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PONTOTOC COUNTY SCHOOL DISTRICT
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

**PONTOTOC COUNTY SCHOOL DISTRICT
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

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INDEPENDENT AUDITORS' REPORT



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INDEPENDENT AUDITORS' REPORT

Superintendent and School Board
Pontotoc County School District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Pontotoc County School District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Pontotoc County School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 County School District, as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 8-17 and 46-47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Pontotoc County School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by the Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133), the Schedule of Instructional, Administrative, and Other Expenditures for Governmental Funds, and the other 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 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying Schedule of Expenditures of Federal Awards, as required by the Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133) and the Schedule of Instructional, Administrative, and Other Expenditures for Governmental Funds are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information mentioned above is fairly stated in all material respects in relation to the basic financial statements as a whole.

The other 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 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2014, on our consideration of the Pontotoc County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pontotoc County School District's internal control over financial reporting and compliance.

Eaton, Babb + Smith

Ripley, Mississippi
December 15, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

PONTOTOC COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014

The following discussion and analysis of Pontotoc County School District's financial performance provides an overview of the School District's financial activities for the year ended June 30, 2014. The intent of this discussion and analysis is to look at the School District's performance as a whole. Readers are encouraged to review the financial statements and the notes to the financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

- Total net position for 2014 decreased \$1,041,075, which represents a 9.26% decrease from fiscal year 2013. Total net position for 2013 increased \$364,791, which represents a 3.36% increase from fiscal year 2012.
- General revenues amounted to \$21,905,358 and \$21,606,893, or 81.56% and 82.51% of all revenues for fiscal years 2014 and 2013, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$4,952,492, or 18.44% of total revenues for 2014, and \$4,579,022, or 17.49% of total revenues for 2013.
- The District had \$27,898,925 and \$25,821,124 in expenses for fiscal years 2014 and 2013; only \$4,952,492 for 2014 and \$4,579,022 for 2013 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$21,905,358 for 2014 were not adequate to provide for these programs and \$21,606,893 for 2013 were adequate to provide for these programs.
- Among major funds, the General Fund had \$21,226,298 in revenues and \$22,247,804 in expenditures for 2014, and \$21,008,373 in revenues and \$21,444,587 in expenditures in 2013. The General Fund's fund balance decreased by \$389,271 from 2013 to 2014, and decreased by \$201,134 from 2012 to 2013.
- Capital assets, net of accumulated depreciation, decreased by \$404,380 for 2014 and increased by \$297,117 for 2013. The decrease for 2014 was due to the reroofing project addition for the amount of \$278,388 in building improvements and the disposal of 16 buses for the amount of \$611,532 in mobile equipment, coupled with the increase in accumulated depreciation.
- Long-term debt increased by \$95,155 for 2014 and increased by \$149,559 for 2013. This increase for 2014 was due primarily to the issuance of shortfall notes in the amount of \$317,267, the issuance of obligations under capital leases in the amount of \$462,250 and principal payments on outstanding long-term debt. The liability for compensated absences increased by \$64,863 for 2014 and decreased by \$9,167 for 2013.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the District's basic financial statements, which include government-wide financial statements, fund financial statements, and notes to the financial statements. This report also contains required supplementary information, supplementary information, and other information.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the District's finances. These statements consist of the Statement of Net Position and the Statement of Activities, which are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. The current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Position presents information on all the District's nonfiduciary assets and liabilities, with the differences between the two reported as "net position." Over time, increases or decreases in the

PONTOTOC COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014

District's net position may serve as a useful indicator of whether its financial position is improving or deteriorating.

The Statement of Activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position 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 periods.

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.

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 – Most of the District's general activities are reported in its governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, governmental funds are accounted for using the modified accrual basis of accounting and the flow of current financial resources measurement focus. The approach focuses on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at year end. The governmental fund statements provide a detailed view of the District's near-term financing requirements.

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, the reader may gain a better understanding of the long-term impact of the District's near-term financing decisions. The governmental funds Balance Sheet is reconciled to the Statement of Net Position, and the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances is reconciled to the Statement of Activities to facilitate this comparison between governmental funds and governmental activities.

The District maintains individual governmental funds in accordance with the *Financial Accounting Manual for Mississippi Public School Districts*. Information is presented separately in the governmental funds Balance Sheet and in the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances for all major funds. All non-major funds are combined and presented in these reports as other governmental funds.

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. These funds are reported using the accrual basis of accounting. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

Reconciliation of Government-wide and Fund Financial Statements

The financial statements include two schedules that reconcile the amounts reported on the governmental funds financial statements (modified accrual basis of accounting) with government-wide financial statements (accrual basis of accounting). The following summarizes the major differences between the two statements:

PONTOTOC COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014

Capital assets used in governmental activities are not reported on governmental funds financial statements.

Capital outlay spending results in capital assets on government-wide financial statements, but is reported as expenditures on the governmental funds financial statements.

Bond and note proceeds result in liabilities on government-wide financial statements, but are recorded as other financing sources on the governmental funds financial statements.

Certain other outflows represent either increases or decreases in liabilities on the government-wide financial statements, but are reported as expenditures on the governmental funds financial statements.

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 immediately following the basic financial statements.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents budgetary comparison schedules as required supplemental information. The District adopts an annual operating budget for all governmental funds. A budgetary comparison schedule has been provided for the General Fund as required by the Governmental Accounting Standards Board.

Supplementary Information

Additionally, a Schedule of Expenditures of Federal Awards as required by OMB Circular A-133 and a Schedule of Instructional, Administrative and Other Expenditures for governmental funds can be found in this report.

Other Information

Although not a required part of the basic financial statements, 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.

PONTOTOC COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position

Net position may serve over time as a useful indicator of the District's financial position. Assets exceeded liabilities by \$10,196,124 as of June 30, 2014.

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 presents a summary of the District's net position at June 30, 2014 and June 30, 2013.

**Table 1
Condensed Statement of Net Position**

	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>Percentage Change</u>
Current assets	\$ 3,853,105	\$ 4,311,724	-10.64 %
Restricted assets	394,353	386,486	2.04 %
Capital assets, net	13,199,270	13,603,650	-2.97 %
Total assets	<u>17,446,728</u>	<u>18,301,860</u>	-4.67 %
Current liabilities	529,622	438,834	20.69 %
Long-term debt outstanding	6,720,982	6,625,827	1.44 %
Total liabilities	<u>7,250,604</u>	<u>7,064,661</u>	2.63 %
Net position:			
Net investment in capital assets	7,077,130	7,194,535	-1.63 %
Restricted	1,378,405	1,517,390	-9.16 %
Unrestricted	1,740,589	2,525,274	-31.07 %
Total net position	<u>\$ 10,196,124</u>	<u>\$ 11,237,199</u>	-9.26 %

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

- Decrease in net capital assets in the amount of \$404,380.
- The principal retirement of \$749,225 of long-term debt.

PONTOTOC COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014

Changes in net position

The District's total revenues for the fiscal years ended June 30, 2014 and June 30, 2013 were \$26,857,850 and \$26,185,915, respectively. The total cost of all programs and services was \$27,898,925 for 2014 and \$25,821,124 for 2013.

Table 2 presents a summary of the changes in net position for the fiscal years ended June 30, 2014 and June 30, 2013.

**Table 2
Changes in Net Position**

	<u>Year Ended June 30, 2014</u>	<u>Year Ended June 30, 2013</u>	<u>Percentage Change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 887,275	\$ 944,502	-6.06 %
Operating grants and contributions	4,012,493	3,559,961	12.71 %
Capital grants and contributions	52,724	74,559	-29.29 %
General revenues:			
Property taxes	4,088,951	4,011,803	1.92 %
Grants and contributions not restricted	17,105,888	16,917,443	1.11 %
Investment earnings	24,762	26,565	-6.79 %
Other	685,757	651,082	5.33 %
Total revenues	<u>26,857,850</u>	<u>26,185,915</u>	2.57 %
Expenses:			
Instruction	17,057,047	15,917,535	7.16 %
Support services	8,752,923	7,888,958	10.95 %
Non-instructional	1,796,598	1,716,914	4.64 %
Interest on long-term liabilities	292,357	297,717	-1.80 %
Total expenses	<u>27,898,925</u>	<u>25,821,124</u>	8.05 %
Increase (Decrease) in net position	<u>(1,041,075)</u>	<u>364,791</u>	-385.39 %
Net Position, July 1	<u>11,237,199</u>	<u>10,872,408</u>	3.36 %
Net Position, June 30	<u><u>\$ 10,196,124</u></u>	<u><u>\$ 11,237,199</u></u>	-9.26 %

PONTOTOC COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014

Figure 1
Sources of Revenues for Fiscal Year 2014

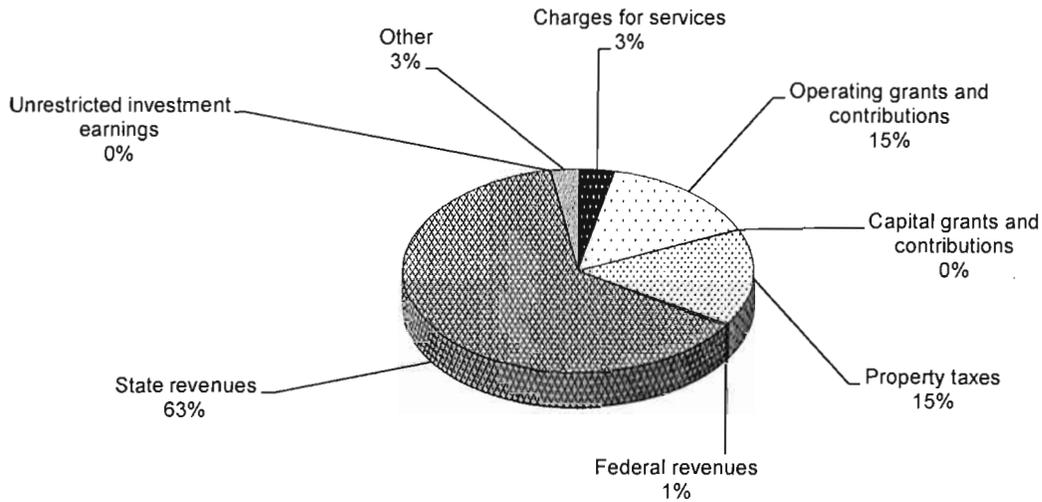
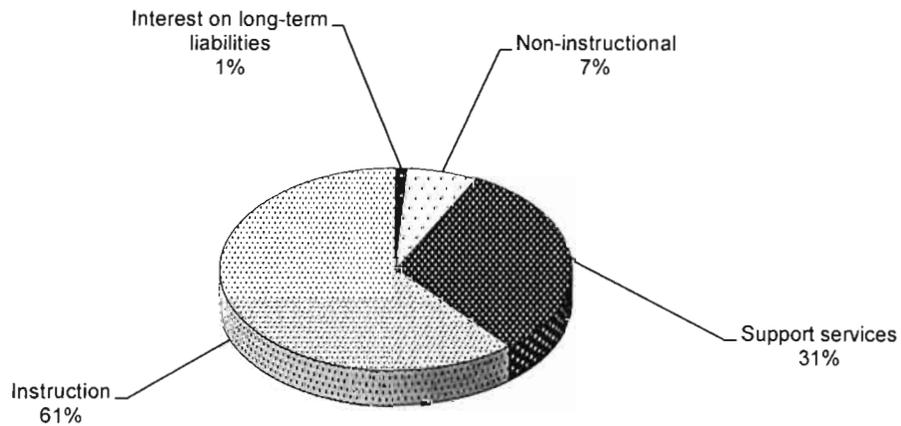


Figure 2
Expenses for Fiscal Year 2014



PONTOTOC COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014

Governmental activities

The following table 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 functional activity's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost presents 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**

	<u>Total Expenses</u>		Percentage Change
	<u>2014</u>	<u>2013</u>	
Instruction	\$ 17,057,047	\$ 15,917,535	7.16 %
Support services	8,752,923	7,888,958	10.95 %
Non-instructional	1,796,598	1,716,914	4.64 %
Interest on long-term liabilities	292,357	297,717	(1.80) %
Total expenses	<u>\$ 27,898,925</u>	<u>\$ 25,821,124</u>	8.05 %

	<u>Net (Expense) Revenue</u>		Percentage Change
	<u>2014</u>	<u>2013</u>	
Instruction	\$ (14,843,060)	\$ (13,965,975)	6.28 %
Support services	(7,721,736)	(6,934,163)	11.36 %
Non-instructional	(89,280)	(44,247)	101.78 %
Interest on long-term liabilities	(292,357)	(297,717)	(1.80) %
Total net (expense) revenue	<u>\$ (22,946,433)</u>	<u>\$ (21,242,102)</u>	8.02 %

- Net cost of governmental activities (\$22,946,433 for 2014 and \$21,242,102 for 2013) was financed by general revenue, which is primarily made up of property taxes (\$4,088,951 for 2014 and \$4,011,803 for 2013) and state and federal revenues (\$17,105,888 for 2014 and \$16,917,443 for 2013).
- Investment earnings amounted to \$24,762 for 2014 and \$26,565 for 2013.

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, unassigned fund balance may serve as a useful measure of the District's net resources available for spending at the end of the fiscal year.

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$3,801,377, a decrease of \$515,105, which includes a decrease in reserve for inventory of \$2,375. \$707,422 or 18.61% of the fund balance is unassigned, which represents the residual classification for the general fund's fund balance that

PONTOTOC COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014

has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The remaining fund balance of \$3,093,955 or 81.39% is either nonspendable, restricted, or assigned to indicate that it is not available for spending except only for the purposes to which it is restricted, committed or assigned.

The General Fund is the principal operating fund of the District. The decrease in fund balance in the General Fund for the fiscal year was \$389,271. The fund balance of Other Governmental Funds showed a decrease in the amount of \$125,834, which includes a decrease in reserve for inventory of \$2,375.

BUDGETARY HIGHLIGHTS

During 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.

- Budget amounts for General Fund revenue from local sources overestimated ad valorem tax revenues by \$295,780.
- Budget amounts for General Fund revenue from state sources underestimated MAEP revenues by \$14,156.
- Budget amounts for General Fund revenue from state sources did not consider educable child revenues in the amount of \$83,930.
- Budget amounts for General Fund revenue from state sources underestimated drivers education revenues by \$26,638.
- Budget amounts for General Fund revenue from state sources overestimated privilege tax revenues by \$17,270.
- Budget amounts for General Fund revenue from federal sources underestimated E-rate revenues in the amount of \$23,850.
- Budget amounts for General Fund revenue from federal sources underestimated TVA revenues in the amount of \$16,738.
- Original budget amounts for General Fund expenditures instruction did not take into account the acquisition of leased property computer equipment less than \$5,000 in the amount of \$462,250.
- Original budget amounts for General Fund other financing sources did not take into account the shortfall note proceeds in the amount of \$317,267.
- Original budget amounts for General Fund other financing sources did not take into account the capital lease proceeds in the amount of \$462,250.
- Original budget amounts for General Fund other financing sources did not take into account indirect cost transfers in the amount of \$100,089.

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

PONTOTOC COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2014, the District's total capital assets were \$21,556,842, including land, school buildings, building improvements, buses, other school vehicles, and furniture and equipment. This amount represents a decrease of \$257,385 from 2013. Total accumulated depreciation as of June 30, 2014, was \$8,357,572, and total depreciation expense for the year was \$645,299, resulting in total net capital assets of \$13,199,270.

**Table 4
Capital Assets, Net of Accumulated Depreciation**

	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>Percentage Change</u>
Land	\$ 364,607	\$ 364,607	0.00 %
Buildings	10,173,015	10,427,786	-2.44 %
Building improvements	667,465	424,210	57.34 %
Improvements other than buildings	206,505	223,135	-7.45 %
Mobile equipment	714,530	1,002,312	-28.71 %
Furniture and equipment	246,966	240,298	2.77 %
Leased property under capital leases	826,182	921,302	-10.32 %
Total	<u>\$ 13,199,270</u>	<u>\$ 13,603,650</u>	-2.97 %

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

Debt Administration. At June 30, 2014, the District had \$6,720,982 in outstanding long-term debt, of which \$866,369 is due within one year. The liability for compensated absences increased \$64,863 from the prior year.

**Table 5
Outstanding Long-Term Debt**

	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>Percentage Change</u>
Three mill notes payable	\$ 2,143,442	\$ 2,523,721	-15.07 %
Shortfall note payable	317,267	-	N/A %
Obligations under capital leases	978,698	885,394	10.54 %
Qualified school construction bonds payable	3,000,000	3,000,000	0.00 %
Compensated absences payable	281,575	216,712	29.93 %
Total	<u>\$ 6,720,982</u>	<u>\$ 6,625,827</u>	1.44 %

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

PONTOTOC COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014

CURRENT ISSUES

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

The District has committed itself to financial excellence for many years. The District's system of financial planning, budgeting and an internal financial control is well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

The District actively pursues grant funding to supplement the local, state and federal revenues.

Enrollment for the 2013-2014 year decreased by 3.15% to 3,164 students.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have any questions about this report or need additional financial information, contact the Superintendent's Office of the Pontotoc County School District, 285 Hwy 15 By-Pass South, Pontotoc, MS 38863.

BASIC FINANCIAL STATEMENTS

**PONTOTOC COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2014**

Exhibit A

	Governmental Activities
ASSETS:	
Cash and cash equivalents	\$ 2,189,161
Due from other governments	1,638,354
Other receivables, net	501
Inventories	25,089
Restricted assets	394,353
Capital assets, non-depreciable:	
Land	364,607
Capital assets, net of accumulated depreciation:	
Buildings	10,173,015
Building improvements	667,465
Improvements other than buildings	206,505
Mobile equipment	714,530
Furniture and equipment	246,966
Leased property under capital leases	826,182
Total Assets	17,446,728
LIABILITIES:	
Accounts payable and accrued liabilities	263,436
Unearned revenue	32,588
Interest payable on long-term liabilities	233,598
Long-term liabilities, due within one year:	
Capital related liabilities	762,341
Non-capital related liabilities	104,028
Long-term liabilities, due beyond one year:	
Capital related liabilities	5,359,799
Non-capital related liabilities	494,814
Total Liabilities	7,250,604
NET POSITION:	
Net investment in capital assets	7,077,130
Restricted for:	
Expendable:	
School-based activities	419,843
Debt service	844,390
Capital improvements	50,003
Unemployment benefits	64,169
Unrestricted	1,740,589
Total Net Position	\$ 10,196,124

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

**PONTOTOC COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014**

Exhibit B

Functions/Programs	Expenses	Program Revenues			Governmental Activities	Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		
Governmental Activities:						
Instruction	\$ 17,057,047	\$ 499,552	\$ 1,694,368	\$ 20,067	\$ (14,843,060)	
Support services	8,752,923	-	1,031,187	-	(7,721,736)	
Non-instructional	1,796,598	387,723	1,286,938	32,657	(89,280)	
Interest on long-term liabilities	292,357	-	-	-	(292,357)	
Total Governmental Activities	\$ 27,898,925	\$ 887,275	\$ 4,012,493	\$ 52,724	\$ (22,946,433)	
General Revenues:						
Taxes:						
General purpose levies						3,603,719
Debt purpose levies						485,232
Unrestricted grants and contributions:						
State						16,978,049
Federal						127,839
Unrestricted investment earnings						24,762
Other						685,757
Total General Revenues						21,905,358
Change in Net Position						(1,041,075)
Net Position - Beginning						11,237,199
Net Position - Ending						\$ 10,196,124

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

**PONTOTOC COUNTY SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2014**

Exhibit C

	<u>Major Fund</u>		<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Other Governmental Funds</u>	
ASSETS			
Cash and cash equivalents	\$ 875,149	\$ 1,314,012	\$ 2,189,161
Investments	-	394,353	394,353
Due from other governments	1,080,719	407,578	1,488,297
Other receivables, net	501	-	501
Due from other funds	414,036	4,078	418,114
Inventories	-	25,089	25,089
Total Assets	\$ 2,370,405	\$ 2,145,110	\$ 4,515,515
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ 222,077	\$ 41,359	\$ 263,436
Due to other funds	4,078	414,036	418,114
Unearned revenue	-	32,588	32,588
Total Liabilities	226,155	487,983	714,138
Fund Balances:			
Nonspendable:			
Inventory	-	25,089	25,089
Restricted:			
Debt service	-	927,930	927,930
Capital projects	-	50,003	50,003
Unemployment benefits	-	64,169	64,169
Food services	-	394,754	394,754
Assigned:			
School activities	71,477	341	71,818
Capital improvements	1,365,351	-	1,365,351
Technology	-	194,841	194,841
Unassigned	707,422	-	707,422
Total Fund Balances	2,144,250	1,657,127	3,801,377
Total Liabilities and Fund Balances	\$ 2,370,405	\$ 2,145,110	\$ 4,515,515

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

**PONTOTOC COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2014**

Exhibit C-1

Total Fund Balances for Governmental Funds		\$ 3,801,377
Amounts reported for governmental activities in the Statement of Net Position are different because:		
1. Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Land	\$ 364,607	
Buildings	15,155,540	
Building improvements	878,312	
Improvements other than buildings	447,772	
Mobile equipment	2,811,339	
Furniture and equipment	842,381	
Leased property under capital leases	1,056,891	
Accumulated depreciation	<u>(8,357,572)</u>	13,199,270
2. Long-term liabilities and related accrued interest are not due and payable in the current period, and, therefore, are not reported in the funds:		
Qualified school construction bonds	(3,000,000)	
Notes payable	(2,460,709)	
Capital lease obligations	(978,698)	
Accrued federal revenue	150,057	
Accrued interest payable	(233,598)	
Compensated absences payable	<u>(281,575)</u>	<u>(6,804,523)</u>
Net Position of Governmental Activities		<u><u>\$ 10,196,124</u></u>

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

PONTOTOC COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

Exhibit D

	<u>Major Fund</u>		<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Other Governmental Funds</u>	
REVENUES:			
Local sources	\$ 4,298,177	\$ 1,194,175	\$ 5,492,352
State sources	16,799,330	1,287,074	18,086,404
Federal sources	128,791	3,098,843	3,227,634
Total Revenues	21,226,298	5,580,092	26,806,390
EXPENDITURES:			
Instruction	14,639,346	2,035,926	16,675,272
Support services	7,146,003	1,178,106	8,324,109
Non-instructional services	31,043	1,759,979	1,791,022
Facilities acquisition and construction	-	278,388	278,388
Debt service:			
Principal	356,628	392,597	749,225
Interest	74,784	217,441	292,225
Other	-	7,328	7,328
Total Expenditures	22,247,804	5,869,765	28,117,569
Excess (Deficiency) of Revenues over (under) Expenditures	(1,021,506)	(289,673)	(1,311,179)
OTHER FINANCING SOURCES (USES):			
Bonds and notes issued	317,267	-	317,267
Capital leases issued	462,250	-	462,250
Sale of transportation equipment	18,932	-	18,932
Operating transfers in	100,089	266,303	366,392
Operating transfers out	(266,303)	(100,089)	(366,392)
Total Other Financing Sources (Uses)	632,235	166,214	798,449
NET CHANGE IN FUND BALANCES	(389,271)	(123,459)	(512,730)
FUND BALANCES:			
July 1, 2013	2,533,521	1,782,961	4,316,482
Decrease in Reserve for Inventory	-	(2,375)	(2,375)
June 30, 2014	<u>\$ 2,144,250</u>	<u>\$ 1,657,127</u>	<u>\$ 3,801,377</u>

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

**PONTOTOC COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014**

Exhibit D-1

Net Change in Fund Balances - Total Governmental Funds **\$ (512,730)**

Amounts reported for governmental activities in the Statement of Activities are different because:

1. Governmental funds report capital outlays as expenditures.

However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense.

In the current period, these amounts are:

Capital outlays	\$ 419,706	
Depreciation expense	<u>(645,299)</u>	(225,593)

2. In the Statement of Activities, only the gain/loss on the sale of assets is reported, while in the governmental funds, the proceeds from the sale increases financial resources. Thus, the change in net position differs from the change in fund balance by the cost of the assets sold.

(178,787)

3. The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts and the difference between the carrying value of refunded debt and the acquisition cost of refunded debt when debt is first issued. These amounts are deferred and amortized in the Statement of Activities:

Bonds and notes issued	(317,267)	
Capital leases issued	(462,250)	
Payments of debt principal	749,225	
Accrued interest payable	(132)	
Bond issuance costs expensed per GASB Statement 65	<u>(28,393)</u>	(58,817)

4. Some items reported in the Statement of Activities do not provide or require the use of current financial resources, and therefore, are not reported as revenues/expenditures in the governmental funds.

These activities include:

Change in compensated absences	(64,863)	
Change in inventory reserve	(2,375)	
Change in accrued federal reserve	<u>2,090</u>	<u>(65,148)</u>

Change in Net Position of Governmental Activities **\$ (1,041,075)**

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

**PONTOTOC COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2014**

Exhibit E

	<u>Agency Funds</u>
ASSETS:	
Cash and cash equivalents	\$ 863,986
Total Assets	<u>\$ 863,986</u>
LIABILITIES:	
Accounts payable and accrued liabilities	\$ 770,253
Due to student clubs	<u>93,733</u>
Total Liabilities	<u>\$ 863,986</u>

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

**PONTOTOC COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

Note 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 a "primary government." The school district is governed by a five member board to which each member is elected by the citizens of each defined county district.

For financial reporting purposes, Pontotoc County 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.

Blended component unit

The Pontotoc County Schools Leasing Authority, Inc. ("the Authority"), as explained in the following paragraph, is considered to be a blended component unit as determined by Section 2100 of the *Codification of Governmental Accounting and Financial Reporting Standards* and is included in the district's reporting entity.

The Authority is governed by a six member board which is appointed by the school district's governing board. Although it is legally separate from the school district, it is reported as if it is part of the primary government because its sole purpose is to provide financing for the renovation, improvement, construction, and equipping of certain school facilities. Therefore, all of the Authority's assets, liabilities, fund balances, revenues, expenditures and other financing sources and uses have been included in the government-wide financial statements of the school district. The Authority has provided financing through qualified school construction bonds as described in Note 10.

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements – The Statement of Net Position and the Statement of Activities report information on all of the non-fiduciary activities of the District. For the most part, the effect of inter-fund 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 Position presents the District's non-fiduciary assets and liabilities, with the difference reported as net position. Net position is reported in three categories:

1. Net investment in capital assets consists of capital assets, net of accumulated depreciation, and reduced by outstanding balances of bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.
2. Restricted net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

**PONTOTOC COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

Note 1 – Summary of Significant Accounting Policies (Continued)

3. Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has 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, are 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 taxes and other items not included among program revenues are reported instead as general revenues.

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

The school district reports the following major governmental fund:

General Fund - This is the school district's primary operating fund. The general fund is used to account for and report all financial resources not accounted for and reported in another fund.

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 District's fiduciary funds include the following:

Payroll Clearing Fund - This fund is used as a clearing account for payroll and payroll related transactions.

Accounts Payable Clearing Fund - This fund is used as a clearing account for non-payroll transactions.

Student Club Funds - These funds are used to account for the transactions of student clubs.

**PONTOTOC COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

Note 1 – Summary of Significant Accounting Policies (Continued)

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

Special Revenue Funds - Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Capital Projects Funds - Capital Projects Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Debt Service Funds - Debt Service Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

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, Basis of Accounting, and Financial Statement Presentation

In the government-wide Statement of Net Position 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 regulations, which include subjecting grants to financial and compliance audits.

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

**PONTOTOC COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

Note 1 – Summary of Significant Accounting Policies (Continued)

Capital asset 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 is both restricted and unrestricted net position 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 inter-fund activity has been eliminated from the government-wide statements.

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

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing, and Financial Reporting*, issued in 2012 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.

D. Encumbrances

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

E. Assets, Liabilities, and Net Position/Fund Balances

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 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.

**PONTOTOC COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

Note 1 – Summary of Significant Accounting Policies (Continued)

2. Receivables and Payables

Activities 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 inter-fund loans) or “advances to/from other funds” (i.e., the non-current portion of inter-fund loans). All other outstanding balances between funds are 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.

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

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

5. Restricted Assets

Certain resources set aside for repayment of debt are classified as restricted assets on the Statement of Net Position because their use is limited by applicable debt statutes, e.g. Qualified School Construction Bond sinking funds.

6. Capital Assets

Capital assets include land, improvements to land, easements, water rights, timber rights, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Capital assets are reported in the applicable governmental or business type activities column in the government-wide Statement of Net Position. 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 table below.

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.

**PONTOTOC COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

Note 1 – Summary of Significant Accounting Policies (Continued)

The following schedule details the capitalization thresholds:

	<u>Capitalization Policy</u>	<u>Estimated Useful Life</u>
Land	\$0	0
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 a long-term liability 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 the liability for compensated absences from expendable available financial resources only if the payable has matured, for example, an employee retires.

8. Long-Term Liabilities and Bond Discounts/Premiums

In the government-wide financial statements, outstanding debt is reported as liabilities. 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.

9. Fund Balances

Fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

**PONTOTOC COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

Note 1 – Summary of Significant Accounting Policies (Continued)

Governmental fund balance is classified as nonspendable, restricted, committed, assigned or unassigned. Following are descriptions of fund classifications used by the district:

Nonspendable fund balance includes items that cannot be spent. This includes activity that is not in a spendable form (inventories, prepaid amounts, long-term portion of loans/notes receivable, or property held for resale unless the proceeds are restricted, committed, or assigned) and activity that is legally or contractually required to remain intact, such as a principal balance in a permanent fund.

Restricted fund balance includes amounts that have constraints placed upon the use of the resources either by an external party or imposed by law through a constitutional provision or enabling legislation.

Assigned fund balance includes amounts that are constrained by the District's intent to be used for a specific purpose, but are neither restricted nor committed. For governmental funds, other than the general fund, this is the residual amount within the fund that is not restricted or committed. Assignments of fund balance are created by the school board pursuant to authorization established by state law.

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, it may be necessary to report a negative unassigned fund balance.

When an expenditure/expense is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) resources are available, it is the District's general policy to use restricted resources first. When expenditures/expenses are incurred for purposes for which unrestricted (committed, assigned, and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the District's general policy to spend committed resources first, followed by assigned amounts, and then unassigned amounts.

10. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Estimates are used when accounting for realizability of receivables and depreciation. Accordingly, actual results could differ from those estimates.

**PONTOTOC COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

Note 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 the statutes as follows:

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

Investments. Section 29-3-113 and 37-59-43, Miss. Code Ann. (1972), authorizes the school board to invest excess 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 deposit or 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, not to exceed fifty percent of all monies invested with maturities of thirty days or longer; (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 other interests in, any open-end or closed-end management type investment company or investment trust approved by the State Treasurer and the Executive Director of the Department of Finance and Administration, not to exceed twenty percent of invested excess funds. Investment income on bond funds (Capital Projects), bond sinking funds (Debt Service Funds) and sixteenth section principal funds (Permanent Funds) must be credited to those funds. Investment income of \$100 or more of any fund must be credited to that fund. Investment income of 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 \$2,189,161, and \$863,986, respectively.

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.

Investments

As of June 30, 2014, the district had the following investments in a sinking fund restricted for the payment of its Qualified School Construction Bonds described in Note 10.

<u>Investment Type</u>	<u>Rating</u>	<u>Maturities (in years)</u>	<u>Fair Value</u>
U.S. Government Securities	AAA	13	\$ 394,353

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.

**PONTOTOC COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

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

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. As of June 30, 2014, the district did not have any investments to which this would apply.

Concentration of Credit Risk. Disclosure 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.

Note 3 – Inter-fund Receivables, Payables and Transfers

The following is a summary of inter-fund transactions and balances:

A. Due From/To Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Other governmental funds	\$ 414,036
Other governmental funds	General Fund	4,078
Total		\$ 418,114

Inter-fund receivables and payables consist primarily of loans from the General Fund to various special revenue funds to cover cash deficits in pooled bank accounts.

B. Inter-fund Transfers

Transfers Out	Transfers In	Amount
General Fund	Other governmental funds	\$ 266,303
Other governmental funds	General Fund	100,089
Total		\$ 366,392

Inter-fund transfers were made for budgetary purposes and for the payment of indirect costs.

Note 4 – Restricted Assets

The restricted assets represent the investment balance of \$394,353 in the QSCB Bond Retirement Fund described in Note 10.

**PONTOTOC COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

Note 5 – Capital Assets

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

Governmental Activities:	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
<u>Non-depreciable capital assets:</u>				
Land	\$ 364,607	\$ -	\$ -	\$ 364,607
Total non-depreciable capital assets	364,607	-	-	364,607
<u>Depreciable capital assets:</u>				
Buildings	15,155,540	-	-	15,155,540
Building improvements	599,924	278,388	-	878,312
Improvements other than buildings	447,772	-	-	447,772
Mobile equipment	3,407,034	52,497	648,192	2,811,339
Furniture and equipment	782,459	88,821	28,899	842,381
Leased property under capital leases	1,056,891	-	-	1,056,891
Total depreciable capital assets	21,449,620	419,706	677,091	21,192,235
<u>Less accumulated depreciation for:</u>				
Buildings	4,727,754	254,771	-	4,982,525
Building improvements	175,714	35,133	-	210,847
Improvements other than buildings	224,637	16,630	-	241,267
Mobile equipment	2,404,722	161,781	469,694	2,096,809
Furniture and equipment	542,161	81,864	28,610	595,415
Leased property under capital leases	135,589	95,120	-	230,709
Total accumulated depreciation	8,210,577	645,299	498,304	8,357,572
Total depreciable capital assets, net	13,239,043	(225,593)	178,787	12,834,663
Governmental activities capital assets, net	<u>\$ 13,603,650</u>	<u>\$ (225,593)</u>	<u>\$ 178,787</u>	<u>\$ 13,199,270</u>

Depreciation expense was charged to the following governmental functions:

Governmental Activities:	Amount
Instruction	\$ 346,036
Support services	269,480
Non-instructional	29,783
Total depreciation expense - Governmental activities	<u>\$ 645,299</u>

**PONTOTOC COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

Note 6 – Long-term Liabilities

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

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Amounts Due Within One Year
A. Three mill notes payable	\$ 2,523,721	\$ -	\$ 380,279	\$ 2,143,442	\$ 394,821
B. Shortfall note payable	-	317,267	-	317,267	104,028
C. Obligations under capital leases	885,394	462,250	368,946	978,698	367,520
D. Qualified school construction bonds payable	3,000,000	-	-	3,000,000	-
E. Compensated absences payable	216,712	64,863	-	281,575	-
Total	\$ 6,625,827	\$ 844,380	\$ 749,225	\$ 6,720,982	\$ 866,369

A. Three mill notes payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
1. Limited Tax Note, Series 2002	2.75 - 4.25%	10/1/02	10/1/17	\$ 2,200,000	\$ 1,001,000
2. Limited Tax Note, Series 2008	4.33%	9/2/08	9/2/18	800,000	442,882
3. Limited Tax Note, Series 2012	2.95%	1/3/12	1/3/22	850,000	699,560
Total				\$ 3,850,000	\$ 2,143,442

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

1. Three mill notes payable issue of 2002:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 235,000	\$ 42,542	\$ 277,542
2016	245,000	32,555	277,555
2017	256,000	22,143	278,143
2018	265,000	11,262	276,262
Total	\$ 1,001,000	\$ 108,502	\$ 1,109,502

The EEF Buildings and Buses revenue has been pledged for this debt. On December 10, 2002, the Pontotoc County School Board pledged its EEF Buildings and Buses revenue of \$94,000 annually for payment on the three mill note payable to Trustmark Bank. The debt issued was for the purpose of construction, repairs, and equipment for the school district. The commitment began with the 2002-2003 school year and ends with the 2015-2016 school year. The revenue from the state varies from year to year, but is all used for the debt retirement. For the 2013-2014 school year, the revenue was \$104,673. All of these funds were applied to the debt payment. The remainder of the debt payment of principal and interest of \$172,320 was paid out of District Maintenance.

**PONTOTOC COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

Note 6 – Long-term Liabilities (Continued)

2. Three mill notes payable issue of 2008:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 81,128	\$ 19,440	\$ 100,568
2016	84,690	15,878	100,568
2017	88,374	12,194	100,568
2018	92,287	8,281	100,568
2019	96,403	4,165	100,568
Total	<u>\$ 442,882</u>	<u>\$ 59,958</u>	<u>\$ 502,840</u>

This debt will be retired from the 2008 Note Retirement Fund.

3. Three mill notes payable issue of 2012:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 78,693	\$ 20,921	\$ 99,614
2016	81,047	18,567	99,614
2017	83,426	16,188	99,614
2018	85,966	13,648	99,614
2019	88,537	11,077	99,614
2020-2022	281,891	16,951	298,842
Total	<u>\$ 699,560</u>	<u>\$ 97,352</u>	<u>\$ 796,912</u>

This debt will be retired from the SPMS Cafeteria Note Retirement Fund.

Total three mill notes payable payments for all issues:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 394,821	\$ 82,903	\$ 477,724
2016	410,737	67,000	477,737
2017	427,800	50,525	478,325
2018	443,253	33,191	476,444
2019	184,940	15,242	200,182
2020-2022	281,891	16,951	298,842
Total	<u>\$ 2,143,442</u>	<u>\$ 265,812</u>	<u>\$ 2,409,254</u>

**PONTOTOC COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

Note 6 - Long-term Liabilities (Continued)

B. Shortfall note payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
1. Revenue Shortfall Note, Series 2013	1.48%	8/29/13	9/1/16	\$ 317,267	\$ 317,267

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

Year Ending June 30,	Principal	Interest and Maintenance Charges	Total
2015	\$ 104,028	\$ 5,197	\$ 109,225
2016	105,763	3,462	109,225
2017	107,476	1,749	109,225
Total	\$ 317,267	\$ 10,408	\$ 327,675

This debt will be retired from the Shortfall Note Debt Service Fund.

C. Obligations under capital leases

The school district has entered into lease agreements as lessee for financing the acquisition of six buses at a cost of \$449,659, for financing the acquisition of eight buses at a cost of \$607,232, for financing the acquisition of iPads at a cost of \$154,830, and for financing the cost of computers at a cost of \$307,420. These leases qualify as capital leases for accounting purposes.

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
1. Series 2011A	5.00%	8/16/11	4/10/16	\$ 449,659	\$ 189,981
2. Series 2012A	1.63%	11/15/12	11/15/16	607,232	459,113
3. Series 2013A	2.82%	7/10/13	7/10/15	144,760	95,159
4. Series 2013B	2.30%	9/1/13	9/1/16	307,420	227,928
5. Series 2014A	6.91%	1/9/14	1/9/16	10,070	6,517
Total				\$ 1,519,141	\$ 978,698

**PONTOTOC COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

Note 6 – Long-term Liabilities (Continued)

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

1. Obligations under capital leases issue of Series 2011A:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 92,646	\$ 8,355	\$ 101,001
2016	97,335	3,665	101,000
Total	<u>\$ 189,981</u>	<u>\$ 12,020</u>	<u>\$ 202,001</u>

This debt will be retired from the General Fund.

2. Obligations under capital leases issue of Series 2012A:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 150,552	\$ 7,540	\$ 158,092
2016	153,024	5,067	158,091
2017	155,537	2,554	158,091
Total	<u>\$ 459,113</u>	<u>\$ 15,161</u>	<u>\$ 474,274</u>

This debt will be retired from the General Fund.

3. Obligations under capital leases issue of Series 2013A:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 46,918	\$ 2,683	\$ 49,601
2016	48,241	1,360	49,601
Total	<u>\$ 95,159</u>	<u>\$ 4,043</u>	<u>\$ 99,202</u>

This debt will be retired from the General Fund.

4. Obligations under capital leases issue of Series 2013B:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 74,258	\$ 5,233	\$ 79,491
2016	75,963	3,528	79,491
2017	77,707	1,784	79,491
Total	<u>\$ 227,928</u>	<u>\$ 10,545</u>	<u>\$ 238,473</u>

This debt will be retired from the General Fund.

**PONTOTOC COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

Note 6 – Long-term Liabilities (Continued)

5. Obligations under capital leases issue of Series 2014A:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 3,146	\$ 444	\$ 3,590
2016	3,371	219	3,590
Total	<u>\$ 6,517</u>	<u>\$ 663</u>	<u>\$ 7,180</u>

This debt will be retired from the General Fund.

Total Obligations under capital lease payments for all issues:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 367,520	\$ 24,255	\$ 391,775
2016	377,934	13,839	391,773
2017	233,244	4,338	237,582
Total	<u>\$ 978,698</u>	<u>\$ 42,432</u>	<u>\$ 1,021,130</u>

D. Qualified school construction bonds payable

As more fully explained in Note 10, debt has been issued by the school district that qualifies as Qualified School Construction bonds. Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Trust Certificate, Series 2010	5.75%	9/14/10	8/1/26	\$ <u>3,000,000</u>	\$ <u>3,000,000</u>

E. Compensated absences payable

As more fully explained in Note 1(E)(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.

Note 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 plan 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 Employees' Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, MS 39201 or by calling (601) 359-3589 or 1-800-444-PERS.

**PONTOTOC COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

Note 7 – Defined Benefit Pension Plan (Continued)

Funding Policy. PERS members are required to contribute 9.00% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The employer's rate as of June 30, 2014 was 15.75% 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 school district's contributions to PERS for the fiscal years ending June 30, 2014, 2013 and 2012 were \$2,351,712, \$2,048,465, and \$1,795,923, respectively, which equaled the required contributions for each year.

Note 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.

Litigation - The school district is subject to two old federal court injunctions/orders involving desegregation and religious expression.

Note 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.

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 94 school districts and covers risks of loss arising from injuries to the members' 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 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.

Note 10 – Qualified School Construction Bonds

Section 1521 of the American Recovery and Reinvestment Act (ARRA) of 2009 provides for a source of capital at no or at nominal interest rates for costs incurred by certain public schools in connection with the construction, rehabilitation or repair of a public school facility or for the acquisition of land where a school will be built. Investors receive Federal income tax credits at prescribed tax credit rates in lieu of interest, which essentially allows state and local governments to borrow without incurring interest costs. While Qualified School Construction Bonds (QSCBs) are intended to be interest free to a borrower, the ARRA legislation allows a lender to charge supplemental interest, and such supplemental interest is the responsibility of the school district.

**PONTOTOC COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

Note 10 – Qualified School Construction Bonds (Continued)

When the stated interest rate on the QSCB results in interest payments that exceed the supplemental interest payments discussed in the preceding paragraph, the school district may apply for a direct cash subsidy payment from the U.S. Treasury which is intended to reduce the stated interest rate to a nominal percentage. These subsidy payments do not include the amount of any supplemental interest paid on a QSCB.

The school district makes equal annual payments into a sinking fund which is used to pay off the bonds at termination. The current maturity limit of tax credit bonds is 17 years, per the U.S. Treasury Department. Under this program, ten percent of the proceeds must be subject to a binding commitment to be spent within six months of issuance and 100% must be spent within three years. Up to two percent of bond proceeds can be used to pay costs of issuance. The amount on deposit in the school district's sinking fund at June 30, 2014, was \$394,353. The amount accumulated in the sinking fund at the end of the seventeen-year period will be sufficient to retire the debt. The following schedule reports the annual deposits to be made to the sinking fund by the school district, the interest on the bonds, and the anticipated credit payments from the federal government.

Year Ending June 30,	Sinking Fund Deposits	Interest Payable	Less Anticipated Credit Payments	Net Payments
2015	\$ 130,000	\$ 172,500	\$ 161,700	\$ 140,800
2016	130,000	172,500	161,700	140,800
2017	130,000	172,500	161,700	140,800
2018	130,000	172,500	161,700	140,800
2019	230,000	172,500	161,700	240,800
2020-2024	1,160,000	862,500	808,500	1,214,000
2025-2027	705,000	517,500	646,800	575,700
	<u>\$ 2,615,000</u>	<u>\$ 2,242,500</u>	<u>\$ 2,263,800</u>	<u>\$ 2,593,700</u>

The EEF Buildings and Buses revenue has been pledged for this debt. On June 28, 2010, the Pontotoc County School Board pledged its EEF Buildings and Buses revenue of \$102,848 annually for payment on the Qualified School Construction Bonds, subject to any prior pledge for the benefit of any obligation that is currently outstanding. The debt issued was for the purpose of construction, repairs, and equipment for the school district. The commitment began with the 2011-2012 school year and ends with the 2024-2025 school year. The revenue from the state varies from year to year, but is all used for the debt retirement. For the 2013-2014 school year, the EEF revenue was \$104,673. All of these funds were applied to the debt payment of a currently outstanding debt obligation.

Note 11 – Vocational School Consortium

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

Section 37-31-73, Miss. Code Ann. (1972), authorizes the above noted entities to enter into an agreement that would provide for the construction or operation of a regional vocational education center. Any such agreement should provide for a designated fiscal agent, the method of financing the construction and operation of such facilities, the

**PONTOTOC COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

Note 11 – Vocational School Consortium (Continued)

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 center are included in its financial statements.

The following Statement of Revenues, Expenditures, and Changes in Fund Balance is presented to detail the financial activity of the Pontotoc Ridge Career and Technical Center.

Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2014

Revenues:	
Local Sources:	
Tuition from other LEA's within the state:	
Pontotoc City School District	\$ 111,890
State Sources	1,039,955
Federal Sources	<u>56,946</u>
Total Revenues	<u>1,208,791</u>
Expenditures:	
Salaries	972,333
Employee benefits	323,099
Professional educational services	873
Purchased property services	55,255
Other purchased services	14,438
Supplies	39,432
Property	58,097
Other	<u>2,490</u>
Total Expenditures	<u>1,466,017</u>
Deficiency of Revenues Under Expenditures	<u>(257,226)</u>
Other Financing Sources:	
Operating transfers in	<u>257,226</u>
Net Change in Fund Balance	<u>-</u>
Fund Balance:	
July 1, 2013	<u>-</u>
June 30, 2014	<u>\$ -</u>

**PONTOTOC COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

Note 12 – Subsequent Events

Events that occur after the Statement of Net Position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Management of the Pontotoc County School District evaluated the activity of the district through December 15, 2014, the date the financial statements were available to be issued, and determined the following subsequent events have occurred requiring disclosure in the notes to the financial statements:

In July 2014, the school district issued a shortfall note in the amount of \$550,703. In August 2014, the school district executed a lease agreement for transportation equipment costing \$925,000.

REQUIRED SUPPLEMENTARY INFORMATION

**PONTOTOC COUNTY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2014**

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
				Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
REVENUES:					
Local sources	\$ 4,580,999	\$ 4,298,177	\$ 4,298,177	\$ (282,822)	\$ -
State sources	17,047,388	16,799,330	16,799,330	(248,058)	-
Federal sources	155,050	128,791	128,791	(26,259)	-
Total Revenues	21,783,437	21,226,298	21,226,298	(557,139)	-
EXPENDITURES:					
Instruction	13,894,664	14,639,346	14,639,346	(744,682)	-
Support services	7,592,154	7,146,003	7,146,003	446,151	-
Non-instructional services	22,000	31,043	31,043	(9,043)	-
Debt service:					
Principal	208,248	356,628	356,628	(148,380)	-
Interest	64,813	74,784	74,784	(9,971)	-
Total Expenditures	21,781,879	22,247,804	22,247,804	(465,925)	-
Excess (Deficiency) of Revenues over (under) Expenditures	1,558	(1,021,506)	(1,021,506)	(1,023,064)	-
OTHER FINANCING SOURCES (USES):					
Bonds and notes issued	-	317,267	317,267	317,267	-
Capital leases issued	-	462,250	462,250	462,250	-
Sale of transportation equipment	5,000	18,932	18,932	13,932	-
Operating transfers in	200,000	100,089	100,089	(99,911)	-
Operating transfers out	(200,000)	(266,303)	(266,303)	(66,303)	-
Total Other Financing Sources	5,000	632,235	632,235	627,235	-
NET CHANGE IN FUND BALANCE	6,558	(389,271)	(389,271)	(395,829)	-
FUND BALANCE:					
July 1, 2013	2,533,521	2,533,521	2,533,521	-	-
June 30, 2014	\$ 2,540,079	\$ 2,144,250	\$ 2,144,250	\$ (395,829)	\$ -

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

**PONTOTOC COUNTY SCHOOL DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 1 - BUDGETARY COMPARISON SCHEDULE

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 is 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 consistent with accounting principles generally accepted in the United States of America.

SUPPLEMENTARY INFORMATION

**PONTOTOC COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014**

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Child Nutrition Cluster:		
School breakfast program	10.553	\$ 271,097
National school lunch program	10.555	1,091,970
Total Child Nutrition Cluster		<u>1,363,067</u>
Total U.S. Department of Agriculture		<u>1,363,067</u>
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the Universal Service Fund	32.XXX	63,850
Total Federal Communications Commission		<u>63,850</u>
<u>National Endowment for the Arts</u>		
Passed-through Mississippi Arts Commission:		
Promotion of the arts - partnership agreements	45.025	1,199
<u>U.S. Department of Education</u>		
Passed-through Mississippi Department of Rehabilitation Services:		
Rehabilitation services - vocational rehabilitation grants to states	84.126	952
Passed-through Mississippi Department of Education:		
Title I grants to local educational agencies	84.010	502,353
Career and technical education - basic grants to states	84.048	56,946
Education technology - state grants	84.318	14,950
Rural education	84.358	69,337
English language acquisition grants	84.365	39,580
Improving teacher quality - state grants	84.367	171,746
Special education - state personnel development	84.323	10,329
Subtotal		<u>865,241</u>
Special education cluster:		
Special education - grants to states	84.027	702,663
Special education - preschool grants	84.173	19,040
Total special education cluster		<u>721,703</u>
Total passed-through Mississippi Department of Education		<u>1,586,944</u>
Total U.S. Department of Education		<u>1,587,896</u>
<u>U.S. Department of Health and Human Services</u>		
Passed-through Mississippi Department of Education:		
Medical assistance program	93.778	7,252
Total U.S. Department of Health and Human Services		<u>7,252</u>
Total for All Federal Awards		<u>\$ 3,023,264</u>

NOTES TO SCHEDULE

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

**PONTOTOC COUNTY SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL, ADMINISTRATIVE,
AND OTHER EXPENDITURES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

<u>Expenditures</u>	<u>Total</u>	<u>Instruction and Other Student Instructional Expenditures</u>	<u>General Administration</u>	<u>School Administration</u>	<u>Other</u>
Salaries and fringe benefits	\$ 20,551,191	\$ 16,442,269	\$ 650,527	\$ 1,363,352	\$ 2,095,043
Other	<u>7,566,378</u>	<u>2,917,271</u>	<u>200,293</u>	<u>14,864</u>	<u>4,433,950</u>
Total	<u><u>\$ 28,117,569</u></u>	<u><u>\$ 19,359,540</u></u>	<u><u>\$ 850,820</u></u>	<u><u>\$ 1,378,216</u></u>	<u><u>\$ 6,528,993</u></u>
Total number of students*	<u><u>3,164</u></u>				
Cost per student	<u><u>\$ 8,887</u></u>	<u><u>\$ 6,119</u></u>	<u><u>\$ 269</u></u>	<u><u>\$ 436</u></u>	<u><u>\$ 2,063</u></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.

General Administration - includes expenditures for the following functions: Support Services - General Administration and Support Services - Business.

School Administration - includes expenditures for the following function: Support Services - School Administration.

Other - includes all expenditure functions not included in Instruction or Administration Categories.

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

OTHER INFORMATION

PONTOTOC COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GENERAL FUND
LAST FOUR YEARS

"UNAUDITED"

	<u>2014</u>	<u>2013*</u>	<u>2012*</u>	<u>2011*</u>
REVENUES:				
Local sources	\$ 4,298,177	\$ 4,308,964	\$ 4,105,647	\$ 4,166,813
State sources	16,799,330	16,553,876	16,234,046	14,638,451
Federal sources	128,791	145,533	186,614	156,737
Total Revenues	<u>21,226,298</u>	<u>21,008,373</u>	<u>20,526,307</u>	<u>18,962,001</u>
EXPENDITURES:				
Instruction	14,639,346	13,784,672	13,397,875	11,496,637
Support services	7,146,003	7,294,986	6,640,522	5,690,735
Non-instructional services	31,043	28,183	26,268	30,569
Facilities acquisition and construction	-	62,572	-	4,026
Debt service:				
Principal	356,628	195,999	226,548	217,879
Interest	74,784	78,175	84,491	84,980
Total Expenditures	<u>22,247,804</u>	<u>21,444,587</u>	<u>20,375,704</u>	<u>17,524,826</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>(1,021,506)</u>	<u>(436,214)</u>	<u>150,603</u>	<u>1,437,175</u>
OTHER FINANCING SOURCES (USES):				
Bonds and notes issued	317,267	-	-	-
Capital leases issued	462,250	607,232	449,659	-
Insurance recovery	-	-	-	2,098
Sale of transportation equipment	18,932	-	-	4,582
Operating transfers in	100,089	94,636	629,576	62,411
Other financing uses	(266,303)	(466,788)	(239,358)	(778,784)
Total Other Financing Sources (Uses)	<u>632,235</u>	<u>235,080</u>	<u>839,877</u>	<u>(709,693)</u>
NET CHANGE IN FUND BALANCE	<u>(389,271)</u>	<u>(201,134)</u>	<u>990,480</u>	<u>727,482</u>
FUND BALANCE:				
Beginning of Period	<u>2,533,521</u>	<u>2,734,655</u>	<u>1,744,175</u>	<u>1,016,693</u>
End of Period	<u>\$ 2,144,250</u>	<u>\$ 2,533,521</u>	<u>\$ 2,734,655</u>	<u>\$ 1,744,175</u>

*SOURCE - PRIOR YEAR AUDIT REPORTS

PONTOTOC COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUNDS
LAST FOUR YEARS

"UNAUDITED"

	2014	2013*	2012*	2011*
REVENUES:				
Local sources	\$ 5,492,352	\$ 5,467,654	\$ 5,088,144	\$ 5,164,260
Intermediate sources	-	-	-	41,441
State sources	18,086,404	17,640,872	17,538,947	15,787,052
Federal sources	3,227,634	3,072,791	3,146,203	4,949,290
Total Revenues	26,806,390	26,181,317	25,773,294	25,942,043
EXPENDITURES:				
Instruction	16,675,272	15,591,440	15,453,833	15,190,514
Support services	8,324,109	8,412,625	7,980,490	6,987,267
Non-instructional services	1,791,022	1,736,178	1,521,954	1,488,912
Facilities acquisition and construction	278,388	63,857	1,397,759	2,365,943
Debt service:				
Principal	749,225	448,506	554,442	587,924
Interest	292,225	303,283	128,998	131,150
Other	7,328	630	500	36,445
Total Expenditures	28,117,569	26,556,519	27,037,976	26,788,155
Deficiency of Revenues under Expenditures	(1,311,179)	(375,202)	(1,264,682)	(846,112)
OTHER FINANCING SOURCES (USES):				
Bonds and notes issued	317,267	-	850,000	3,000,000
Capital leases issued	462,250	607,232	449,659	-
Insurance recovery	-	-	-	2,098
Sale of transportation equipment	18,932	-	-	4,582
Operating transfers in	366,392	561,424	868,934	841,195
Other financing uses	(366,392)	(561,424)	(868,934)	(841,195)
Total Other Financing Sources	798,449	607,232	1,299,659	3,006,680
NET CHANGE IN FUND BALANCES	(512,730)	232,030	34,977	2,160,568
FUND BALANCES:				
Beginning of Period	4,316,482	4,102,631	4,076,796	1,891,963
Increase (Decrease) in Reserve for Inventory	(2,375)	(18,179)	(9,142)	24,265
End of Period	<u>\$ 3,801,377</u>	<u>\$ 4,316,482</u>	<u>\$ 4,102,631</u>	<u>\$ 4,076,796</u>

*SOURCE - PRIOR YEAR AUDIT REPORTS

REPORTS ON INTERNAL CONTROL AND COMPLIANCE



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

Superintendent and School Board
Pontotoc County School District

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Pontotoc County School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Pontotoc County School District's basic financial statements, and have issued our report thereon dated December 15, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Pontotoc County School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Pontotoc County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Pontotoc County School District's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as Finding 2014-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pontotoc County School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Pontotoc County School District's Response to Findings

Pontotoc County School District's response to the finding identified in our audit is described in the accompanying Auditee's Corrective Action Plan. Pontotoc County School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Pontotoc County School District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pontotoc County School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eaton, Bell + Smith

Ripley, Mississippi
December 15, 2014



Eaton, Babb & Smith
Business Advisors and CPAs
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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Superintendent and School Board
Pontotoc County School District

Report on Compliance for Each Major Federal Program

We have audited the Pontotoc County School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Pontotoc County School District's major federal programs for the year ended June 30, 2014. Pontotoc County School District's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Pontotoc County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Pontotoc County 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Pontotoc County School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Pontotoc County School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of Pontotoc County School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Pontotoc County School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Pontotoc County School District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Easton, Bebb & Smith

Ripley, Mississippi
December 15, 2014

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



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Superintendent and School Board
Pontotoc County School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Pontotoc County School District as of and for the year ended June 30, 2014, which collectively comprise Pontotoc County School District's basic financial statements and have issued our report thereon dated December 15, 2014. 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.

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 no 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 did not disclose any instances of noncompliance with other state laws and regulations.

This report is intended solely for the information and use of the school board and management, entities with accreditation overview, federal awarding agencies, the Office of the State Auditor, 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.

Eaton, Babb & Smith

Ripley, Mississippi
December 15, 2014

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**PONTOTOC COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

Section 1: Summary of Auditors' Results

Financial Statements:

- | | |
|--|----------------------|
| 1. Type of auditors' report issued: | <u>Unmodified</u> |
| 2. Internal control over financial reporting: | |
| a. Material weakness identified? | <u>Yes</u> |
| b. Significant deficiency identified? | <u>None reported</u> |
| 3. Noncompliance material to the financial statements noted? | <u>No</u> |

Federal Awards:

- | | |
|---|---------------------------|
| 4. Internal control over major programs: | |
| a. Material weakness identified? | <u>No</u> |
| b. Significant deficiency identified? | <u>None reported</u> |
| 5. Type of auditors' report issued on compliance for major programs: | <u>Unmodified</u> |
| 6. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? | <u>No</u> |
| 7. Federal programs identified as major programs: | |
| <u>CFDA Numbers</u> <u>Name of Federal Program or Cluster</u> | |
| 84.027, 84.173 | Special Education Cluster |
| 84.367 | Improving Teacher Quality |
| 8. Dollar threshold used to distinguish between Type A and Type B programs: | <u>\$300,000</u> |
| 9. Auditee qualified as low-risk auditee? | <u>Yes</u> |

**PONTOTOC COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2014**

Section 2: Financial Statement Finding

Deficiency Considered to be a Material Weakness

Finding 2014-1: Inadequate Controls over Activity and Club Funds

Condition: We noted a lack of segregation of duties over the activity and club funds at the schools. The school bookkeepers receipt the cash, make the deposits, and record the transactions. This deficiency creates an opportunity for the misappropriation of assets and subsequent concealment.

Criteria: Management is responsible for financial accountability and for safeguarding all assets of the school district.

Cause: The school district's policies and procedures do not require proper segregation of duties in handling cash collected by teachers, club sponsors, and others at the schools or at school activities.

Effect: The lack of proper segregation of duties over activity and club fund receipts creates opportunities for misappropriation of assets and subsequent concealment.

Recommendation: We recommend that the school board implement policies and procedures requiring proper segregation of duties in handling activity and club fund receipts. Compliance with these policies and procedures should be monitored.

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.

AUDITEE'S CORRECTIVE ACTION PLAN

