218,581	34,384	3,746,900
Total	<u>\$ 22,827,525</u>	<u>15,457,757</u>	<u>795,441</u>	<u>1,118,991</u>	<u>5,455,336</u>
Total Number of Students *	<u>3,061</u>				
Cost per Student	<u>\$ 7,458</u>	<u>5,050</u>	<u>260</u>	<u>366</u>	<u>1,782</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, 2100 & 2200 functional codes.

General Administration—includes expenditures for the following functions: Support Services General Administration (2300s); Support Services—Business (2500s)

School Administration – includes expenditures for the following functions: Support Services – School Administration (2400's)

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

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



Certified Public Accountants
Locations in Corinth, MS & Booneville, MS

Lou Ann D. Counce, CPA
Terry E. Cartwright, CPA
Christopher D. Murphy, CPA

A. Braddock Brawner, CPA
Brenda G. Nichols, CPA

106 South First Street
Post Office Box 540
Booneville, Mississippi 38829
Telephone (662) 728-6172
Fax (662) 728-6176

**INDEPENDENT AUDITORS' 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 County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Pontotoc County School District as of and for the year ended June 30, 2007, which collectively comprise the Pontotoc County School District's basic financial statements and have issued our report thereon dated October 20, 2008. 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 Pontotoc County 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.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performance 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.

A material weakness is a significant deficiency or a 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 of material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Pontotoc County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statements 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 did not disclose any instances of noncompliance that are required to be reported under *Government 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.

Brawner, Vanstoy & Co. P.A.

October 20, 2008

Booneville, Mississippi



Certified Public Accountants
Locations in Corinth, MS & Booneville, MS

Lou Ann D. Counce, CPA
Terry E. Cartwright, CPA
Christopher D. Murphy, CPA

A. Braddock Brawner, CPA
Brenda G. Nichols, CPA

106 South First Street
Post Office Box 540
Booneville, Mississippi 38829
Telephone (662) 728-6172
Fax (662) 728-6176

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

Superintendent and School Board
Pontotoc County School District

Compliance

We have audited the compliance of the Pontotoc County 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 Pontotoc County 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 Pontotoc County School District's compliance with those requirements.

In our opinion, Pontotoc County 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 County 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 program such that there is more than a remote likelihood that noncompliance with a type 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, 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.

Brauer, VanStacy & Co. P.A.

October 20, 2008
Booneville, Mississippi



Certified Public Accountants

Locations in Corinth, MS & Booneville, MS

Lou Ann D. Counce, CPA
Terry E. Cartwright, CPA
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A. Braddock Brawner, CPA
Brenda G. Nichols, CPA

106 South First Street
Post Office Box 540
Booneville, Mississippi 38829
Telephone (662) 728-6172
Fax (662) 728-6176

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Superintendent and School Board
Pontotoc County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Pontotoc County School District as of and for the year ended June 30, 2007, which collectively comprise the Pontotoc County School District's basic financial statements, and have issued our report thereon dated October 20, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Section 37-9-18(3), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure that the school district is complying with the requirements of Section 37-91-33(3)(a)(iii), Miss. Code Ann. (1972), relating to classroom supply funds." As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain other state laws and regulations. However, providing an opinion on compliance with all state laws and regulations was not an objective of an audit and, accordingly, we do not express such an opinion.

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3) (a) (iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$42,103 of classroom supply funds carried over from previous years.

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

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

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

Brawner, Vanstory & Co. P.A.

October 20, 2008

Booneville, Mississippi

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**PONTOTOC COUNTY 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 deficiencies identified that are not considered to be material weaknesses? | No |

Federal Awards:

- | | | |
|----|--|-------------|
| 4. | Type of auditors' report issued on compliance for major federal programs: | Unqualified |
| 5. | Internal control over major programs: | |
| a. | Material weakness(es) identified? | No |
| b. | Significant deficiencies identified that are not considered to be material weaknesses? | No |
| 6. | Any audit findings reported as required by Section ____510(a) of OMB Circular A-133? | No |
| 7. | Federal programs identified as major programs: | |

Child Nutrition Cluster

CFDA # 10.553
 10.555

Title I Grants to Local Educational Agencies

CFDA # 84.010

Workforce Investment Act Youth Activities

CFDA # 17.259

**PONTOTOC COUNTY 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? | Yes |

Section 2: Financial Statement Findings

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

Section 3: The results of our tests did not disclose any findings and questioned costs related to federal awards.

KENNETH ROYE

SUPERINTENDENT

285 HIGHWAY 15 BY-PASS SOUTH

PONTOTOC, MISSISSIPPI 38863

PHONE (662) 489-3932

FAX (662) 489-3922



SCHOOL BOARD

RICK SPENCER, PRESIDENT

ALLEN ROYE, SECRETARY

CATHY W. MCCOY

RODNEY ROBBINS

RANDY TUTOR

PONTOTOC COUNTY SCHOOLS

Summary Schedule of Prior Audit Findings

As required by Section _____, 315 (c) of OMB Circular A-133 the Pontotoc County School District has prepared and hereby submits the following status of findings as of June 30, 2007:

Finding

Status

2006-1

Upon notification of the over claim of students the school district reimbursed the State Department of Education and this is no longer a finding.