



The following document was not prepared by the Office of the State Auditor, but was prepared by and submitted to the Office of the State Auditor by a private CPA firm. The document was placed on this web page as it was submitted. The Office of the State Auditor assumes no responsibility for its content or for any errors located in the document. Any questions of accuracy or authenticity concerning this document should be submitted to the CPA firm that prepared the document. The name and address of the CPA firm appears in the document.



**PONTOTOC CITY SCHOOL DISTRICT**

**Audited Financial Statements  
For the Year Ended June 30, 2015**

PONTOTOC CITY SCHOOL DISTRICT

CONTENTS

INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Exhibit A - Statement of Net Position	13
Exhibit B - Statement of Activities	14
Governmental Funds Financial Statements	
Exhibit C - Balance Sheet	15
Exhibit C-1 - Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position	16
Exhibit D - Statement of Revenues, Expenditures and Changes in Fund Balances	17
Exhibit D-1 - Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	18
Fiduciary Fund Financial Statements	
Exhibit E - Statement of Fiduciary Net Position	19
Notes to Financial Statements	20
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule - General Fund	40
Budgetary Comparison Schedule - School Food Service Fund	41
Budgetary Comparison Schedule - IDEA Part B Fund	42
Budgetary Comparison Schedule - Vocational Education Fund	43
Schedule of the District's Proportionate Share of the Net Pension Liability	44
Schedule of District Contributions	45
Notes to the Required Supplementary Information	46
SUPPLEMENTARY INFORMATION	
Schedule of Expenditures of Federal Awards	48
Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds	49
OTHER INFORMATION	
Statement of Revenues, Expenditures and Changes in Fund Balances - General Fund Last Four Years	51
Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Funds Last Four Years	52
REPORTS ON INTERNAL CONTROL AND COMPLIANCE	
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	54
Independent Auditors' Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by OMB Circular A-133	56
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS	59
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	61

INDEPENDENT AUDITORS' REPORT

WATKINS, WARD & STAFFORD, PLLC  
CERTIFIED PUBLIC ACCOUNTANTS



**WATKINS, WARD and STAFFORD**  
Professional Limited Liability Company  
Certified Public Accountants

James L. Stafford, CPA  
Harry W. Stevens, CPA  
S. Keith Winfield, CPA  
William B. Stagers, CPA  
Michael W. McCully, CPA  
Mort Stroud, CPA  
R. Steve Sinclair, CPA  
Marsha L. McDonald, CPA  
Wanda S. Holley, CPA  
Robin Y. McCormick, CPA/PFS  
J. Randy Scrivner, CPA

Kimberly S. Caskey, CPA  
Susan M. Lummus, CPA  
Thomas J. Browder, CPA  
Stephen D. Flake, CPA  
John N. Russell, CPA  
Thomas A. Davis, CPA  
Anita L. Goodrum, CPA  
Ricky D. Allen, CPA  
Jason D. Brooks, CPA  
Robert E. Cordle, Jr., CPA  
Perry C. Rackley, Jr., CPA

**INDEPENDENT AUDITORS' REPORT**

Superintendent and School Board  
Pontotoc City 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 City School District as of and for the year ended June 30, 2015, and the related notes to financial statements, which collectively comprise the Pontotoc City 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 from 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 City School District, as of June 30, 2015, 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, budgetary comparison information, the Schedule of the District's Proportionate Share of the Net Pension Liability, and the Schedule of District Contributions on pages 4-11, 40-43, 44 and 45, respectively 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 City School District's 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 information 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 November 29, 2015, on our consideration of the Pontotoc City 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 City School District's internal control over financial reporting and compliance.

Okolona, Mississippi  
November 29, 2015

*Watkins Ward and Stafford, PLLC*

MANAGEMENT'S DISCUSSION AND ANALYSIS

PONTOTOC CITY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2015

The following discussion and analysis of Pontotoc City School District's financial performance provides an overview of the School District's financial activities for the year ended June 30, 2015. 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 2015 decreased \$22,051,374, including a prior period adjustment of (\$22,112,218), which represents a 113.78% decrease from fiscal year 2014. Total net position for 2014 decreased \$443,702, which represents a 2.2% decrease from fiscal year 2013.
- General revenues amounted to \$15,516,143 and \$15,125,817, or 80.8% and 79.3% of all revenues for fiscal years 2015 and 2014, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$3,647,789, or 19.2% of total revenues for 2015, and \$3,924,625, or 20.7% of total revenues for 2014.
- The District had \$19,103,088 and \$19,494,144 in expenses for fiscal years 2015 and 2014; only \$3,647,789 for 2015 and \$3,924,625 for 2014 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$15,516,143 for 2015 were adequate to provide for these programs, and general revenues of \$15,125,817 for 2014 were not adequate to provide for these programs.
- Among major funds, the General Fund had \$15,604,011 in revenues and \$15,476,178 in expenditures for 2015, and \$15,335,578 in revenues and \$15,016,641 in expenditures for 2014. The General Fund's fund balance increased by \$35,001 from 2014 to 2015, and increased by \$206,896 from 2013 to 2014.
- Capital assets, net of accumulated depreciation, decreased by \$593,661 for 2015, and decreased by \$459,283 for 2014. The decrease for 2015 was due to the increase in accumulated depreciation.
- Long-term debt decreased by \$8,621 for 2015, and decreased by \$14,971 for 2014. This decrease for 2015 was due primarily to the principal payments on outstanding long-term debt. The liability for compensated absences increased by \$16,179 for 2015, and increased by \$9,829 for 2014.

### 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,

PONTOTOC CITY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2015

with the differences between the two reported as "net position." Over time, increases or decreases in the 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, pension expense, 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.

PONTOTOC CITY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2015

**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:

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 supplementary information. The District adopts an annual operating budget for all governmental funds. A budgetary comparison schedule has been provided for the General Fund and each additional major special revenue fund 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.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Net position**

Net position may serve over time as a useful indicator of the District's financial position. Liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$2,671,220 as of June 30, 2015.

PONTOTOC CITY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2015

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, 2015 and June 30, 2014.

GASB 68 was implemented in fiscal year 2015. Prior year amounts were not restated to reflect the implementation of GASB 68.

**Table 1**  
**Condensed Statement of Net Position**

	June 30, 2015	June 30, 2014	Percentage Change
Current assets	\$ 4,439,181	\$ 4,207,158	5.51 %
Restricted assets	1,179,096	976,494	20.75 %
Capital assets, net	17,054,463	17,648,124	(3.36) %
<b>Total assets</b>	<b>22,672,740</b>	<b>22,831,776</b>	<b>(0.70) %</b>
<b>Deferred outflows of resources</b>	<b>2,737,585</b>	<b>-</b>	<b>N/A %</b>
Current liabilities	454,949	314,039	44.87 %
Long-term debt outstanding	3,166,669	3,137,583	0.93 %
Net pension liability	21,363,177	-	N/A %
<b>Total liabilities</b>	<b>24,984,795</b>	<b>3,451,622</b>	<b>623.86 %</b>
<b>Deferred inflows of resources</b>	<b>3,096,750</b>	<b>-</b>	<b>N/A %</b>
<b>Net position:</b>			
Net investment in capital assets	14,004,863	14,573,724	(3.90) %
Restricted	3,566,880	3,345,873	6.61 %
Unrestricted	(20,242,963)	1,460,557	(1,485.98) %
<b>Total net position</b>	<b>\$ (2,671,220)</b>	<b>\$ 19,380,154</b>	<b>(113.78) %</b>

Additional information on unrestricted net position:

In connection with the implementation of new standards on accounting and financial reporting for pensions, management presents the following additional information:

Total unrestricted net position (deficit)	\$ (20,242,963)
Less unrestricted deficit in net position resulting from recognition of the net pension liability	21,363,177
Unrestricted net position exclusive of the net pension liability effect	<u>1,120,214</u>

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 \$593,661 due to depreciation expense.
- The principal retirement of long-term debt outstanding of \$24,800.

PONTOTOC CITY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2015

**Changes in net position**

The District's total revenues for the fiscal years ended June 30, 2015 and June 30, 2014 were \$19,163,932 and \$19,050,442, respectively. The total cost of all programs and services was \$19,103,088 for 2015 and \$19,494,144 for 2014.

Table 2 presents a summary of the changes in net position for the fiscal years ended June 30, 2015 and June 30, 2014.

GASB 68 was implemented in fiscal year 2015. Prior year amounts were not restated to reflect the implementation of GASB 68.

**Table 2  
Changes in Net Position**

	Year Ended June 30, 2015	Year Ended June 30, 2014	Percentage Change
<b>Revenues:</b>			
Program revenues:			
Charges for services	\$ 783,231	\$ 818,935	(4.36) %
Operating grants and contributions	2,753,389	3,105,690	(11.34) %
Capital Grants and Contributions	111,169	-	N/A %
General revenues:			
Property taxes	3,566,766	3,435,044	3.83 %
Grants and contributions not restricted	11,369,408	11,343,308	0.23 %
Investment earnings	35,612	38,123	(6.59) %
Other	544,357	309,342	75.97 %
<b>Total revenues</b>	<b>19,163,932</b>	<b>19,050,442</b>	<b>0.60 %</b>
<b>Expenses:</b>			
Instruction	10,649,684	11,354,229	(6.21) %
Support services	5,809,020	6,894,864	(15.75) %
Non-instructional	1,169,738	1,191,994	(1.87) %
Pension expense	1,446,845	-	N/A %
Interest on long-term liabilities	27,801	53,057	(47.60) %
<b>Total expenses</b>	<b>19,103,088</b>	<b>19,494,144</b>	<b>(2.01) %</b>
<b>Increase (Decrease) in net position</b>	<b>60,844</b>	<b>(443,702)</b>	<b>(113.71) %</b>
<b>Net Position, July 1, as previously reported</b>	<b>19,380,154</b>	<b>19,823,856</b>	<b>(2.24) %</b>
<b>Prior Period Adjustment</b>	<b>(22,112,218)</b>		<b>100.00 %</b>
<b>Net Position, July 1, as restated</b>	<b>(2,732,064)</b>	<b>19,823,856</b>	<b>(113.78) %</b>
<b>Net Position, June 30</b>	<b>\$ (2,671,220)</b>	<b>\$ 19,380,154</b>	<b>(113.78) %</b>

**Governmental activities**

The following table presents the cost of four major District functional activities: instruction, support services, non-instructional, pension expense, 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.

PONTOTOC CITY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2015

GASB 68 was implemented in fiscal year 2015. Prior year amounts were not restated to reflect the implementation of GASB 68.

**Table 3**  
**Net Cost of Governmental Activities**

	<u>Total Expenses</u>		Percentage Change
	<u>2015</u>	<u>2014</u>	
Instruction	\$ 10,649,684	\$ 11,354,229	(6.21) %
Support services	5,809,020	6,894,864	(15.75) %
Non-instructional	1,169,738	1,191,994	(1.87) %
Pension expense	1,446,845	-	N/A %
Interest on long-term liabilities	27,801	53,057	(47.60) %
<b>Total expenses</b>	<b>\$ 19,103,088</b>	<b>\$ 19,494,144</b>	<b>(2.01) %</b>

  

	<u>Net (Expense) Revenue</u>		Percentage Change
	<u>2015</u>	<u>2014</u>	
Instruction	\$ (8,900,151)	\$ (9,482,801)	(6.14) %
Support services	(5,201,934)	(6,177,222)	(15.79) %
Non-instructional	121,432	143,561	(15.41) %
Pension expense	(1,446,845)	-	N/A %
Interest on long-term liabilities	(27,801)	(53,057)	(47.60) %
<b>Total net (expense) revenue</b>	<b>\$ (15,455,299)</b>	<b>\$ (15,569,519)</b>	<b>(0.73) %</b>

- Net cost of governmental activities (\$15,455,299 for 2015 and \$15,569,519 for 2014) was financed by general revenue, which is primarily made up of property taxes (\$3,566,766 for 2015 and \$3,435,044 for 2014) and state and federal revenues (\$11,369,408 for 2015 and \$11,343,308 for 2014).
- Investment earnings amounted to \$35,612 for 2015 and \$38,123 for 2014.

### 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 \$5,208,012, an increase of \$256,009, which includes a increase in inventory of \$2,977. \$1,413,757 or 27% of the fund balance is unassigned, which represents the residual classification for the General Fund's fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific

PONTOTOC CITY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2015

purposes within the general fund. The remaining fund balance of \$3,794,255 or 73% is either nonspendable, restricted, committed 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 increase in fund balance in the General Fund for the fiscal year was \$35,001. The fund balance of Other Governmental Funds showed an increase in the amount of \$50,081, due primarily to new grant revenue. The increase (decrease) in the fund balances for the other major funds were as follows:

<u>Major Fund</u>	<u>Increase (Decrease)</u>
School Food Service Fund	\$ 4,299
IDEA Part B Fund	\$ no increase or decrease
Vocational Education Fund	\$ no increase or decrease
Special Capital Projects Fund	\$ (42,729)
QSCB Debt Retirement Fund	\$ 209,357

### 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.

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

### CAPITAL ASSETS AND DEBT ADMINISTRATION

**Capital Assets.** As of June 30, 2015, the District's total capital assets were \$27,388,860, including land, school buildings, building improvements, buses, other school vehicles, furniture and equipment, and any intangible assets. This amount represents an increase of \$132,249 from 2014. Total accumulated depreciation as of June 30, 2015, was \$10,334,397, and total depreciation expense for the year was \$657,781, resulting in total net capital assets of \$17,054,463.

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

	<u>June 30, 2015</u>	<u>June 30, 2014</u>	<u>Percentage Change</u>
Land	\$ 1,080,770	\$ 1,080,770	0.00 %
Buildings	13,445,411	13,942,379	(3.56) %
Building improvements	1,673,331	1,801,980	(7.14) %
Improvements other than buildings	130,091	138,571	(6.12) %
Mobile equipment	646,844	602,105	7.43 %
Furniture and equipment	78,016	82,319	(5.23) %
<b>Total</b>	<b>\$ 17,054,463</b>	<b>\$ 17,648,124</b>	<b>(3.36) %</b>

PONTOTOC CITY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2015

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

**Debt Administration.** At June 30, 2015, the District had \$3,191,469 in outstanding long-term debt, of which \$24,800 is due within one year. The liability for compensated absences increased \$16,179 from the prior year.

**Table 5**  
**Outstanding Long-Term Debt**

	<u>June 30, 2015</u>	<u>June 30, 2014</u>	<u>Percentage Change</u>
Qualified zone academy bonds payable	\$ 49,600	\$ 74,400	(33.33) %
Qualified school construction bonds payable	3,000,000	3,000,000	0.00 %
Compensated absences payable	141,869	125,690	12.87 %
<b>Total</b>	<b><u>\$ 3,191,469</u></b>	<b><u>\$ 3,200,090</u></b>	<b>(0.27) %</b>

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

**CURRENT ISSUES**

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

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

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

**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 City School District, 140 Education Drive, Pontotoc, MS 38863.

FINANCIAL STATEMENTS

Pontotoc City School District  
Statement of Net Position  
June 30, 2015

Exhibit A

	Governmental Activities
<b>Assets</b>	
Cash and cash equivalents	\$ 3,752,324
Due from other governments	613,257
Other receivables, net	2
Inventories	38,534
Prepaid items	35,064
Restricted assets	1,179,096
Capital assets, non-depreciable:	
Land	1,080,770
Capital assets, net of accumulated depreciation:	
Buildings	13,445,410
Building improvements	1,673,331
Improvements other than buildings	130,091
Mobile equipment	646,844
Furniture and equipment	78,017
Total Assets	<u>22,672,740</u>
<b>Deferred Outflows of Resources</b>	
Pensions	2,737,585
Total Deferred Outflows of Resources	<u>2,737,585</u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	394,959
Unearned revenue	15,306
Interest payable on long-term liabilities	19,884
Long-term liabilities, due within one year:	
Capital related liabilities	24,800
Long-term liabilities, due beyond one year:	
Capital related liabilities	3,024,800
Non-capital related liabilities	141,869
Net pension liability	21,363,177
Total Liabilities	<u>24,979,587</u>
<b>Deferred Inflows of Resources</b>	
Pensions	3,096,750
Total Deferred Inflows of Resources	<u>3,096,750</u>
<b>Net Position</b>	
Net investment in capital assets	14,004,863
Restricted for:	
Expendable:	
School-based activities	609,060
Debt service	1,167,193
Capital improvements	1,734,997
Unemployment benefits	55,630
Unrestricted	(20,242,963)
Total Net Position	<u>\$ (2,671,220)</u>

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

Pontotoc City School District  
Statement of Activities  
For The Year Ended June 30, 2015

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	\$ 10,649,684	491,518	1,258,015	\$ -	\$	(8,900,151)
Support services	5,809,020	-	522,275	84,811		(5,201,934)
Non-instructional	1,169,738	291,713	973,099	26,358		121,432
Pension expense	1,446,845		-	-		(1,446,845)
Interest on long-term liabilities	27,801		-	-		(27,801)
<b>Total Governmental Activities</b>	<b>\$ 19,103,088</b>	<b>783,231</b>	<b>2,753,389</b>	<b>\$ 111,169</b>	<b>\$</b>	<b>(15,455,299)</b>
General Revenues:						
Taxes:						
						3,381,867
						184,899
Unrestricted grants and contributions:						
						11,277,967
						91,441
						35,612
						544,357
						<u>15,516,143</u>
						<u>60,844</u>
						<u>19,380,154</u>
						<u>(22,112,218)</u>
						<u>(2,732,064)</u>
						<u>\$ (2,671,220)</u>

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

Pontotoc City School District  
 Governmental Funds  
 Balance Sheet  
 June 30, 2015

Exhibit C

	Major Funds							Total Governmental Funds
	General Fund	School Food Service Fund	IDEA Part B Fund	Vocational Education Fund	Special Capital Projects Fund	QSCB Debt Retirement Fund	Other Governmental Funds	
<b>Assets</b>								
Cash and cash equivalents	\$ 1,080,441	639,997		134,294	1,734,997		470,965	\$ 4,060,694
Investments						870,726		870,726
Due from other governments	360,494		96,778				155,985	613,257
Due from other funds	283,181	8,280						291,461
Inventories		38,534						38,534
Prepaid items	35,064							35,064
Total assets	\$ 1,759,180	686,811	96,778	134,294	1,734,997	870,726	626,950	\$ 5,909,736
<b>Liabilities and Fund Balances</b>								
<b>Liabilities:</b>								
Accounts payable and accrued liabilities	\$ 137,932	61,731	10,053	134,294			50,949	\$ 394,959
Due to other funds		82,000	86,725				122,734	291,459
Unearned revenue		7,463					7,843	15,306
Total Liabilities	137,932	151,194	96,778	134,294	-	-	181,526	701,724
<b>Fund Balances:</b>								
<b>Nonspendable:</b>								
Inventory		38,534						38,534
Prepaid items	35,064							35,064
<b>Restricted:</b>								
Debt service						870,726	316,351	1,187,077
Capital improvements					1,734,997			1,734,997
Grant activities		497,083					73,443	570,526
Unemployment benefits							55,630	55,630
<b>Assigned:</b>								
Activity funds	172,427							172,427
<b>Unassigned</b>								
	1,413,757							1,413,757
Total Fund Balances	1,621,248	535,617	-	-	1,734,997	870,726	445,424	5,208,012
Total Liabilities and Fund Balances	\$ 1,759,180	686,811	96,778	134,294	1,734,997	870,726	626,950	\$ 5,909,736

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

Pontotoc City School District  
 Governmental Funds

Exhibit C-1

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position  
 June 30, 2015

Total fund balances for governmental funds \$ 5,208,012

Amounts reported for governmental activities in the statement of net position are different because:

- Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:

Land	\$ 1,080,770	
Buildings	19,955,191	
Building improvements	3,216,224	
Improvements other than buildings	397,036	
Mobile equipment	2,156,386	
Furniture and equipment	583,253	
Accumulated depreciation	<u>(10,334,397)</u>	17,054,463

- Some liabilities, including net pension obligations, are not due and payable in the current period and, therefore, are not reported in the funds:

Net pension liability	(21,363,177)	
Deferred outflows and inflows related to pensions are applicable to future periods and, therefore, are not reported in the funds		
Deferred outflows of resources related to pensions	2,737,585	
Deferred inflows of resources related to pensions	<u>(3,096,750)</u>	(21,722,342)

- Long-term liabilities and related accrued interest are not due and payable in the current period and therefore are not reported in the funds:

Limited obligation bonds	\$ (3,049,600)	
Compensated absences	(141,869)	
Accrued interest payable	<u>(19,884)</u>	(3,211,353)

Net position of governmental activities \$ (2,671,220)

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

Pontotoc City School District  
 Governmental Funds  
 Statement of Revenues, Expenditures and Changes in Fund Balances  
 For The Year Ended June 30, 2015

Exhibit D

	Major Funds							Total Governmental Funds
	General Fund	School Food Service Fund	IDEA Part B Fund	Vocational Education Fund	Special Capital Projects Fund	QSCB Debt Retirement Fund	Other Governmental Funds	
<b>Revenues:</b>								
Local sources	\$ 4,037,959	345,533			229,678	9,357	296,743	\$ 4,919,270
State sources	11,473,868	12,482		233,019			147,020	11,866,389
Federal sources	92,184	1,028,779	610,008				636,607	2,367,578
<b>Total Revenues</b>	<b>15,604,011</b>	<b>1,386,794</b>	<b>610,008</b>	<b>233,019</b>	<b>229,678</b>	<b>9,357</b>	<b>1,080,370</b>	<b>19,153,237</b>
<b>Expenditures:</b>								
Instruction	10,253,334		439,374	434,110			516,985	11,643,803
Support services	5,222,844	66,191	148,724		199,894		328,968	5,966,621
Noninstructional services		1,239,912	599				7,365	1,247,876
Debt service:								
Principal							24,800	24,800
Interest						25,200		25,200
Other						1,950	650	2,600
<b>Total Expenditures</b>	<b>15,476,178</b>	<b>1,306,103</b>	<b>588,697</b>	<b>434,110</b>	<b>199,894</b>	<b>27,150</b>	<b>878,768</b>	<b>18,910,900</b>
Excess (Deficiency) of Revenues over (under) Expenditures	127,833	80,691	21,311	(201,091)	29,784	(17,793)	201,602	242,337
<b>Other Financing Sources (Uses):</b>								
Insurance recoveries	10,695							10,695
Payment held by QSCB escrow agent						227,150		227,150
Payment to QSCB bond escrow agent							(227,150)	(227,150)
Operating transfers in	103,311	2,631		201,091			78,260	385,293
Operating transfers out	(206,838)	(82,000)	(21,311)		(72,513)		(2,631)	(385,293)
<b>Total Other Financing Sources (Uses)</b>	<b>(92,832)</b>	<b>(79,369)</b>	<b>(21,311)</b>	<b>201,091</b>	<b>(72,513)</b>	<b>227,150</b>	<b>(151,521)</b>	<b>10,695</b>
<b>Net Change in Fund Balances</b>	<b>35,001</b>	<b>1,322</b>	<b>-</b>	<b>-</b>	<b>(42,729)</b>	<b>209,357</b>	<b>50,081</b>	<b>253,032</b>
<b>Fund Balances:</b>								
July 1, 2014	1,586,247	531,318	-	-	1,777,726	661,369	395,343	4,952,003
Increase (Decrease) in reserve for inventory		2,977						2,977
<b>June 30, 2015</b>	<b>\$ 1,621,248</b>	<b>535,617</b>	<b>-</b>	<b>-</b>	<b>1,734,997</b>	<b>870,726</b>	<b>445,424</b>	<b>\$ 5,208,012</b>

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

WATKINS, WARD & STAFFORD, PLLC  
 CERTIFIED PUBLIC ACCOUNTANTS  
 17

Pontotoc City School District  
 Governmental Funds  
 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, 2015

Exhibit D-1

Net change in fund balances - total governmental funds \$ 253,032

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

1. Governmental funds report capital outlay 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 outlay	\$ 183,608	
Depreciation expense	(657,781)	(474,173)

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. (4,208)

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 issuance costs, 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:

Payments of debt principal	24,800	24,800
----------------------------	--------	--------

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 governmental funds. These activities include:

Change in compensated absences	(16,179)	
Change in inventory reserve	2,977	
Change in accrued interest payable	(1)	
District pension contributions	1,721,441	
Pension expense	(1,446,845)	261,393

Change in net position of governmental activities \$ 60,844

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

Pontotoc City School District  
Fiduciary Funds  
Statement of Fiduciary Net Position  
June 30, 2015

Exhibit E

	<u>Agency Funds</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 777,654
Total Assets	<u>\$ 777,654</u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	\$ 769,177
Due to other funds	2
Due to student clubs	8,475
Total Liabilities	<u>\$ 777,654</u>

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

PONTOTOC CITY SCHOOL DISTRICT  
Notes to Financial Statements

**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 an "other stand-alone government." The school district is a related organization of, but not a component unit of, the City of Pontotoc since the governing authority of the city selects a majority of the school district's board but does not have financial accountability for the school district.

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

**B. 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. 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.
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.

PONTOTOC CITY SCHOOL DISTRICT  
Notes to Financial Statements

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 funds:

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.

School Food Service Fund – This fund is used to account for the revenues and expenditures of the School Food Service and Child Nutrition program.

IDEA Part B Fund – This fund is used to account for the federal revenues and expenditures of the Special Education program.

Vocational Education Fund – This fund is used to account for the state revenues and expenditures of the Vocational Education program.

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

QSCB Debt Retirement Fund – This fund is used to account for the investment and payment to escrow accounts held for the principal repayment of the QSCB bonds.

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:

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

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

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

Additionally, the school district reports the following fund types:

**GOVERNMENTAL FUNDS**

Special Revenue Funds - Special Revenue Funds are used to account for 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.

PONTOTOC CITY SCHOOL DISTRICT  
Notes to Financial Statements

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

Capital 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.

PONTOTOC CITY SCHOOL DISTRICT  
Notes to Financial Statements

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, deferred outflows/inflows, 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.

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.

PONTOTOC CITY SCHOOL DISTRICT  
Notes to Financial Statements

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 Zone Academy Bond sinking funds. Also, unspent proceeds from the issuance of long-term debt are also classified as restricted assets.

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 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.

The following schedule details the capitalization thresholds:

	Capitalization Policy	Estimated Useful Life
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.

PONTOTOC CITY SCHOOL DISTRICT  
Notes to Financial Statements

7. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The deferred outflows are related to the district's long-term pension obligations.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The deferred outflows are related to the district's long-term pension obligations.

See Note 7 for further details.

8. 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.

9. Long-term Liabilities, Deferred Debt Expense, 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.

10. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employees' Retirement System (PERS) and additions to/deductions from PERS' fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, the benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

PONTOTOC CITY SCHOOL DISTRICT  
Notes to Financial Statements

11. 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.

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.

*Committed fund balance* includes amounts that can be used only for the specific purposes pursuant to constraints imposed by a formal action of the School Board, the District's highest level of decision-making authority. This formal action is a resolution approved by the School Board. Currently there is no committed fund balance for this school district.

*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 Superintendent and the Business Manager pursuant to authorization established by the District's approved fund balance policy.

*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.

F. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from the estimates.

PONTOTOC CITY SCHOOL DISTRICT  
Notes to Financial Statements

**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 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) 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 \$4,060,694 and \$777,654, 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. As of June 30, 2015, none of the district's bank balance of \$5,414,644 was exposed to custodial credit risk.

**Investments**

As of June 30, 2015, the district had the following investments.

Investment Type	Rating	Maturities (in years)	Fair Value
Performance U.S. Treasury Fund	Not rated	Less than 1	\$ 870,726
			<u>\$ 870,726</u>

PONTOTOC CITY SCHOOL DISTRICT  
Notes to Financial Statements

Investments are presented as Restricted Assets in the Statement of Net Position. See Note 4 for additional information.

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

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

*Custodial Credit Risk - Investments.* Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The district does not have a formal investment policy that addresses custodial credit risk.

*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.

Issuer	Fair Value	% of Total Investments
Performance U.S. Treasury Fund	\$ 870,726	100%

PONTOTOC CITY SCHOOL DISTRICT  
Notes to Financial Statements

**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	School Food Service Fund	\$ 82,000
General Fund	IDEA Part B Fund	86,725
General Fund	Other Governmental Funds	114,454
General Fund	Agency Funds	2
School Food Service Fund	Other Governmental Funds	8,280
		<u>\$ 291,461</u>

Inter-fund loans are temporary loans until funds are received from grantors.

**B. Inter-fund Transfers**

Transfers Out	Transfers In	Amount
General Fund	Vocational Education Fund	\$ 201,091
General Fund	Other Governmental Funds	5,747
School Food Service Fund	General Fund	82,000
IDEA Part B Fund	General Fund	21,311
Special Capital Projects	Other Governmental Funds	72,513
Other governmental funds	School Food Service Fund	2,631
		<u>\$ 385,293</u>

The transfers represent board approved operating transfers for school operations and planning purposes.

**Note 4 – Restricted Assets**

The restricted assets represent the cash balance totaling \$64,421, of the QZAB Bond Retirement Funds.

In addition, the restricted assets represent the cash and investment balance, totaling \$243,949 and \$870,726, of the QSCB Note Fund.

PONTOTOC CITY SCHOOL DISTRICT  
Notes to Financial Statements

**Note 5 – Capital Assets**

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

<b>Governmental Activities:</b>	Balance 7/1/2014	Increases	Decreases	Adjustments	Balance 6/30/2015
<u>Non-depreciable capital assets:</u>					
Land	\$ 1,080,770				\$ 1,080,770
Total non-depreciable capital assets	1,080,770	-	-	-	1,080,770
<u>Depreciable capital assets:</u>					
Buildings	20,090,551			(135,360)	19,955,191
Building improvements	3,216,224				3,216,224
Improvements other than buildings	397,036				397,036
Mobile equipment	1,999,136	157,250			2,156,386
Furniture and equipment	472,894	26,358	28,960	112,961	583,253
Total depreciable capital assets	26,175,841	183,608	28,960	(22,399)	26,308,090
<u>Less accumulated depreciation for:</u>					
Buildings	6,148,172	380,559		(18,950)	6,509,781
Building improvements	1,414,244	128,649			1,542,893
Improvements other than buildings	258,465	8,480			266,945
Mobile equipment	1,397,031	112,511			1,509,542
Furniture and equipment	390,575	27,582	24,752	111,831	505,236
Total accumulated depreciation	9,608,487	657,781	24,752	92,881	10,334,397
Total depreciable capital assets, net	16,567,354	(474,173)	4,208	(115,280)	15,973,693
Governmental activities capital assets, net	\$ 17,648,124	\$ (474,173)	\$ 4,208	\$ (115,280)	\$ 17,054,463

PONTOTOC CITY SCHOOL DISTRICT  
Notes to Financial Statements

Depreciation expense was charged to the following governmental functions:

<b>Governmental activities:</b>	<u>Amount</u>
Instruction	\$ 209,193
Support services	444,860
Non-instructional	<u>3,728</u>
Total depreciation expense-governmental activities	<u>\$ 657,781</u>

**Note 6 – Long-term Liabilities**

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

<u>Description</u>	<u>Balance</u> 7/1/2014	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> 6/30/2015	<u>Amounts due</u> <u>within one</u> <u>year</u>
A. Qualified Zone Academy Bonds	\$ 74,400	\$	\$ 24,800	\$ 49,600	\$ 24,800
B. Qualified School Construction Bonds	3,000,000			3,000,000	
C. Compensated absences payable	125,690	16,179		141,869	
Total	<u>\$ 3,200,090</u>	<u>\$ 16,179</u>	<u>\$ 24,800</u>	<u>\$ 3,191,469</u>	<u>\$ 24,800</u>

**A. Qualified zone academy bonds payable**

As more fully explained in Note 11, debt has been issued by the school district that qualifies as Qualified Zone Academy Bonds. Debt currently outstanding is as follows:

<u>Description</u>	<u>Interest</u> <u>Rate</u>	<u>Issue</u> <u>Date</u>	<u>Maturity</u> <u>Date</u>	<u>Amount</u> <u>Issued</u>	<u>Amount</u> <u>Outstanding</u>
Qualified Zone Academy Bonds payable	N/A	9/15/2006	9/15/2016	\$ 248,000	\$ 49,600
				<u>\$ 248,000</u>	<u>\$ 49,600</u>

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

<u>Year Ending</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 24,800	-	24,800
2017	24,800	-	24,800
Total	<u>\$ 49,600</u>	<u>-</u>	<u>49,600</u>

This debt will be retired from the QZAB Retirement Fund.

PONTOTOC CITY SCHOOL DISTRICT  
Notes to Financial Statements

**B. Qualified school construction bonds payable**

As more fully explained in Note 12, 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
Qualified School Construction Bonds payable	0.84%	9/15/2009	9/15/2024	3,000,000	3,000,000
Total				<u>\$ 3,000,000</u>	<u>\$ 3,000,000</u>

**C. Compensated absences payable**

As more fully explained in Note 1(E)(8), 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. Plan provisions and the Board of Trustees' authority to determine contribution rates are established by Miss. Code Ann. Section 25-11-1 et seq., (1972, as amended) and may be amended only by the 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.

*Benefits provided.* Membership in PERS is a condition of employment granted upon hiring for qualifying employees and officials of the State of Mississippi, state universities, community and junior colleges, and teachers and employees of the public school districts. For those persons employed by political subdivisions and instrumentalities of the State of Mississippi, membership is contingent upon approval of the entity's participation in PERS by the PERS' Board of Trustees. If approved, membership for the entity's employees is a condition of employment and eligibility is granted to those who qualify upon hiring. Participating members who are vested and retire at or after age 60 or those who retire regardless of age with at least 30 years of creditable service (25 years of creditable service for employees who became members of PERS before July 1, 2011) are entitled, upon application, to an annual retirement allowance payable monthly for life in an amount equal to 2.0 percent of their average compensation for each year of creditable service up to and including 30 years (25 years for those who became members of PERS before July 1, 2011), plus 2.5 percent for each additional year of creditable service with an actuarial reduction in the benefit for each year of creditable service below 30 years or the number of years in age that the member is below 65, whichever is less. Average compensation is the average of the employee's earnings during the four highest compensated years of creditable service. Benefits vest upon completion of eight years of membership service (four years of membership service for those who became members of PERS before July 1, 2007). PERS also provides certain death and disability benefits. A Cost-of-Living Adjustment (COLA) payment is made to eligible retirees and beneficiaries. The COLA is equal to 3.0 percent of the annual retirement allowance for each full fiscal year of retirement up to the year in which the retired member reaches age 60 (55 for those who became members of PERS before July 1, 2011), with 3.0 percent compounded for each fiscal year thereafter. Plan provisions are established and may be amended only by the State of Mississippi Legislature.

PONTOTOC CITY SCHOOL DISTRICT  
Notes to Financial Statements

*Contributions.* 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, 2015 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, 2015, 2014 and 2013 were \$1,721,441, \$1,653,906, and \$1,487,882, respectively, which equaled the required contributions for each year.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2015, the school district reported a liability of \$21,363,177 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the school district's long-term share of contribution to the pension plan relative to projected contributions of all participating entities, actuarially determined. At June 30, 2014, the school district's proportion was 0.18 percent.

For the year ended June 30, 2015, the District recognized pension expense of \$1,446,845. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 333,259	\$
Net difference between projected and actual earnings on pension plan investments		3,096,750
Changes in proportion and differences between the entity's contributions and proportionate share of overall contributions	682,885	
Entity's contributions subsequent to the measurement date	1,721,441	
Total	<u>\$ 2,737,585</u>	<u>\$ 3,096,750</u>

\$1,721,441 reported as deferred outflows of resources related to pensions resulting from school district contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>
2016	802,762	774,187
2017	119,877	774,187
2018	93,505	774,187
2019	-	774,189
Total	<u>1,016,144</u>	<u>3,096,750</u>

PONTOTOC CITY SCHOOL DISTRICT  
Notes to Financial Statements

*Actuarial assumptions.* The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5 percent
Salary increases	4.25 – 19.50 percent, including inflation
Investment rate of return	8.00 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table Projected with Scale AA to 2025, set forward two years for males.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2008 to June 30, 2012. The experience report is dated June 12, 2013.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected nominal returns, net of pension plan investment expense and the assumed rate of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Broad	34 %	5.20 %
International Equity	19	5.00
Emerging Markets Equity	8	5.45
Fixed Income	20	0.25
Real Assets	10	4.00
Private Equity	8	6.15
Cash	1	(0.50)
Total	<u>100 %</u>	

*Discount rate.* The discount rate used to measure the total pension liability was 8.00 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that Employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

PONTOTOC CITY SCHOOL DISTRICT  
Notes to Financial Statements

*Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate.* The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Entity's proportionate share of the net pension liability	\$ 29,124,381	\$ 21,363,177	\$ 14,889,179

*Pension plan fiduciary net position.* Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial report.

**Note 8 – Prior Period Adjustments**

A summary of significant Net Position adjustments is as follows:

Exhibit B - Statement of Activities

Explanation		Amount
1. Implementation of GASB 68 and 71:		
Net pension liability (measurement date)	(23,693,652)	
Deferred outflows - contributions made during fiscal year 2014	1,696,714	
Total prior period adjustment related to GASB 68 and 71		\$ (21,996,938)
2. Reclassification of capital assets and accumulated depreciation		(115,280)
Total		(22,112,218)

**Note 9 – 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 party to legal proceedings, many of which occur in the normal course of governmental operations. It is not possible at the present time to estimate the outcome or liability, if any, of the school district with respect to the various proceedings. However, the school district's legal counsel believes that ultimate liability resulting from these lawsuits will not have a material adverse effect on the financial condition of the school district.

PONTOTOC CITY SCHOOL DISTRICT  
Notes to Financial Statements

**Note 10 – Risk Management**

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

**Participation in Public Entity Risk Pool**

The school district is a member of the Mississippi School Boards Association Worker's 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 77 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 11 – Qualified Zone Academy Bonds**

Section 226 of the Taxpayer Relief Act of 1997 (Public Law 105-34) provides for a source of capital at no or at nominal interest rates for costs incurred by certain public schools in connection with the establishment of special academic programs from kindergarten through secondary school, in partnership with the business community. The school district, in agreement with Trustmark Bank, has entered into such an arrangement dated September 15, 2006. This agreement authorizes the issuance of trust certificates in the principal amount of \$248,000, which is being paid currently. Approximately \$241,000 was used to provide financing for the renovation, repair, and equipping the Pontotoc High School; the remainder of approximately \$7,000 was used to pay the cost of issuance.

**Note 12 – 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.

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.

PONTOTOC CITY SCHOOL DISTRICT  
Notes to Financial Statements

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 at June 30, 2015 was \$870,726. 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.

Year Ending June 30	Amount
2016	\$ 201,000
2017	201,000
2018	217,000
2019	217,000
2020	200,000
2021-2025	1,085,000
Total	\$ <u>2,121,000</u>

The EEF Building and buses revenue has been pledged for this debt. On November 9, 2009, the Pontotoc City School Board pledged revenue of \$62,647 annually for payment on the Qualified School Construction Bonds loan, subject to any prior pledge for the benefit of any obligation that is currently outstanding. The debt issued was for the purpose of construction, repair, and equipment for the school district. The commitment began in the fiscal year 2010-11 and will end with the 2024-25 school year. The revenue from the state varies from year to year, but is all used for the debt retirement. For the year 2014-15 the EEF revenue was \$69,811, of which \$62,647 was applied to the debt payment of the Qualified School Construction Bonds.

**Note 13 – 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 consortium was created pursuant to the provisions of Section 37-31-73, Miss. Code Ann. (1972), and approved by the Mississippi Department of Education. The consortium includes the Pontotoc County School District and Pontotoc City School District.

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

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

PONTOTOC CITY SCHOOL DISTRICT  
Notes to Financial Statements

**Note 14 – Insurance loss recoveries**

The Pontotoc City School District received \$10,695 in insurance loss recoveries related to vehicle damage during the 2014-2015 fiscal year. In the government-wide Statement of Activities, the insurance loss recoveries were reported as charges for services and allocated among the expense functions based on the following percentages:

Insurance Loss	Recoveries	Percentage	Expense Function
\$	10,695	100%	Instruction

**Note 15 – 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 City School District evaluated the activity of the district through November 29, 2015, (the date the financial statements were available to be issued), and determined that no subsequent events have occurred that would require disclosure in the notes to the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

Pontotoc City School District  
 Required Supplementary Information  
 Budgetary Comparison Schedule  
 General Fund  
 For The Year Ended June 30, 2015

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Local sources	\$ 3,984,395	\$ 4,037,959	\$ 4,037,959	\$ 53,564	\$ -
State sources	11,524,810	11,473,868	11,473,868	(50,942)	-
Federal sources	82,770	92,184	92,184	9,414	-
<b>Total Revenues</b>	<b>15,591,975</b>	<b>15,604,011</b>	<b>15,604,011</b>	<b>12,036</b>	<b>-</b>
<b>Expenditures:</b>					
Instruction	10,122,097	10,253,334	10,253,334	(131,237)	-
Support services	5,522,919	5,222,844	5,222,844	300,075	-
Noninstructional services	-	-	-	-	-
<b>Total Expenditures</b>	<b>15,645,016</b>	<b>15,476,178</b>	<b>15,476,178</b>	<b>168,838</b>	<b>-</b>
<b>Excess (Deficiency) of Revenues over (under) Expenditures</b>	<b>(53,041)</b>	<b>127,833</b>	<b>127,833</b>	<b>180,874</b>	<b>-</b>
<b>Other Financing Sources (Uses):</b>					
Insurance recoveries	-	10,695	10,695	10,695	-
Operating transfers in	1,640,788	226,913	103,311	(1,413,875)	(123,602)
Operating transfers out	(1,738,327)	(330,440)	(206,838)	1,407,887	123,602
<b>Total Other Financing Sources (Uses)</b>	<b>(97,539)</b>	<b>(92,832)</b>	<b>(92,832)</b>	<b>4,707</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>(150,580)</b>	<b>35,001</b>	<b>35,001</b>	<b>185,581</b>	<b>-</b>
<b>Fund Balances:</b>					
July 1, 2014	1,586,247	1,586,247	1,586,247	-	-
June 30, 2015	\$ 1,435,667	\$ 1,621,248	\$ 1,621,248	\$ 185,581	\$ -

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

Pontotoc City School District  
 Required Supplementary Information  
 Budgetary Comparison Schedule  
 School Food Service Fund  
 For The Year Ended June 30, 2015

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Local sources	\$ 388,800	\$ 345,533	\$ 345,533	\$ (43,267)	\$ -
State sources	14,000	12,482	12,482	(1,518)	-
Federal sources	970,000	1,028,779	1,028,779	58,779	-
Total Revenues	1,372,800	1,386,794	1,386,794	13,994	-
<b>Expenditures:</b>					
Instruction	-	-	-	-	-
Support services	70,335	66,191	66,191	4,144	-
Noninstructional services	1,251,041	1,239,912	1,239,912	11,129	-
Total Expenditures	1,321,376	1,306,103	1,306,103	15,273	-
Excess (Deficiency) of Revenues over (under) Expenditures	51,424	80,691	80,691	29,267	-
<b>Other Financing Sources (Uses):</b>					
Operating transfers in	-	2,631	2,631	2,631	-
Operating transfers out	(44,650)	(82,000)	(82,000)	(37,350)	-
Total Other Financing Sources (Uses)	(44,650)	(79,369)	(79,369)	(34,719)	-
Net Change in Fund Balances	6,774	1,322	1,322	(5,452)	-
<b>Fund Balances:</b>					
July 1, 2014	531,318	531,318	531,318	-	-
Increase (Decrease) in reserve for inventory	2,977	2,977	2,977	-	-
June 30, 2015	\$ 541,069	\$ 535,617	\$ 535,617	\$ (5,452)	\$ -

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

Pontotoc City School District  
 Required Supplementary Information  
 Budgetary Comparison Schedule  
 IDEA Part B Fund  
 For The Year Ended June 30, 2015

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Local sources	\$ -	\$ -	\$ -	\$ -	\$ -
State sources	-	-	-	-	-
Federal sources	495,199	610,008	610,008	114,809	-
<b>Total Revenues</b>	<b>495,199</b>	<b>610,008</b>	<b>610,008</b>	<b>114,809</b>	<b>-</b>
<b>Expenditures:</b>					
Instruction	339,265	439,374	439,374	(100,109)	-
Support services	155,934	148,724	148,724	7,210	-
Noninstructional services	-	599	599	(599)	-
<b>Total Expenditures</b>	<b>495,199</b>	<b>588,697</b>	<b>588,697</b>	<b>(93,498)</b>	<b>-</b>
Excess (Deficiency) of Revenues over (under) Expenditures	-	21,311	21,311	21,311	-
<b>Other Financing Sources (Uses):</b>					
Operating transfers in	-	-	-	-	-
Operating transfers out	-	(21,311)	(21,311)	(21,311)	-
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>(21,311)</b>	<b>(21,311)</b>	<b>(21,311)</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fund Balances:</b>					
July 1, 2014	-	-	-	-	-
June 30, 2015	\$ -	\$ -	\$ -	\$ -	\$ -

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

Pontotoc City School District  
 Required Supplementary Information  
 Budgetary Comparison Schedule  
 Vocational Education Fund  
 For The Year Ended June 30, 2015

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Local sources	\$ -	\$ -	\$ -	\$ -	\$ -
State sources	90,000	233,019	233,019	143,019	-
Federal sources	-	-	-	-	-
<b>Total Revenues</b>	<b>90,000</b>	<b>233,019</b>	<b>233,019</b>	<b>143,019</b>	<b>-</b>
<b>Expenditures:</b>					
Instruction	235,927	434,110	434,110	(198,183)	-
Support services	-	-	-	-	-
Noninstructional services	-	-	-	-	-
<b>Total Expenditures</b>	<b>235,927</b>	<b>434,110</b>	<b>434,110</b>	<b>(198,183)</b>	<b>-</b>
Excess (Deficiency) of Revenues over (under) Expenditures	(145,927)	(201,091)	(201,091)	(55,164)	-
<b>Other Financing Sources (Uses):</b>					
Operating transfers in	145,927	201,091	201,091	55,164	-
Operating transfers out	-	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>145,927</b>	<b>201,091</b>	<b>201,091</b>	<b>55,164</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fund Balances:</b>					
July 1, 2014	-	-	-	-	-
June 30, 2015	\$ -	\$ -	\$ -	\$ -	\$ -

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

**Pontotoc City School District**  
**Required Supplementary Information**  
**Schedule of the District's Proportionate Share of the Net Pension Liability**  
**PERS**  
**Last 10 Fiscal Years \***

	<u>2015</u>
District's proportion of the net pension liability (asset)	0.1763%
District's proportionate share of the net pension liability (asset)	\$ 21,363,177
District's covered-employee payroll	\$ 10,500,990
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	203.44%
Plan fiduciary net position as a percentage of the total pension liability	67.21%

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

\* The amounts presented for each fiscal year were determined as of the measurement date of 6/30 of the year prior to the fiscal year presented.

This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB 68 was implemented in FYE 6/30/15, and, until a full 10-year trend is compiled, the District has only presented information for the years in which information is available.

**Pontotoc City School District  
Required Supplementary Information  
Schedule of District Contributions  
PERS  
Last 10 Fiscal Years**

	<u>2015</u>
Contractually required obligation	\$ 1,721,441
Contribution in relation to the contractually required contribution	1,721,441
Contribution deficiency (excess)	<u>\$ 0</u>
District's covered-employee payroll	10,929,784
Contributions as a percentage of its covered-employee payroll	15.75%

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

This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB 68 was implemented in FYE 6/30/15, and, until a full 10-year trend is compiled, the District has only presented information for the years in which information is available.

PONTOTOC CITY SCHOOL DISTRICT  
Notes to the Required Supplementary Information  
For the Year Ended June 30, 2015

Budgetary Comparison Schedule

(1) Basis of Presentation.

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

(2) Budget Amendments and Revisions.

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

SUPPLEMENTARY INFORMATION

Pontotoc City School District  
 Supplementary Information  
 Schedule of Expenditures of Federal Awards  
 For The Year Ended June 30, 2015

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance No.	Federal Expenditures
<b><u>U.S. Department of Agriculture</u></b>		
Passed-through Mississippi Department of Education:		
Child nutrition cluster:		
School breakfast program	10.553	\$ 254,547
National school lunch program	10.555	774,231
Summer food program	10.559	9,422
Total child nutrition cluster		<u>1,038,200</u>
Total passed-through Mississippi Department of Education		<u>1,038,200</u>
Passed-through Pontotoc County:		
Schools and roads - grants to states	10.665	1,026
Total passed-through Pontotoc County		<u>1,026</u>
Total U.S. Department of Agriculture		<u>1,039,226</u>
<b><u>Federal Communications Commission</u></b>		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the universal service fund	32.xxx	51,349
Total Federal Communications Commission		<u>51,349</u>
<b><u>U.S. Department of Education</u></b>		
Passed-through Mississippi Department of Education:		
Title I grants to local educational agencies	84.010	428,371
Vocational Rehabilitation Grants to states	84.048	742
Rural education	84.358	34,404
English language acquisition grants	84.365	25,283
Improving teacher quality state grants	84.367	109,479
Subtotal		<u>598,279</u>
Special education cluster:		
Special education - grants to states	84.027	610,008
Special education - preschool grants	84.173	14,646
Total special education cluster		<u>624,654</u>
Total passed-through Mississippi Department of Education		<u>1,222,933</u>
Total U.S. Department of Education		<u>1,222,933</u>
<b><u>Environmental Protection Agency</u></b>		
Passed-through Mississippi Department of Environmental Quality:		
State diesel grant - recovery	66.040	15,000
Total Environmental Protection Agency		<u>15,000</u>
Total for All Federal Awards		<u>\$ 2,328,508</u>

**NOTES TO SCHEDULE**

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

Pontotoc City School District  
 Supplementary Information  
 Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds  
 For The Year Ended June 30, 2015

Expenditures	Total	Instruction and Other Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 14,883,710	11,499,160	556,169	964,630	1,863,751
Other	4,027,190	1,470,829	167,768	908	2,387,685
Total	\$ 18,910,900	12,969,989	723,937	965,538	4,251,436
Total number of students *	2,043				
Cost per student	\$ 9,256	6,348	354	473	2,081

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 City School District  
 Other Information  
 Statement of Revenues, Expenditures and Changes in Fund Balances  
 General Fund  
 Last Four Years  
 UNAUDITED

	2015	2014*	2013*	2012*
<b>Revenues:</b>				
Local sources	\$ 4,037,959	3,891,975	3,737,116	3,787,254
State sources	11,473,868	11,352,396	11,063,355	10,714,734
Federal sources	92,184	91,207	82,724	91,807
<b>Total Revenues</b>	<b>15,604,011</b>	<b>15,335,578</b>	<b>14,883,195</b>	<b>14,593,795</b>
<b>Expenditures:</b>				
Instruction	10,253,334	9,692,403	9,780,772	9,647,676
Support services	5,222,844	5,324,238	4,784,396	4,608,037
Debt service:				
Principal	0	0	0	0
Interest	0	0	0	0
<b>Total Expenditures</b>	<b>15,476,178</b>	<b>15,016,641</b>	<b>14,565,168</b>	<b>14,255,713</b>
Excess (Deficiency) of Revenues over (under) Expenditures	127,833	318,937	318,027	338,082
<b>Other Financing Sources (Uses):</b>				
Insurance recovery	10,695	0	0	26,454
Operating transfers in	103,311	75,016	67,650	56,678
Operating transfers out	(206,838)	(187,057)	(145,289)	(1,572,293)
<b>Total Other Financing Sources (Uses)</b>	<b>(92,832)</b>	<b>(112,041)</b>	<b>(77,639)</b>	<b>(1,489,161)</b>
<b>Net Change in Fund Balances</b>	<b>35,001</b>	<b>206,896</b>	<b>240,388</b>	<b>(1,151,079)</b>
<b>Fund Balances:</b>				
Beginning of period, as previously reported	1,586,247	1,379,351	1,139,772	2,290,851
Prior period adjustments	0	0	(809)	0
<b>Beginning of period, as restated</b>	<b>1,586,247</b>	<b>1,379,351</b>	<b>1,138,963</b>	<b>2,290,851</b>
<b>End of Period</b>	<b>\$ 1,621,248</b>	<b>\$ 1,586,247</b>	<b>\$ 1,379,351</b>	<b>\$ 1,139,772</b>

\*SOURCE - PRIOR YEAR AUDIT REPORTS

**Pontotoc City School District**  
**Other Information**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**All Governmental Funds**  
**Last Four Years**  
**UNAUDITED**

	2015	2014*	2013*	2012*
<b>Revenues:</b>				
Local sources	\$ 4,919,270	\$ 4,601,444	\$ 4,404,377	\$ 4,380,631
State sources	11,866,389	11,847,478	11,411,577	11,080,772
Federal sources	2,367,578	2,601,520	2,313,764	2,607,458
<b>Total Revenues</b>	<b>19,153,237</b>	<b>19,050,442</b>	<b>18,129,718</b>	<b>18,068,861</b>
<b>Expenditures:</b>				
Instruction	11,643,803	11,166,382	11,016,148	11,163,507
Support services	5,966,621	6,554,272	5,234,320	5,171,412
Noninstructional services	1,247,876	1,190,582	1,176,208	1,157,046
Facilities acquisition and construction	0	59,818	584,232	246,640
Debt service:				
Principal	24,800	24,800	24,800	24,800
Interest	25,200	25,200	25,200	25,200
Other	2,600	2,600	2,600	2,600
<b>Total Expenditures</b>	<b>18,910,900</b>	<b>19,023,654</b>	<b>18,063,508</b>	<b>17,791,205</b>
Excess (Deficiency) of Revenues over (under) Expenditures	242,337	26,788	66,210	277,656
<b>Other Financing Sources (Uses):</b>				
Insurance recoveries	10,695	0	0	26,454
Payment held by QSCB escrow agent	227,150	227,147	0	0
Payment to QSCB bond escrow agent	(227,150)	(227,147)	0	0
Operating transfers in	385,293	262,073	212,939	1,649,036
Operating transfers out	(385,293)	(262,073)	(212,939)	(1,649,036)
Other financing uses	0	0	(13,978)	0
<b>Total Other Financing Sources (Uses)</b>	<b>10,695</b>	<b>0</b>	<b>(13,978)</b>	<b>26,454</b>
<b>Net Change in Fund Balances</b>	<b>253,032</b>	<b>26,788</b>	<b>52,232</b>	<b>304,110</b>
<b>Fund Balances:</b>				
Beginning of period, as previously reported	4,952,003	4,926,136	4,880,485	4,584,508
Prior period adjustments	0	0	(809)	0
<b>Beginning of period</b>	<b>4,952,003</b>	<b>4,926,136</b>	<b>4,879,676</b>	<b>4,584,508</b>
Increase (Decrease) in reserve for inventory	2,977	(921)	(5,772)	(8,133)
<b>End of Period</b>	<b>\$ 5,208,012</b>	<b>\$ 4,952,003</b>	<b>\$ 4,926,136</b>	<b>\$ 4,880,485</b>

\*SOURCE - PRIOR YEAR AUDIT REPORTS

REPORTS ON INTERNAL CONTROL AND COMPLIANCE



**WATKINS, WARD and STAFFORD**  
 Professional Limited Liability Company  
 Certified Public Accountants

James L. Stafford, CPA	Kimberly S. Caskey, CPA
Harry W. Stevens, CPA	Susan M. Lummus, CPA
S. Keith Winfield, CPA	Thomas J. Browder, CPA
William B. Staggers, CPA	Stephen D. Flake, CPA
Michael W. McCully, CPA	John N. Russell, CPA
Mort Stroud, CPA	Thomas A. Davis, CPA
R. Steve Sinclair, CPA	Anita L. Goodrum, CPA
Marsha L. McDonald, CPA	Ricky D. Allen, CPA
Wanda S. Holley, CPA	Jason D. Brooks, CPA
Robin Y. McCormick, CPA/PFS	Robert E. Cordle, Jr., CPA
J. Randy Scrivner, CPA	Perry C. Rackley, Jr., CPA

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

Superintendent and School Board  
 Pontotoc City 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 Pontotoc City School District as of and for the year ended June 30, 2015, and the related notes to financial statements, which collectively comprise the Pontotoc City School District's basic financial statements, and have issued our report thereon dated November 29, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the 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 the school district's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control 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 certain deficiencies in internal control that we consider to be material weaknesses.

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 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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as finding 2015-01, to be a material weakness.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Pontotoc City 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 City School District's Response to Finding

The Pontotoc City School District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Pontotoc City 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 the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Okolona, Mississippi  
November 29, 2015

*Watkins Ward and Stafford, PLLC*



**WATKINS, WARD and STAFFORD**  
 Professional Limited Liability Company  
 Certified Public Accountants

James L. Stafford, CPA  
 Harry W. Stevens, CPA  
 S. Keith Winfield, CPA  
 William B. Stagers, CPA  
 Michael W. McCully, CPA  
 Mort Stroud, CPA  
 R. Steve Sinclair, CPA  
 Marsha L. McDonald, CPA  
 Wanda S. Holley, CPA  
 Robin Y. McCormick, CPA/PFS  
 J. Randy Scrivner, CPA

Kimberly S. Caskey, CPA  
 Susan M. Lummus, CPA  
 Thomas J. Browder, CPA  
 Stephen D. Flake, CPA  
 John N. Russell, CPA  
 Thomas A. Davis, CPA  
 Anita L. Goodrum, CPA  
 Ricky D. Allen, CPA  
 Jason D. Brooks, CPA  
 Robert E. Cordle, Jr., CPA  
 Perry C. Rackley, Jr., CPA

**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 City School District

**Report on Compliance for Each Major Federal Program**

We have audited the Pontotoc City 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 the Pontotoc City School District's major federal programs for the year ended June 30, 2015. The Pontotoc City School District's major federal programs are identified in the summary of auditor's 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 each of its federal programs.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of Pontotoc City 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 the school district's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the school district's compliance.

**Opinion on Each Major Federal Program**

In our opinion, the Pontotoc City 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, 2015.

**Report on Internal Control Over Compliance**

Management of the Pontotoc City 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 City 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 our opinion on compliance for each major program and to test and report on internal 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 the Pontotoc City 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 a 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 the 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.

Okolona, Mississippi  
November 29, 2015

*Watkins Ward and Stafford, PLLC*

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS



**WATKINS, WARD and STAFFORD**  
 Professional Limited Liability Company  
 Certified Public Accountants

James L. Stafford, CPA	Kimberly S. Caskey, CPA
Harry W. Stevens, CPA	Susan M. Lummus, CPA
S. Keith Winfield, CPA	Thomas J. Browder, CPA
William B. Stagers, CPA	Stephen D. Flake, CPA
Michael W. McCully, CPA	John N. Russell, CPA
Mort Stroud, CPA	Thomas A. Davis, CPA
R. Steve Sinclair, CPA	Anita L. Goodrum, CPA
Marsha L. McDonald, CPA	Ricky D. Allen, CPA
Wanda S. Holley, CPA	Jason D. Brooks, CPA
Robin Y. McCormick, CPA/PFS	Robert E. Cordle, Jr., CPA
J. Randy Scrivner, CPA	Perry C. Rackley, Jr., CPA

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Superintendent and School Board  
 Pontotoc City School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Pontotoc City School District as of and for the year ended June 30, 2015, which collectively comprise Pontotoc City School District's basic financial statements and have issued our report thereon dated November 29, 2015. 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 ensure 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 \$0 of classroom supply funds carried over from previous years.

Section 37-9-18(3)(b), Miss. Code Ann. (1972), states in part, "the auditor shall test to ensure 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 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, and 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.

Okolona, Mississippi  
 November 29, 2015

*Watkins Ward and Stafford, PLLC*

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PONTOTOC CITY SCHOOL DISTRICT  
 Schedule of Findings and Questioned Costs  
 For the Year Ended June 30, 2015

**Section 1: Summary of Auditor's Results**

Financial Statements:

- |    |   |               |
|----|---|---------------|
| 1. | Type of auditor's report issued:                      | Unmodified    |
| 2. | Internal control over financial reporting:            |               |
|    | a. Material weakness (es) identified?                 | Yes           |
|    | b. Significant deficiency (ies) identified?           | None Reported |
| 3. | Noncompliance material to financial statements noted? | No            |

Federal Awards:

- |    |  |   |
|----|--|---|
| 4. | Internal control over major programs:  |   |
|    | a. Material weakness (es) identified?  | No  |
|    | b. Significant deficiency (ies) identified?  | None reported                             |
| 5. | Type of auditor's report issued on compliance for major federal programs:  | Unmodified                                |
| 6. | Any audit findings disclosed that are required to be reported in accordance With Section 510(a) of OMB Circular A-133? | No  |
| 7. | Identification of major programs:  |   |
|    | <u>CFDA Numbers</u>  | <u>Name of Federal Program or Cluster</u> |
|    | 10.553, 10.555, 10.559   | Child Nutrition Cluster                   |
|    | 84.027, 84.173   | Special Education Cluster                 |
| 8. | Dollar threshold used to distinguish between type A and type B programs:   | \$300,000                                 |
| 9. | Auditee qualified as a low-risk auditee?   | No  |

PONTOTOC CITY SCHOOL DISTRICT  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2015

**Section II: Financial Statement Findings**

2015-01

**Condition**

During testing of expenditures, it was noted that the procedures for purchasing were not operating effectively. Multiple expenditures had an approved purchase order but did not have an applicable purchase requisition prior to approval. Also, multiple purchases were made before an applicable purchase order had been approved by the purchasing agent. A purchase order should only be approved after an applicable purchase requisition has been prepared, and goods should only be purchased after the applicable purchase order has been approved by the purchasing agent.

**Criteria**

Management is responsible for complying with the requirements of the State of Mississippi, Department of Education, Policies and Procedures as set forth in the *Financial Accounting Manual for Public School Districts, Section D: Purchasing* which requires that school districts establish a purchasing system to meet the objectives of "buying materials, supplies, commodities, and services that are of the right quality, quantity, price and from the right source with delivery being in the right place". A well designed purchasing system should include: a) purchase requisitions, b) purchase orders, and c) receiving reports. Goods should not be purchased until a purchase order has been approved by the district.

**Cause of Condition**

The procedures for purchasing were not operating effectively to ensure that all approved purchase orders have been initialized by a purchase requisition and goods are only purchased after purchase order approval.

**Effect of Condition**

Since purchases were made prior to approval, expenditures in excess of the approved budget could have been incurred, and also unneeded goods may have been purchased since the goods were not verified to have been requested by the intended party prior to approval and purchase.

**Recommendation**

Purchase orders should not be approved without a completed applicable purchase requisition, and goods should only be purchased after an applicable purchase order has been approved by the purchasing agent.

**Auditee's Response**

The district was aware of this discrepancy in the dating and purchasing process and has implemented required procedures to ensure all purchase orders are sequential and approved only when they have a purchase requisition, and goods are only purchased after they have had an applicable purchase order approved.

**Section III: Federal Award Findings and Questioned Costs**

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