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PONTOTOC CITY SCHOOL DISTRICT
AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008



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JUNE 30, 2008**

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

Superintendent and School Board
Pontotoc City School District

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Pontotoc City School District as of and for the year ended June 30, 2008, which collectively comprise the Pontotoc City School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Pontotoc City School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Pontotoc City School District at June 30, 2008, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated September 28, 2009, on our consideration of the Pontotoc City School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 12 and the Budgetary Comparison Schedules and corresponding notes on pages 36 through 37 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Pontotoc City School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. In addition, the Schedule of Instructional, Administrative, and Other Expenditures - Governmental Funds is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The other supplemental information section, which includes the Statement of Revenues, Expenditures and Changes in Fund Balances, General Fund, Last Four Years and the Statement of Revenues, Expenditures and Changes in Fund Balances, All Governmental Funds, Last Four Years, is presented for purposes of additional analysis as required by the Mississippi Department of Education and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Brauer, VanDyke & Co. P.A.

September 28, 2009
Booneville, Mississippi

**PONTOTOC CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

The discussion and analysis of the Pontotoc City School District's financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 2008. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the School District's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in this district's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the district's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

FINANCIAL HIGHLIGHTS

- Total net assets increased \$1,524,631 which represents a 9.62% increase from fiscal year 2007. After meeting the needs of the students, the District was conservative with expenditures for FY 2008 in anticipation of capital building projects.
- General revenues account for \$15,186,705 or 82.27% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$3,282,685 or 17.73% of total revenues.
- The District had \$16,944,759 in expenses; only \$3,282,685 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$15,186,705 were adequate to provide for these programs.
- Among major funds, the General Fund had \$15,160,049 in revenues and \$13,947,085 in expenditures. The General Fund's fund balance increased \$139,596 over the prior year.
- Capital assets, net of accumulated depreciation, decreased by \$89,464.
- Long-term debt decreased by \$911,799.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

**PONTOTOC CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

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

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

The government-wide financial statements can be found on pages 13-14 of this report.

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 16 and 18, respectively.

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

The basic governmental fund financial statements can be found on pages 15 and 17 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the District's own programs. The accrual basis of accounting is used for fiduciary funds. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The school district's fiduciary activities are presented in a separate Statement of Fiduciary Assets and Liabilities on page 19.

**PONTOTOC CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20-35 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 schedule has been provided for the General Fund and each additional major special revenue fund. This required supplementary information can be found on pages 36-37 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Circular A-133 and can be found on page 38 of this report. A schedule of instructional, administrative, and other expenditures for governmental funds, as required by the Mississippi State Auditor's Office, is on page 39. Statements of revenues, expenditures and changes in fund balance for the general fund and other governmental funds, for the last four years, are on pages 40-41.

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 \$17,375,328 as of June 30, 2008, which represents a 9.62% increase from fiscal year 2007. (See Table 1)

By far the largest portion of the District's net assets (64.27%) reflects its investment in capital assets (e.g., land, buildings, building improvements, improvements other than buildings, mobile equipment, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending.

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

Table 1 provides a summary of the District's net assets for 2008 compared to 2007:

**PONTOTOC CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

**Table 1
Condensed Statement of Net Assets**

	2008	2007	Total Percentage Change 2007-2008
Current assets	\$ 6,608,036	\$ 6,063,153	8.99%
Capital assets, net	13,484,700	13,574,164	-0.66%
Total Assets	20,092,736	19,637,317	2.32%
Current liabilities	281,296	438,709	-35.88%
Long-term debt outstanding	2,436,112	3,347,911	-27.23%
Total Liabilities	2,717,408	3,786,620	-28.24%
Net assets:			
Invested in capital assets, net of related debt	11,166,295	10,353,692	7.85%
Restricted	5,323,451	4,753,551	11.99%
Unrestricted	885,582	743,454	19.12%
Total net assets	\$ 17,375,328	\$ 15,850,697	9.62%

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

- The district purchased three buses for \$197,989 during the year
- The principal retirement of \$902,066 of long-term debt

Changes in net assets. The District's total revenues increased 4.84% to \$18,469,390. (See Table 2) State revenues accounted for most of the District's revenue contributing about 60 cents of every dollar raised. (See Figure 1) Another 19% came from property taxes, 13% 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 8.01% to \$16,944,759. The District's expenses are predominantly related to educating students 65%. (See Figure 2)

Total revenues surpassed expenses, increasing net assets \$1,524,631 over last year.

Table 2 shows the changes in net assets for fiscal year 2008 compared to 2007:

**PONTOTOC CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

**Table 2
Changes in Net Assets**

	<u>2008</u>	<u>2007</u>	<u>Total Percentage Change 2007-2008</u>
Revenues:			
Program revenues:			
Charges for services	\$ 832,951	\$ 780,575	6.71%
Operating grants and contributions	2,370,047	2,178,841	8.78%
Capital grants and contributions	79,687	78,337	1.72%
General revenues:			
Property taxes	3,427,021	3,677,312	-6.81%
Grants and contributions not restricted:			
State	11,247,373	10,386,248	8.29%
Federal	80,100	77,313	3.60%
Unrestricted investment earnings	312,093	306,208	1.92%
Other	120,118	132,189	-9.13%
Total revenues	<u>18,469,390</u>	<u>17,617,023</u>	4.84%
Expenses:			
Instruction	11,091,911	9,925,156	11.76%
Support services	4,863,299	4,834,168	0.60%
Non-instructional	942,658	853,681	10.42%
Interest on long-term liabilities	46,891	75,224	-37.66%
Total expenses	<u>16,944,759</u>	<u>15,688,229</u>	8.01%
Increase in net assets	<u>1,524,631</u>	<u>1,928,794</u>	-20.95%
Net Assets, July 1	15,850,697	13,931,247	13.78%
Prior period adjustment	-	(9,344)	-100.00%
Net Assets, July 1 restated	<u>15,850,697</u>	<u>13,921,903</u>	13.85%
Net Assets, June 30	<u>\$17,375,328</u>	<u>\$ 15,850,697</u>	9.62%

PONTOTOC CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008

Figure 1
Sources of Revenues for Fiscal Year 2008

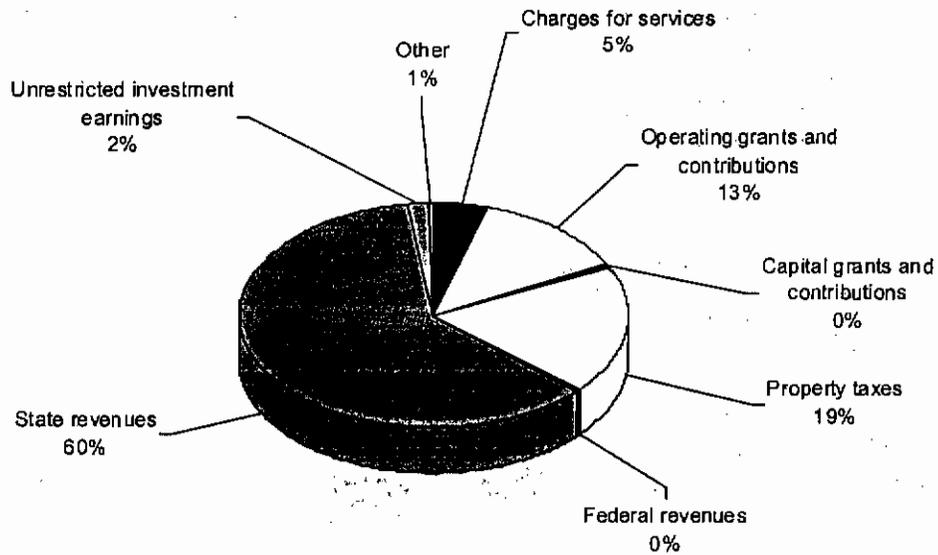
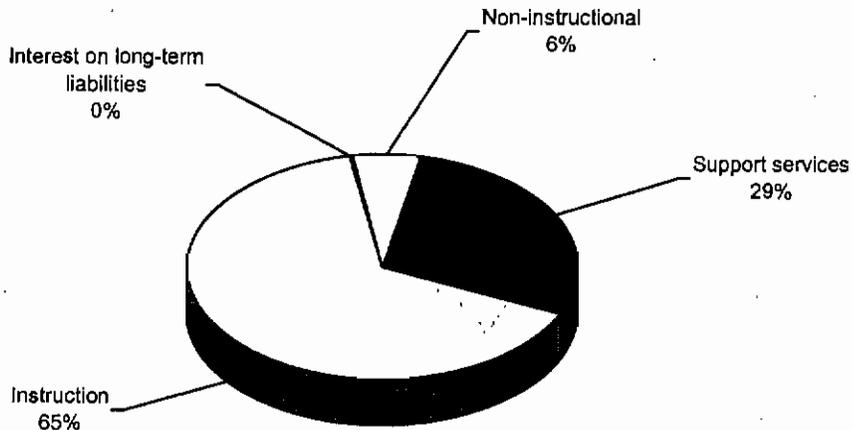


Figure 2
Expenses for Fiscal Year 2008



**PONTOTOC CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

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
	2008	2007	Change 2006-2007	2008	2007	Change 2006-2007
Instruction	\$11,091,911	\$ 9,925,156	11.76%	\$ (9,389,319)	\$ (8,342,162)	12.55%
Support services	4,863,299	4,834,168	0.60%	(4,253,112)	(4,272,237)	-0.45%
Non-instructional	942,658	853,681	10.42%	27,248	39,147	-30.40%
Interest on long-term liabilities	46,891	75,224	-37.66%	(46,891)	(75,224)	-37.66%
Total expenses	\$16,944,759	\$ 15,688,229	8.01%	\$ (13,662,074)	\$ (12,650,476)	8.00%

- Net cost of governmental activities \$13,662,074 was financed by general revenue, which is made up of primarily property taxes \$3,427,021 and state revenue of \$11,247,373.
- Investment earnings accounted for \$312,093 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 \$6,330,381, an increase of \$698,954. \$1,096,234 or 17.32% 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 \$5,234,147 or 82.68% is reserved or designated to indicate that it is not available for spending because it has already been committed for specified purposes.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$139,596.

**PONTOTOC CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

BUDGETARY HIGHLIGHTS

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

- Budget revisions were made to address and correct the original budgets to reflect more accurately the sources and uses of funding for the school district.
- Actual expenditures for General Fund were below budget, primarily because the District budgets from fund balance for unplanned expenditures (contingency). The district didn't spend the entire contingency amount.
- Budget amounts for Special Capital Projects Fund local revenue underestimated investment earnings in the amount of \$103,588.
- Budget amounts for Special Capital Projects Fund operating transfers in were increased to show an additional transfer from the General Fund in the amount of \$950,224.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2008, the District had invested \$13,484,700 in a broad range of capital assets, including land, school buildings, buses, other school vehicles and furniture and equipment. (See Table 4) This amount represents a net decrease of \$89,464, or -0.66%, from the previous year. Total accumulated depreciation as of June 30, 2008 was \$6,161,937 and total depreciation expense for the year was \$481,925 resulting in total net assets of \$13,484,700.

**PONTOTOC CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

Table 4 shows fiscal 2008 compared to 2007

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

	2008	2007	Total Percentage Change 2007-2008
Land	\$ 879,770	\$ 879,770	0.00%
Construction in progress	51,989	1,666,663	-96.88%
Buildings	9,895,627	8,449,758	17.11%
Building Improvements	1,692,746	1,693,737	-0.06%
Improvements other than buildings	200,683	211,035	-4.91%
Mobile Equipment	637,125	534,573	19.18%
Furniture and equipment	76,864	82,581	-6.92%
Leased property under capital leases	49,896	56,047	-10.97%
Totals	\$ 13,484,700	\$ 13,574,164	-0.66%

Additional information of the District's capital assets can be found in Note 5 on page 30 of this report.

Debt Administration. At June 30, 2008, the District had \$2,436,112 in general obligation bonds and other long-term debt outstanding, of which \$327,896 is due within one year.

Table 5 shows fiscal 2008 compared to 2007:

Table 5
Outstanding Long-Term Debt at June 30

	2008	2007	Total Percentage Change 2007-2008
General obligation bonds payable	\$ -	\$ 586,000	-100.00%
Limited obligation bonds payable	835,000	1,090,000	-23.39%
Qualified zone academy bonds and notes payable	1,423,200	1,448,000	-1.71%
Obligations under capital leases	60,205	96,471	-37.59%
Compensated absences payable	117,707	127,440	-7.64%
Totals	\$ 2,436,112	\$ 3,347,911	-27.23%

Additional information of the District's long-term debt can be found in Note 6 on page 31 of this report.

**PONTOTOC CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

CURRENT ISSUES

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

The District has committed itself to financial excellence for many years. The millage has decreased 5.54 mills from prior year. In addition, the District system of financial planning, budgeting and internal financial controls are well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

Latest enrollment figures indicate that student enrollment in the District will decrease by 1%. The budget for the next fiscal year has taken into account this change in both funding and staffing needs.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

Pontotoc City School District
Statement of Net Assets
June 30, 2008

Exhibit A

	Governmental Activities
ASSETS	
Cash and Cash Equivalents (Note 2)	\$ 4,931,809
Due from other governments	553,159
Accrued interest receivable	6,922
Other receivable	2
Inventories and prepaid items	28,501
Restricted assets (Note 4)	1,087,643
Capital Assets - Non-depreciable (Note 5)	
Land	879,770
Construction in progress	51,989
Capital Assets, net of accumulated depreciation (Note 5)	
Building	9,895,627
Building Improvements	1,692,746
Improvements Other Than Buildings	200,683
Mobile Equipment	637,125
Furniture and Equipment	76,864
Leased Property Under Capital Leases	49,896
Total Assets	20,092,736
LIABILITIES	
Accounts payable and accrued liabilities	277,031
Unearned revenue	624
Interest payable on long-term liabilities	3,641
Long-Term liabilities (due within one year) (Note 6)	
Capital related liabilities	327,896
Long-Term liabilities (due beyond one year) (Note 6)	
Capital related liabilities	1,990,509
Non-capital liabilities	117,707
Total Liabilities	2,717,408
NET ASSETS	
Invested in capital assets, net of related debt	11,166,295
Restricted Net Assets	
Expendable:	
School based activities	181,436
Debt Service	1,349,457
Capital Improvement	3,751,958
Unemployment	40,600
Unrestricted	885,582
Total Net Assets	\$ 17,375,328

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

Pontotoc City School District
Statement of Activities
For the Year Ended June 30, 2008

Exhibit B

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities					
Instruction	\$ 11,091,911	468,090	1,154,815	79,687	(9,389,319)
Support services	4,863,299	45,954	564,233		(4,253,112)
Noninstructional services	942,658	318,907	650,999		27,248
Interest on long-term liabilities	46,891	-	-	-	(46,891)
Total Governmental Activities	<u>16,944,759</u>	<u>832,951</u>	<u>2,370,047</u>	<u>79,687</u>	<u>(13,662,074)</u>

General Revenues:

Taxes:

General purpose levies	3,234,854
Debt purpose levies	192,167

Unrestricted grants and contributions

State	11,247,373
Federal	80,100

Unrestricted investment earnings 312,093

Other 120,118

Total General Revenues 15,186,705

Change in Net Assets 1,524,631

Net Assets-Beginning 15,850,697

Net Assets - Ending \$ 17,375,328

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

**Pontotoc City School District
Balance Sheet - Governmental Funds
June 30, 2008**

	Major Funds				Total Governmental Funds
	General	Special	QZAB	Other	
	Fund	Capital Projects Fund	Debt Service	Governmental	
ASSETS					
Cash and cash equivalents (Note 2)	\$ 1,928,747	2,353,878	11,364	637,820	4,931,809
Investments (Note 2)	-	-	877,286	210,357	1,087,643
Due from other governments	300,527	-	3,414	249,218	553,159
Accrued interest receivable	-	-	6,711	211	6,922
Due from other funds (Note 3)	109,506	1,235,000	-	2,075	1,346,581
Inventories and prepaid items	5,149	-	-	23,352	28,501
Total Assets	2,343,929	3,588,878	898,775	1,123,033	7,954,615
LIABILITIES AND FUND BALANCE					
Liabilities					
Accounts payable and accrued liabilities	103,565	1,658	-	171,808	277,031
Due to other funds (Note 3)	1,237,075	-	-	109,504	1,346,579
Unearned revenue	-	-	-	624	624
Total Liabilities	1,340,640	1,658	-	281,936	1,624,234
Fund Balances					
Reserved for:					
Inventory and prepaid items	5,149	-	-	23,352	28,501
Debt service	-	-	898,775	454,323	1,353,098
Ad valorem	59,990	-	-	-	59,990
Capital Projects funds	-	3,587,220	-	164,738	3,751,958
Unemployment benefits	-	-	-	40,600	40,600
Unreserved and Undesignated					
General fund	938,150	-	-	-	938,150
Special Revenue funds	-	-	-	158,084	158,084
Total Fund Balances	1,003,289	3,587,220	898,775	841,097	6,330,381
Total Liabilities and Fund Balances	\$ 2,343,929	3,588,878	898,775	1,123,033	7,954,615

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

Exhibit C-1

**Pontotoc City School District
Reconciliation of the Governmental Funds Balance Sheet to the
Statement Net Assets
For the Year Ended June 30, 2008**

	<u>Amount</u>
Total Fund Balances - Governmental Funds	\$ 6,330,381
Amounts reported for governmental activities in the Statement of Activities are different because	
1. Capital assets are used in governmental activities and are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$6,161,937.	13,484,700
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(2,436,112)
3. Governmental funds recognize interest on long-term debt when it becomes due, however the Statement of Net Assets recognizes interest as it accrues.	(3,641)
Total Net Assets - Governmental Activities	<u>\$ 17,375,328</u>

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

Pontotoc City School District
Statement of Revenues, Expenditures and Changes in Fund Balance-
Governmental Funds
For the Year Ended June 30, 2008

Exhibit D

	Major Funds				Total Governmental Funds
	General Fund	Special Capital Project Fund	QZAB Debt Service	Other Governmental	
Revenues					
Local sources	\$ 3,968,230	103,588	150,713	489,113	4,711,644
State sources	11,111,219	-	-	604,853	11,716,072
Federal sources	80,600	-	-	1,961,073	2,041,673
Total Revenues	15,160,049	103,588	150,713	3,055,039	18,469,389
Expenditures					
Instruction	9,735,880	-	-	1,253,572	10,989,452
Support services	4,118,586	18,258	-	558,403	4,695,247
Noninstructional services	-	-	-	944,296	944,296
Facilities acquisition and Construction	51,989	47,613	-	89,031	188,633
Debt Service:					
Principal	36,266	-	-	865,800	902,066
Interest	4,364	-	600	52,067	57,031
Total Expenditures	13,947,085	65,871	600	3,763,169	17,776,725
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,212,964	37,717	150,113	(708,130)	692,664
Other Financing Sources (Uses)					
Sale of other property	3,120	-	-	1,575	4,695
Operating transfers in	342,492	950,224	-	251,248	1,543,964
Operating transfers out	(1,418,980)	-	-	(124,984)	(1,543,964)
Total Other Financing Sources (Uses)	(1,073,368)	950,224	-	127,839	4,695
Net Change In Fund Balance	139,596	987,941	150,113	(580,291)	697,359
Fund Balances, July 1, 2007	863,693	2,599,279	748,662	1,419,793	5,631,427
Increase (Decrease) in Reserve for Inventory	-	-	-	1,595	1,595
Fund Balance, June 30, 2008	\$ 1,003,289	3,587,220	898,775	841,097	6,330,381

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

**Pontotoc City School District
 Reconciliation of the Governmental Funds Statement of Revenues,
 Expenditures and Changes in Fund Balances to the Statement of Activities
 For the Year Ended June 30, 2008**

Exhibit D-1

	<u>Amount</u>
Net Change in Fund Balances- Governmental Funds	\$ 697,359
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 purchases amounted to \$420,102 and the depreciation expense amounted to \$481,925. (Note 5)	(61,823)
2 Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Statement of Activities. (Note 6)	902,066
3 Decrease in accrued interest is reported as an adjustment to interest expense in the Statement of Activities.	8,304
4 Debt issuance cost are expensed in the governmental funds, but not in the Statement of Activities.	(4,962)
5 Decrease in compensated absences payable is reported as an adjustment to instruction, support services and noninstructional services.	9,733
6 Increase in inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional funds are decreased in the Statement of Activities.	1,595
7 Gains and losses on sale or disposal of assets are not reported in the governmental funds, but are reported in the Statement of Activities, net of proceeds.	<u>(27,641)</u>
Changes in Net Assets of Governmental Activities	<u>\$ 1,524,631</u>

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

**Pontotoc City School District
Statement of Fiduciary Assets and Liabilities
June 30, 2008**

Exhibit E

	<u>Fiduciary Fund Type</u>
	<u>Agency</u>
Assets	
Cash and cash equivalents (Note 2)	<u>\$ 581,607</u>
Total Assets	<u>581,607</u>
Liabilities	
Accounts payable & accrued liabilities	570,632
Due to student club	10,973
Due to other funds	<u>2</u>
Total Liabilities	<u>\$ 581,607</u>

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

**PONTOTOC CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

(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

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

For financial reporting purposes, Pontotoc City School District has included all funds and organizations. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District.

B. Basis of Presentation

Government-Wide Financial Statements:

The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

1. Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.
2. *Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.
3. *Unrestricted net assets* consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

**PONTOTOC CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

(1) Summary of Significant Accounting Policies (Continued)

Fund Financial Statements:

Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The school district reports the following major governmental funds:

General Fund – This is the school district’s primary operating fund. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support, and other costs.

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

Qualified Zone Academy Bond Debt Service Fund – This fund is to account for the accumulation of resources for and the payment of Qzab Bonds. Funds are being accumulated for payment when due at maturity.

All other governmental funds not meeting the criteria established for major funds are presented in the other governmental column of the fund financial statements.

The school district also reports fiduciary funds which focus on net assets and changes in net assets.

The District’s fiduciary funds included the following:

Activity Agency Fund – This fund is used to account for revenues and expenditures of various student clubs in the district.

Accounts Payable Clearing – This fund is used to account for the district’s claims payable and the payment of those claims.

Mediflex Fund – This fund is used to account for employee benefits payable and the payment of those benefits.

Payroll Clearing – This fund is used to account for salaries and related salaries expenditures payable and the payment of those payables.

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.

**PONTOTOC CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

(1) Summary of Significant Accounting Policies (Continued)

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.

C. Measurement Focus and Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting as are the Fiduciary Fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred or economic asset used, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and judgments, are recorded only when payment is due.

Federal grants and assistance awards made on the basis of entitlement periods are recorded as receivables and revenues when entitlement occurs. Federal reimbursement type grants are recorded as revenues when the related expenditures are recognized. Use of grant resources is conditioned upon compliance with terms of the grant agreements and applicable federal regulation, which include subjecting grants to financial and compliance audits.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual.

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

Capital assets acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

The effect of interfund activity has been eliminated from the government-wide statements.

Revenues from the Mississippi Adequate Education Program Revenues are appropriated on a fiscal year basis and are recorded at the time the revenues are received from the State of Mississippi.

**PONTOTOC CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

(1) Summary of Significant Accounting Policies (Continued)

D. Account Classifications

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

E. Encumbrances

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

F. Assets, liabilities, and net assets or equity

1. Cash, Cash equivalents and Investments

Cash and cash equivalents.

The district's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments investments with original maturities of three months or less from the date of acquisition. 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.

Investments.

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

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

Investments for the district are reported at fair market value.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i/e/ the non-current portion of interfund loans. All other outstanding balances between funds as reported as "due to/from other funds."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

**PONTOTOC CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

(1) Summary of Significant Accounting Policies (Continued)

3. Due from Other Governments

Due from other governments represents amounts due from the State of Mississippi, and various grants and reimbursements from other governments.

4. Inventories and Prepaid Items

Donated commodities 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 cost of governmental fund type inventories are reported as expenditures when purchased.

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

5. Restricted Assets

Certain resources set aside for repayment of debt are classified as restricted assets on the balance sheet because their use is limited by applicable debt statutes. Also, the nonexpendable portion of the Permanent Fund, if applicable, is classified as restricted assets because the 16th Section Principal fund is not available for use by the district except as provided for under state statute for loans from this account.

6. Capital Assets

Capital assets, which include property, plant, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost or estimated historical cost based on appraisals or deflated current replacement cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial individual cost in excess of the thresholds in the following table and estimated useful lives in excess of two years.

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.

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

**PONTOTOC CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

(1) Summary of Significant Accounting Policies (Continued)

6. 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 (5) for details.

7. Compensated Absences

Employees of the school district accumulate sick leave at a minimum amount as required by state law. A greater amount may be provided by school district policy provided that it does not exceed the provisions for leave as provided in Sections 25-3-93 and 25-3-95. 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, an employee retires.

8. Long-term Liabilities, Deferred Debt Expense, and Bond Discounts/Premiums

In the government-wide proprietary and component unit financial statements, outstanding debt is reported as liabilities. Bond issue cost, bond discounts or premiums, and the difference between reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures. See Note (6) for details.

**PONTOTOC CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

(1) Summary of Significant Accounting Policies (Continued)

9. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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

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

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

Reserved for prepaid items- An account that represents a portion of the fund balance which indicates that prepaid expenses do not represent available spendable resources even though they are a part of net current assets.

Reserved for ad valorem - An account used to record the ad valorem taxes collected in excess of legal limitations for the current year.

Reserved for capital project - 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.

Reserved for debt services- An account that represents that portion of the 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.

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

Unreserved, undesignated - An account that represents the portion of fund balance that is expendable available financial resources.

(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 pledged for the school district's deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation.

**PONTOTOC CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

(2) Cash and Cash Equivalents and Investments (Continued)

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 (Debts Service Funds) must be credited to those funds. Investment income of \$100 or more of any fund must be credited to that fund. Amounts less than \$100 can be credited to the General Fund.

Cash and Cash Equivalents.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$4,931,809 and \$581,607, respectively. The bank balance was \$6,549,266.

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 deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2008, none of the district's bank balance of \$6,549,266 was exposed to custodial credit risk.

**PONTOTOC CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

(2) Cash and Cash Equivalents and Investments (Continued)

Investments.

As of June 30, 2008, the district had the following investments. All investments are in an internal investment pool.

<u>Investment Type</u>	<u>Maturities (in years)</u>	<u>Fair Value</u>	<u>Rating</u>
Federal National Mortgage Note	Less than 1	\$ 780,012	AAA
Performance US Treasury Fund	Less than 1	97,274	Not Rated
Hancock Horizon Treasury Securities Money Market Mutual Fund	Less than 1	<u>210,357</u>	AAA
Total Investments		<u>\$ 1,087,643</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 the failure of the counterparty, 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. The investment in Hancock Horizon Treasury Securities Money Market Mutual Fund is uninsured and unregistered and is not backed by the full faith and credit of the federal government.

Concentration of Credit Risk. Disclosures of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U. S. Government, investments in mutual funds and external investment pools, and other pooled investments. As of June 30, 2008, the district had the following investments:

<u>Issuer</u>	<u>Fair Value</u>	<u>% of Total Investments</u>
Federal National Mortgage Note	\$ 780,012	72%
Hancock Horizon Treasury Securities Money Market Fund	210,357	19%
Performance U S Treasury Fund	97,274	9%
	<u>\$ 1,087,643</u>	

**PONTOTOC CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

(3) Interfund Receivables, Payables and Transfers

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds:

	Due From	Due To
Major funds:		
General fund	\$ 109,506	\$ 1,237,075
Other major funds		
Special Capital Projects	1,235,000	
Other governmental funds	2,075	109,504
Total governmental funds	1,346,581	1,346,579
Fiduciary funds	-	2
Total all funds	\$ 1,346,851	\$ 1,346,581

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

B. Transfers In/Out

	Transfers In	Transfers Out
Major Funds		
General fund	\$ 342,492	\$ 1,418,980
Other Major Funds		
Special Capital Project	950,224	
Other governmental funds	251,248	124,984
Total funds	\$ 1,543,964	1,543,964

Operating transfers were for indirect cost to the General Fund for \$57,716. \$67,268 was transferred to the Qzab Note Debt Service Retirement Fund from a closed out debt service fund. At year end the District transferred \$950,224 to the Special Capital Project Fund.

**PONTOTOC CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

(4) Restricted Assets

The restricted assets represent the investment balance, totaling \$ 877,286 of the QZAB Bond Retirement Fund.

In addition, the restricted assets represent the investment balance, totaling \$210,357 of the MAEP Limited Obligation Note Fund.

(5) Capital Assets

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

	Balance 7/1/2007	Additions	Retirements	Completed Construction	Balance 6/30/2008
Non-depreciable capital					
Land	879,770		-	-	879,770
Construction in Progress	\$ 1,666,663	188,633	-	(1,803,307)	51,989
Total non-depreciable	2,546,433	188,633	-	(1,803,307)	931,759
Depreciable capital assets:					
Buildings	12,302,560	-	-	1,707,526	14,010,086
Building Improvements	2,323,508	-	-	95,781	2,419,289
Improvements other than buildings	397,036	-	-	-	397,036
Mobile equipment	1,284,125	214,999	102,563	-	1,396,561
Furniture and equipment	421,509	16,470	14,423	-	423,556
Leased property under capital leases	68,350	-	-	-	68,350
Total depreciable capital	16,797,088	231,469	116,986	1,803,307	18,714,878
Less accumulated depreciation					
Buildings	3,852,802	261,657	-	-	4,114,459
Building improvements	629,771	96,772	-	-	726,543
Improvements other than buildings	186,001	10,352	-	-	196,353
Mobile equipment	749,552	88,826	78,942	-	759,436
Furniture and equipment	338,928	18,167	10,403	-	346,692
Leased property under capital leases	12,303	6,151	-	-	18,454
Total accumulated depreciation	5,769,357	481,925	89,345	-	6,161,937
Total Depreciable capital assets, net	11,027,731	(250,456)	27,641	1,803,307	12,552,941
Governmental activities capital assets, net	\$ 13,574,164	(61,823)	27,641	-	13,484,700

**PONTOTOC CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

(5) Capital Assets (Continued)

Depreciation expense was charged to the following governmental functions:

	<u>Amount</u>
Instruction	\$ 126,246
Support services	<u>355,679</u>
 Total depreciation expense	 <u>\$ 481,925</u>

Commitments under construction contracts – Construction in progress consists of a steel building purchased by the District for which electrical wiring and plumbing are to be installed. There are no outstanding contracts for these services, therefore, there are no commitments under construction.

(6) Long-term liabilities

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

	Balance			Balance	Amounts due
	7/1/2007	Additions	Reductions	6/30/2008	within one year
A. General obligations					
bonds payable	\$ 586,000	-	586,000	-	
B. Limited obligation					
bonds payable	1,090,000	-	255,000	835,000	265,000
C. Obligations under					
capital lease	96,471	-	36,266	60,205	38,096
Payable					
D. Qualified Zone Academy					
bonds and notes payable	1,448,000	-	24,800	1,423,200	24,800
E. Compensated					
absences payable	<u>127,440</u>	<u>-</u>	<u>9,733</u>	<u>117,707</u>	<u>-</u>
	<u>\$ 3,347,911</u>	<u>-</u>	<u>911,799</u>	<u>2,436,112</u>	<u>327,896</u>

B. Limited obligation bonds payable.

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State aid capital improvement Series 1997	4.25-5.75%	12/18/97	12/01/10	\$ 2,570,000	835,000
Total				<u>\$ 2,570,000</u>	<u>835,000</u>

**PONTOTOC CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

(6) Long-term liabilities – (Continued)

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

Year Ending June 30	Principal	Interest	Total
2009	\$ 265,000	31,613	296,613
2010	280,000	19,350	299,350
2011	290,000	6,525	296,525
Total	<u>\$ 835,000</u>	<u>57,488</u>	<u>892,488</u>

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

C. Obligations under capital leases.

The school district has entered into lease agreements, which qualify as capital leases for accounting purposes, for the acquisition of the following:

1. Computer Equipment at a cost of \$69,690
2. School Bus at a cost of \$62,071

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

Year Ending 30-Jun	Principal	Interest and Maintenance Charges	Total
2009	\$ 38,096	2,533	40,629
2010	14,556	924	15,480
2011	7,553	188	7,741
Total	<u>\$ 60,205</u>	<u>3,645</u>	<u>63,850</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 CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

(6) Long-term liabilities – (Continued)

D. Qualified zone academy bonds payable.

As more fully explained in Note 10, debt has been issued by the school district that qualifies as Qualified Zone Academy Bonds in the amount of \$1,200,000. These funds are being deposited into an escrow account each year.

A second trust agreement for a QZAB Note, dated September 15, 2006, was executed by and between the school district and Trustmark National Bank, as trustees. This agreement authorizes the issuance of trust certificates in the principal amount of \$248,000. This second trust agreement is being paid currently, rather than being escrowed.

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Qualified Zone Academy Bonds	N/A	7/20/00	7/20/10	\$ 1,200,000	1,200,000
Qualified Zone Academy Notes	N/A	9/15/06	9/15/16	248,000	223,200
Total				\$ 1,448,000	1,423,200

The following is a schedule by year of the total payments due on the second trust agreement:

Year Ending June 30	Principal	Interest	Total
2009	\$ 24,800	-	24,800
2010	24,800	-	24,800
2011	24,800	-	24,800
2012	24,800	-	24,800
2013	24,800	-	24,800
2014-2017	99,200	-	99,200
Total	\$ 223,200	-	223,200

Each of these issues will be retired from separate debt service funds.

E. Compensated absences payable.

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

(7) Defined Benefit Pension Plan

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

**PONTOTOC CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

(7) Defined Benefit Pension Plan - continued

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary and the school district is required to contribute at an actuarially determined rate. The employer's rate for fiscal year ended June, 30, 2008 was 11.85% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The Pontotoc City School District's contributions to PERS for the years ending June 30, 2008, 2007, and 2006, were \$1,141,622, \$1,031,402, and \$886,979, respectively, equal to the required contributions for each year.

(8) Contingencies.

Federal Grants. – The school district has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowances resulting from the grantor audit may become a liability of the school district.

(9) Risk Management

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

Participation in Public Entity Risk Pool.

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 95 school districts and one community college and covers risks of loss arising from injuries to the member's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by Wells Fargo in Portland, Oregon. The funds in the trust account are used to pay any claim up to \$750,000. For a claim exceeding \$750,000, MSBAWCT has insurance which will pay the excess up to the statutory amount required by the Mississippi Workers Compensation Commission Act. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies.

The district has not had an additional assessment for excess losses incurred by the pool.

**PONTOTOC CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

(10) Qualified Zone Academy Bonds

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

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

These agreements establish a method of repayment for a qualified interest-free debt instrument. The agreements require the school district to deposit funds annually into a sinking fund account on or before July 1. The amount accumulated in the sinking fund at the end of the ten-year period will be sufficient to retire the debt. The following schedule reports the yearly deposits to be made to the sinking fund by the school district.

A second trust agreement dated September 15, 2006, was executed by and between the school district and Trustmark National Bank, as trustees. This agreement authorizes the issuance of trust certificates in the principal amount of \$248,000, which is being paid currently. Approximately \$240,739 was used to provide financing for the renovation, repair and equipping the Pontotoc High School ; the remainder of approximately \$7,261 was used to pay the cost of issuance. Debt retirement payments are shown in Note 6(D).

Debt service on QZAB Bonds dated 2000: These funds are being escrowed.

Year Ending	Principal
June 30,	
2009	\$ 95,000
2010	95,000
	\$ 190,000

(11) Vocational Education Consortium

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

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

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

Pontotoc City School District
Budgetary Comparison Schedule for the General Fund
For the Year Ended June 30, 2008

Schedule 1

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
	Original	Final		Original to Final	Final to Actual
Revenue					
Local Sources	\$ 3,846,907	\$ 3,968,230	\$ 3,968,230	\$ 121,323	\$ -
State Sources	10,989,539	11,111,219	11,111,219	121,680	-
Federal Sources	58,243	80,600	80,600	22,357	-
Total Revenues	<u>14,894,689</u>	<u>15,160,049</u>	<u>15,160,049</u>	<u>265,360</u>	<u>-</u>
Expenditures					
Instruction	11,386,355	9,735,880	9,735,880	1,650,475	-
Support Services	4,602,389	4,085,103	4,118,586	517,286	(33,483)
Facilities Acquisition & Construction	-	85,472	51,989	(85,472)	33,483
Debt Service:					
Principal	40,629	40,629	36,266	(0)	4,363
Interest	-	-	4,364	-	(4,364)
Total Expenditures	<u>16,029,373</u>	<u>13,947,084</u>	<u>13,947,085</u>	<u>2,082,289</u>	<u>(1)</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(1,134,684)</u>	<u>1,212,965</u>	<u>1,212,964</u>	<u>2,347,649</u>	<u>(1)</u>
Other Financing Sources (Uses)					
Sale of other property		3,120	3,120	3,120	-
Operating Transfers In	50,000	342,491	342,492	292,491	1
Operating Transfers Out	(129,177)	(1,418,980)	(1,418,980)	(1,289,803)	-
Total Other Financing Sources (Uses)	<u>(79,177)</u>	<u>(1,073,369)</u>	<u>(1,073,368)</u>	<u>(994,192)</u>	<u>1</u>
Net Change in Fund Balance	<u>(1,213,861)</u>	<u>139,596</u>	<u>139,596</u>	<u>1,353,457</u>	<u>-</u>
Fund Balances					
July 1, 2007	863,694	863,694	863,693	-	(1)
June 30, 2008	<u>\$ (350,167)</u>	<u>\$ 1,003,290</u>	<u>\$ 1,003,289</u>	<u>\$ 1,353,457</u>	<u>\$ (1)</u>

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

**PONTOTOC CITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2008**

(1) Basis of Presentation

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

(2) Budget amendments and revisions

The budget is adopted by the school board and filed with the taxing authority. Amendments can be made on the approval of the school board. By statute, final budget revisions must be approved on or before October 15. A budgetary comparison is presented for the general fund and each major special revenue fund consistent with accounting principles generally accepted in the United States of America.

**Pontotoc City School District
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008**

Schedule 2

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance #	Federal Expenditures
U. S. Department of Agriculture		
Passed-through MS Department of Education:		
Child Nutrition Cluster:		
School breakfast program	10.553	169,783
National school lunch program	10.555	492,118
Total Child Nutrition Cluster		661,901
Fresh Fruit and Vegetable Program	10.582	30,523
Total Passed-through MDE		692,424
Total U. S. Department of Agriculture		692,424
Federal Communications Commission		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the universal service fund	32.xx	33,106
Total Federal Communications Commission		33,106
U.S. Department of Education		
Passed-through Mississippi Department of Education:		
Special Education Cluster		
Special education - grants to states	84.027	535,422
Special education - preschool grants	84.173	26,743
Total Special Education Cluster		562,165
Title I - grants to local education agencies	84.010	441,730
Safe and drug-free schools and communities - state grants	84.186	17,071
State Grants for Innovative Programs	84.298	9,197
Improving Teacher Quality - state grants	84.367	90,996
Educational Technology - state grants	84.318	9,728
English language acquisition grants	84.365	1,515
Teacher Quality Enhancement Grant	84.336	500
Rural Education	84.358	128,432
Total Passed-through MDE		1,261,334
Total U.S. Department of Education		1,261,334
Total for All Federal Awards		\$ 1,986,864

Notes to Schedule

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

Pontotoc City School District
Schedule of Instructional, Administrative and Other Expenditures -Governmental Funds
For the Year Ended June 30, 2008

Schedule 3

<u>Expenditures</u>	<u>Total</u>	<u>Instructional and Other Student Instructional Expenditures</u>	<u>General Administration</u>	<u>School Administration</u>	<u>Other</u>
Salaries & Fringe Benefits	\$ 12,269,166	9,666,363	510,734	708,093	1,383,976
Other	5,507,559	2,403,604	64,974	18,428	3,020,553
Total	<u>\$ 17,776,725</u>	<u>12,069,967</u>	<u>575,708</u>	<u>726,521</u>	<u>4,404,529</u>
Total number of students*	<u>2,120</u>				
Cost per student	<u>8,385</u>	<u>5,693</u>	<u>271</u>	<u>343</u>	<u>2,078</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 and 2200 instructional codes)

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

School Administration---includes expenditures for the functions Support Services – School Administration (2400s).

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

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

Pontotoc City School District
Statement of Revenues, Expenditures and Changes in Fund Balance-
General Funds
Last Four Years

UNAUDITED

Revenues	2008	2007*	2006*	2005*
Local sources	\$ 3,968,230	3,678,043	3,509,384	3,348,424
State sources	11,111,219	10,252,523	9,758,708	9,189,046
Federal sources	80,600	62,618	70,627	96,817
Total Revenues	15,160,049	13,993,184	13,338,719	12,634,287
Expenditures				
Instruction	9,735,880	8,724,850	8,726,023	8,180,682
Support services	4,118,586	4,128,062	3,688,706	3,303,070
Noninstructional services	-	-	-	-
Facilities acquisition and Construction	51,989	30,000	18,000	135,000
Debt Service:				
Principle	36,266	35,290	6,279	3,256
Interest	4,364	5,339	1,429	-
Total Expenditures	13,947,085	12,923,541	12,440,437	11,622,008
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,212,964	1,069,643	898,282	1,012,279
Other Financing Sources (Uses)				
Extraordinary Item	-	-	-	150,000
Proceeds of loans	-	-	61,840	-
Inception of Capital Leases	-	-	138,040	-
Sale of Other Property	3,120	2,455	-	201
Operating transfers in	342,492	25,000	25,000	131,299
Operating transfers out	(1,418,980)	(1,095,991)	(1,142,536)	(1,476,423)
Total Other Financing Sources (Uses)	(1,073,368)	(1,068,536)	(917,656)	(1,194,923)
Net Change in Fund Balance	139,596	1,107	(19,374)	(182,644)
Fund Balances, July 1	863,693	871,930	891,304	1,073,948
Prior Period Adjustment	-	(9,344)	-	-
Fund Balances as Restated	863,693	862,586	891,304	1,073,948
Fund Balance, June 30	\$ 1,003,289	863,693	871,930	891,304

* SOURCE - PRIOR YEAR AUDIT REPORTS

Pontotoc City School District
Statement of Revenues, Expenditures and Changes in Fund Balance-
Governmental Funds
Last Four Years

UNAUDITED

Revenues	2008	2007*	2006*	2005*
Local sources	\$ 4,711,644	4,909,297	4,760,099	4,489,975
State sources	11,716,072	10,835,452	10,326,890	9,743,599
Federal sources	2,041,673	1,872,286	1,725,425	1,821,169
Total Revenues	18,469,389	17,617,035	16,812,414	16,054,743
Expenditures				
Instruction	10,989,452	9,874,861	9,771,082	9,319,938
Support services	4,695,247	4,654,771	4,264,274	3,885,706
Noninstructional services	944,296	850,650	830,514	799,040
Facilities acquisition and Construction	188,633	1,624,963	89,700	135,000
Debt Service:				
Principal	902,066	912,130	789,279	771,185
Interest	57,031	92,559	103,380	153,872
Other Financing Uses	-	-	1,151	52,068
Total Expenditures	17,776,725	18,009,934	15,849,380	15,116,809
Excess (Deficiency) of Revenues Over (Under) Expenditures	692,664	(392,899)	963,034	937,934
Other Financing Sources (Uses)				
Extraordinary loans	-	-	-	150,000
Inception of Capital leases	-	248,000	61,840	-
Sale of Other Property	4,695	2,455	138,040	201
Operating transfers in	1,543,964	1,122,562	1,178,093	1,501,423
Operating transfers out	(1,543,964)	(1,122,562)	(1,178,093)	(1,501,423)
Proceeds of Refunding Bonds	-	-	-	1,704,000
Payment to Refunded Bond Escrow	-	-	-	(1,672,621)
Total Other Financing Sources (Uses)	4,695	250,455	199,880	181,580
Net Change in Fund Balance	697,359	(142,444)	1,162,914	1,119,514
Fund Balances, July 1	5,631,427	5,786,061	4,619,053	3,494,386
Prior Period Adjustment	-	(9,344)	-	-
Fund Balances as Restated	5,631,427	5,776,717	4,619,053	3,494,386
Increase (Decrease) in Reserve for Inventory	1,595	(2,846)	4,094	5,153
Fund Balance, June 30	\$ 6,330,381	5,631,427	5,786,061	4,619,053

*SOURCE - PRIOR YEAR AUDIT REPORTS

PONTOTOC CITY SCHOOL DISTRICT

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

Superintendent and School Board
Pontotoc City School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Pontotoc City School District as of and for the year ended June 30, 2008, which collectively comprise the Pontotoc City School District's basic financial statements and have issued our report thereon dated September 28, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as Finding 2008-01 to be a significant deficiency in internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or matters that are required to be reported under Government Auditing Standards. However, we noted a certain immaterial instance of noncompliance or other matter that we have reported to management of the school district in a separate letter dated September 28, 2009, which is included in this report.

Pontotoc School District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Pontotoc School District's response and, accordingly, we express no opinion on it.

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

Brauner, Van Stoy & Co. P.A.

September 28, 2009
Booneville, Mississippi



Certified Public Accountants

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**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 City School District

Compliance

We have audited the compliance of the Pontotoc City School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The school district's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the school district's management. Our responsibility is to express an opinion on the school district's compliance based on our audit.

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

In our opinion, Pontotoc City School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the Pontotoc City School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the school district's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the school district's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

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

Brauner, Vanstary & Co. P.A.

September 28, 2009
Booneville, Mississippi



Certified Public Accountants
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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
STATE LAWS AND REGULATIONS**

Superintendent and School Board
Pontotoc City School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Pontotoc City School District as of and for the year ended June 30, 2008, which collectively comprise Pontotoc City School District's basic financial statements and have issued our report thereon dated September 28, 2009. We conducted our audit in accordance with auditing standards, generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$7,200 of classroom supply funds carried over from previous years.

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

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

The results of procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements disclosed the following immaterial instance of noncompliance with other state laws and regulation. Our finding and recommendation and your response are as follows:

Finding:

The District accepted a bid from a bank, for a depository of funds, which resulted in a contract in which a member of the school board had an indirect interest.

Recommendation:

If the conflict of interest occurs in the future, the bids should be forwarded to the State Treasurer for acceptance.

Response:

The bids will be directed to the State Treasurer's Office in the future for evaluating.

The Office of the State Auditor or a public accounting firm will review, on the subsequent year's audit engagement, the finding in this report to insure that corrective action has been taken.

The Pontotoc School District's response to the finding included in this report was not audited and, accordingly, we express no opinion on it.

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

Brauner, Vanstey & Co. P.A.

September 28, 2009
Booneville, Mississippi

**PONTOTOC CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008**

Section 1: Summary of Auditors' Results

Financial Statements:

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

Federal Awards:

- | | | |
|----|---|---------------|
| 4. | Type of auditors' report issued on compliance for major federal programs: | Unqualified |
| 5. | Internal control over major programs: | |
| a. | Material weakness(es) identified? | No |
| b. | Significant deficiency(ies) identified that are not considered to be material weaknesses? | None Reported |
| 6. | Any audit findings reported as required by Section ___510(a) of OMB Circular A-133? | No |
| 7. | Federal programs identified as major programs: | |

CFDA # 84.010 Title I

CFDA # 84.027 Special Education Cluster
84.173

**PONTOTOC CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008**

Section 1: Summary of Auditors' Results (Continued)

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

Section 2: Financial Statement Findings

Significant Deficiency Not considered to Be a Material Weakness.

Finding 2008-1 Athletic Activity receipts should be supported by adequate documentation

Finding

It is management's responsibility to establish controls for insuring that all athletic receipts are supported by adequate documentation to support the money received.

During the test of athletic receipts, the supporting documentation examined for entrance into home ballgames was incomplete or improperly completed, therefore making it difficult to determine if all money was properly received.

Incomplete or improperly completed gate receipts could result in loss of revenue.

Recommendation

The personnel in charge of gate receipts should be instructed as to the proper way to prepare complete and adequate documentation.

Response

The personnel in charge of gate receipts will be instructed as to the proper way to prepare gate receipts in order to provide complete and adequate documentation.

Section 3: Federal Award Findings and Questioned Costs

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

Pontotoc City School District
140 Education Drive
Pontotoc, Mississippi 38863

Adam G. Pugh, Ph. D.
Superintendent

Office 662-48-3336
Fax 662-489-7932

PRIOR AUDIT FINDINGS

As required by Section ____315 (c) of OMB Circular a-133, the Pontotoc City School District has prepared and hereby submits the following status of findings as of June 30, 2008

FINDING

STATUS

2007-1

Corrected November 1, 2007

