



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.

FINANCIAL STATEMENTS
CITY OF PONTOTOC, MISSISSIPPI
Year Ended September 30, 2015

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	4

BASIC FINANCIAL STATEMENTS:

Statement of Net Position	13
Statement of Activities	15
Balance Sheet – Governmental Funds.....	16
Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position	17
Statement of Revenues, Expenditures and Changes in Fund Balances- Governmental Funds	18
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund-Balances to the Government-Wide Statement of Activities	19
General Fund Statement of Revenues, Expenditures and Changes in Fund Balances- Budget and Actual - Budgetary Basis	20
Statement of Net Position - Proprietary Funds	21
Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Funds	22
Statement of Cash Flows - Proprietary Funds.....	23
Notes to Financial Statements	24

COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS AND SCHEDULES:

Balance Sheet - General Fund	43
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual -General Fund	44
Combining Balance Sheet - All Non-Major Governmental Funds	46
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - All Non-Major Governmental Funds	47

OTHER SUPPLEMENTAL INFORMATION:

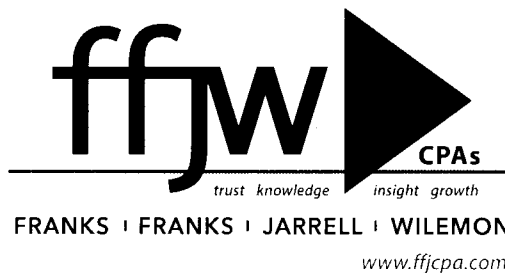
Schedule of the City's Proportionate Share of the Net Pension Liability	48
Schedule of the City's Contributions.....	49
Schedule of Surety Bonds for Municipal Officials.....	50
Schedule of Long-Term Debt.....	51
Schedule of Expenditures of Federal Awards	52

OTHER REPORTS:

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 <i>Government Auditing Standards</i>	53
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133	55
Independent Auditors' Report on Compliance with State Laws and Regulations	57
Schedule of Findings and Questioned Costs	58

P.O. Box 731
Tupelo, MS 38802
(662) 844-5226

P.O. Box 355
Fulton, MS 38843
(662) 862-4967



Partners

Gary Franks, CPA

Greg Jarrell, CPA

Bryon Wilemon, CPA

Jonathan Hagood, CPA

Rudolph Franks, CPA (emeritus)

INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Board of Aldermen
City of Pontotoc, Mississippi

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Pontotoc, Mississippi as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Pontotoc, Mississippi, as of September 30, 2015, and the respective changes in financial position, and cash flows, where applicable, 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 on pages 4 through 12, the schedule of the City's proportionate share of the net pension liability on page 48, and the schedule of the City's contributions on page 49 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 City of Pontotoc, Mississippi's financial statements as a whole. The combining and individual fund financial statements and other supplemental information are presented for purposes of additional analysis and are not a required part of the financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements.

The combining and individual fund financial statements, the schedule of expenditures of federal awards and other supplemental information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements, the schedule of expenditures of federal awards and other supplemental information are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2016, on our consideration of the City of Pontotoc, Mississippi'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 the City of Pontotoc's internal control over financial reporting and compliance.

Franks, Franks, Jarrell + Wilemon, P.A.

FRANKS, FRANKS, JARRELL & WILEMON, P.A.
February 15, 2016

CITY OF PONTOTOC, MISSISSIPPI

MANAGEMENT'S DISCUSSION AND ANALYSIS

Required Supplemental Information for the Year Ended September 30, 2015

This section of the City of Pontotoc's Financial Report presents our discussion and analysis of the City's financial performance during the fiscal year ending September 30, 2015. Please read it in conjunction with the City of Pontotoc financial statements, which follows this section.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$31,338,066. Of this amount, \$4,935,548 may be used to meet the City of Pontotoc's ongoing obligations to citizens and creditors. This compares to the previous year when assets exceeded liabilities by \$34,234,922, of which \$9,828,323 was available to meet the City's ongoing obligations.
- As of the close of the current fiscal year, the City of Pontotoc governmental funds reported combined ending fund balances of \$2,219,464, an increase of \$386,537 in comparison to the prior year. Approximately 71 percent of the combined fund balances, \$1,572,939 is considered unassigned and is available for spending at the City of Pontotoc's discretion.
- The City of Pontotoc's total debt is \$6,078,826. New debt in the amount of \$670,499 was issued in the current fiscal year. Debt in the amount of \$746,870 was repaid during the current fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts—management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an optional section that presents combining statements for non-major governmental funds. The basic financial statements include two kinds of statements that present different views of the City of Pontotoc.

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City of Pontotoc's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City of Pontotoc's operations in more detail than the government-wide statements.

The Governmental Funds statements tell how general government services such as public safety were financed in the short term as well as what remains for future spending. The City of Pontotoc has three Governmental Fund types: the General Fund, Special Revenue Fund and Debt Service Fund.

Proprietary Fund statements offer short- and long-term financial information about the activities the government operates in a similar manner as businesses, and includes the Water and Sewer Utility Fund and Gas Utility Fund.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. In addition to these required elements, we have included a section with combining statements that provide details about our non-major Governmental Funds, each of which are added together and presented in single columns in the basic financial statements.

CITY OF PONTOTOC, MISSISSIPPI

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Figure A-1 summarizes the major features of the City of Pontotoc's financial statements, including the portion of the City of Pontotoc they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-1

Major Features of the City of Pontotoc's Government-Wide and Fund Financial Statements

	Government-Wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire City Government (except fiduciary funds) and the City's component units.	The activities of the City that are not proprietary or fiduciary, such as police, fire, and culture and recreation	Activities the City operates similar to private businesses: Water, Sewer and Gas System.
Required financial statements	Statement of Net Position; Statement of Activities	Balance Sheet; Statement of Revenues, Expenditures, and Changes in Fund Balances	Statement of Net Position; Statement of Revenues, Expenses, and Changes in Fund Net Position; Statement of Cash Flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid

CITY OF PONTOTOC, MISSISSIPPI

MANAGEMENT'S DISCUSSION AND ANALYSIS

Government-Wide Statements

The government-wide statements report information about the City of Pontotoc as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City of Pontotoc's net position and how it has changed. Net position—the City of Pontotoc's assets and deferred outflow of resources, less its liabilities and deferred inflow of resources—is one way to measure the City of Pontotoc's financial health, or position.

- Over time, increases or decreases in the City of Pontotoc's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City of Pontotoc, the reader should consider additional non-financial factors such as changes in the City of Pontotoc's economic environment.
- *Governmental activities* – Most of the City of Pontotoc's basic services are included here, such as the police, fire, public works, tourism, materials control, building inspection, culture and recreation departments, and general administration. Property taxes, Sales and use taxes, and state and federal grants finance most of these activities.
- *Business-type activities* – The City of Pontotoc charges fees to customers to help it cover the costs of certain services it provides. The City of Pontotoc's water, sewer and gas systems services are included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the City of Pontotoc's most significant funds—not the City as a whole. The "fund" level is where the basic unit of financial organization and operation within the City of Pontotoc exists. Funds are accounting tools that are used to keep track of specific sources of funding and spending for particular purposes. They are the basic budgetary and accounting entities.

- Some funds are required by State law and by bond covenants.
- The Board of Alderman establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

CITY OF PONTOTOC, MISSISSIPPI

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Pontotoc has two types of funds:

- **Governmental funds**—most of the City of Pontotoc's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that help determine whether there are more or fewer financial resources that can be spent in the near future to finance the City of Pontotoc's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains the relationship (or differences) between them. The measurement focus of governmental funds is upon determination of financial position and changes in financial position (sources, uses, and balance of financial resources) rather than upon net income determination. These funds are maintained on a modified accrual basis of accounting (explained further in the notes to the financial statements under "Summary of Significant Accounting Policies"). The basic financial statements for governmental funds are the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balance. The City of Pontotoc utilizes three types of governmental funds: the General Fund, Special Revenue Funds and Debt Service Funds.
- **Proprietary funds**—Services for which the City of Pontotoc charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information. The City has only one type of proprietary fund—Enterprise Funds. The City of Pontotoc's Enterprise Funds are the same as its business-type activities yet provide more detail and additional information, such as cash flows. The measurement focus of Proprietary Funds is upon determination of net income, financial position and change in financial position. These funds are maintained on the accrual basis of accounting. The Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and Statement of Cash Flows are all required statements.

Government-wide Financial Analysis

Net position may serve over time as a useful indicator of a government's financial position. The City of Pontotoc's assets and deferred outflow of resources exceeded its liabilities and deferred inflow of resources by \$31,338,066 at the close of the most recent fiscal year.

A large portion, 84 percent, of the City's net position reflects its investment in capital assets (such as land, buildings, machinery, equipment, and infrastructure); less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; however, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF PONTOTOC, MISSISSIPPI

MANAGEMENT'S DISCUSSION AND ANALYSIS

Table A-1
City of Pontotoc's Net Position

	Governmental Activities		Business-Type Activities		Total	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Current and Other Assets	\$ 4,891,576	\$ 4,099,896	\$ 7,924,922	\$ 7,386,120	\$ 12,816,498	\$ 11,486,016
Capital Assets	14,055,623	12,821,008	18,244,208	17,509,815	32,299,831	30,330,823
Total Assets	18,947,199	16,920,904	26,169,130	24,895,935	45,116,329	41,816,839
Deferred Outflows	838,430	0	485,042	0	1,323,472	0
Total Deferred Outflows	838,430	0	485,042	0	1,323,472	0
Current and Other Liabilities	1,104,985	1,063,060	1,116,472	1,107,487	2,221,457	2,170,547
Long-Term Liabilities	6,802,161	1,905,740	5,921,498	3,505,630	12,723,659	5,411,370
Total Liabilities	7,907,146	2,968,800	7,037,970	4,613,117	14,945,116	7,581,917
Deferred Inflows	99,219	0	57,400	0	156,619	0
Total Deferred Inflows	99,219	0	57,400	0	156,619	0
Net Position:						
Net Investment in						
Capital Assets	11,482,427	10,471,410	14,738,578	13,704,216	26,221,005	24,175,626
Restricted	181,513	230,973	0	0	181,513	230,973
Unrestricted	115,324	3,249,721	4,820,224	6,578,602	4,935,548	9,828,323
Total Net Position	<u>\$ 11,779,264</u>	<u>\$13,952,104</u>	<u>\$ 19,558,802</u>	<u>\$ 20,282,818</u>	<u>\$ 31,338,066</u>	<u>\$ 34,234,922</u>

An additional portion of the City's net position represents resources that are subject to external restrictions on how they may be used. The \$4,935,548 of unrestricted net position provides excess funds to meet the government's ongoing obligations to citizens and creditors.

Unrestricted net position of our business-type activities was \$4,820,224 at the end of the current fiscal year. These resources cannot be used to add to the net position surplus in governmental activities. The City of Pontotoc generally can only use this net position to finance the continuing operations of the business type activities.

Changes in net position. Approximately 17.31 percent of the City of Pontotoc's revenue comes from sales and tourism taxes, with 20.02 percent of all revenue coming from some type of tax. (See Table A-2.) Another 65.13 percent comes from fees charged for services, 13.62 percent from operating and capital grants and contributions and the balance is from investment earnings and other miscellaneous receipts.

Table A-2 and the narrative that follows consider the operations of governmental and business-type activities separately.

CITY OF PONTOTOC, MISSISSIPPI

MANAGEMENT'S DISCUSSION AND ANALYSIS

Table A-2
Changes in the City of Pontotoc's Net Position

	Governmental Activities		Business-Type Activities		Total	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Revenues						
Program Revenues:						
Charges for Services	\$ 973,341	\$ 738,057	\$ 9,517,943	\$ 10,515,530	\$10,491,284	\$11,253,587
Operating Grants & Contributions	9,554	8,307	0	0	9,554	8,307
Capital Grants & Contributions	1,449,296	214,977	734,847	1,793,152	2,184,143	2,008,129
General Revenues:						
Sales Taxes	2,788,394	2,638,423	0	0	2,788,394	2,638,423
Other Taxes	435,712	464,409	0	0	435,712	464,409
Intergovernmental Revenues	52,924	72,884	0	0	52,924	72,884
Investment Income	111,492	82,565	367	3,883	111,859	86,448
Other	<u>58,021</u>	<u>267,677</u>	<u>(24,537)</u>	<u>16,612</u>	<u>33,484</u>	<u>284,289</u>
Total Revenues	5,878,734	4,487,299	10,228,620	12,329,177	16,107,354	16,816,476
Expenses						
General Government	690,424	623,275	0	0	690,424	623,275
Public Safety	2,730,916	2,142,427	0	0	2,730,916	2,142,427
Public Works	635,019	607,716	0	0	635,019	607,716
Culture & Recreation	767,756	794,508	0	0	767,756	794,508
Building Inspection	83,311	68,956	0	0	83,311	68,956
Materials Control / Mechanic	204,577	204,771	0	0	204,577	204,771
Water, Sewer & Gas System	0	0	8,322,738	9,436,946	8,322,738	9,436,946
Interest on Long Term Debt	<u>68,112</u>	<u>57,595</u>	<u>69,375</u>	<u>75,258</u>	<u>137,487</u>	<u>132,853</u>
Total Expenses	<u>5,180,115</u>	<u>4,499,248</u>	<u>8,392,113</u>	<u>9,512,204</u>	<u>13,572,228</u>	<u>14,011,452</u>
Excess of Revenue Over Expenses	698,619	(11,949)	1,836,507	2,816,973	2,535,126	2,576,491
Transfers	<u>569,750</u>	<u>590,908</u>	<u>(569,750)</u>	<u>(590,908)</u>	<u>0</u>	<u>0</u>
Increase (Decrease) in Net Position	<u>1,268,369</u>	<u>578,959</u>	<u>1,266,757</u>	<u>2,226,065</u>	<u>2,535,126</u>	<u>2,805,024</u>
Net Position—Beginning, as previously stated	13,952,104	13,407,545	20,282,818	18,056,753	34,234,922	31,464,298
Prior Period Adjustment	<u>(3,441,209)</u>	<u>(34,400)</u>	<u>(1,990,773)</u>	<u>0</u>	<u>(5,431,982)</u>	<u>(34,400)</u>
Net Position—Beginning, as restated	<u>10,510,895</u>	<u>13,373,145</u>	<u>18,292,045</u>	<u>18,056,753</u>	<u>28,802,940</u>	<u>31,429,898</u>
Net Position—Ending	<u>\$ 11,779,264</u>	<u>\$ 13,952,104</u>	<u>\$ 19,558,802</u>	<u>\$ 20,282,818</u>	<u>\$ 31,338,066</u>	<u>\$ 34,234,922</u>

Governmental Activities

Governmental activities increased the City's net position by \$1,268,369. Key elements of this increase are as follows:

The largest funding sources for the City's governmental activities, as a percent of total revenues, are sales taxes (47 percent), operating and capital grants and contributions (25 percent) and charges for services (17 percent).

CITY OF PONTOTOC, MISSISSIPPI MANAGEMENT'S DISCUSSION AND ANALYSIS

The largest expense categories for the City's governmental activities are public safety (53 percent), culture and recreation (15 percent) and general government (13 percent).

Business-type Activities

Business-type activities increased the City's net position by \$1,266,757.

Charges for services are the major revenue categories for the enterprise funds. Total business-type revenues are comprised of 9,517,943 for the water, sewer and gas system.

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds—The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

General Fund—The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$1,572,939, which comprised 77 percent of the fund balance. As a measure of the general fund's liquidity, it may be useful to compare both the fund balance, all categories, to total fund expenditures. Total unassigned fund balance represents 22 percent of total fund expenditures. The fund balance of the City's general fund increased by \$435,997 during the current fiscal year.

Special Revenue Fund—The special revenue fund is used to account for the programs and projects primarily funded by grants from the federal and state governments. At the end of the current fiscal year, the fund balance was \$158,074, which will be used for future expenditures.

Debt Service Fund—The debt service fund is used to account for the repayment of long-term debt of the City of Pontotoc. At the end of the current fiscal year, the fund balance was \$23,439, which will be used for future debt repayment.

Proprietary Funds—The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The net position of the proprietary funds at the end of the current fiscal year totaled \$19,558,802.

Budgetary Highlights

The City's annual budget, which is prepared on an operating basis, includes estimated revenues and annual appropriations for the proprietary funds as well as the governmental funds.

The City's 2014-2015 general fund operating budget increased by approximately \$984,178 during the current fiscal year. This increase was primarily related to changes in budgeted general government capital outlay expenditures.

CITY OF PONTOTOC, MISSISSIPPI

MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets—In accordance with GASB 34, the City has recorded depreciation expense associated with all of its capital assets, including infrastructure. The City's investment in capital assets for its governmental and business-type activities as of September 30, 2015, amounted to \$32,299,831, net of accumulated depreciation of \$19,685,436. This investment in capital assets includes land, buildings, improvements other than buildings, machinery & equipment, infrastructure, and construction in progress.

Table A-3
City of Pontotoc's Capital Assets

	Governmental Activities		Business-Type Activities		Total	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Land	\$ 5,857,893	\$ 5,857,893	\$ 146,700	\$ 146,700	\$ 6,004,593	\$ 6,004,593
Construction in Progress	1,514,106	276,851	477,736	2,289,202	1,991,842	2,566,053
Plant, Buildings & Improvements	13,314,131	13,320,426	24,488,668	21,295,677	37,802,799	34,616,103
Machinery & Equipment	2,633,223	2,626,581	1,814,796	1,765,018	4,448,019	4,391,599
Infrastructure	1,738,014	1,516,550	0	0	1,738,014	1,516,550
Accumulated Depreciation	<u>(11,001,744)</u>	<u>(10,777,293)</u>	<u>(8,683,692)</u>	<u>(7,986,782)</u>	<u>(19,685,436)</u>	<u>(18,764,075)</u>
Total	\$ <u>14,055,623</u>	\$ <u>12,821,008</u>	\$ <u>18,244,208</u>	\$ <u>17,509,815</u>	\$ <u>32,299,831</u>	\$ <u>30,330,823</u>

Long-term Debt—At year-end, the city had \$6,078,826 in bonds and note payables outstanding. More detailed information about the City of Pontotoc's long-term liabilities is presented in the notes to the financial statements.

Table A-4
City of Pontotoc's Outstanding Debt

	Governmental Activities		Business-Type Activities		Total	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
General Obligation Bonds	\$ 575,000	860,000	\$ 0	0	\$ 575,000	860,000
Revenue Bonds	0	0	0	0	0	0
CAP Loans	1,464,413	999,667	0	0	1,464,413	999,667
Notes Payable	<u>533,783</u>	<u>489,931</u>	<u>3,505,630</u>	<u>3,805,599</u>	<u>4,039,413</u>	<u>4,295,530</u>
Total	\$ <u>2,573,196</u>	\$ <u>2,349,598</u>	\$ <u>3,505,630</u>	\$ <u>3,805,599</u>	\$ <u>6,078,826</u>	\$ <u>6,155,197</u>

CITY OF PONTOTOC, MISSISSIPPI MANAGEMENT'S DISCUSSION AND ANALYSIS

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City considered current year operational expenses and estimated increases based on economic factors when establishing the fiscal year 2016 budget. The total budgeted appropriations for the City operations are \$7,140,353. This is an increase from the prior year budget. The increase is primarily related to the street department capital outlay.

CONTACTING THE CITY OF PONTOTOC FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City of Pontotoc finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Pontotoc's Finance Department, 116 N. Main Street Pontotoc, MS 38863.

CITY OF PONTOTOC, MISSISSIPPI
STATEMENT OF NET POSITION
September 30, 2015

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>ASSETS:</u>			
Cash on Deposit - Unrestricted	\$ 2,438,926	\$ 5,644,507	\$ 8,083,433
Cash on Deposit - Restricted	23,439	-	23,439
Money Market, CD's - Unrestricted	15,751	-	15,751
Accounts Receivable, Net	54,612	986,009	1,040,621
Inventory	-	824,115	824,115
Prepaid Expenses	24,050	7,240	31,290
Court Fines Receivable, Net	388,007	-	388,007
Due From Other Governments	267,371	368,256	635,627
Due From Other Funds	24,609	94,795	119,404
Lease Payments Receivables, Current Portion	331,552	-	331,552
Lease Payments Receivables, Noncurrent Portion	1,323,259	-	1,323,259
Capital Assets:			
Land	5,857,893	146,700	6,004,593
Construction in Progress	1,514,106	477,736	1,991,842
Plant, Buildings and Improvements	13,314,131	24,488,668	37,802,799
Machinery and Equipment	2,633,223	1,814,796	4,448,019
Infrastructure	1,738,014	-	1,738,014
Accumulated Depreciation	<u>(11,001,744)</u>	<u>(8,683,692)</u>	<u>(19,685,436)</u>
TOTAL ASSETS	\$ <u>18,947,199</u>	\$ <u>26,169,130</u>	\$ <u>45,116,329</u>
<u>DEFERRED OUTFLOWS OF RESOURCES:</u>			
Deferred Outflows - Pensions	<u>838,430</u>	<u>485,042</u>	<u>1,323,472</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	\$ <u>838,430</u>	\$ <u>485,042</u>	\$ <u>1,323,472</u>

CITY OF PONTOTOC, MISSISSIPPI
STATEMENT OF NET POSITION
September 30, 2015

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>LIABILITIES:</u>			
Accounts Payable and Accrued Expenses	\$ 382,869	\$ 749,598	\$ 1,132,467
Due to Other Funds	58,352	61,052	119,404
Due to Other Governments	188,073	-	188,073
Long-term Liabilities, Due Within One Year			
General Obligation Bonds	285,000	-	285,000
Notes Payable	190,691	305,822	496,513
Long-term Liabilities, Due In More Than One Year			
General Obligation Bonds	290,000	-	290,000
Notes Payable	1,807,505	3,199,808	5,007,313
Net Pension Liability	4,704,656	2,721,690	7,426,346
TOTAL LIABILITIES	\$ 7,907,146	\$ 7,037,970	\$ 14,945,116
<u>DEFERRED INFLOWS OF RESOURCES:</u>			
Deferred Inflows - Pensions	99,219	57,400	156,619
TOTAL DEFERRED INFLOWS OF RESOURCES	\$ 99,219	\$ 57,400	\$ 156,619
<u>NET POSITION:</u>			
Net Investment in Capital Assets	11,482,427	14,738,578	26,221,005
Restricted for:			
Debt Service	23,439	-	23,439
Special Revenue Projects	158,074	-	158,074
Unrestricted	115,324	4,820,224	4,935,548
TOTAL NET POSITION	\$ 11,779,264	\$ 19,558,802	\$ 31,338,066

See accompanying notes to financial statements.

CITY OF PONTOTOC, MISSISSIPPI
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2015

FUNCTIONS/ PROGRAMS	PROGRAM REVENUES				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	PRIMARY GOVERNMENT		
					Governmental Activities	Business-Type Activities	Total
PRIMARY GOVERNMENT							
Governmental Activities:							
General Government	\$ 690,424	\$ 122,451	\$ 2,805	\$ -	\$ (565,168)	\$ -	\$ (565,168)
Public Safety	2,730,916	661,393	6,749	-	(2,062,774)	-	(2,062,774)
Public Works	635,019	-	-	-	(635,019)	-	(635,019)
Culture and Recreation	767,756	189,497	-	-	(578,259)	-	(578,259)
Urban and Economic Development	-	-	-	1,449,296	1,449,296	-	1,449,296
Materials Control / Mechanic	204,577	-	-	-	(204,577)	-	(204,577)
Building Inspection	83,311	-	-	-	(83,311)	-	(83,311)
Interest on Long-Term Debt	68,112	-	-	-	(68,112)	-	(68,112)
TOTAL GOVERNMENTAL ACTIVITIES	5,180,115	973,341	9,554	1,449,296	(2,747,924)	-	(2,747,924)
Business-Type Activities:							
Water/Sewer Utility Fund	2,170,599	2,466,097	-	10,712	-	306,210	306,210
Gas Utility Fund	6,221,514	7,051,846	-	724,135	-	1,554,467	1,554,467
TOTAL BUSINESS-TYPE ACTIVITIES	8,392,113	9,517,943	-	734,847	-	1,860,677	1,860,677
TOTAL PRIMARY GOVERNMENT	\$ 13,572,228	\$ 10,491,284	\$ 9,554	\$ 2,184,143	\$ (2,747,924)	\$ 1,860,677	\$ (887,247)
GENERAL REVENUES:							
Taxes:							
Sales, Tourism and Use Taxes					\$ 2,788,394	\$ -	\$ 2,788,394
County Pro Rata Taxes					219,194	-	219,194
Licenses and Permits					63,293	-	63,293
In Lieu Taxes					216,518	-	216,518
Gasoline Taxes					5,236	-	5,236
Intergovernmental Revenues					47,688	-	47,688
Investment Earnings					111,492	367	111,859
Gain (Loss) on Asset Disposal					(217,961)	(46,374)	(264,335)
Miscellaneous					212,689	21,837	234,526
Transfers					569,750	(569,750)	-
TOTAL GENERAL REVENUES AND TRANSFERS					4,016,293	(593,920)	3,422,373
CHANGE IN NET POSITION					1,268,369	1,266,757	2,535,126
NET POSITION--BEGINNING, as previously stated					13,952,104	20,282,818	34,234,922
PRIOR PERIOD ADJUSTMENT					(3,441,209)	(1,990,773)	(5,431,982)
NET POSITION--BEGINNING, as restated					10,510,895	18,292,045	28,802,940
NET POSITION--ENDING					\$ 11,779,264	\$ 19,558,802	\$ 31,338,066

See accompanying notes to financial statements.

CITY OF PONTOTOC, MISSISSIPPI
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2015

	General Fund	Other Governmental Funds	Total Governmental Funds
<u>ASSETS:</u>			
Cash on Deposit - Unrestricted	\$ 2,313,271	\$ 125,655	\$ 2,438,926
Cash on Deposit - Restricted	-	23,439	23,439
Money Market, CD's - Unrestricted	15,751	-	15,751
Accounts Receivable	54,612	-	54,612
Due From Other Governments	234,482	32,889	267,371
Due From Other Funds	24,609	-	24,609
Prepaid Insurance	24,050	-	24,050
TOTAL ASSETS	\$ 2,666,775	\$ 181,983	\$ 2,848,758
<u>LIABILITIES AND FUND BALANCES:</u>			
<u>LIABILITIES:</u>			
Accounts Payable and Accrued Expenses	\$ 382,399	\$ 470	\$ 382,869
Due to Other Funds	58,352	-	58,352
Due to Other Governments	188,073	-	188,073
TOTAL LIABILITIES	628,824	470	629,294
<u>FUND BALANCES:</u>			
Nonspendable:			
Prepaid Items	24,050	-	24,050
Unemployment Trust	15,751	-	15,751
Restricted:			
Debt Service	-	23,439	23,439
Committed:			
Tourism	-	158,074	158,074
Assigned	425,211	-	425,211
Unassigned	1,572,939	-	1,572,939
TOTAL FUND BALANCES	2,037,951	181,513	2,219,464
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,666,775	\$ 181,983	\$ 2,848,758

See accompanying notes to financial statements.

CITY OF PONTOTOC, MISSISSIPPI
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
September 30, 2015

TOTAL FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 2,219,464
--	--------------

Amounts reported for Governmental Activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the Governmental Funds Balance Sheet.	14,055,623
--	------------

Deferred revenues for lease receivables deferred in the governmental funds because they will not be received within sixty days of the Consolidated Government's year end.	1,654,811
---	-----------

Long-term liabilities are not due and payable in the current period and therefore they are not reported in the Governmental Funds Balance Sheet.	(2,573,196)
--	-------------

The net pension liability is not due and payable in the current period, and, therefore, is not reported in the Governmental Funds Balance Sheet	(4,704,656)
---	-------------

Deferred outflows and inflows related to pensions are applicable to future periods and, therefore, are not reported in the Governmental Funds Balance Sheet:

Deferred outflows of resources related to pensions	838,430
Deferred inflows of resources related to pensions	(99,219)

Accrual of court fine revenues to qualify as financial resources.	388,007
---	---------

NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 11,779,264</u>
---	----------------------

See accompanying notes to financial statements.

CITY OF PONTOTOC, MISSISSIPPI
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2015

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:			
Sales, Tourism and Use Taxes	\$ 2,401,582	\$ 386,812	\$ 2,788,394
Licenses and Permits	63,293	-	63,293
In Lieu of Taxes	216,518	-	216,518
Penalties and Interest	47,676	-	47,676
Park and Recreation Fees	189,497	-	189,497
Intergovernmental Revenues	52,924	-	52,924
County Pro Rata Taxes	219,194	-	219,194
School Tax Collection Fees	122,451	-	122,451
Lease Rentals	396,431	-	396,431
Fines and Forfeits	656,222	-	656,222
Interest Revenues	37,273	915	38,188
Grant Income	938,750	-	938,750
Donations	520,100	-	520,100
Miscellaneous Revenues	157,513	7,500	165,013
TOTAL REVENUES	6,019,424	395,227	6,414,651
EXPENDITURES:			
Current:			
General Government	586,909	-	586,909
Public Safety	2,353,266	-	2,353,266
Public Works	748,311	-	748,311
Culture and Recreation	462,893	214,687	677,580
Urban and Economic Development	2,158,092	-	2,158,092
Materials Control and Mechanic	162,910	-	162,910
Building Inspection	66,292	-	66,292
Debt Service	485,013	30,000	515,013
TOTAL EXPENDITURES	7,023,686	244,687	7,268,373
EXCESS OF REVENUES			
OVER (UNDER) EXPENDITURES	(1,004,262)	150,540	(853,722)
OTHER FINANCING SOURCES (USES)			
Proceeds from Sale of Capital Assets	10	-	10
Proceeds from Issuance of Debt	670,499	0	670,499
Transfers (to) from Other Funds	769,750	(200,000)	569,750
TOTAL OTHER FINANCING			
SOURCES (USES)	1,440,259	(200,000)	1,240,259
NET CHANGE IN FUND BALANCES	435,997	(49,460)	386,537
FUND BALANCES - Beginning	1,601,954	230,973	1,832,927
FUND BALANCES - Ending	\$ 2,037,951	\$ 181,513	\$ 2,219,464

See accompanying notes to financial statements.

CITY OF PONTOTOC, MISSISSIPPI
RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO THE
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2015

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$	386,537
--	----	---------

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

Governmental Funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.		2,461,861
--	--	-----------

Depreciation expense on capital assets is reported in the Statement of Activities, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in Governmental Funds.		(296,268)
---	--	-----------

Proceeds from the disposition of capital assets is reported as income in the Governmental Funds. The gain or loss on the sale of the capital assets and not the gross proceeds are reported as income in the Government-Wide Statement of Activities.		(930,978)
---	--	-----------

Payments received related to lease receivable reported as revenue on the Governmental Funds financial statements as received.		(323,127)
---	--	-----------

Proceeds from lease of building to local industry reported as deferred revenue on the Governmental Funds financial statements.		713,007
--	--	---------

Revenues related to court fines in the statement of activities that do not provide current financial resources and are not reported as revenues in the funds.		5,171
---	--	-------

Pension expense is reported in the Statement of Activities but does not provide or require the use of current financial resources. Therefore, pension expense is not reported as expenditures in the governmental funds.		(524,236)
--	--	-----------

Bond proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Position.		
Repayment of bond principal is an expenditure in Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Position.		
This amount represents long-term debt proceeds		(670,499)
This amount represents long-term debt repayments.		446,901

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	1,268,369
---	----	-----------

See accompanying notes to financial statements.

CITY OF PONTOTOC, MISSISSIPPI
GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES-BUDGET AND ACTUAL -
BUDGETARY BASIS
For the Year Ended September 30, 2015

	Budget			Variance with
	Original	Final	Actual	Final Budget (Unfavorable)
REVENUES:				
Sales and Use Taxes	\$ 2,300,000	\$ 2,350,000	\$ 2,394,249	\$ 44,249
Licenses and Permits	84,500	84,500	72,328	(12,172)
In Lieu of Taxes	245,000	245,000	215,396	(29,604)
Penalties and Interest	43,000	43,000	47,676	4,676
Park and Recreation Fees	232,450	217,450	189,497	(27,953)
Intergovernmental Revenues	54,000	54,000	53,863	(137)
County Pro Rata Taxes	240,000	240,000	225,888	(14,112)
Charges for Services	127,000	127,000	122,451	(4,549)
Rentals	405,763	405,763	396,431	(9,332)
Fines and Forfeits	345,000	600,000	656,222	56,222
Interest Revenues	37,500	37,500	37,273	(227)
Grant Income	1,212,000	1,212,000	1,071,218	(140,782)
Donations	-	500,000	520,100	20,100
Miscellaneous Revenues	33,200	53,200	134,484	81,284
TOTAL REVENUES	5,359,413	6,169,413	6,137,076	(32,337)
EXPENDITURES:				
Current:				
General Government	706,208	876,207	586,909	289,298
Public Safety	2,308,024	2,537,203	2,353,266	183,937
Public Works	705,089	905,089	748,311	156,778
Culture and Recreation	526,147	511,147	462,893	48,254
Urban and Economic Development	1,800,000	2,200,000	2,158,092	41,908
Materials Control and Mechanic	216,677	216,677	162,910	53,767
Building Inspection	75,130	75,130	66,292	8,838
Debt Service	502,175	502,175	485,013	17,162
TOTAL EXPENDITURES	6,839,450	7,823,628	7,023,686	799,942
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(1,480,037)	(1,654,215)	(886,610)	767,605
OTHER FINANCING SOURCES (USES):				
Proceeds from Debt Issuance	616,355	616,355	670,499	54,144
Sale of Capital Assets	-	-	10	10
Transfers (to) from Other Funds	769,750	769,750	769,750	-
TOTAL OTHER FINANCING SOURCES (USES)	1,386,105	1,386,105	1,440,259	54,154
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER FINANCING AND OTHER USES	\$ (93,932)	\$ (268,110)	\$ 553,649	\$ 821,759

See accompanying notes to financial statements.

CITY OF PONTOTOC, MISSISSIPPI
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
September 30, 2015

	Water/Sewer Utility Fund	Gas Utility Fund	Total
<u>ASSETS:</u>			
<u>Current Assets</u>			
Cash on Deposit - Unrestricted	\$ 2,376,897	\$ 3,267,610	\$ 5,644,507
Accounts Receivable, Net of Provision for Bad Debts	362,263	623,746	986,009
Due from Other funds	39,964	54,831	94,795
Due from Other Governments	20,791	347,465	368,256
Prepaid Expenses	7,240	-	7,240
Inventory	173,055	651,060	824,115
Total Current Assets	<u>2,980,210</u>	<u>4,944,712</u>	<u>7,924,922</u>
<u>Fixed Assets</u>			
Distributions Systems	11,507,411	12,457,347	23,964,758
Buildings	32,940	490,970	523,910
Equipment	776,665	1,038,131	1,814,796
Construction in Progress	-	477,736	477,736
Land	136,200	10,500	146,700
Less: Accumulated Depreciation	<u>(3,258,458)</u>	<u>(5,425,234)</u>	<u>(8,683,692)</u>
Net Fixed Assets	<u>9,194,758</u>	<u>9,049,450</u>	<u>18,244,208</u>
TOTAL ASSETS	<u>\$ 12,174,968</u>	<u>\$ 13,994,162</u>	<u>\$ 26,169,130</u>
<u>Deferred Outflows of Resources</u>			
Deferred Outflows - Pensions	237,898	247,144	485,042
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 237,898</u>	<u>\$ 247,144</u>	<u>\$ 485,042</u>
<u>LIABILITIES AND NET POSITION:</u>			
<u>Current Liabilities</u>			
Accounts Payable	\$ 98,262	\$ 646,187	\$ 744,449
Due to Other Funds	61,052	-	61,052
Interest Payable	5,149	-	5,149
Notes and Bonds Payable - Due Within One Year	305,822	-	305,822
Total Current Liabilities	<u>470,285</u>	<u>646,187</u>	<u>1,116,472</u>
<u>Noncurrent Liabilities</u>			
Notes and Bonds Payable, Due in More Than one Year	3,199,808	-	3,199,808
Net Pension Liability	1,334,903	1,386,787	2,721,690
Total Noncurrent Liabilities	<u>4,534,711</u>	<u>1,386,787</u>	<u>5,921,498</u>
TOTAL LIABILITIES	<u>5,004,996</u>	<u>2,032,974</u>	<u>7,037,970</u>
<u>Deferred Inflows of Resources</u>			
Deferred Inflows - Pensions	28,153	29,247	57,400
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>28,153</u>	<u>29,247</u>	<u>57,400</u>
<u>Net Position</u>			
Net Investment in Capital Assets	5,689,128	9,049,450	14,738,578
Restricted for:			
Debt Service	-	-	-
Unrestricted	1,690,589	3,129,635	4,820,224
Total Net Position	<u>7,379,717</u>	<u>12,179,085</u>	<u>19,558,802</u>
TOTAL NET POSITION	<u>\$ 7,379,717</u>	<u>\$ 12,179,085</u>	<u>\$ 19,558,802</u>

See accompanying notes to financial statements.

CITY OF PONTOTOC, MISSISSIPPI
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND NET POSITION - PROPRIETARY FUNDS
For the Year Ended September 30, 2015

	Water/Sewer Utility Fund	Gas Utility Fund	Total
OPERATING REVENUES:			
Charges for Services	\$ 2,416,223	\$ 6,977,818	\$ 9,394,041
Service Charges and Penalties	49,874	74,028	123,902
Other Receipts	21,837	-	21,837
Total Operating Revenues	<u>2,487,934</u>	<u>7,051,846</u>	<u>9,539,780</u>
Less: Gas Purchased	<u>-</u>	<u>4,200,749</u>	<u>4,200,749</u>
Net Income Before Operating Expenses	<u>2,487,934</u>	<u>2,851,097</u>	<u>5,339,031</u>
OPERATING EXPENSES:			
Personal Services	897,569	1,068,107	1,965,676
Contractual Services	221,887	-	221,887
Supplies	52,468	120,617	173,085
Depreciation and Amortization	334,978	370,421	705,399
Other Services	594,322	461,620	1,055,942
Total Operating Expenses	<u>2,101,224</u>	<u>2,020,765</u>	<u>4,121,989</u>
Operating Income	<u>386,710</u>	<u>830,332</u>	<u>1,217,042</u>
NON-OPERATING REVENUES (EXPENSES):			
Interest Income	367	-	367
Grant Income	10,712	724,135	734,847
Interest and Fiscal Charges	(69,375)	-	(69,375)
Gain (Loss) on Sale of Fixed Asset	<u>(22)</u>	<u>(46,352)</u>	<u>(46,374)</u>
Total Non-Operating Revenues (Expenses)	<u>(58,318)</u>	<u>677,783</u>	<u>619,465</u>
INCOME BEFORE OPERATING TRANSFERS:	328,392	1,508,115	1,836,507
Operating Transfers In	-	-	-
Operating Transfers (Out)	<u>(200,560)</u>	<u>(369,190)</u>	<u>(569,750)</u>
CHANGE IN NET POSITION	127,832	1,138,925	1,266,757
NET POSITION - BEGINNING OF YEAR, AS PREVIOUSLY STATED	<u>8,228,296</u>	<u>12,054,522</u>	<u>20,282,818</u>
NET ADJUSTMENT FOR PRIOR YEAR PENSION EXPENSE	<u>(976,411)</u>	<u>(1,014,362)</u>	<u>(1,990,773)</u>
NET POSITION - BEGINNING OF YEAR, AS RESTATED	<u>7,251,885</u>	<u>11,040,160</u>	<u>18,292,045</u>
NET POSITION - SEPTEMBER 30	<u>\$ 7,379,717</u>	<u>\$ 12,179,085</u>	<u>\$ 19,558,802</u>

See accompanying notes to financial statements.

CITY OF PONTOTOC, MISSISSIPPI
STATEMENT OF CASH FLOWS-PROPRIETARY FUNDS
For the Year Ended September 30, 2015

	Water/Sewer Utility Fund	Gas Utility Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Received from Customers	\$ 2,502,360	\$ 7,081,175	\$ 9,583,535
Cash Payments for Gas Purchases	-	(4,112,475)	(4,112,475)
Cash Payments for Personal Services	(748,822)	(913,579)	(1,662,401)
Cash Payments for Contractual Services	(221,887)	-	(221,887)
Cash Payments for Supplies	(35,515)	(120,617)	(156,132)
Cash Payments for Other Services	(571,999)	(420,285)	(992,284)
Net Cash Provided By Operating Activities	<u>924,137</u>	<u>1,514,219</u>	<u>2,438,356</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Operating Transfers - In from (Out) to Other Funds	<u>(200,560)</u>	<u>(369,190)</u>	<u>(569,750)</u>
Net Cash Flows Provided By (Used In) Noncapital Financing Activities	<u>(200,560)</u>	<u>(369,190)</u>	<u>(569,750)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition of Fixed Assets	(49,428)	(1,436,735)	(1,486,163)
Proceeds From Sale of Fixed Assets	-	-	-
Cash Received from Capital Grants	10,712	724,135	734,847
Principal Paid on Bonds, Notes and Capital Lease Payables	(299,969)	-	(299,969)
Interest Paid on Bonds, Notes and Capital Lease Payables	(69,378)	-	(69,378)
Net Cash Provided By (Used In) Noncapital Financing Activities	<u>(408,063)</u>	<u>(712,600)</u>	<u>(1,120,663)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest on Investments	<u>367</u>	<u>-</u>	<u>367</u>
Net Cash Provided By Investing Activities	<u>367</u>	<u>-</u>	<u>367</u>
NET INCREASE (DECREASE) IN CASH AND RESTRICTED CASH	<u>315,881</u>	<u>432,429</u>	<u>748,310</u>
CASH AND RESTRICTED CASH, OCTOBER 1	<u>2,061,016</u>	<u>2,835,181</u>	<u>4,896,197</u>
CASH AND RESTRICTED CASH, SEPTEMBER 30	<u>\$ 2,376,897</u>	<u>\$ 3,267,610</u>	<u>\$ 5,644,507</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating Income	\$ 386,710	\$ 830,332	\$ 1,217,042
Adjustments to Reconcile Operating Income to Net Cash Provided By Operating Activities			
Depreciation	334,978	370,421	705,399
Net Pension Expense	148,747	154,528	303,275
Change in Assets and Liabilities:			
(Increase) Decrease in Accounts Receivable	24,751	68,082	92,833
(Increase) Decrease in Due from Other Governments	(10,325)	(38,753)	(49,078)
(Increase) Decrease in Prepaid Expenses	-	-	-
(Increase) Decrease in Inventory	16,953	148,800	165,753
Increase (Decrease) in Accounts Payable - operating activities	22,323	(19,191)	3,132
Increase (Decrease) in Accrued Expenses - operating activities	-	-	-
Total Adjustments	<u>537,427</u>	<u>683,887</u>	<u>1,221,314</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 924,137</u>	<u>\$ 1,514,219</u>	<u>\$ 2,438,356</u>

See accompanying notes to financial statements.

CITY OF PONTOTOC, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Pontotoc was incorporated on May 3, 1837 under the laws of the State of Mississippi. A mayor-board of aldermen form of government is used and the City provides the following services: police protection, fire protection, street maintenance, parks and recreation department and gas and water/sewer systems.

Government-Wide and Fund Financial Statements

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

Government-Wide Financial Statements

The statement of net position and the statement of activities display information on all nonfiduciary activities of the primary government and its component units. The statements distinguish between those activities of the City that are governmental, which are normally supported by taxes and intergovernmental revenues, and those that are considered business-type activities, which rely to a significant extent on fees and charges for support.

The statement of net position presents the financial condition of the governmental and business-type activities for the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient for the goods and services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues that are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements

During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. Separate financial statements are provided for governmental funds and proprietary funds. The focus of governmental and enterprise fund financial statements are on major funds. Each major fund is presented in a separate column. Non-major funds, where applicable, are aggregated and presented in a single column.

CITY OF PONTOTOC, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. 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. Revenues are considered to be available when they are collectible in the current period or soon enough thereafter to pay liabilities of the current period. For this purposes, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt services expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Significant revenues considered to be susceptible to accrual include sales tax and various categorical grants.

The City reports the following governmental funds:

General Fund – The General Fund is used to account for all financial resources of the primary government except those required to be accounted for in another fund. The majority of current operations are financed by this fund. Transfers to other funds and agencies are made from this fund. Monies from other funds may be received unless prohibited by the purpose and object of such funds. This is a major fund.

Special Revenue Fund – The Special Revenue Fund is used to account for the proceeds of specific federal and state grants and specific tax assessments that are legally restricted to expenditures for specified purposes. This is a non-major governmental fund.

Debt Service Fund – The Debt Service Fund was established to receive and account for resources restricted for the payment of interest and principal on general improvement and notes and bonds payable. This is a non-major governmental fund.

The City reports the following major proprietary funds:

The Water, Sewer and Gas Fund – These funds are used to account for the City's water and sewer treatment and distribution system as well as the gas distribution system. These funds are responsible for water and gas delivery to the residents of the City of Pontotoc.

CITY OF PONTOTOC, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The City has elected to apply all Governmental Accounting Standards Board (GASB) pronouncements, applicable Financial Accounting Standards Board (FASB) pronouncements, and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include: 1) charges to customers for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. General revenues are those which cannot be associated directly with program activities

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues for the proprietary funds are as follows: sale of water, charges for sewer treatment and sale of gas. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Financial Reporting Entity

The City's combined financial statements include the accounts of all City operations. The criteria for including organizations as component units within the City's reporting entity, as set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is a fiscal dependency by the organization on the City

Included within the reporting entity:

City of Pontotoc gas, water and sewer system. The rates for user charges and bond issuance authorizations also are approved by the government's governing body and the legal liability for the general obligation portion of the gas, water and sewer debt remains with the government.

CITY OF PONTOTOC, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Excluded from the reporting entity:

City of Pontotoc Separate School District. This potential component unit has a separate elected and/or appointed board and provides services to residents, generally within the geographic boundaries of the government. This is excluded from the reporting entity because the government does not have the ability to exercise, influence or control over their daily operations, approve budgets or provide funding.

Budgets and Budgetary Accounting

The mayor and board of aldermen generally follow the following proposed budget calendar of the State Department of Audit in establishing the budgetary data reflected in the financial statements:

- (1) The mayor and board of aldermen formulate the budget policy at the May board meeting.
- (2) Department budget requests are prepared by the appropriate people and submitted by the July board meeting.
- (3) A proposed budget is presented at the August meeting and a notice of public budget hearings and availability of the budget for inspection is published.
- (4) Between August 15th-30th a public hearing is held and the budget is adopted. The anticipated tax levy is reviewed to determine whether public notice is required on any levy.
- (5) Between September 1st-15th the budget must be adopted and the tax levy set.
- (6) Between September 1st-30th, in accordance with the City's population, the budget must be posted in three public places.
- (7) And, between September 15th-30th the budget as adopted should be written up, filed with the municipal clerk and public notice given of the availability of the budget for inspection. Expenditures may not legally exceed budgeted appropriations at the activity level. During the year, several supplementary appropriations were necessary.
- (8) Further, budgets are used as management control devices in the Proprietary Fund. This budget is adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP), except the Proprietary Fund recognizes all expenditures for debt as expense and no depreciation expense is recognized.

**CITY OF PONTOTOC, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
September 30, 2015**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Unused appropriations for all of the above annually budgeted funds lapse at the end of the year. The budget amounts shown in the financial statements are the final authorized amounts after appropriate revisions during the year.

Expenditures may not legally exceed budgeted appropriations at the activity level except for capital outlays, election expenses and emergency expenditures.

Cash and Investments

Deposits- The collateral for public entities' deposits in financial institutions is now 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 deposits are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

Investments - State statutes, City bond ordinances and City resolutions authorize the City's investments. The City is authorized to invest in any bonds or other direct obligations of the United States of America or the State of Mississippi, or of any county or municipality of this state, or of any school district, which such county or municipal or school district bonds have been approved by a reputable bond attorney or have been validated by a decree of the chancery court, or in obligations issued or guaranteed in full as to principal and interest by the United States of America which are subject to a repurchase agreement with a qualified depository or in interest-bearing time certificates of deposit with municipal depositories serving in accordance with Section 27-105-353 at a rate of interest not less than a simple interest rate numerically equal to the average bank discount rate on United States Treasury bills of comparable maturity.

The City's investments as of September 30, 2015 are:

Investments:

Certificates of Deposit	\$ 15,751
-------------------------	-----------

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 City of Pontotoc's participation in the Public Employees' Retirement System of Mississippi (PERS), and additions to/deductions from the City of Pontotoc's fiduciary net position have been determined on the same basis as they are reported by the Public Employees' Retirement System of Mississippi (PERS). For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Public Employees' Retirement System of Mississippi (PERS). Investments are reported at fair value.

CITY OF PONTOTOC, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition

Tourism Tax – The City levies a 2% tax on gross sales of hotels, restaurants and such other businesses within the city limits where food and drink are sold. The tax is collected by the Mississippi State Tax Commission, and remitted to the City in the month following receipt. This tax is recorded in a special revenue fund. Collections received in October for the month of September are included in accounts receivable.

Property Tax – The City levies property taxes only to fund the municipal separate school system. All tax revenues collected are settled to the school in the month following collection. Amounts collected in September and settled in October are included under the caption “Due to Other Governments”.

Encumbrances

State law does not require that funds be available when goods or services are ordered, only when paid for. Due to this circumstance, the City does not employ an encumbrance system.

Other Long-term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the proprietary fund statements and the government-wide statements (either governmental activities or business-type activities, as applicable). Bond premiums, discounts and issuance costs are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable premiums and discounts. Issuance costs are reported as deferred charges.

In the governmental fund financial statements, bond premiums, discounts and issuance costs are recognized during the current period. The face amount of debt issued and any premiums received are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Compensated Absences

The City’s policy allows employees to accumulate earned but unused vacation leave. However, any vacation unused at December 31 each year is forfeited. No liability is recorded for the unused vacation time. The City’s policy also allows for compensated time off for overtime worked. Employees are reimbursed for the hours if unused at the end of each fiscal year. For this reason, there is no liability reported in the government-wide financial statements for compensated absences. Employees are not entitled to any sick leave payments upon termination or retirement.

Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts

CITY OF PONTOTOC, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Inventories

Inventories for proprietary fund types are valued at cost. The City does not maintain inventory records for any other fund types.

Cash and Cash Equivalents

For purposes of the statement of cash flows, all highly liquid debt instruments purchased with a maturity of three months or less are considered to be cash equivalents.

Fund Balance Classification

The City has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions. In accordance with GASB Statement No. 54, the governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- **Nonspendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The City has classified prepaid items as being Nonspendable as these items are not expected to be converted to cash or are not expected to be converted to cash within the next year.
- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The City has classified tourism tax funds as being restricted because their use is restricted by State Statute for tourism expenditures. Debt service resources are to be used for future servicing of the revenue note and are restricted through debt covenants.
- **Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City's Board of Aldermen. These amounts cannot be used for any other purpose unless the Board of Aldermen removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- **Assigned:** This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board of Aldermen or through the Board of Aldermen delegating this

CITY OF PONTOTOC, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

responsibility to the City's management through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The City had \$425,211 of assigned fund balance as of September 30, 2015.

- **Unassigned:** This classification includes the residual fund balance for the General Fund and all other amounts not included in other spendable classifications.

Business Information

The City of Pontotoc provides gas, water, and sewer services to customers located within the city limits of Pontotoc, Mississippi as well as a limited number of customers outside the city limits. Credit is extended to all of these customers for services.

Use of Restricted/Unrestricted Net Position

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the City's policy is to apply restricted net position first.

NOTE 2 – FIXED ASSETS

The following is a summary of capital asset activity as of September 30, 2015:

Primary Government:

	<u>Balance</u> <u>10-01-14</u>	<u>Additions</u>	<u>Reclass/ Disposals</u>	<u>Balance</u> <u>09-30-15</u>
Capital Assets, not being depreciated:				
Land	\$ 5,857,893	\$ 0	0	\$ 5,857,893
Construction in Progress	<u>276,851</u>	<u>2,158,092</u>	<u>(920,837)</u>	<u>1,514,106</u>
Total Capital Assets, not being depreciated	6,134,744	2,158,092	(920,837)	7,371,999
Capital Assets being depreciated:				
Plant, Buildings, & Improvements	13,320,426	0	(6,295)	13,314,131
Infrastructure	1,516,550	221,464	0	1,738,014
Machinery and Equipment	<u>2,626,581</u>	<u>82,305</u>	<u>(75,663)</u>	<u>2,633,223</u>
Total Capital Assets being depreciated	17,463,557	303,769	(81,958)	17,685,368
Less Accumulated Depreciation for:				
Plant, Buildings, & Improvements	(8,727,243)	(83,839)	2,560	(8,808,522)
Machinery and Equipment	(1,754,112)	(161,455)	69,257	(1,846,310)
Infrastructure	<u>(295,938)</u>	<u>(50,974)</u>	<u>0</u>	<u>(346,912)</u>
Total Accumulated Depreciation	(10,777,293)	(296,268)	71,817	(11,001,744)
Total Capital Assets, depreciated, net				
Governmental Activities	<u>6,686,264</u>	<u>7,501</u>	<u>(10,141)</u>	<u>6,683,624</u>
Capital Assets, net	<u>\$ 12,821,008</u>	<u>\$ 2,165,593</u>	<u>\$ (930,978)</u>	<u>\$ 14,055,623</u>

CITY OF PONTOTOC, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

NOTE 2 – FIXED ASSETS (continued)

The City's capitalization threshold is \$1,000 for general fixed assets and \$5,000 for infrastructure assets. The City retroactively applied these thresholds to all general fixed assets in service. The City also retroactively capitalized infrastructure assets in service.

A summary of business-type capital asset activity at September 30, 2015 follows:

	<u>Balance</u> <u>10-01-14</u>	<u>Additions</u>	<u>Reclass/</u> <u>Disposals</u>	<u>Balance</u> <u>09-30-15</u>
Capital Assets, not being depreciated:				
Land	\$ 146,700	\$ 0	\$ 0	\$ 146,700
Construction in Progress	<u>2,289,202</u>	<u>1,381,525</u>	<u>(3,192,991)</u>	<u>477,736</u>
Total Capital Assets, not being depreciated	2,435,902	1,381,525	(3,192,991)	624,436
Capital Assets being depreciated:				
Plant, Buildings, & Improvements	21,295,677	0	3,192,991	24,488,668
Machinery and Equipment	<u>1,765,018</u>	<u>104,638</u>	<u>(54,860)</u>	<u>1,814,796</u>
Total Capital Assets being depreciated	23,060,695	104,638	3,138,131	26,303,464
Less Accumulated Depreciation for:				
Plant, Buildings, & Improvements	(6,780,668)	(571,671)	7,618	(7,344,721)
Machinery and Equipment	<u>(1,206,114)</u>	<u>(133,728)</u>	<u>871</u>	<u>(1,338,971)</u>
Total Accumulated Depreciation	(7,986,782)	(705,399)	8,489	(8,683,692)
Total Capital Assets, depreciated, net Business-type Activities	<u>15,073,913</u>	<u>(600,761)</u>	<u>3,146,620</u>	<u>17,619,772</u>
Capital Assets, net	\$ <u>17,509,815</u>	\$ <u>780,764</u>	\$ <u>(46,371)</u>	\$ <u>18,244,208</u>

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation has been provided over the estimated useful lives using the straight-line method. Depreciation has been calculated on the fixed assets using the following useful lives:

Buildings	40 Years
Improvements	20 Years
Machinery and Equipment	3 – 10 Years
Utility Systems	20 Years
Infrastructure	20 Years

CITY OF PONTOTOC, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

NOTE 2 – FIXED ASSETS (continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
General Government	\$ 47,846
Public Safety	140,328
Public Works	64,112
Culture & Recreation	42,684
Materials Control / Mechanic	<u>1,298</u>
Total Depreciation Expense – Governmental Activities	\$ <u>296,268</u>
Depreciation expense for Water, Sewer and Gas was	\$ <u>705,399</u>

NOTE 3 – RECEIVABLES

Receivables at September 30, 2015, consisted primarily of lease receivables, account receivables (billings for user charged services including unbilled utility services), intergovernmental receivables arising from entitlements and shared revenues, and accrued interest on investments.

All accounts receivable are shown net of an allowance for uncollectible amounts where applicable. The allowance is based on management estimates and the average age of receivables. An allowance has been recorded in the Governmental Activities for uncollectible court fine receivables in the amount of \$302,678. The City believes that all other accounts receivables are collectible.

NOTE 4 – CAPITAL LEASES RECEIVABLE

The amount reported as capital leases receivable in the governmental activities is comprised of three leases in which the City has leased three buildings to companies for industrial development. The City purchased the first building in 2002, financing it through a bond issue. The City then sold the building to a local business using a capital lease with the same terms of the bonds issued by the City. The City purchased the second building in 2014, financing it through a note issue. The City then sold the building to a local business using a capital lease with the same terms of the note issued by the City. The City purchased the third building in 2015, financing it through two note issues. The City then sold the building to a local business using a capital lease.

CITY OF PONTOTOC, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

NOTE 4 – CAPITAL LEASE RECEIVABLE (continued)

A summary of the capital leases receivable are as follows:

	<u>Balance</u> <u>10/01/14</u>	<u>Issued</u>	<u>Reduction</u>	<u>Balance</u> <u>9/30/15</u>	<u>Current</u> <u>Receivable</u>
Capital Lease- \$1,440,000 with interest of 2.25% maturing in April, 2017	\$ 860,000	\$ 0	\$ 285,000	\$ 575,000	\$ 285,000
Capital Lease- with interest of 4.50% maturing in June, 2029	404,931	0	19,556	385,375	20,442
Capital Lease- with interest of 4.00 % maturing in January, 2035	<u>0</u>	<u>713,007</u>	<u>18,571</u>	<u>694,436</u>	<u>26,110</u>
Capital Leases	\$ <u>1,264,931</u>	\$ <u>713,007</u>	\$ <u>323,127</u>	\$ <u>1,654,811</u>	\$ <u>331,552</u>

During the year ended September 30, 2012, the City advanced refunded the underlying general obligation bond associated with the purchase of the first building (\$1,440,000 lease). Pursuant to the lease agreement, the original lease terms changed to reflect the new debt servicing requirements.

The future minimum lease payments of the capital leases receivable at September 30, 2015, are as follows:

Fiscal Year Ending <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 331,552	\$ 57,423	\$ 388,975
2017	338,617	48,945	387,562
2018	50,721	40,316	91,037
2019	52,919	38,116	91,035
2020	55,177	35,859	91,036
2021-2025	314,086	141,099	455,185
2026-2030	336,833	67,978	404,811
2031-2035	<u>174,906</u>	<u>15,579</u>	<u>190,485</u>
Total	\$ <u>1,654,811</u>	\$ <u>445,315</u>	\$ <u>2,100,126</u>

CITY OF PONTOTOC, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

NOTE 5 – LONG-TERM DEBT

The following is a summary of bond transactions of the City for the year ended September 30, 2015:

	<u>Bonds Payable</u>	<u>Notes Payable</u>	<u>Total</u>
Bonds and Other Long-Term Debt at 10/1/14	\$ 860,000	\$ 5,295,197	\$ 6,155,197
Add: Bonds and Other Long- Term Debt Acquired	0	670,499	670,499
Less: Bonds and Other Long- Term Debt Retired	<u>285,000</u>	<u>461,870</u>	<u>746,870</u>
Bonds and Other Long-Term Debt at 9/30/15	<u>\$ 575,000</u>	<u>\$ 5,503,826</u>	<u>\$ 6,078,826</u>

Bonds and other long-term debt at September 30, 2015 are comprised of the following issues:

General Obligation Bonds:

\$1,440,000 General Obligation Industrial Taxable Refunding Bonds Series 2012. The City has a lease receivable agreement with Union Springs Manufacturing Corporation for industrial infrastructure. The lease agreement requires Union Springs to pay rent annually in the amount necessary to cover all principal and interest payments, and such rent will continue until bond is paid in full. \$ 575,000

Notes Payable:

\$834,819 Mississippi Development Authority Capital Improvements Revolving Loan (CAP) due in 240 monthly installments of \$4,630 through January 1, 2029; interest at 3.0 percent. 601,360

\$699,875 Mississippi Development Authority Capital Improvements Revolving Loan (CAP) due in 120 monthly installments of \$6,758 through November 1, 2018; interest at 3.0 percent. 246,698

\$268,224 Mississippi Department of Environmental Quality Water Pollution Control Revolving Loan (MDEQ) at an interest rate of 4.0 percent due in 116 monthly installments of \$2,792 through March 1, 2023. The loan will be repaid by a monthly allocation of the City's sales tax revenue. 216,770

CITY OF PONTOTOC, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

NOTE 5 – LONG-TERM DEBT (continued)

\$410,000 Three Rivers Planning & Development District Loan due in 180 monthly installments of \$3,137 through June 1, 2029; interest at 4.5 percent. The City has a lease receivable agreement with Brooks and Dehart Furniture Xpress, Inc. for industrial infrastructure. The lease agreement requires Brooks and Dehart to pay rent monthly in the amount necessary to cover all principal and interest payments, and such rent will continue until note is paid in full.	385,375
\$145,000 BizCapital Bidco – Heartland Loan due in 4 annual installments of \$30,000 and 1 annual installment of \$25,000 through January 10, 2017; interest free loan to purchase real property.	55,000
\$6,290,000 Mississippi Department of Environmental Quality Water Pollution Control Revolving Loan (MDEQ) at an interest rate of 1.75 percent due in 232 monthly installments of \$27,987 through June 8, 2026. The loan will be repaid by a monthly allocation of the city's sales tax revenue.	3,288,860
\$96,652 Three Rivers Planning & Development District Loan due in 180 monthly installments of \$715 through January 13, 2030; interest at 4.0 percent.	93,408
\$616,355 Mississippi Development Authority Capital Improvements Revolving Loan (CAP) due in 240 monthly installments of \$3,418 through October 1, 2035; interest at 3.0 percent.	<u>616,355</u>
	\$ <u>6,078,826</u>

There are a number of limitations and restrictions contained in the various bond indentures. The City is in compliance with all significant limitations and restrictions.

The Annual requirements to amortize all debt outstanding as of September 30, 2015 including interest payments of \$898,111 are as follows:

Year Ending September 30	Governmental Funds		Proprietary Funds		Total	Total
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 475,691	\$ 76,138	\$ 305,822	\$ 63,526	\$ 781,513	\$ 139,664
2017	481,010	64,408	311,801	57,547	792,811	121,955
2018	171,454	52,437	317,910	51,438	489,364	103,875
2019	110,749	47,566	324,150	45,198	434,899	92,764
2020	98,578	44,217	330,527	38,821	429,105	83,038
2021 – 2025	547,489	166,493	1,662,366	100,614	2,209,855	267,107
2026 – 2030	497,988	73,019	253,054	1,826	751,042	74,845
2031 – 2035	<u>190,237</u>	<u>14,863</u>	<u>0</u>	<u>0</u>	<u>190,237</u>	<u>14,863</u>
	\$ <u>2,573,196</u>	\$ <u>539,141</u>	\$ <u>3,505,630</u>	\$ <u>358,970</u>	\$ <u>6,078,826</u>	\$ <u>898,111</u>

CITY OF PONTOTOC, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

NOTE 6 – INTERFUND RECEIVABLES AND PAYABLE

Individual fund interfund receivable and payable balances at September 30, 2015, were:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 24,609	\$ 58,352
Enterprise Fund:		
Water and Sewer Fund	39,964	61,052
Gas System Fund	<u>54,831</u>	<u>0</u>
	<u>\$ 119,404</u>	<u>\$ 119,404</u>

NOTE 7 – FUND BALANCE RECONCILIATION – GENERAL FUND BUDGET BASIS

Mississippi state law requires, for budget purposes, that the general fund record revenues on the cash basis. Generally accepted accounting principles (GAAP) would require that the revenues be accounted for on the modified accrual basis; therefore, the required budgetary basis would not be considered to be GAAP. Any accruals of revenues included on the "Combined Statement of Revenues, Expenditures and Changes – General Fund" are eliminated for budget purposes. In the current fiscal year, accrued revenues were \$117,652 less than cash revenues.

NOTE 8 – LITIGATION

Certain claims, suits, and complaints arising in the ordinary course of business have been filed or are pending against the City. In the opinion of the elected officials, all such matters are adequately covered by insurance, or if not so covered, are without merit or are of such kind, or involve such amounts, as would not have a significant effect on the financial position or results of operations of the City if disposed of unfavorably.

NOTE 9 – DEFINED BENEFIT PENSION PLAN

Plan Description- Employees of the City of Pontotoc are provided a defined benefit pension plan through the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing agent multiple-employer pension plan. The Public Employees' Retirement System of Mississippi (PERS) was created with the purpose to provide pension benefits for all state and public education employees, sworn officers of the Mississippi Highway Safety Patrol, other public employees whose employers have elected to participate in the System, and elected members of the State Legislature and the President of the Senate. 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.

CITY OF PONTOTOC, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

NOTE 9 – DEFINED BENEFIT PENSION PLAN (continued)

Benefits Provided- For the cost-sharing plan participating members who are vested and retire at or after age 60 or those 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 2.00% 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 2.50% 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 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.

A member may elect a reduced retirement allowance payable for life with the provision that, after death, a beneficiary receives benefits for life or for a specified number of years. 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. In the event of death prior to retirement of any member whose spouse and/or children are not entitled to a retirement allowance, the deceased member's accumulated contributions and interest are paid to the designated beneficiary. Retirees and beneficiaries who have been receiving benefit payments for at least one full fiscal year are eligible to receive an annual Cost-of-Living Adjustment (COLA). Designed to help offset the effects of inflation, the COLA is equal to 3% 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% compounded for each fiscal year thereafter.

Employee membership data related to the Plan, as of June 30, 2015 was as follows:

Retirees and Survivors	96,338
Terminated Vested Employees	19,005
Inactive Nonvested Members	118,021
Active Members	<u>157,215</u>
Total	<u><u>390,579</u></u>

Contributions- The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. PERS members are required to contribute 9.00% of their annual covered salary and the City of Pontotoc is required to contribute at an actuarially determined rate. The current rate is 15.75% of annual covered payroll. The contributions are deducted from the employees' wages or salary and remitted by the City to PERS on a monthly basis. By law, employer contributions are required to be paid. The employer's actuarially determined contribution and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

For the year ended September 30, 2015, the City of Pontotoc's total payroll for all employees was \$3,204,500. Total covered payroll was also \$3,015,034. Covered payroll refers to all compensation paid by the City to active employees covered by the Plan.

CITY OF PONTOTOC, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

NOTE 9 – DEFINED BENEFIT PENSION PLAN (continued)

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions- At September 30, 2015, the City of Pontotoc reported a liability of \$7,426,346 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City of Pontotoc's proportion of the net pension liability was based on a projection of the City of Pontotoc's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2015, the City of Pontotoc's proportion was 0.048%.

For the year ended September 30, 2015, the City of Pontotoc recognized pension expense of \$827,511. At September 30, 2015, the City of Pontotoc reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Difference Between Expected and Actual Results - Pensions	\$ 114,288	\$ 0
City Pension Contributions Subsequent to the Measurement Date	134,909	0
Changes of Assumptions	639,754	0
Net Difference Between Projected and Actual Investment Earnings on Investments	434,521	0
Changes in Proportion and Differences Between ER Contributions and Proportionate Share Of ER Contributions	0	156,619
Total	\$ <u>1,323,472</u>	\$ <u>156,619</u>

The \$134,910 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending September 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Fiscal Year Ending September 30,	<u>Amount</u>
2016	\$ 328,271
2017	328,271
2018	266,771
2019	108,630
Total	\$ <u>1,031,943</u>

CITY OF PONTOTOC, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

NOTE 9 – DEFINED BENEFIT PENSION PLAN (continued)

Actuarial Assumptions-The total pension liability was determined by an actuarial valuation as of June 30, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	3.75-19.00%, average, including inflation
Investment rate of return	7.75%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 Healthy Annuitant Blue Collar Table projected with Scale BB to 2016, with male rates set forward one year.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2010 to June 30, 2014. The experience report is dated May 4, 2015.

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 as of June 30, 2015, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Broad	34.00%	5.20%
International Equity	19.00%	5.00%
Emerging Markets Equity	8.00%	5.45%
Fixed Income	20.00%	0.25%
Real Assets	10.00%	4.00%
Private Equity	8.00%	6.15%
Cash	1.00%	(0.50)%
Total	100.00%	

CITY OF PONTOTOC, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

NOTE 9 – DEFINED BENEFIT PENSION PLAN (continued)

Discount Rate-The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate (9.00%) and that employer contributions will be made at the current employer contribution rate (15.75%). 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 members. 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.

Sensitivity of the City of Pontotoc's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate-The following presents the City of Pontotoc's proportionate share of the net pension liability using the discount rate of 7.75%, as well as what the City of Pontotoc's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	Discount Rate	City's Proportionate Share of Net Pension Liability
1% decrease	6.75%	\$9,788,604
Current discount rate	7.75%	\$7,426,346
1% increase	8.75%	\$5,466,113

Plan Fiduciary Net Position-Detailed information about the Plan's fiduciary net position is available in the separately issued Public Employees' Retirement System of Mississippi (PERS) financial report.

NOTE 10 – RISK MANAGEMENT

The City of Pontotoc is exposed to various risks of losses related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance for all major programs of the City except for certain employment practices liabilities, certain environmental liabilities, worker's compensation liabilities funded through a public entity risk pool, and catastrophic natural disasters that may exceed insurance coverages for which the City retains the risk of loss.

Risk of loss related to workers compensation for injuries to City employees is covered through the Mississippi Municipal Workers' Compensation Group, a public entity risk pool. The pool was formed on March 28, 1989, by the Mississippi Nonprofit Corporation Act, pursuant to Section 71-3-75, Mississippi Code Annotated (1972), to provide public entities within the State of Mississippi workers compensation and employer's liability coverage.

The City pays premiums to the pool for its workers' compensation insurance coverage based on total payroll. The participation agreement provides that the pool will be self-sustaining through member premiums. The risk of loss is remote for claims exceeding the pool's retention liability. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. For insured programs there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

**CITY OF PONTOTOC, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
September 30, 2015**

NOTE 10 – RISK MANAGEMENT (continued)

The City Attorney estimates that the amount of actual or potential claims against the City as of September 30, 2015, will not materially affect the financial condition of the City. Therefore, no provisions have been made for estimated claims. There have been no material claims paid by the City during the current or prior year.

NOTE 11 – COMMITMENTS

The City participates in certain federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

NOTE 12 – NEW ACCOUNTING STANDARD

During the year ended September 30, 2015, the City implemented GASB Statement No. 68 *Accounting and Financial Reporting for Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. Implementation resulted in a direct decrease of \$5,431,982 to net position.

NOTE 13 – CONSTRUCTION AND OTHER COMMITMENTS

The City of Pontotoc has entered in the following commitments:

<u>To Be Paid By</u>	<u>Description</u>	<u>Amount Authorized</u>	<u>Expended through September 30, 2015</u>	<u>Remaining Commitment at September 30, 2015</u>
General	Pride Mobility	\$ 1,835,851	\$ 137,449	\$ 1,698,402
General	Project Diesel	367,875	336,557	31,318
General	Delta Furniture	1,040,100	1,040,100	0
Gas	Longview Gas Expansion	<u>475,742</u>	<u>473,265</u>	<u>2,477</u>
		<u>\$ 3,719,568</u>	<u>\$ 1,987,371</u>	<u>\$ 1,732,197</u>

NOTE 14 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 15, 2016, the date on which the financial statements were available to be issued.

COMBINING AND NON-MAJOR FUND FINANCIAL STATEMENTS AND SCHEDULES

**CITY OF PONTOTOC, MISSISSIPPI
BALANCE SHEET - GENERAL FUND
September 30, 2015**

ASSETS:

Cash on Deposit - Unrestricted	\$	2,313,271
Money Market, CD's - Unrestricted		15,751
Accounts Receivable		54,612
Due from Other Governments		234,482
Due from Other Funds		24,609
Prepaid Insurance		<u>24,050</u>
 TOTAL ASSETS	 \$	 <u><u>2,666,775</u></u>

LIABILITIES AND FUND BALANCE:

LIABILITIES

Accounts Payable & Accrued Expenses	\$	382,399
Due to Other Governments		188,073
Due to Other Funds		<u>58,352</u>
TOTAL LIABILITIES		<u>628,824</u>

FUND BALANCE

Nonspendable:		
Prepaid Items		24,050
Unemployment Trust		15,751
Assigned		425,211
Unassigned		<u>1,572,939</u>
TOTAL FUND BALANCE		<u>2,037,951</u>

TOTAL LIABILITIES AND FUND BALANCE	\$	<u><u>2,666,775</u></u>
------------------------------------	----	-------------------------

CITY OF PONTOTOC, MISSISSIPPI
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended September 30, 2015

	<u>BUDGET</u>	<u>ACTUAL</u>	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES:			
Privilege Licenses and Fees	\$ 25,000	\$ 23,941	\$ (1,059)
Road Maintenance	240,000	225,888	(14,112)
Sales Tax	2,350,000	2,394,249	44,249
Gasoline Taxes	15,000	5,236	(9,764)
Fire Protection	31,000	30,607	(393)
Court Fines and Fees	600,000	656,222	56,222
In-Lieu Taxes	245,000	215,396	(29,604)
School Tax Collection Fees	127,000	122,451	(4,549)
Lease Rentals	405,763	396,431	(9,332)
Building Permits and Fees	20,000	9,623	(10,377)
Miscellaneous	53,200	134,484	81,284
Donations	500,000	520,100	20,100
Cable Franchise Fees	39,500	38,764	(736)
Litter Control	-	2,020	2,020
Interest Income	37,500	37,273	(227)
Penalties and Interest	43,000	47,676	4,676
Park and Recreation	217,450	189,497	(27,953)
Grant Income - Police	-	-	-
Grant Income - Fire	8,000	16,000	8,000
Grant Income - Other	1,212,000	1,071,218	(140,782)
TOTAL REVENUES	<u>6,169,413</u>	<u>6,137,076</u>	<u>(32,337)</u>

EXPENDITURES:

General Government			
Personnel Services	471,084	373,381	97,703
Supplies	40,500	34,187	6,313
Other Services and Charges	186,500	158,623	27,877
Capital Outlay	178,123	20,718	157,405
TOTAL	<u>876,207</u>	<u>586,909</u>	<u>289,298</u>
Public Safety			
Personnel Services	1,889,363	1,802,965	86,398
Supplies	119,690	108,517	11,173
Other Services and Charges	464,150	386,156	77,994
Capital Outlay	64,000	55,628	8,372
TOTAL	<u>2,537,203</u>	<u>2,353,266</u>	<u>183,937</u>
Public Works			
Personnel Services	245,289	235,282	10,007
Supplies	124,800	87,439	37,361
Other Services and Charges	223,500	200,126	23,374
Capital Outlay	311,500	225,464	86,036
TOTAL	<u>905,089</u>	<u>748,311</u>	<u>156,778</u>

CITY OF PONTOTOC, MISSISSIPPI
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL - GENERAL FUND - Continued
For the Year Ended September 30, 2015

	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
Culture and Recreation			
Personnel Services	\$ 269,097	\$ 240,494	\$ 28,603
Supplies	109,700	107,541	2,159
Professional Services	122,350	113,186	9,164
Capital Outlay	10,000	1,672	8,328
TOTAL	<u>511,147</u>	<u>462,893</u>	<u>48,254</u>
Urban and Economic Development			
Capital Outlay	2,200,000	2,158,092	41,908
TOTAL	<u>2,200,000</u>	<u>2,158,092</u>	<u>41,908</u>
Building Inspection			
Personnel Services	61,680	61,075	605
Supplies	3,550	1,998	1,552
Other Services and Charges	9,400	3,219	6,181
Capital Outlay	500	-	500
TOTAL	<u>75,130</u>	<u>66,292</u>	<u>8,838</u>
Materials Control and Mechanic			
Personnel Services	194,477	145,949	48,528
Supplies	8,600	6,828	1,772
Other Services and Charges	11,100	9,846	1,254
Capital Outlay	2,500	287	2,213
TOTAL	<u>216,677</u>	<u>162,910</u>	<u>53,767</u>
Debt Service			
Principal	434,063	416,901	17,162
Interest	68,112	68,112	-
TOTAL	<u>502,175</u>	<u>485,013</u>	<u>17,162</u>
TOTAL EXPENDITURES	<u>7,823,628</u>	<u>7,023,686</u>	<u>799,942</u>
EXCESS (DEFICIT) REVENUES OVER (UNDER) EXPENDITURES	<u>(1,654,215)</u>	<u>(886,610)</u>	<u>767,605</u>
OTHER FINANCING SOURCES (USES):			
Proceeds from Debt Issuance	616,355	670,499	54,144
Sale of Capital Assets	-	10	10
Operating Transfers In	769,750	769,750	-
Operating Transfers Out	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>1,386,105</u>	<u>1,440,259</u>	<u>54,154</u>
EXCESS (DEFICIT) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>(268,110)</u>	<u>553,649</u>	<u>821,759</u>
Fund Balances at October 1, 2014	<u>1,601,954</u>	<u>1,601,954</u>	<u>-</u>
Fund Balances at September 30, 2015	\$ <u>1,333,844</u>	\$ <u>2,155,603</u>	\$ <u>821,759</u>
Adjustments To GAAP Basis:			
Add: Accrued Revenue		<u>(117,652)</u>	
Fund Balance GAAP September 30, 2015		\$ <u>2,037,951</u>	

CITY OF PONTOTOC, MISSISSIPPI
COMBINING BALANCE SHEET - ALL NON-MAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2015

	Non-Major Debt Service	Non-Major Special Revenue	Total Non-Major Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
<u>ASSETS:</u>			
Cash on Deposit - Unrestricted	-	125,655	125,655
Cash on Deposit - Restricted	\$ 23,439	\$ -	\$ 23,439
Due From Other Governments	<u>-</u>	<u>32,889</u>	<u>32,889</u>
 TOTAL ASSETS	 \$ <u>23,439</u>	 \$ <u>158,544</u>	 \$ <u>181,983</u>

LIABILITIES AND FUND BALANCES:

LIABILITIES

Accounts Payable	\$ -	\$ 470	\$ 470
TOTAL LIABILITIES	<u>-</u>	<u>470</u>	<u>470</u>

FUND BALANCES

Restricted			
Debt Service	23,439	-	23,439
Committed			
Tourism	<u>-</u>	<u>158,074</u>	<u>158,074</u>
TOTAL FUND BALANCES	<u>23,439</u>	<u>158,074</u>	<u>181,513</u>
 TOTAL LIABILITIES AND FUND BALANCES	 \$ <u>23,439</u>	 \$ <u>158,544</u>	 \$ <u>181,983</u>

-47-

	Non-Major Debt Service			Non-Major Special Revenue			Totals		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES:									
Tourism Taxes	\$ -	\$ -	\$ -	\$ 353,000	\$ 386,812	\$ 33,812	\$ 353,000	\$ 386,812	\$ 33,812
Fire Protection	-	-	-	-	-	-	-	-	-
Lee County	-	-	-	-	-	-	-	-	-
FEMA-Homeland Sec. Grant	-	-	-	-	-	-	-	-	-
Interest Income	-	12	12	-	903	903	-	915	915
Miscellaneous Revenue	-	-	-	-	7,500	7,500	-	7,500	7,500
Grant Income	-	-	-	-	-	-	-	-	-
TOTAL REVENUES	-	12	12	353,000	395,215	42,215	353,000	395,227	42,227
EXPENDITURES:									
Capital Outlay	-	-	-	-	-	-	-	-	-
Culture and Recreation	-	-	-	223,350	214,687	8,663	223,350	214,687	8,663
Debt Service	-	-	-	30,000	30,000	-	30,000	30,000	-
TOTAL	-	-	-	253,350	244,687	8,663	253,350	244,687	8,663
TOTAL EXPENDITURES	-	-	-	253,350	244,687	8,663	253,350	244,687	8,663
EXCESS (DEFICIT) REVENUES OVER (UNDER)	-	12	12	99,650	150,528	50,878	99,650	150,540	50,890
EXPENDITURES									
OTHER FINANCING SOURCES (USES):									
Transfers to Other Funds	-	-	-	(200,000)	(200,000)	-	(200,000)	(200,000)	-
Transfer from Other Funds	-	-	-	-	-	-	-	-	-
Proceeds from Issuance of Debt	-	-	-	-	0	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	(200,000)	(200,000)	-	(200,000)	(200,000)	-
Net Change in Fund Balances	-	12	12	(100,350)	(49,472)	50,878	(100,350)	(49,460)	50,890
Fund Balances at October 1, 2014	23,427	23,427	-	207,546	207,546	-	230,973	230,973	-
Fund Balances at September 30, 2015	\$ 23,427	\$ 23,439	\$ 12	\$ 107,196	\$ 158,074	\$ 50,878	\$ 130,623	\$ 181,513	\$ 50,890

OTHER SUPPLEMENTAL INFORMATION

**CITY OF PONTOTOC, MISSISSIPPI
SCHEDULE OF THE CITY'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
For the Year Ended September 30, 2015**

	<u>2015</u>
A. Pontotoc's proportion of net pension liability (%)	0.048000%
B. Pontotoc's proportionate share of net pension liability	\$7,426,346
C. Pontotoc's covered employee payroll	\$3,015,034
D. Pontotoc's proportionate share of net pension liability as a percentage of its covered employee payroll (%)	246.31%
E. Plan fiduciary net position as a percentage of total pension liability	61.70%

CITY OF PONTOTOC, MISSISSIPPI
SCHEDULE OF THE CITY'S CONTRIBUTIONS
For the Years Ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
A. Statutorily required contributions	\$474,871	\$454,556
B. Contributions in relation to statutorily required contributions	\$474,871	\$454,556
C. Contribution deficiency (excess)	\$0	\$0
D. Pontotoc's covered employee payroll	\$3,015,034	\$2,886,063
E. Contributions as a percentage of covered employee payroll	15.75%	15.75%

CITY OF PONTOTOC, MISSISSIPPI
SCHEDULE OF SURETY BONDS FOR MUNICIPAL OFFICIALS
September 30, 2015

<u>Name</u>	<u>Position</u>	<u>Company</u>	<u>Bond</u>
Dexter Warren	City Clerk	Old Republic Surety Company	\$50,000
Randy Tutor	Chief of Police	Old Republic Surety Company	\$50,000
Robbie Laprade	Tax Collector	Old Republic Surety Company	\$50,000
Jamie Sappington	Deputy Tax Collector	Old Republic Surety Company	\$50,000
Terri Flaherty	Deputy City Clerk	Old Republic Surety Company	\$50,000
Michelle Boone	Park/Rec	Old Republic Surety Company	\$50,000
Kim King	Office Clerk	Old Republic Surety Company	\$50,000
Veronica Long	Court Clerk	Old Republic Surety Company	\$50,000
Will Tutor	Office Collection	Old Republic Surety Company	\$50,000
Martin Ball	Office Collection	Old Republic Surety Company	\$50,000
Tommy Caldwell	Office Collection	Old Republic Surety Company	\$50,000
Tim Gunter	Receiving Clerk	Old Republic Surety Company	\$50,000
Valeri Watts	Office Clerk	Old Republic Surety Company	\$50,000
Karen Washington	Office Clerk	Old Republic Surety Company	\$50,000
Terry Williamson	Bldg Inspector	Old Republic Surety Company	\$50,000
Sherika Knight	P.D. Office Clerk	Old Republic Surety Company	\$50,000
Jeff H. Stafford	Mayor	Old Republic Surety Company	\$50,000
David White	Alderman	Old Republic Surety Company	\$100,000
Lena Chew	Alderman	Old Republic Surety Company	\$100,000
Tommy Patterson	Alderman	Old Republic Surety Company	\$100,000
Dennis R. Simmons	Alderman	Old Republic Surety Company	\$100,000
Rayburn Mapp	Alderman	Old Republic Surety Company	\$100,000
Jimmy Farris	Deputy	Old Republic Surety Company	\$50,000
Mark Baldwin	Deputy	Old Republic Surety Company	\$50,000
Dickey Montgomery	Deputy	Old Republic Surety Company	\$50,000
Early McKinney	Deputy	Old Republic Surety Company	\$50,000
Shad Long	Deputy	Old Republic Surety Company	\$50,000
Joe Didonna	Deputy	Old Republic Surety Company	\$50,000
Mike Doss	Deputy	Old Republic Surety Company	\$50,000
Greg Bedford	Deputy	Old Republic Surety Company	\$50,000
Tim Ferguson	Deputy	Old Republic Surety Company	\$50,000
Kevin Rodgers	Deputy	Old Republic Surety Company	\$50,000
Jason Collier	Deputy	Old Republic Surety Company	\$50,000
Donna Butler	Tax Clerk	Old Republic Surety Company	\$50,000
Dan Treadaway	Deputy	Old Republic Surety Company	\$50,000
Kurtis Gregory	Deputy	Old Republic Surety Company	\$50,000
Raymond Owen	Deputy	Old Republic Surety Company	\$50,000
Eric Farris	Deputy	Old Republic Surety Company	\$50,000
Cassey Sappington	Park/Rec	Old Republic Surety Company	\$50,000

CITY OF PONTOTOC, MISSISSIPPI
SCHEDULE OF LONG TERM DEBT
For the Year Ended September 30, 2015

	BALANCE OUTSTANDING October 1, 2014	TRANSACTIONS DURING FISCAL YEAR		BALANCE OUTSTANDING September 30, 2015
		ISSUED	REDEEMED	
<u>General Obligation Bonds</u>				
Industrial Taxable Refunding Bonds	\$ 860,000	\$ -	\$ 285,000	\$ 575,000
<u>Other Long Term Debt</u>				
MDA CAP Fire Truck	319,099	-	72,401	246,698
MDEQ Water Pollution Rev. Loan	3,564,527	-	275,667	3,288,860
MDA Capital Improvements Loan	638,060	-	36,700	601,360
MDEQ Water Pollution Emergency Loan	241,072	-	24,302	216,770
Note Payable to Three Rivers Planning and Development District	404,931	-	19,556	385,375
MDA CAP Loan	42,508	573,847	-	616,355
Note Payable to BizCapital Bidco II LLC	85,000	-	30,000	55,000
Note Payable to Three Rivers Planning and Development District	-	96,652	3,244	93,408
TOTAL	\$ 6,155,197	\$ 670,499	\$ 746,870	\$ 6,078,826

CITY OF PONTOTOC, MISSISSIPPI
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2015

Federal Grantor/ Pass Through Grantor/ Program Title	Grantor Agency Id Number	Federal CFDA Number	Federal Expenditures
PRIMARY GOVERNMENT:			
U. S. Department of Housing and Urban Development			
Passed through Mississippi Development Authority			
Community Development Block Grants/State's Program and Non- * Entitlement Grants	1126-09-302-PF-01	14.228	\$ 161,557
Community Development Block Grants/State's Program and Non- * Entitlement Grants	1130-13-302-ED-01	14.228	463,190
Community Development Block Grants/State's Program and Non- * Entitlement Grants	1130-13-302-ED-02	14.228	328,557
Community Development Block Grants/State's Program and Non- * Entitlement Grants	1131-14-302-ED-01	14.228	<u>137,449</u>
			<u>\$ 1,090,753</u>
U. S. Department of Transportation			
Passed through Mississippi Department of Transportation			
* ARRA-Highway Planning and Construction	STP-0022-04(040), 102607-201000	20.205	\$ 177,535
* ARRA-Highway Planning and Construction	STP-0022-04(040), 102607-202100	20.205	281,097
Passed through Mississippi Department of Public Safety National Priority Safety Programs	14OP3241	20.616	<u>6,749</u>
			<u>\$ 465,381</u>
TOTAL FEDERAL EXPENDITURES			<u>\$ 1,556,134</u>

SIGNIFICANT ACCOUNTING POLICIES:

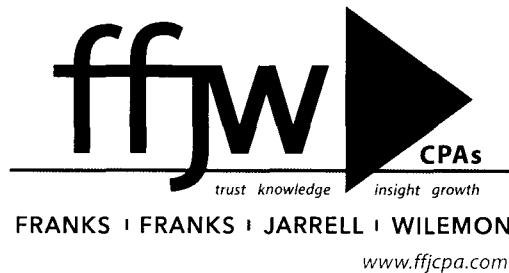
The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Pontotoc, Mississippi and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organization*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

* - Major Program

OTHER REPORTS

P.O. Box 731
Tupelo, MS 38802
(662) 844-5226

P.O. Box 355
Fulton, MS 38843
(662) 862-4967



Partners
Gary Franks, CPA
Greg Jarrell, CPA
Bryon Wilemon, CPA
Jonathan Hagood, CPA
Rudolph Franks, CPA (emeritus)

**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**

Honorable Mayor and Board of Alderman
City of Pontotoc, Mississippi

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, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Pontotoc, Mississippi, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City of Pontotoc, Mississippi's basic financial statements and have issued our report thereon dated February 15, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Pontotoc, Mississippi'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 City of Pontotoc, Mississippi's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Pontotoc, Mississippi's internal control.

Our consideration of internal control 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as findings 1 and 2 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Pontotoc, Mississippi'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as finding 2.

The City of Pontotoc, Mississippi's Response to Findings

City of Pontotoc, Mississippi's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Pontotoc, Mississippi'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

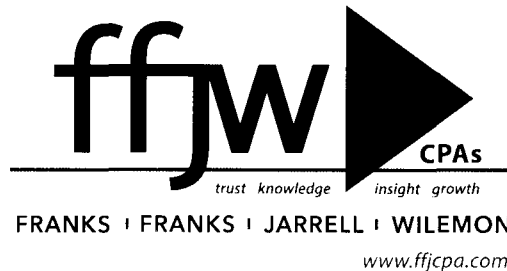
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in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

Franks, Franks, Jarrell & Wilemon, P.A.

Franks, Franks, Jarrell & Wilemon, P.A.
February 15, 2016

P.O. Box 731
Tupelo, MS 38802
(662) 844-5226

P.O. Box 355
Fulton, MS 38843
(662) 862-4967



Partners

Gary Franks, CPA

Greg Jarrell, CPA

Bryon Wilemon, CPA

Jonathan Hagood, CPA

Rudolph Franks, CPA (emeritus)

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Honorable Mayor and Board of Aldermen
City of Pontotoc, Mississippi

Report on Compliance for Each Major Federal Program

We have audited the City of Pontotoc, Mississippi'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 City of Pontotoc, Mississippi's major federal programs for the year ended September 30, 2015. The City of Pontotoc, Mississippi's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the City of Pontotoc, Mississippi, 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 September 30, 2015.

Report on Internal Control over Compliance

Management of the City of Pontotoc, Mississippi, 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 the City of Pontotoc, Mississippi's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.

Accordingly, we do not express an opinion on the effectiveness of the City of Pontotoc, Mississippi's internal control over compliance.

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

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

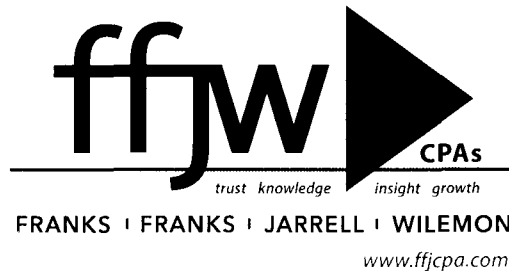
The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Franks, Franks, Jarrell & Wilemon, P.A.

FRANKS, FRANKS, JARRELL & WILEMON, P.A.
February 15, 2016

P.O. Box 731
Tupelo, MS 38802
(662) 844-5226

P.O. Box 355
Fulton, MS 38843
(662) 862-4967



Partners
Gary Franks, CPA
Greg Jarrell, CPA
Bryon Wilemon, CPA
Jonathan Hagood, CPA
Rudolph Franks, CPA (emeritus)

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Honorable Mayor and Board of Alderman
City of Pontotoc, Mississippi

We have audited the financial statements of the City of Pontotoc, Mississippi, as of and for the year ended September 30, 2015, and have issued our report thereon dated February 15, 2016. 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 the *Government Auditing Standards*.

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 state laws and regulations. However, providing an opinion on compliance with state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of those procedures and our audit of the general purpose financial statements disclosed one material instance of noncompliance with state laws and regulations as reported in Finding No. 2.

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

This report is intended for the information of management and the Office of the State Auditor 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.

Franks, Franks, Jarrell & Wilemon, P.A.

FRANKS, FRANKS, JARRELL & WILEMON, P.A.
February 15, 2016

**CITY OF PONTOTOC, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
September 30, 2015**

SECTION 1 – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued: unmodified
Internal control over financial reporting:
 Material weakness identified? X Yes No
 Significant deficiency identified
 not considered to be a material weakness? Yes X None reported
Noncompliance material to financial statements
 noted? X Yes No

Federal Awards

Internal Control over major programs:
 Material weakness identified? Yes X No
 Significant deficiency identified
 not considered to be a material weakness? Yes X None reported
Type of auditor's report issued on compliance
 for major programs: unmodified
Any audit findings disclosed that are required
 to be reported in accordance with
 Circular A-133, Section .510(a)? Yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>14.228</u>	<u>U.S. Department of Housing and Urban Development – Community Development Block Grants/State's Program and Non-Entitlement Grants</u>
<u>20.205</u>	<u>U.S. Department of Transportation – ARRA – Highway Planning and Construction</u>

Dollar threshold used to distinguish
 between Type A and Type B programs: \$ 300,000
Auditee qualified as low-risk auditee? Yes X No

CITY OF PONTOTOC, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
September 30, 2015

SECTION 2 – FINANCIAL STATEMENT FINDINGS:

FINDING NO. 1 (material weakness)

Criteria: The City is to maintain adequate internal controls to ensure accurate processing of transactions for the fair presentation of its financial records.

Cause of Condition: The City's internal control did not provide for adequate segregation of duties in relation to the collection, processing and administering of court fine revenues and park and recreation fees. The City's size and number of personnel in these departments limit the opportunities for adequate segregation of duties.

Recommendation: The City should consider segregation of duties in all areas of the accounting system. The City should consider job descriptions for various employees. Due to the size and number of employees, optimal segregation of duties will be difficult; however, the City should strengthen segregation of duties in all areas possible.

Response: The City will analyze the accounting system and establish procedures that provide clear segregation of duties.

FINDING NO. 2 (material weakness, noncompliance)

Criteria: The City is to maintain adequate internal controls to ensure accurate processing of transactions for the fair presentation of its financial records. The City is to comply with state purchasing laws for all applicable purchases over certain dollar thresholds.

Cause of Condition: The City did not obtain competitive quotes for two purchases during the fiscal year, as required by state statutes.

Recommendation: The City should implement adequate internal controls over all state purchase laws to ensure that the City strictly adheres to the purchase laws in all departments of the City.

Response: Purchase laws are now being compiled with by all department heads and we have established procedures which will ensure compliance with purchase laws.

SECTION 3 – FEDERAL AWARD FINDINGS:

There are no findings related to federal awards.

**Finding 1 was a finding in the prior year.*

**Findings 1 and 2 are material weaknesses.*

**Finding 2 is a noncompliance finding.*