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FINANCIAL STATEMENTS
CITY OF PONTOTOC, MISSISSIPPI
Year Ended September 30, 2010

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Board of Aldermen
City of Pontotoc, Mississippi

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 September 30, 2010, and for the year then ended, which collectively comprises the City's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the City of Pontotoc, Mississippi's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

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

The City of Pontotoc, Mississippi could not provide complete and adequate beginning subsidiary records documenting the existence, completeness and valuation of inventory amounts for the business-type activities of the City at October 1, 2009. Accounting principles generally accepted in the United States of America require reporting of inventory amounts related to business-type activities. Due to the lack of such records, we were unable to satisfy ourselves by means of other auditing procedures regarding the lack of beginning inventory records related to the business-type activities. The amount by which this departure would affect the fund balances and expenses of the business-type activities is not reasonably determinable.

In our opinion, except for the fact that the City of Pontotoc, Mississippi could not provide complete and adequate subsidiary records documenting the existence, completeness and valuation of inventory amounts for the business-type activities as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the 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, 2010, and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis information on pages 3 through 11, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Pontotoc, Mississippi's basic financial statements. The introductory section and combining non-major fund financial statements and schedules and other supplemental information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and nonmajor fund financial statements and schedules and other supplemental information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2011, 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Franks, Franks + Jarrell, P.A.

FRANKS, FRANKS & JARRELL, P.A.
January 13, 2011

CITY OF PONTOTOC, MISSISSIPPI

MANAGEMENT'S DISCUSSION AND ANALYSIS

Required Supplemental Information for the Year Ended September 30, 2010

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, 2010. 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 \$25,378,975. Of this amount, \$4,198,446 may be used to meet the City of Pontotoc's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, the City of Pontotoc governmental funds reported combined ending fund balances of \$1,975,808 an increase of \$930,504 in comparison to the prior year. Approximately 57 percent of the combined fund balances, \$1,133,256 is considered unreserved and is available for spending at the City of Pontotoc's discretion.
- The City of Pontotoc's total debt decreased by \$689,135 (7 percent) during the current fiscal year to an ending balance of \$9,090,233.

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 parks and recreation	Activities the City operates similar to private businesses: Water, Sewer and Gas System.
Required financial statements	Statement of Net Assets; Statement of Activities	Balance Sheet; Statement of Revenues, Expenditures, and Changes in Fund Balances	Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; 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 assets 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 assets and how they have changed. Net assets—the difference between the City of Pontotoc's assets and liabilities—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 assets 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, building inspection, parks 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 Balance Sheet, Statement of Revenues, Expenses and Changes in Retained Earnings, and Statement of Cash Flows are all required statements.

Government-wide Financial Analysis

Net assets may serve over time as a useful indicator of a government's financial position. The City of Pontotoc's assets exceeded liabilities by \$25,378,975 at the close of the most recent fiscal year.

A large portion, 76 percent, of the City's net assets 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 Assets

	Governmental		Business-Type		Total	
	Activities		Activities			
	<u>2010</u>	Restated <u>2009</u>	<u>2010</u>	Restated <u>2009</u>	<u>2010</u>	Restated <u>2009</u>
Current and Other Assets	\$ 3,022,637	4,222,580	\$ 6,077,276	5,857,390	\$ 9,099,913	10,079,970
Noncurrent Assets	<u>11,315,021</u>	<u>9,649,575</u>	<u>15,326,982</u>	<u>15,790,945</u>	<u>26,642,003</u>	<u>25,440,520</u>
Total Assets	14,337,658	13,872,155	21,404,258	21,648,335	35,741,916	35,520,490
Current and Other Liabilities	827,447	869,547	965,825	1,041,942	1,793,272	1,911,489
Long-Term Liabilities	<u>3,198,604</u>	<u>3,481,481</u>	<u>5,371,065</u>	<u>5,771,503</u>	<u>8,569,669</u>	<u>9,252,984</u>
Total Liabilities	4,026,051	4,351,028	6,336,890	6,813,445	10,362,941	11,164,473
Net Assets:						
Invested in Capital Assets,						
Net of Related Debt	9,510,021	7,294,575	9,667,984	9,754,359	19,178,005	17,048,934
Restricted	842,552	741,824	1,159,972	1,133,001	2,002,524	1,874,825
Unrestricted (deficit)	<u>(40,966)</u>	<u>1,484,728</u>	<u>4,239,412</u>	<u>3,947,530</u>	<u>4,198,446</u>	<u>5,432,258</u>
Total Net Assets	\$ 10,311,607	9,521,127	\$ 15,067,368	14,834,890	\$ 25,378,975	24,356,017

An additional portion of the City's net assets represents resources that are subject to external restrictions on how they may be used. The \$4,198,446 of unrestricted net assets provides excess funds to meet the government's ongoing obligations to citizens and creditors.

Unrestricted net assets of our business-type activities were \$4,239,412 at the end of the current fiscal year. These resources cannot be used to add to the net asset surplus in governmental activities. The City of Pontotoc generally can only use these net assets to finance the continuing operations of the business type activities.

Changes in net assets. Approximately 17.55 percent of the City of Pontotoc's revenue comes from sales and tourism taxes, with 21.29 percent of all revenue coming from some type of tax. (See Table A-2.) Another 70.40 percent comes from fees charged for services, 5.00 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 Assets**

	Governmental Activities		Business-Type Activities		Total	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Revenues						
Program Revenues:						
Charges for Services	\$ 646,764	\$ 468,820	\$ 8,771,882	\$ 9,201,595	\$ 9,418,646	\$ 9,670,415
Grants & Contributions	570,377	156,967	97,476	77,464	667,853	234,431
General Revenues:						
Sales Taxes	2,347,347	2,339,787	0	0	2,347,347	2,339,787
Other Taxes	501,519	419,014	0	0	501,519	419,014
Investment Income	204,309	260,625	34,438	65,794	238,747	326,419
Other	<u>195,833</u>	<u>247,956</u>	<u>9,000</u>	<u>0</u>	<u>204,833</u>	<u>247,956</u>
Total Revenues	4,466,149	3,893,169	8,912,796	9,344,853	13,378,945	13,238,022
Expenses						
General Government	791,581	850,999	0	0	791,581	850,999
Public Safety	1,927,717	1,857,333	0	0	1,927,717	1,993,721
Public Works	696,896	738,417	0	0	696,896	738,417
Culture & Recreation	717,397	705,540	0	0	717,397	569,152
Building Inspector	111,670	236,084	0	0	111,670	236,084
Materials Control / Mechanic	193,028	122,598	0	0	193,028	122,598
Water, Sewer & Gas System	0	0	7,624,936	8,343,516	7,624,936	8,343,516
Interest on Long Term Debt	<u>187,380</u>	<u>201,750</u>	<u>105,382</u>	<u>142,908</u>	<u>292,762</u>	<u>344,658</u>
Total Expenses	4,625,669	4,712,721	7,730,318	8,486,424	12,355,987	13,199,145
Excess of Revenue Over Expenses	(159,520)	(819,552)	1,182,478	858,429	1,022,958	38,877
Transfers	<u>950,000</u>	<u>689,112</u>	<u>(950,000)</u>	<u>(689,112)</u>	<u>0</u>	<u>0</u>
Increase (Decrease) in Net Assets	<u>790,480</u>	<u>(130,440)</u>	<u>232,478</u>	<u>169,317</u>	<u>1,022,958</u>	<u>38,877</u>
Net Assets—Beginning, as previously stated	10,200,241	7,788,166	14,561,600	14,790,130	24,761,841	22,578,296
Prior Period Adjustment	<u>(679,114)</u>	<u>2,542,515</u>	<u>273,290</u>	<u>(397,847)</u>	<u>(405,824)</u>	<u>2,144,668</u>
Net Assets—Beginning, as restated	<u>9,521,127</u>	<u>10,330,681</u>	<u>14,834,890</u>	<u>14,392,283</u>	<u>24,356,017</u>	<u>24,722,964</u>
Net Assets—Ending	<u>\$ 10,311,607</u>	<u>\$ 10,200,241</u>	<u>\$ 15,067,368</u>	<u>\$ 14,561,600</u>	<u>\$ 25,378,975</u>	<u>\$ 24,761,841</u>

Governmental Activities

Governmental activities increased the City's net assets by \$790,480. 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 (53 percent), charges for services (14 percent) and other taxes (11 percent).

CITY OF PONTOTOC, MISSISSIPPI MANAGEMENT'S DISCUSSION AND ANALYSIS

The largest expense categories for the City's governmental activities are public safety (42 percent), general government (17 percent) and culture and recreation (16 percent).

Business-type Activities

Business-type activities increased the City's net assets by \$232,478.

Charges for services are the major revenue categories for the enterprise funds. Total business-type revenues are comprised of \$8,912,796 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, unreserved 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, unreserved fund balance of the general fund was \$1,133,256, which comprised the 100 percent of the fund balance. As a measure of the general fund's liquidity, it may be useful to compare both the fund balance, reserved and unreserved, to total fund expenditures. Total unreserved fund balance represents 22 percent of total fund expenditures. The fund balance of the City's general fund increased by \$829,776 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 \$572,791, 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 \$269,761, 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 assets of the proprietary funds at the end of the current fiscal year totaled \$15,067,788.

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 2009-10 general fund operating budget increased by approximately \$1,549,154 during the current fiscal year. This increase was primarily related to an increase in the general government budget.

**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, 2010, amounted to \$24,943,233, net of accumulated depreciation of \$17,728,402. 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		Business-Type		Total	
	Activities		Activities			
	<u>2010</u>	Restated <u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	Restated <u>2009</u>
Land	\$ 6,037,893	5,687,893	\$ 146,700	172,800	\$ 6,184,593	5,893,193
Construction in Progress	15,327	8,117	0	0	15,327	8,117
Plant, Buildings & Improvements	12,291,841	12,289,907	19,346,896	19,225,485	31,638,737	32,600,619
Machinery & Equipment	2,468,775	2,444,662	1,291,449	1,223,276	3,760,224	3,667,850
Infrastructure	1,072,754	917,350	0	0	1,072,754	917,350
Accumulated Depreciation	<u>(12,156,569)</u>	<u>(12,136,876)</u>	<u>(5,571,833)</u>	<u>(4,944,386)</u>	<u>(17,728,402)</u>	<u>(17,081,265)</u>
Total	<u>\$ 9,730,021</u>	<u>9,211,053</u>	<u>\$ 15,213,212</u>	<u>15,677,175</u>	<u>\$ 24,943,233</u>	<u>26,005,864</u>

Long-term Debt—At year-end, the city had \$9,090,233 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		Business-Type		Total	
	Activities		Activities			
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
General Obligation Bonds	\$ 1,805,000	2,355,000	\$ 0	0	\$ 1,805,000	2,355,000
Revenue Bonds	0	0	925,000	1,050,000	925,000	1,050,000
CAP Loans	1,393,124	1,501,552	0	0	1,393,124	1,501,552
Notes Payable	<u>346,881</u>	<u>0</u>	<u>4,620,228</u>	<u>4,872,816</u>	<u>4,967,109</u>	<u>4,872,816</u>
Total	<u>\$ 3,545,005</u>	<u>3,856,552</u>	<u>\$ 5,545,228</u>	<u>5,922,816</u>	<u>\$ 9,090,233</u>	<u>9,779,368</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 2011 budget. The total budgeted appropriations for the City operations is \$14,618,096. This is an increase from the prior year budget. The decrease is primarily related to capital outlay related to governmental funds.

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 ASSETS - GOVERNMENT-WIDE
September 30, 2010

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>ASSETS:</u>			
Current Assets:			
Cash on Deposit - Unrestricted	\$ 1,279,136	\$ 2,927,895	\$ 4,207,031
Cash on Deposit - Restricted	819,981	650,049	1,470,030
Money Market, CD's - Unrestricted	15,387	0	15,387
Money Market, CD's - Restricted	0	499,808	499,808
Accounts Receivable, net	300,318	792,742	1,093,060
Inventory	0	1,070,206	1,070,206
Prepaid Expenses	17,425	6,720	24,145
Court Fines Receivable, net	345,783	0	345,783
Lease Payments Receivables, current portion	220,000	0	220,000
Other Receivable	0	35,059	35,059
Due From Other Funds	24,607	94,797	119,404
TOTAL CURRENT ASSETS	<u>3,022,637</u>	<u>6,077,276</u>	<u>9,099,913</u>
Noncurrent Assets:			
Bond Reserve	0	113,770	113,770
Lease Payments Receivables, noncurrent portion	1,585,000	0	1,585,000
Capital Assets:			
Land	6,037,893	146,700	6,184,593
Construction in Progress	15,327	0	15,327
Plant, Buildings and Improvements	12,291,841	19,346,896	31,638,737
Machinery and Equipment	2,468,775	1,291,449	3,760,224
Infrastructure	1,072,754	0	1,072,754
Accumulated Depreciation	(12,156,569)	(5,571,833)	(17,728,402)
TOTAL NONCURRENT ASSETS	<u>11,315,021</u>	<u>15,326,982</u>	<u>26,642,003</u>
TOTAL ASSETS	<u>\$ 14,337,658</u>	<u>\$ 21,404,258</u>	<u>\$ 35,741,916</u>

CITY OF PONTOTOC, MISSISSIPPI
STATEMENT OF NET ASSETS - GOVERNMENT-WIDE
September 30, 2010

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>LIABILITIES:</u>			
Current Liabilities:			
Accounts Payable and Accrued Expenses	\$ 194,106	\$ 512,730	\$ 706,836
Due to Other Funds	58,352	61,052	119,404
Due to Other Governments	228,588	0	228,588
Current Maturities of Long-Term Debt			
General Obligation Bonds	220,000	135,000	355,000
Notes Payable	126,401	257,043	383,444
TOTAL CURRENT LIABILITIES	827,447	965,825	1,793,272
Noncurrent Liabilities:			
Customer Deposits	0	217,880	217,880
General Obligation Bonds, net of current maturities	1,585,000	790,000	2,375,000
Notes Payable, net of current maturities	1,613,604	4,363,185	5,976,789
TOTAL NONCURRENT LIABILITIES	3,198,604	5,371,065	8,569,669
TOTAL LIABILITIES	4,026,051	6,336,890	10,362,941
<u>NET ASSETS</u>			
Invested in Capital Assets, Net of Related Debt	9,510,021	9,667,984	19,178,005
Restricted for:			
Debt Service	269,761	1,159,972	1,429,733
Special Revenue Projects	572,791	0	572,791
Unrestricted (deficit)	(40,966)	4,239,412	4,198,446
TOTAL NET ASSETS	10,311,607	15,067,368	25,378,975
TOTAL LIABILITIES AND NET ASSETS	\$ 14,337,658	\$ 21,404,258	\$ 35,741,916

See accompanying notes to financial statements.

CITY OF PONTOTOC, MISSISSIPPI
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS - GOVERNMENT-WIDE
For the Year Ended, September 30, 2010

FUNCTIONS/ PROGRAMS	PROGRAM REVENUES				Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charge for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities
PRIMARY GOVERNMENT						
Government Activities:						
General Government	\$ 791,581	\$ 136,491	\$ 0	\$ 0	\$ (655,090)	\$ 0
Public Safety	1,927,717	380,548	0	139,905	(1,407,264)	0
Public Works	696,896	0	0	397,034	(299,862)	0
Culture and Recreation	717,397	129,725	0	33,438	(554,234)	0
Materials Control / Mechanic	193,028	0	0	0	(193,028)	0
Building Inspection	111,670	0	0	0	(111,670)	0
Interest on Long Term Debt	187,380	0	0	0	(187,380)	0
TOTAL GOVERNMENTAL ACTIVITIES	4,625,669	646,764	0	570,377	(3,408,528)	0
Business-Type Activities:						
Water, Sewer & Gas System	7,730,318	8,771,882	97,476	0	0	1,139,040
TOTAL BUSINESS-TYPE ACTIVITIES	7,730,318	8,771,882	97,476	0	0	1,139,040
TOTAL PRIMARY GOVERNMENT	\$ 12,355,987	\$ 9,418,646	\$ 97,476	\$ 570,377	\$ (3,408,528)	\$ 1,139,040

GENERAL REVENUES:

Taxes:						
Sales, Tourism and Use Taxes	\$	2,347,347	\$	0	\$	2,347,347
County Pro Rata Taxes		234,111				234,111
Licenses and Permits		58,170				58,170
In Lieu Taxes		258,034				258,034
Gasoline Taxes		9,374				9,374
Intergovernmental Revenues		35,722				35,722
Investment Earnings		204,309			34,438	238,747
Miscellaneous		101,941			9,000	110,941
Transfers		950,000			(950,000)	0
TOTAL GENERAL REVENUES AND TRANSFERS		4,199,008			(906,562)	3,292,446
CHANGE IN NET ASSETS		790,480			232,478	1,022,958
NET ASSETS--BEGINNING, as previously stated		10,200,241			14,561,600	24,761,841
PRIOR PERIOD ADJUSTMENT		(679,114)			273,290	(405,824)
NET ASSETS--BEGINNING, as restated		9,521,127			14,834,890	24,356,017
NET ASSETS--ENDING		\$ 10,311,607			\$ 15,067,368	\$ 25,378,975

See accompanying notes to financial statements.

**CITY OF PONTOTOC, MISSISSIPPI
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2010**

	General Fund	Other Governmental Funds	Total Governmental Funds
<u>ASSETS:</u>			
Cash on Deposit - Unrestricted	\$ 1,279,136	\$ 0	\$ 1,279,136
Cash on Deposit - Restricted	0	819,981	819,981
Money Market, CD's - Unrestricted	15,387	0	15,387
Accounts Receivable	277,095	23,223	300,318
Due From Other Funds	24,607	0	24,607
Prepaid Insurance	17,425	0	17,425
TOTAL ASSETS	\$ 1,613,650	\$ 843,204	\$ 2,456,854
<u>LIABILITIES AND FUND BALANCES:</u>			
<u>Liabilities:</u>			
Accounts Payable and Accrued Expenses	\$ 193,454	\$ 652	\$ 194,106
Due to Other Funds	58,352	0	58,352
Due to Other Governments	228,588	0	228,588
TOTAL LIABILITIES	480,394	652	481,046
<u>FUND BALANCES:</u>			
Restricted:			
Debt Service	0	269,761	269,761
Special Revenue Funds	0	572,791	572,791
Undesignated	1,133,256	0	1,133,256
TOTAL FUND BALANCES	1,133,256	842,552	1,975,808
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,613,650	\$ 843,204	\$ 2,456,854

See accompanying notes to financial statements.

**CITY OF PONTOTOC, MISSISSIPPI
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
For the Year Ended September 30, 2010**

TOTAL FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$	1,975,808
Amounts reported for Governmental Activities in the Statement of Net Assets 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.		9,730,021
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.		1,805,000
Long-term liabilities are not due and payable in the current period and therefore they are not reported in the Governmental Funds Balance Sheet.		(3,545,005)
Accrual of court fine revenues to qualify as financial resources.		345,783

NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	10,311,607

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, 2010

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:			
Sales, Tourism and Use Taxes	\$ 2,036,392	\$ 310,955	\$ 2,347,347
Licenses and Permits	58,170	0	58,170
In Lieu of Taxes	258,034	0	258,034
Penalties and Interest	56,251	0	56,251
Park and Recreation Fees	129,725	0	129,725
Intergovernmental Revenues	45,096	0	45,096
County Pro Rata Taxes	234,111	0	234,111
School Tax Collection Fees	120,591	0	120,591
Lease Rentals	705,287	0	705,287
Fines and Forfeits	362,565	0	362,565
Interest Revenues	57,387	7,535	64,922
Grant Income	570,377	0	570,377
Miscellaneous Revenues	45,708	0	45,708
TOTAL REVENUES	<u>4,679,694</u>	<u>318,490</u>	<u>4,998,184</u>
EXPENDITURES:			
Current:			
General Government	983,219	0	983,219
Public Safety	1,796,135	0	1,796,135
Public Works	782,306	0	782,306
Culture and Recreation	444,943	217,762	662,705
Materials Control and Mechanic	182,718	0	182,718
Building Inspection	111,670	0	111,670
Debt Service	848,927	0	848,927
TOTAL EXPENDITURES	<u>5,149,918</u>	<u>217,762</u>	<u>5,367,680</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(470,224)</u>	<u>100,728</u>	<u>(369,496)</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from Debt Issuance	350,000	0	350,000
Transfers from Other Funds	950,000	0	950,000
TOTAL OTHER FINANCING SOURCES (USES)	<u>1,300,000</u>	<u>0</u>	<u>1,300,000</u>
NET CHANGE IN FUND BALANCES	<u>829,776</u>	<u>100,728</u>	<u>930,504</u>
FUND BALANCES - Beginning	<u>303,480</u>	<u>741,824</u>	<u>1,045,304</u>
FUND BALANCES - Ending	<u>\$ 1,133,256</u>	<u>\$ 842,552</u>	<u>\$ 1,975,808</u>

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 GOVERNMENT-WIDE STATEMENT
OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended September 30, 2010

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$	930,504
Amounts reported for Governmental Activities in the Statement of Activities are different because:		
Governmental Funds report capital outlay as expenditures. However, in the Government Wide Statement of Activities and Changes in Net Assets, 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.		573,320
Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in Governmental Funds.		(492,856)
Payments received related to lease receivable reported as revenue on the Governmental Funds financial statements as received.		(550,000)
Remaining basis on the transfer of asset recorded on the Government-Wide Statement of Net Assets to the Sewer Fund.		(18)
Payments received related to deferred revenues reported as revenue on the Governmental Funds financial statements as received.		17,983
Bond proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Government-Wide Statement of Net Assets. Repayment of bond principal is an expenditure in Governmental Funds, but the repayment reduces long-term liabilities in the Government-Wide Statement of Net Assets.		
Proceeds received from the issuance of long-term debt.		(350,000)
This amount represents long-term debt repayments and issuance costs.		661,547
		661,547
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	790,480

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, 2010

	Budget		Actual	Variance with Final Budget (Unfavorable)
	Original	Final		
REVENUES:				
Sales and Use Taxes	\$ 1,950,000	\$ 1,950,000	\$ 2,033,469	\$ 83,469
Licenses and Permits	40,125	59,729	56,976	(2,753)
In Lieu of Taxes	225,000	225,000	229,678	4,678
Penalties and Interest	53,009	53,009	56,251	3,242
Park and Recreation Fees	197,215	197,215	129,725	(67,490)
Intergovernmental Revenues	50,875	50,875	43,371	(7,504)
County Pro Rata Taxes	198,259	230,000	234,029	4,029
Charges for Services	118,000	118,000	120,591	2,591
Rentals	16,000	347,753	705,287	357,534
Fines and Forfeits	260,945	320,945	362,565	41,620
Interest Revenues	115,108	60,065	57,387	(2,678)
Grant Income	127,667	563,021	537,808	(25,213)
Miscellaneous Revenues	10,300	40,000	45,708	5,708
TOTAL REVENUES	3,362,503	4,215,612	4,612,845	397,233
EXPENDITURES:				
Current:				
General Government	650,089	1,057,869	983,219	74,650
Public Safety	2,023,499	2,135,197	1,796,135	339,062
Public Works	909,850	933,732	782,306	151,426
Culture and Recreation	603,615	562,489	444,943	117,546
Materials Control and Mechanic	204,660	194,260	182,718	11,542
Building Inspection	115,992	115,992	111,670	4,322
Debt Service	0	331,853	848,927	(517,074)
TOTAL EXPENDITURES	4,507,705	5,331,392	5,149,918	181,474
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(1,145,202)	(1,115,780)	(537,073)	578,707
OTHER FINANCING SOURCES (USES):				
Proceeds from Debt Issued	200,000	350,000	350,000	0
Transfers (to) from Other Funds	0	1,127,410	950,000	(177,410)
TOTAL OTHER FINANCING SOURCES (USES)	200,000	1,477,410	1,300,000	(177,410)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER FINANCING AND OTHER USES	\$ (945,202)	\$ 361,630	\$ 762,927	\$ 401,297

See accompanying notes to financial statements.

CITY OF PONTOTOC, MISSISSIPPI
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
September 30, 2010

<u>ASSETS</u>	Water/Sewer Utility Fund	Gas Utility Fund	Total
<u>Current Assets</u>			
Cash and Cash Equivalents - Unrestricted	\$ 1,486,736	\$ 1,441,159	\$ 2,927,895
Cash and Cash Equivalents - Restricted	650,049	0	650,049
Investments - Unrestricted	0	(10,115)	(10,115)
Investments - Restricted	0	509,923	509,923
Accounts Receivable, Net of Provision for Bad Debts	312,141	480,601	792,742
Due from Other funds	39,964	54,833	94,797
Due from Others	387	34,672	35,059
Prepaid Expenses	7,140	0	7,140
Inventory	138,719	931,487	1,070,206
Total Current Assets	2,635,136	3,442,560	6,077,696
<u>Fixed Assets</u>			
Distributions Systems	10,143,036	8,676,801	18,819,837
Buildings	32,940	494,119	527,059
Equipment	700,937	590,512	1,291,449
Land	136,200	10,500	146,700
Less: Accumulated Depreciation	(1,638,735)	(3,933,098)	(5,571,833)
Net Fixed Assets	9,374,378	5,838,834	15,213,212
<u>Other Assets</u>			
Bond Reserve	0	113,770	113,770
Total Other Assets	0	113,770	113,770
TOTAL ASSETS	\$ 12,009,514	\$ 9,395,164	\$ 21,404,678
<u>LIABILITIES AND NET ASSETS</u>			
<u>Current Liabilities</u>			
Accounts Payable	\$ 145,180	\$ 320,208	\$ 465,388
Due to Other Funds	61,052	0	61,052
Compensated Absences	15,707	13,152	28,859
Interest Payable	5,149	13,334	18,483
Notes and Bonds Payable - Within One Year	252,588	125,000	377,588
Total Current Liabilities	479,676	471,694	951,370
<u>Noncurrent Liabilities</u>			
Refundable Meter Deposits	94,375	123,505	217,880
Notes and Bonds Payable, net of current maturities	4,367,640	800,000	5,167,640
Total Noncurrent Liabilities	4,462,015	923,505	5,385,520
<u>Net Assets</u>			
Invested in Capital Assets, Net of Related Debt	4,754,150	4,913,834	9,667,984
Restricted for:			
Debt Service	650,049	509,923	1,159,972
Unrestricted	1,663,624	2,576,208	4,239,832
Total Net Assets	7,067,823	7,999,965	15,067,788
TOTAL LIABILITIES AND NET ASSETS	\$ 12,009,514	\$ 9,395,164	\$ 21,404,678

See accompanying notes to financial statements.

CITY OF PONTOTOC, MISSISSIPPI
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND NET ASSETS - PROPRIETARY FUNDS
For the Fiscal Year Ended September 30, 2010

	Water/Sewer Utility Fund	Gas Utility Fund	Total
<u>OPERATING REVENUES</u>			
Charges for Services	\$ 2,182,290	\$ 6,468,930	\$ 8,651,220
Service Charges and Penalties	35,927	82,915	118,842
Other Receipts	1,820	0	1,820
Total Operating Revenues	<u>2,220,037</u>	<u>6,551,845</u>	<u>8,771,882</u>
Less: Gas Purchased	<u>0</u>	<u>4,522,088</u>	<u>4,522,088</u>
Net Income Before Operating Expenses	<u>2,220,037</u>	<u>2,029,757</u>	<u>4,249,794</u>
<u>OPERATING EXPENSES</u>			
Personal Services	620,589	539,904	1,160,493
Contractual Services	248,639	0	248,639
Supplies	48,742	2,052	50,794
Depreciation and Amortization	337,570	290,031	627,601
Other Services	597,577	417,324	1,014,901
Total Operating Expenses	<u>1,853,117</u>	<u>1,249,311</u>	<u>3,102,428</u>
Operating Income	<u>366,920</u>	<u>780,446</u>	<u>1,147,366</u>
<u>NON-OPERATING REVENUES (EXPENSES)</u>			
Interest Income	14,498	19,940	34,438
Grant Income	97,476	0	97,476
Interest and Fiscal Charges	(55,267)	(50,115)	(105,382)
Gain on Sale of Fixed Asset	9,000		9,000
Total Non-Operating Revenues (Expenses)	<u>65,707</u>	<u>(30,175)</u>	<u>35,532</u>
<u>INCOME BEFORE OPERATING TRANSFERS</u>	<u>432,627</u>	<u>750,271</u>	<u>1,182,898</u>
Operating Transfers In	195,000	0	195,000
Operating Transfers (Out)	<u>(300,000)</u>	<u>(845,000)</u>	<u>(1,145,000)</u>
NET INCOME (LOSS)	<u>327,627</u>	<u>(94,729)</u>	<u>232,898</u>
NET ASSETS - OCTOBER 1, as previously stated	6,601,477	7,960,123	14,561,600
PRIOR PERIOD ADJUSTMENT	<u>138,719</u>	<u>134,571</u>	<u>273,290</u>
NET ASSETS - OCTOBER 1, as restated	<u>6,740,196</u>	<u>8,094,694</u>	<u>14,834,890</u>
NET ASSETS - SEPTEMBER 30	<u>\$ 7,067,823</u>	<u>\$ 7,999,965</u>	<u>\$ 15,067,788</u>

See accompanying notes to financial statements.

CITY OF PONTOTOC, MISSISSIPPI
STATEMENT OF CASH FLOWS-PROPRIETARY FUNDS
For the Fiscal Year Ended September 30, 2010

	Water/Sewer Utility Fund	Gas Utility Fund	Total
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>			
Cash Received from Customers	\$ 2,204,763	\$ 6,542,563	\$ 8,747,326
Cash Payments for Gas Purchases	0	(4,324,683)	(4,324,683)
Cash Payments for Personal Services	(641,838)	(553,459)	(1,195,297)
Cash Payments for Contractual Services	(248,639)	0	(248,639)
Cash Payments for Supplies	(49,162)	(2,052)	(51,214)
Cash Payments for Other Services	(656,000)	(414,670)	(1,070,670)
Net Cash Provided By Operating Activities	<u>609,124</u>	<u>1,247,699</u>	<u>1,856,823</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>			
Operating Transfers - In from (Out) to Other Funds	(105,000)	(845,000)	(950,000)
Miscellaneous Funds-Net	(35,098)	(1)	(35,099)
Net Cash Flows Provided By (Used In) Noncapital Financing Activities	<u>(140,098)</u>	<u>(845,001)</u>	<u>(985,099)</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>			
Acquisition of Fixed Assets	(82,544)	(107,195)	(189,739)
Sale of Fixed Assets	35,100	0	35,100
Principal Paid on Bonds, Notes and Capital Lease Payables	(252,588)	(125,000)	(377,588)
Interest Paid on Bonds, Notes and Capital Lease Payables	(55,267)	(50,115)	(105,382)
Net Cash Provided By (Used In) Noncapital Financing Activities	<u>(355,299)</u>	<u>(282,310)</u>	<u>(637,609)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Cash received from grants	97,476	0	97,476
Interest on Investments	14,498	19,940	34,438
Net Cash Provided By Investing Activities	<u>111,974</u>	<u>19,940</u>	<u>131,914</u>
NET INCREASE (DECREASE) IN CASH AND RESTRICTED CASH	<u>225,701</u>	<u>140,328</u>	<u>366,029</u>
CASH AND RESTRICTED CASH, OCTOBER 1	<u>1,911,084</u>	<u>1,800,639</u>	<u>3,711,723</u>
CASH AND RESTRICTED CASH, SEPTEMBER 30	<u>\$ 2,136,785</u>	<u>\$ 1,940,967</u>	<u>\$ 4,077,752</u>
<u>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</u>			
Operating Income	\$ 366,920	\$ 780,446	\$ 1,147,366
Adjustments to Reconcile Operating Income to Net Cash Provided By Operating Activities			
Depreciation	337,570	290,031	627,601
Prior Period Adjustment	138,719	134,571	273,290
Change in Assets and Liabilities:			
(Increase) Decrease in Accounts Receivable	(9,269)	(1,251)	(10,520)
(Increase) Decrease in Due from Others	0	(5,641)	(5,641)
(Increase) Decrease in Prepaid Expenses	(420)	0	(420)
(Increase) Decrease in Inventory	(138,719)	62,834	(75,885)
Increase (Decrease) in Accounts Payable - operating activities	(58,422)	2,654	(55,768)
Increase (Decrease) in Accrued Expenses - operating activities	(21,250)	(13,555)	(34,805)
Increase (Decrease) in Customer Deposits	(6,005)	(2,390)	(8,395)
Total Adjustments	<u>242,204</u>	<u>467,253</u>	<u>709,457</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 609,124</u>	<u>\$ 1,247,699</u>	<u>\$ 1,856,823</u>

See accompanying notes to financial statements.

CITY OF PONTOTOC, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
September 30, 2010

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 assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements

The statement of net assets and 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 assets 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. Nonmajor funds, where applicable, are aggregated and presented in a single column.

CITY OF PONTOTOC, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
September 30, 2010

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 nonmajor 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 nonmajor 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, 2010**

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 Principals 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, 2010**

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, 2010**

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, 2010 are:

Investments:

Certificates of Deposit	\$ 515,195
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Revenue Recognition

Sales Tax – The City presently levies a 1.26% sales tax on taxable sales within the City. The sales tax is collected by the Mississippi State Tax Commission and remitted to the City in the month following receipt by the Tax Commission. The sales tax is recorded entirely in the General Fund. Sales tax collected by the State in September and received by the City in October has been accrued and is included in accounts receivable.

CITY OF PONTOTOC, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
September 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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".

General Obligation Enterprise Bonds

The enterprise funds provide the annual debt service requirements on certain general obligation enterprise bonds (not secured by system revenues) issued to finance system improvements.

Since the enterprise funds provide the annual debt service on these general obligation enterprise bonds, the bonds are considered to be obligations of the enterprise funds and have been reported on the balance sheets of the enterprise funds.

Although the general obligation enterprise bonds are reported on the balance sheets of the enterprise funds, they are backed by the full faith and credit of the City and are therefore a contingent liability to the general government.

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.

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 upon termination of employment. The liability for these compensated hours is recorded as current debt in the government-wide statements. 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 reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**CITY OF PONTOTOC, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
September 30, 2010**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

NOTE 2 – FIXED ASSETS

The following is a summary of capital asset activity as of September 30, 2010:

Primary Government:

	<u>Restated Balance 10-01-09</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 09-30-10</u>
Capital Assets, not being depreciated:				
Land	\$ 5,687,893	\$ 350,000	\$ 0	\$ 6,037,893
Construction in Progress	<u>8,117</u>	<u>7,210</u>	<u>0</u>	<u>15,327</u>
Total Capital Assets, not being				
Depreciated:	5,696,010	357,210	0	6,053,220
Capital Assets being depreciated:				
Plant, Buildings, & Improvements	12,289,907	1,934	0	12,291,841
Infrastructure	917,350	155,404	0	1,072,754
Machinery and Equipment	<u>2,444,662</u>	<u>58,772</u>	<u>(34,659)</u>	<u>2,468,775</u>
Total Capital Assets being depreciated	15,651,919	216,110	(34,659)	15,833,370
Less Accumulated Depreciation for:				
Plant, Buildings, & Improvements	(10,723,366)	(192,221)	438,612	(10,476,975)
Machinery and Equipment	(1,221,681)	(203,722)	34,551	(1,390,852)
Infrastructure	<u>(191,829)</u>	<u>(96,913)</u>	<u>0</u>	<u>(288,742)</u>
Total Accumulated Depreciation	(12,136,876)	(492,856)	473,163	(12,156,569)
Total Capital Assets, depreciated, net				
Governmental Activities	<u>3,515,043</u>	<u>(276,746)</u>	<u>438,504</u>	<u>3,676,801</u>
Capital Assets, net	<u>\$ 9,211,053</u>	<u>\$ 80,464</u>	<u>\$ 438,504</u>	<u>\$ 9,730,021</u>

The City's capitalization threshold is \$500 for general fixed assets and \$5,000 for infrastructure assets. The City retroactively applied these thresholds to all general fixed assets in service at September 30, 2004 pursuant to GASB requirements.

CITY OF PONTOTOC, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
September 30, 2010

NOTE 2 – FIXED ASSETS (continued)

A summary of business-type capital asset activity at September 30, 2010 follows:

	<u>Balance</u> <u>10-01-09</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>09-30-10</u>
Capital Assets, not being depreciated:				
Land	\$ <u>172,800</u>	\$ <u>0</u>	\$ <u>(26,100)</u>	\$ <u>146,700</u>
Total Capital Assets, not being Depreciated:	172,800	0	(26,100)	146,700
Capital Assets being depreciated:				
Plant, Buildings, & Improvements	19,225,485	121,411	0	19,346,896
Machinery and Equipment	<u>1,223,276</u>	<u>68,328</u>	<u>(154)</u>	<u>1,291,449</u>
Total Capital Assets being depreciated	20,448,761	189,739	(154)	20,638,345
Less Accumulated Depreciation for:				
Plant, Buildings, & Improvements	(4,247,959)	(496,924)	0	(4,744,883)
Machinery and Equipment	<u>(696,427)</u>	<u>(130,677)</u>	<u>154</u>	<u>(826,950)</u>
Total Accumulated Depreciation	<u>(4,944,386)</u>	<u>(627,601)</u>	<u>154</u>	<u>(5,571,833)</u>
Total Capital Assets, depreciated, net Business-type Activities	<u>15,504,375</u>	<u>(437,862)</u>	<u>0</u>	<u>15,066,512</u>
Capital Assets, net	<u>\$ 15,677,175</u>	<u>\$ (437,862)</u>	<u>\$ (26,100)</u>	<u>\$ 15,213,212</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, 2010**

NOTE 2 – FIXED ASSETS (continued)

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

Governmental Activities:	
General Government	\$ 160,636
Public Safety	150,257
Public Works	87,534
Culture & Recreation	83,664
Materials Control / Mechanic	<u>10,765</u>
Total Depreciation Expense – Governmental Activities	<u>\$ 492,856</u>
Depreciation expense for Water, Sewer and Gas was	<u>\$ 627,601</u>

NOTE 3 – RECEIVABLES

Receivables at September 30, 2010, 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.

NOTE 4 – CAPITAL LEASE RECEIVABLE

The amount reported as capital lease receivable in the governmental activities is comprised of two leases in which the City has leased two buildings to two different companies for industrial development. The City purchased these buildings, financing them through bond issues. The City then sold these buildings to local businesses using capital leases with the same terms of the bonds issued by the City. During the current year, one industry exercised its option to pay the remaining lease balance and purchase the building.

A summary of the capital leases receivable are as follows:

	Balance 10/01/09	Received	Balance 9/30/10	Current Receivable
Capital Lease-\$3,100,000 with interest of 6.75% maturing in April, 2016	\$ 2,010,000	\$ 205,000	\$ 1,805,000	\$ 220,000
Capital Lease-\$925,000 with interest of 6.75% maturing in August, 2014	<u>345,000</u>	<u>345,000</u>	<u>0</u>	<u>0</u>
	<u>\$ 2,355,000</u>	<u>\$ 550,000</u>	<u>\$ 1,805,000</u>	<u>\$ 220,000</u>

**CITY OF PONTOTOC, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
September 30, 2010**

NOTE 4 – CAPITAL LEASE RECEIVABLE (continued)

The future minimum lease payments of the capital lease receivable at September 30, 2010, are as follows:

Fiscal Year Ending <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 220,000	\$ 99,275	\$ 319,275
2012	230,000	87,175	317,175
2013	245,000	74,525	319,525
2014	255,000	61,050	316,050
2015	270,000	47,025	317,025
2016-2020	<u>585,000</u>	<u>48,675</u>	<u>633,675</u>
Total	\$ <u>1,805,000</u>	\$ <u>417,725</u>	\$ <u>2,222,725</u>

NOTE 5 – LONG-TERM DEBT

The following is a summary of bond transactions of the City for the year ended September 30, 2010:

	<u>Bonds Payable</u>	<u>Notes Payable</u>	<u>Total</u>
Bonds and Other Long-Term Debt at 10/1/09	\$ 3,405,000	\$ 6,374,368	\$ 9,779,368
Add: Bonds and Other Long-Term Debt Acquired	0	350,000	350,000
Less: Bonds and Other Long-Term Debt Retired	<u>675,000</u>	<u>364,135</u>	<u>1,039,135</u>
Bonds and Other Long-Term Debt at 9/30/10	\$ <u>2,730,000</u>	\$ <u>6,360,233</u>	\$ <u>9,090,233</u>

Bonds and other long-term debt at September 30, 2010 are comprised of the following issues:

Revenue Bonds:

\$1,360,000 Gas System Revenue Bond due in annual installments through April 1, 2016 with interest rates from 4.5% to 4.8% \$ 925,000

**CITY OF PONTOTOC, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
September 30, 2010**

NOTE 5 – LONG-TERM DEBT (continued)

General Obligation Bonds:

\$3,100,000 Public Improvement Bonds due in annual installments with interest at 6.75% through April 1, 2017 to be paid annually. The City has Union Springs Manufacturing Corporation a lease receivable agreement with Union Springs Manufacturing Corporation 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. \$ 1,805,000

Notes Payable:

\$153,070 Mississippi Development Authority Capital Improvements Revolving Loan (CAP) due in 10 annual installments of \$17,041 through April 1, 2012; interest at 2.0 percent \$ 30,477

\$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 774,520

\$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 588,127

\$6,290,000 Mississippi Department of Environmental Quality Water Pollution Control Revolving Loan (MDEQ) at an interest rate of 1.75% due in 232 monthly installments of \$27,987. The loan will be repaid by a monthly allocation of the City's sales tax revenue. 4,620,228

\$350,000 Tennessee Valley Authority industrial development note payable due in 240 monthly installments of \$1,949 through June, 2030; interest at 3.0 percent. 346,881

\$ 6,360,233

\$ 9,090,233

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.

**CITY OF PONTOTOC, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
September 30, 2010**

NOTE 5 – LONG-TERM DEBT (continued)

The Annual requirements to amortize all debt outstanding as of September 30, 2010 including interest payments of \$1,669,065 are as follows:

Year Ending <u>September 30</u>	Governmental Funds		Proprietary Funds		Total	Total
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 346,401	\$ 149,705	\$ 392,043	\$ 121,474	\$ 738,444	\$ 271,179
2012	357,271	133,952	401,576	110,933	758,847	244,885
2013	361,754	117,878	411,192	100,018	772,946	217,896
2014	375,304	100,511	425,887	88,725	801,191	189,236
2015	393,965	82,819	435,667	76,817	829,632	159,636
2016 – 2020	1,514,331	225,612	1,643,019	235,321	3,157,350	460,933
2021 – 2025	94,255	22,624	1,585,785	93,435	1,680,040	116,059
2026 – 2030	101,724	7,415	250,059	1,826	351,783	9,241
	<u>\$ 3,545,005</u>	<u>\$ 840,516</u>	<u>\$ 5,545,228</u>	<u>\$ 828,549</u>	<u>\$ 9,090,233</u>	<u>\$ 1,669,065</u>

NOTE 6 – INTERFUND RECEIVABLES AND PAYABLE

Individual fund interfund receivable and payable balances at September 30, 2010, were:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 24,607	\$ 58,352
Enterprise Fund:		
Water and Sewer Fund	39,964	61,052
Gas System Fund	<u>54,833</u>	<u>0</u>
	<u>\$ 119,404</u>	<u>\$ 119,404</u>

NOTE 7 – 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 8 – DEFINED BENEFIT PENSION PLAN

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

**CITY OF PONTOTOC, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
September 30, 2010**

Jackson, MS 39201-1005 or by calling (601) 359-3589 or 1-800 444 PERS.

NOTE 8 – DEFINED BENEFIT PENSION PLAN (continued)

Funding Policy - 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 12.00% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The City of Pontotoc's contributions to PERS for the years ending September 30, 2010, 2009 and 2008 were \$298,983, \$303,803 and \$283,787 respectively, equal to the required contributions for each year.

NOTE 9 – 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 \$66,849 more than cash revenues.

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 employers 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.

The City Attorney estimates that the amount of actual or potential claims against the City as of September 30, 2010, 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.

CITY OF PONTOTOC, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
September 30, 2010

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.

The City is a joint party with Pontotoc County, Mississippi on a promissory note executed with the Tennessee Valley Authority on June 21, 2010. The principal amount of the note is \$700,000 bearing interest at 3% with a 240 month repayment period. An inter-local agreement has been established between the City and the County in which each party agrees to pay half of the debt service amount each month. The City has accrued one-half of the outstanding note balance as a liability in its year-end financial statements (see Note 5). In event of default by the County, the City could be responsible for the entire note balance.

NOTE 12 – PRIOR PERIOD ADJUSTMENT

The beginning balances of certain accounts have been restated to correct previous errors. Subsequent to issuing the financial statements for the year ending September 30, 2009, management discovered errors in governmental fund capital assets and proprietary fund inventory.

Plant, Buildings and Improvements were overstated by \$679,114 on the Statement of Net Assets in the governmental activities section at September 30, 2009. The overstatement was the result of a building sold to a local industry under a capital lease agreement still being reported as an asset of the City. The beginning assets and fund balance have been restated to correct this error.

Inventory in the business-type activities was understated by \$273,290 at September 30, 2009. This understatement is the result of the City not having complete records to value inventory at September 30, 2009. The beginning inventory and fund balances have been restated in the business-type activities to correct this error.

NOTE 13 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 13, 2011, the date 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, 2010**

ASSETS

Cash and Cash Equivalents	\$	1,279,136
Investments		15,387
Accounts Receivable		265,295
Due from Other Governments		11,800
Due from Other Funds		24,607
Prepaid Insurance		<u>17,425</u>
 Total Assets	 \$	 <u><u>1,613,650</u></u>

LIABILITIES AND FUND BALANCE

Liabilities

Accounts Payable & Accrued Expenses	\$	139,487
Due to Other Governments		228,588
Due to Others		4,253
Due to Other Funds		58,352
Accrued Compensated Absences		<u>49,714</u>
Total Liabilities		<u>480,394</u>

Fund Balance

Unreserved		<u>1,133,256</u>
Total Fund Balance		<u>1,133,256</u>
 Total Liabilities and Fund Balance	 \$	 <u><u>1,613,650</u></u>

CITY OF PONTOTOC, MISSISSIPPI
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL - GENERAL FUND
For the Fiscal Year Ended September 30, 2010

	<u>BUDGET</u>	<u>ACTUAL</u>	VARIANCE FAVORABLE (UNFAVORABLE)
<u>REVENUES</u>			
Privilege Licenses and Fees	\$ 25,000	\$ 19,588	\$ (5,412)
Road Maintenance	230,000	234,029	4,029
Sales Tax	1,950,000	2,033,469	83,469
Gasoline Taxes	12,000	9,374	(2,626)
Court Fines and Fees	320,945	362,565	41,620
In-Lieu Taxes	225,000	229,678	4,678
School Tax Collection Fees	118,000	120,591	2,591
Lease Rentals	347,753	705,287	357,534
Building Permits and Fees	18,500	16,603	(1,897)
Miscellaneous	40,000	45,708	5,708
Cable Franchise Fees	34,729	37,388	2,659
Litter Control	20,375	17,394	(2,981)
Interest Income	60,065	57,387	(2,678)
Penalties and Interest	53,009	56,251	3,242
Park and Recreation	197,215	129,725	(67,490)
Grant Income - Police	89,619	71,726	(17,893)
Grant Income - Fire	38,900	35,610	(3,290)
Grant Income - Other	434,502	430,472	(4,030)
Total revenues	<u>4,215,612</u>	<u>4,612,845</u>	<u>397,233</u>
<u>EXPENDITURES</u>			
General Government			
Personnel Services	445,681	415,149	30,532
Supplies	46,600	41,447	5,153
Other Services and Charges	210,588	174,349	36,239
Capital Outlay	355,000	352,274	2,726
Total	<u>1,057,869</u>	<u>983,219</u>	<u>74,650</u>
Public Safety			
Personnel Services	1,557,450	1,441,233	116,217
Supplies	104,900	86,819	18,081
Other Services and Charges	277,950	249,408	28,542
Capital Outlay	194,897	18,675	176,222
Total	<u>2,135,197</u>	<u>1,796,135</u>	<u>339,062</u>
Public Works			
Personnel Services	328,300	317,246	11,054
Supplies	147,100	79,001	68,099
Other Services and Charges	223,332	213,116	10,216
Capital Outlay	235,000	172,943	62,057
Total	<u>933,732</u>	<u>782,306</u>	<u>151,426</u>

CITY OF PONTOTOC, MISSISSIPPI
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL - GENERAL FUND - Continued
For the Fiscal Year Ended September 30, 2010

	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
Cultural and Recreational			
Personnel Services	\$ 275,000	\$ 226,614	\$ 48,386
Supplies	123,344	123,329	15
Professional Services	126,645	77,926	48,719
Capital Outlay	37,500	17,074	20,426
Total	562,489	444,943	117,546
Building Inspection			
Personnel Services	106,962	106,720	242
Supplies	4,200	2,599	1,601
Other Services and Charges	4,330	2,351	1,979
Capital Outlay	500	0	500
Total	115,992	111,670	4,322
Materials Control and Mechanic			
Personnel Services	170,735	168,411	2,324
Supplies	6,100	4,322	1,778
Other Services and Charges	13,425	9,530	3,895
Capital Outlay	4,000	455	3,545
Total	194,260	182,718	11,542
Total expenditures	4,999,539	4,300,991	698,548
Excess (Deficit) revenues over (under) expenditures	(783,927)	311,854	(301,315)
<u>OTHER FINANCING SOURCES (USES)</u>			
Proceeds from Debt Issuance	350,000	350,000	0
Expenditures for Debt Service	(331,853)	(848,927)	(517,074)
Operating transfers in	1,127,410	1,275,000	147,590
Operating transfers out	0	(325,000)	325,000
Total other financing sources (uses)	1,145,557	451,073	(44,484)
Excess (Deficit) of revenues and other sources over (under) expenditures and other uses	361,630	762,927	(345,799)
Fund balances at October 1, 2009	303,480	303,480	0
Fund balances at September 30, 2010	\$ 665,110	\$ 1,066,407	\$ (345,799)
Adjustments To GAAP Basis:			
Add: Accrued revenue		66,849	
Fund Balance GAAP September 30, 2010		\$ 1,133,256	

CITY OF PONTOTOC, MISSISSIPPI
COMBINING BALANCE SHEET - ALL NON-MAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2010

	<u>Non-Major Debt Service</u>	<u>Non-Major Special Revenue</u>	<u>Total Non-Major Governmental Funds</u>
<u>ASSETS</u>			
Cash and Cash Equivalents - Restricted	\$ 269,761	\$ 550,220	\$ 819,981
Accounts Receivable	<u>0</u>	<u>23,223</u>	<u>23,223</u>
Total Assets	\$ <u>269,761</u>	\$ <u>573,443</u>	\$ <u>843,204</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
<u>Liabilities</u>			
Accounts Payable	\$ <u>0</u>	\$ <u>652</u>	\$ <u>652</u>
Total Liabilities	<u>0</u>	<u>652</u>	<u>652</u>
 <u>Fund Balances</u>			
	<u>269,761</u>	<u>572,791</u>	<u>842,552</u>
Total Liabilities and Fund Balances	\$ <u>269,761</u>	\$ <u>573,443</u>	\$ <u>843,204</u>

OTHER SUPPLEMENTAL INFORMATION

CITY OF PONTOTOC, MISSISSIPPI
SCHEDULE OF SURETY BONDS FOR TOWN OFFICIALS
September 30, 2010

<u>Name</u>	<u>Position</u>	<u>Company</u>	<u>Bond</u>
Dexter Warren	City Clerk	Old Republic Surety Company	\$50,000
Larry Poole	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 Fiaherty	Deputy City Clerk	Old Republic Surety Company	\$50,000
Karen Laprade	Deputy Tax Clerk	Old Republic Surety Company	\$50,000
Michelle Boone	Park/Rec	Old Republic Surety Company	\$50,000
Teresa Bagwell	Park/Rec	Old Republic Surety Company	\$50,000
Jim Long	Purchasing Agent	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
Al Rayburn	Park/Rec	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
Jerry Russell	Bldg Inspector	Old Republic Surety Company	\$50,000
Terry Williamson	Bldg Inspector	Old Republic Surety Company	\$50,000
Peggy Simmons	P.D. Office Clerk	Old Republic Surety Company	\$50,000
Christy Sepulvado	P.D. Office Clerk	Old Republic Surety Company	\$50,000
Jeff H. Stafford	Mayor	Old Republic Surety Company	\$50,000
Herman Austin	Alderman	Old Republic Surety Company	\$100,000
Terry Chewe	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
Jeff Griffin	Deputies	Old Republic Surety Company	\$50,000
Jimmy Farris	Deputies	Old Republic Surety Company	\$50,000
Robert Sudduth	Deputies	Old Republic Surety Company	\$50,000
Mark Baldwin	Deputies	Old Republic Surety Company	\$50,000
Dickey Montgomery	Deputies	Old Republic Surety Company	\$50,000
Early McKinney	Deputies	Old Republic Surety Company	\$50,000
Shad Long	Deputies	Old Republic Surety Company	\$50,000
Joe Didonna	Deputies	Old Republic Surety Company	\$50,000
Mike Doss	Deputies	Old Republic Surety Company	\$50,000
Greg Bedford	Deputies	Old Republic Surety Company	\$50,000
David Vandiver	Deputies	Old Republic Surety Company	\$50,000
Tim Ferguson	Deputies	Old Republic Surety Company	\$50,000
Chris Patterson	Deputies	Old Republic Surety Company	\$50,000
Mark Walker	Deputies	Old Republic Surety Company	\$50,000
Erick Pettit	Deputies	Old Republic Surety Company	\$50,000
Kevin Rodgers	Deputies	Old Republic Surety Company	\$50,000
Jason Collier	Deputies	Old Republic Surety Company	\$50,000

CITY OF PONTOTOC, MISSISSIPPI
SCHEDULE OF LONG TERM DEBT
For the Fiscal Year Ended September 30, 2010

	BALANCE	TRANSACTIONS		BALANCE
	OUTSTANDING	DURING FISCAL YEAR		OUTSTANDING
	<u>October 1, 2009</u>	<u>ISSUED</u>	<u>REDEEMED</u>	<u>September 30, 2010</u>
<u>General Obligation Bonds</u>				
Industrial Taxable Bonds	\$ 2,010,000	\$ 0	\$ 205,000	\$ 1,805,000
Industrial Bonds	345,000	0	345,000	0
<u>Revenue Bonds</u>				
Gas System Refunding Bonds	1,050,000	0	125,000	925,000
<u>Other Long Term Debt</u>				
MDA CAP Fire Truck Ladder Truck	46,540	0	16,063	30,477
MDA CAP Fire Truck	649,657	0	61,530	588,127
MDEQ Water Pollution Rev. Loan	4,872,816	0	252,588	4,620,228
MDA Capital Improvements Loan	805,355		30,835	774,520
TVA - Industrial Development	-	350,000	3,119	346,881
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL	\$ <u>9,779,368</u>	\$ <u>350,000</u>	\$ <u>1,039,135</u>	\$ <u>9,090,233</u>

OTHER REPORTS



**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**

**FRANKS,
FRANKS &
JARRELL, P.A.**

CERTIFIED PUBLIC ACCOUNTANTS

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OFFICES LOCATED IN

TUPELO, FULTON & AMORY

MEMBERS OF THE

AICPA & MSCPA

Honorable Mayor and Board of Aldermen
City of Pontotoc, Mississippi

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Pontotoc, Mississippi, as of and for the year ended September 30, 2010, which collectively comprise the City of Pontotoc, Mississippi's basic financial statements and have issued our report thereon dated January 13, 2011. 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.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Pontotoc, Mississippi's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Pontotoc, Mississippi's financial statements that is more than inconsequential will not be prevented or detected by the City of Pontotoc, Mississippi's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses as findings 1,2 and 3 to be significant deficiencies in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 2 to be a material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Pontotoc, Mississippi's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 responses as item 1.

We noted certain matters that we reported to management of the City of Pontotoc, Mississippi, in a separate letter dated January 13, 2011.

The City of Pontotoc, Mississippi's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the City of Pontotoc, Mississippi's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Board of Aldermen, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Franks, Franks & Jarrell, P.A.

Tupelo, MS
January 13, 2011



**FRANKS,
FRANKS &
JARRELL, P.A.**

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**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, 2010, and have issued our report thereon dated January 13, 2011. 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 the following material instance of noncompliance with state laws and regulations. Our finding and recommendation and your response is included in the Schedule of Findings and Responses as item 1.

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, P.A.

FRANKS, FRANKS & JARRELL, P.A.
January 13, 2011

**CITY OF PONTOTOC, MISSISSIPPI
SCHEDULE OF FINDINGS
September 30, 2010**

FINANCIAL STATEMENT FINDINGS:

FINDING NO. 1

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 did not maintain adequate internal controls over certain areas of the payroll function. The deficiencies noted were as follows: incomplete Form I-9's for several employees and employee handbook forms were not signed for several employees.

Recommendation: The City should implement adequate internal controls over all its accounting functions including payroll.

Response: The City will establish procedures to ensure the required forms are obtained and retained in the personnel files.

FINDING NO. 2

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 made large transfers of funds between the governmental and proprietary funds of the City. These transfers are not consistent and there is no prescribed cost share reimbursement plan adopted by the Board.

Recommendation: The City should limit the transfer or borrowing of funds between the various funds of the City. Any transfers or borrowing should be recorded in the general ledger and monitored and balanced so that repayment between funds can be made in the future.

Response: The City will establish controls to reconcile, substantiate and limit transfers between funds.

CITY OF PONTOTOC, MISSISSIPPI
SCHEDULE OF FINDINGS
September 30, 2010

FINDING NO. 3

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.

** Findings 1, 2 and 3 are considered Significant Deficiencies.*

** Finding 2 is considered a Material Weakness.*

** Finding 1 is considered a noncompliance finding.*