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**CITY OF SARDIS
SARDIS, MISSISSIPPI
FINANCIAL STATEMENT
YEAR ENDED SEPTEMBER 30, 2008**

CITY OF SARDIS
September 30, 2008

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Board of Aldermen
City of Sardis
Sardis, Mississippi

We have audited the accompanying combined statement of cash receipts and disbursements-all funds of the City of Sardis, Mississippi, for the year ended September 30, 2008. This financial statement is the responsibility of the management of the City of Sardis, Mississippi. Our responsibility is to express an opinion on this financial statement 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 statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. 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 opinion.

As described more fully in Note (1)C, the City of Sardis, Mississippi, prepares its financial statement using accounting practices prescribed or permitted by the State of Mississippi, which practices differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of Sardis, Mississippi, as of September 30, 2008, the changes in its financial position, or, where applicable, its cash flows for the year then ended. Further, the City of Sardis, Mississippi has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the cash and unencumbered cash balances of the City of Sardis, Mississippi, as of September 30, 2008, and the revenues it received and expenditures it paid for the year then ended, in conformity with the basis of accounting described in Note (1)C.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated September 4, 2009, on our consideration of the City of Sardis' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statement of the City of Sardis, Mississippi, taken as a whole. The schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statement of the City of Sardis, Mississippi. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly presented, in all material respects, in relation to the financial statement taken as whole.

This report is intended solely for the information and use of the audit committee, management, City Council, others within the organization, and the State of Mississippi and is not intended to be and should not be used by anyone other than these specified parties.



Williams, Pitts & Beard, PLLC
Certified Public Accountants
September 4, 2009

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CITY OF SARDIS, MISSISSIPPI
COMBINED STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS (ALL FUNDS)
FOR THE YEAR ENDED SEPTEMBER 30, 2008
WITH COMPARATIVE TOTALS FOR 2007

| | Governmental Funds | | | Proprietary Fund | Totals (Memorandum Only) | |
|----------------------------------|--------------------|-------------------|---------------------|---------------------|-----------------------------|------------------|
| | General | Trust & Agency | Capital Projects | Enterprise | 2008 | 2007 |
| | General | Trust & Agency | Capital Projects | Enterprise | 2008 | 2007 |
| REVENUE RECEIPTS | | | | | | |
| General property taxes | \$ 276,711 | \$ - | \$ - | \$ - | \$ 276,711 | \$ 276,990 |
| Penalties and interest | 5,338 | - | - | - | 5,338 | 5,192 |
| Licenses and permits | 14,810 | - | - | - | 14,810 | 12,897 |
| Franchise fees | 85,088 | - | - | - | 85,088 | 92,547 |
| Intergovernmental revenues | | | | | | |
| State shared revenues | | | | | | |
| Sales tax | 306,091 | - | - | - | 306,091 | 263,868 |
| Over 65 homestead reimbursement | 37,966 | - | - | - | 37,966 | 39,020 |
| North Panola Hospital | 18,073 | - | - | - | 18,073 | 28,389 |
| Fire protection | 19,218 | - | - | - | 19,218 | 17,311 |
| Grand gulf distribution | 17,920 | - | - | - | 17,920 | 17,620 |
| Charges for services | | | | | | |
| Garbage collection fees | 153,527 | - | - | - | 153,527 | 152,745 |
| Metered sales | - | - | - | 412,461 | 412,461 | 387,857 |
| Sewer charges | - | - | - | 209,033 | 209,033 | 200,732 |
| Special police services | 34,144 | - | - | - | 34,144 | 28,229 |
| Fines and forfeits | 106,918 | - | - | - | 106,918 | 108,625 |
| Miscellaneous | | | | | | |
| Interest | 1,300 | 588 | - | 1,759 | 3,647 | 4,252 |
| Late charges | - | - | - | 24,222 | 24,222 | 21,436 |
| Marina impact fees | 44,400 | - | - | - | 44,400 | 40,640 |
| Rent | 55,600 | - | - | - | 55,600 | 47,800 |
| Miscellaneous | 18,616 | - | - | 6,261 | 24,877 | 25,167 |
| County road and bridge tax funds | 36,413 | - | - | - | 36,413 | 36,076 |
| TOTAL REVENUE RECEIPTS | 1,232,133 | 588 | - | 653,736 | 1,886,457 | 1,807,393 |

Continued

See accompanying notes to the combined financial statement.

CITY OF SARDIS, MISSISSIPPI
COMBINED STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS (ALL FUNDS)
FOR THE YEAR ENDED SEPTEMBER 30, 2008
WITH COMPARATIVE TOTALS FOR 2007

| | Governmental Funds | | | Proprietary Fund | Totals (Memorandum Only) | |
|----------------------------------|---------------------|-------------------|---------------------|---------------------|-----------------------------|---------------------|
| | General | Trust & Agency | Capital Projects | Enterprise | 2008 | 2007 |
| OTHER RECEIPTS | | | | | | |
| Cemetery lot sales | \$ 5,500 | \$ - | \$ - | \$ - | \$ 5,500 | \$ 2,085 |
| Federal/State grants received | 107,284 | - | 36,906 | - | 144,190 | 811,704 |
| Transfers in | 32,405 | - | 98,572 | - | 130,977 | 38,513 |
| Lease proceeds | - | - | - | 29,800 | 29,800 | 49,298 |
| | <u>1,377,322</u> | <u>588</u> | <u>135,478</u> | <u>683,536</u> | <u>2,196,924</u> | <u>2,708,993</u> |
| TOTAL RECEIPTS | | | | | | |
| CASH BALANCE - BEGINNING OF YEAR | 167,046 | 21,336 | (1,111) | 182,134 | 369,405 | 342,766 |
| Prior period adjustment | - | - | 7,784 | - | 7,784 | 1,250 |
| | <u>-</u> | <u>-</u> | <u>7,784</u> | <u>-</u> | <u>7,784</u> | <u>1,250</u> |
| TOTAL AMOUNT TO ACCOUNT FOR | <u>\$ 1,544,368</u> | <u>\$ 21,924</u> | <u>\$ 142,151</u> | <u>\$ 865,670</u> | <u>\$ 2,574,113</u> | <u>\$ 3,053,009</u> |

Continued

See accompanying notes to the combined financial statement.

CITY OF SARDIS, MISSISSIPPI
COMBINED STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS (ALL FUNDS)
FOR THE YEAR ENDED SEPTEMBER 30, 2008
WITH COMPARATIVE TOTALS FOR 2007

| | Governmental Funds | | | Proprietary Fund | Totals (Memorandum Only) | |
|--------------------------------------|---------------------|-------------------|---------------------|---------------------|-----------------------------|---------------------|
| | General | Trust & Agency | Capital Projects | Enterprise | 2008 | 2007 |
| OPERATING DISBURSEMENTS | | | | | | |
| General government | \$ 244,421 | \$ - | \$ - | \$ - | \$ 244,421 | \$ 244,643 |
| Public safety | 655,159 | - | - | - | 655,159 | 598,159 |
| Streets | 115,700 | - | - | - | 115,700 | 106,255 |
| Waste | 69,322 | - | - | - | 69,322 | 60,907 |
| Culture and recreation | 20,095 | - | - | - | 20,095 | 23,044 |
| Cemetery | 18,044 | - | - | - | 18,044 | 18,044 |
| Debt service | 171,621 | - | - | 118,093 | 289,714 | 317,307 |
| Enterprises | - | - | - | 510,812 | 510,812 | 445,761 |
| Other | | | | | | |
| Professional services | - | - | 8,500 | - | 8,500 | 51,038 |
| Construction - various grants/loans | - | - | 94,473 | - | 94,473 | 779,933 |
| TOTAL OPERATING DISBURSEMENTS | 1,294,362 | - | 102,973 | 628,905 | 2,026,240 | 2,645,091 |
| OTHER DISBURSEMENTS | | | | | | |
| Transfers out | 98,572 | - | 32,405 | - | 130,977 | 38,513 |
| TOTAL DISBURSEMENTS | 1,392,934 | - | 135,378 | 628,905 | 2,157,217 | 2,683,604 |
| CASH BALANCE - END OF YEAR | 151,434 | 21,924 | 6,773 | 236,765 | 416,896 | 369,405 |
| TOTAL AMOUNT ACCOUNTED FOR | \$ 1,544,368 | \$ 21,924 | \$ 142,151 | \$ 865,670 | \$ 2,574,113 | \$ 3,053,009 |
| | | | | | | Concluded |

See accompanying notes to the combined financial statement.

**CITY OF SARDIS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENT
YEAR ENDED SEPTEMBER 30, 2008**

(1) Summary of Significant Accounting Policies

The City of Sardis, Mississippi (the City) was incorporated March 31, 1876. The City operates under a Board of Aldermen-Mayor form of government and provides the following services: public safety (police and fire protection), streets, sanitation, culture, recreation, public improvements, planning and zoning, and general administrative services.

The financial statement of the City has been prepared in conformity with the cash receipts and disbursements basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (OCBOA). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City's most significant accounting policies are described below.

A. Reporting Entity

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in generally accepted accounting principles. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of the governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Based upon this criterion, there are no component units that should be included in the City's reporting entity.

B. Fund Accounting

The City uses funds and account groups to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate "fund types."

**CITY OF SARDIS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENT
YEAR ENDED SEPTEMBER 30, 2008**

B. Fund Accounting (Continued)

Governmental funds are used to account for all or most of a government's general activities including the collection and disbursement of earmarked monies (special revenue funds), the acquisition or construction of general fixed assets (capital projects funds), and the servicing of general long-term debt (debt service funds). The general fund is used to account for all activities of the general government which are not required legally, or by sound financial management, to be accounted for in another fund.

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration.

Trust and agency funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, other government and/or other funds. These include the Expendable Trust and Agency Funds. Expendable Trusts are accounted for in essentially the same manner as government funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of operations.

The City applies all Governmental Accounting Standards Board (GASB) pronouncements as well as the Financial Accounting Standards Board pronouncements unless those pronouncements conflict with or contradict GASB pronouncements.

C. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. Basis of accounting refers to the timing of the measurements made regardless of the measurement focus applied.

The financial statement is prepared on a cash receipts and disbursements basis, as prescribed by the Mississippi State Department of Audit. Consequently, certain revenues are recognized when received rather than when earned and certain expenses are recognized when paid rather than when the obligation is incurred.

D. Budgets and Budgetary Accounting

The City follows these procedures in establishing its budgetary data:

1. Prior to the August Board Meeting, the City Clerk submits to the Mayor a proposed operating budget for the fiscal year commencing the following October 1st. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted at City Hall.
3. The budget is legally enacted at the September Board Meeting. Budgets for the General Funds are adopted using the other comprehensive basis of accounting. See note C above for explanation.

**CITY OF SARDIS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENT
YEAR ENDED SEPTEMBER 30, 2008**

4. The City Clerk is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Aldermen-Mayor.

E. Fixed Assets

Fixed asset purchases are recorded as expenditures at the time of acquisition. Such assets are not capitalized but instead are fully expensed in the year of purchase. Consequently, depreciation has not been provided on fixed assets.

F. Investments

Investments are stated at cost. A schedule of investments is included on page 15.

G. Total Columns on Combined Statements

The "Total" columns on the Combined Statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

H. Defined Benefit Pension Plan

The City contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing, multi-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 Employees' Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling 1-800-444-PERS.

PERS members are required to contribute 7.25% of their annual covered salary and the City is required to contribute at an actuarially determined rate. The rate at September 30, 2008 was 11.85% 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's contribution (employer share only) to PERS for the year ended September 30, 2008, 2007, and 2006 were \$75,310, \$69,654, and \$65,152 respectively, equal to the required contributions for each year.

**CITY OF SARDIS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENT
YEAR ENDED SEPTEMBER 30, 2008**

(2) Property Tax

Property taxes attach as an enforceable lien on property as of January 1. The City bills and collects its own real and personal property taxes. The Panola County Tax Collector collects taxes on automobiles and mobile homes.

Ad valorem tax collections were within the limitations of Sections 27-39-320 through 27-39-323, Mississippi Code, 1972, Annotated, as follows:

Limitation:

| | |
|--|------------|
| Base year 2007 (general operations portion only) | \$ 341,725 |
| 10% increase | 34,173 |
| Exempt collections | 3,241 |
| | \$ 379,139 |

Actual collections:

| | |
|-----------------------------------|------------|
| For year ending 9/30/08 | \$ 270,740 |
| Homestead exemption reimbursement | 37,966 |
| Under (Over) limitation | 70,433 |
| | \$ 379,139 |

Ad valorem tax collections for retirement of general fund long-term debt were sufficient for payment of current principal and interest in accordance with limitations imposed by Sections 21-33-87 and 21-33-303, Mississippi Code, 1972, Annotated.

**CITY OF SARDIS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENT
YEAR ENDED SEPTEMBER 30, 2008**

(3) Schedule of Long-Term Debt

A schedule of long-term debt is included on pages 10-12.

Bonds payable at September 30, 2008 were comprised of the following individual issues:

A. Revenue Bonds

The \$1,378,400 Combined Water and Sewer System revenue bonds dated 1992, due annually with interest at 5.0%, payable through 2026, had an outstanding balance at September 30, 2008 of \$999,388.

The annual principal and interest requirements to amortize the bond outstanding as of September 30, 2008, are as follows:

| Year Ending September 30 | Principal | Interest |
|-----------------------------|-------------------|-------------------|
| 2009 | \$ 35,872 | \$ 50,278 |
| 2010 | 37,682 | 48,468 |
| 2011 | 40,485 | 45,665 |
| 2012 | 42,557 | 43,593 |
| 2013 | 44,734 | 41,416 |
| 2014-2018 | 260,433 | 170,317 |
| 2019-2023 | 334,229 | 96,521 |
| 2024-2026 | 203,396 | 14,300 |
| Total | \$ 999,388 | \$ 510,558 |

**CITY OF SARDIS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENT
YEAR ENDED SEPTEMBER 30, 2008**

(3) Schedule of Long-Term Debt (Continued)

B. Loans

| Description | Interest Rate | Maturity Date | Issued | Amount Outstanding |
|---|------------------|------------------|---------------------|-----------------------|
| Governmental | | | | |
| MS Development Authority | 4.00% | 6/1/2014 | \$ 750,000 | \$ 334,528 |
| MS Development Authority | 3.00% | 10/1/2023 | 292,835 | 234,966 |
| Total governmental | | | <u>1,042,835</u> | <u>569,494</u> |
| Business-type | | | | |
| MS Dept. of Environmental Quality SRF Loan | 3.33% | 3/1/2012 | 257,070 | 61,184 |
| Total business-type | | | <u>257,070</u> | <u>61,184</u> |
| Total | | | <u>\$ 1,299,905</u> | <u>\$ 630,678</u> |

The annual principal and interest requirements to amortize all loans outstanding as of September 30, 2008, are as follows:

| Year Ending September 30 | Governmental | | Business-type | |
|-----------------------------|-------------------|-------------------|------------------|-----------------|
| | Principal | Interest | Principal | Interest |
| 2009 | \$ 65,356 | \$ 20,678 | \$ 16,618 | \$ 2,145 |
| 2010 | 67,846 | 18,188 | 17,295 | 1,468 |
| 2011 | 71,676 | 14,358 | 17,999 | 763 |
| 2012 | 74,458 | 11,575 | 9,272 | 109 |
| 2013 | 77,350 | 8,684 | - | - |
| 2014-2018 | 121,917 | 20,663 | - | - |
| 2019-2023 | 90,144 | 7,274 | - | - |
| 2024-2027 | 747 | 4 | - | - |
| Total | <u>\$ 569,494</u> | <u>\$ 101,424</u> | <u>\$ 61,184</u> | <u>\$ 4,485</u> |

**CITY OF SARDIS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENT
YEAR ENDED SEPTEMBER 30, 2008**

(3) Schedule of Long-Term Debt (Continued)

C. Capital Leases

Principal and interest payments on the capital leases are due as follows:

| Year Ending Septmeber 30 | Governmental | | Business-type | |
|-----------------------------|-------------------|-----------------|------------------|-----------------|
| | Principal | Interest | Principal | Interest |
| 2009 | \$ 65,961 | \$ 5,967 | \$ 16,712 | \$ 1,168 |
| 2010 | 68,716 | 3,212 | 9,861 | 651 |
| 2011 | 40,244 | 716 | 7,714 | 344 |
| 2012 | - | - | 4,639 | 60 |
| Total | <u>\$ 174,921</u> | <u>\$ 9,895</u> | <u>\$ 38,926</u> | <u>\$ 2,223</u> |

D. Long-term activity for the year ended September 30, 2008 was as follows:

| Definition & Purpose | Balance | Transactions During Year | | Adjustment | Balance | |
|---------------------------------|--|--------------------------|------------------|-------------------|-------------------------------|---------------------|
| | Outstanding October 1,2007 | Issued | Redeemed | | Outstanding Sept. 30, 2008 | |
| Revenue bonds | 1992 Combined Water and Sewer System Bonds | \$ 1,036,443 | \$ - | 37,055 | \$ - | \$ 999,388 |
| Other long-term debt | SRF Loan | 77,151 | - | 15,967 | - | 61,184 |
| | MS Devel. Auth | 388,609 | - | 54,081 | - | 334,528 |
| | Trustmark LOC | 25,000 | - | 25,000 | - | - |
| | MS Devel. Auth | 247,222 | - | 12,256 | - | 234,966 |
| | Capital Leases | <u>259,528</u> | <u>29,800</u> | <u>75,481</u> | <u>-</u> | <u>213,847</u> |
| Subtotal | | 2,033,953 | 29,800 | 219,840 | - | 1,843,913 |
| Less uncommitted portion of LOC | | (11,188) | - | (11,188) | - | - |
| Total | | <u>\$ 2,022,765</u> | <u>\$ 29,800</u> | <u>\$ 208,652</u> | <u>\$ -</u> | <u>\$ 1,843,913</u> |

**CITY OF SARDIS, MISSISSIPPI
NOTES TO FINANCIAL STATEMENT
YEAR ENDED SEPTEMBER 30, 2008**

(4) Cash and Investments

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

Custodial credit risk is defined as the risk that, in the event of a bank failure, the City's deposits might not be recovered. As of September 30, 2008, the carrying amount of the City's deposits was \$416,896 and the bank balance totaled \$476,431. Of the bank balances, \$100,000 is insured by federal deposit insurance and \$282,224 was covered by pooled and/or pledged collateral. At year end, \$94,206 of the City's bank balances was exposed to custodial credit risk because it was uninsured and uncollateralized with the State Treasurer of the State of Mississippi.

(5) Subsequent Events

In June 2009, the City Clerk submitted her formal resignation to the Mayor and Board of Alderman. Considering questions arising at that time, the City elected to have the State of Mississippi's Investigative Division conduct a formal investigation. As of the date of the Auditor's report, that investigation has not been concluded.

(6) Prior Period Adjustments

A summary of significant fund equity adjustments is as follows:

Combined Statement of Cash Receipts and Disbursements:

| <u>Explanation</u> | <u>Amount</u> |
|---|---------------|
| Addition to Capital Projects – adjustment to correct prior year miscode | \$ 7,784 |

SUPPLEMENTARY INFORMATION

**CITY OF SARDIS, MISSISSIPPI
SCHEDULE OF INVESTMENTS
SEPTEMBER 30, 2008**

| | |
|--|-------------------------|
| Governmental fund | |
| General fund (certificates of deposit) | \$ 10,138 |
| Business-type | |
| Water and sewer (certificate of deposit) | <u>89,223</u> |
| Total | <u><u>\$ 99,361</u></u> |

See accompanying notes to the combined financial statement.

**CITY OF SARDIS, MISSISSIPPI
SCHEDULE OF SURETY BONDS OF MUNICIPAL OFFICIALS
SEPTEMBER 30, 2008**

| <u>Name</u> | <u>Position</u> | <u>Surety</u> | <u>Amount</u> |
|--------------------------|----------------------|---------------|---------------|
| Alvis Dye/Odessa Johnson | Mayor/City Clerk-FHA | St. Paul | \$ 174,000 |
| Odessa Johnson | City Clerk | St. Paul | 50,000 |
| Odessa Johnson | Tax Collector | St. Paul | 50,000 |
| John Still | Chief of Police | St. Paul | 50,000 |
| Alvis Dye | Mayor | St. Paul | 25,000 |
| Aldermen (each) | Board of Aldermen | St. Paul | 25,000 |
| Policeman (each) | Public Safety | St. Paul | 25,000 |
| Jeanne Beard | Deputy City Clerk | St. Paul | 10,000 |
| Donna Kay Goforth | Deputy City Clerk | St. Paul | 10,000 |
| Emily Appleton | Deputy City Clerk | St. Paul | 10,000 |

See accompanying notes to the combined financial statement.

SPECIAL REPORTS



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

Mayor and Board of Aldermen
City of Sardis
Sardis, Mississippi

We have audited the combined statement of cash receipts and disbursements of the City of Sardis, Mississippi, as of and for the year ended September 30, 2008, and have issued our report thereon dated September 4, 2009. 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 City of Sardis, Mississippi's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the general financial statement, but not for the purpose of expressing an opinion on the effectiveness of the City of Sardis, Mississippi's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Sardis, Mississippi's internal control over financial reporting.

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 Sardis, 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 Sardis, Mississippi's financial statements that is more than inconsequential will not be prevented or detected by the City of Sardis, Mississippi's internal control. We consider the deficiencies in the accompanying Schedule of Findings and Responses as findings 08-1, 08-2, and 08-3 to be significant deficiencies in internal control.

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 Sardis, 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 internal control that might be significant deficiencies or material weaknesses. However, of the significant deficiencies described above, we consider finding 08-1 and 08-2 to be material weaknesses.

Continued...
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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Sardis, Mississippi's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of non-compliance or other matter that we have reported to management of the City in a separate letter dated September 4, 2009 which is included in this report.

This report is intended solely for the information and use of management, and the Mississippi State Department of Audit 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.

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC
Certified Public Accountants
September 4, 2009



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Mayor and Board of Aldermen
City of Sardis
Sardis, Mississippi

We have audited the combined statement of cash receipts and disbursements of the City of Sardis, Mississippi for the year ended September 30, 2008 and have issued our report dated September 4, 2009. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained 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 certain 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 financial statements disclosed the following material instances of noncompliance with state laws and regulations. Our findings and recommendations and your responses are as follows:

Finding: Municipal Compliance Questionnaire

Condition: As required by the Municipal Auditing and Accounting Guide, the City did not submit their Municipal Compliance Questionnaire to the State of Mississippi.

Cause: The City Clerk simply did not take the time to fill out the required form.

Effect: The City has not in compliance with state regulations.

Recommendation: The City should be completing this questionnaire in a timely fashion and submit it to the State.

Response: We have addressed this issue, corrected some areas, and our staff is working diligently to bring the remaining issues current.

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 the City's management and the Office of 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.

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC

Certified Public Accountants

September 4, 2009

SCHEDULE OF FINDINGS AND RESPONSES

**CITY OF SARDIS, MISSISSIPPI
SCHEDULE OF FINDINGS AND RESPONSES
SEPTEMBER 30, 2008**

Section 1: Summary of Auditors' Results

(1) Type of auditor's report issued on the financial statements:

Unqualified

(2) Internal Control over financial reporting:

(a) Material weakness (es) identified?

Yes

(b) Significant deficiency (ies) identified that are not considered to be material weaknesses?

Yes

(3) Noncompliance material to the financial statements:

No

Section 2: Financial Statement Findings

Material Weaknesses

08-1 Reconciliation of Cash

Condition: The City was not reconciling their bank statements to the general ledger as well as delaying deposits for several days.

Criteria: Part of effective internal controls over financial reporting is the ability to reconcile bank accounts to their corresponding general ledger activity, as well as timely recording of activity.

Cause: Before beginning our audit, we became aware that the City had not reconciled the general ledger to the bank statements for several months during our engaged audit year. We also became aware that the City has not been making deposits on a daily basis.

Effect: Upon our review, we discovered several material transactions that were not recorded in the general ledger.

Recommendation: We recommend that all bank accounts be reconciled each month and reviewed for accuracy and completeness on a timely basis by management. It is also strongly recommended that the City make deposits to the bank on a daily basis.

Response: We have addressed this issue, corrected some areas, and our staff is working diligently to bring the remaining issues current.

08-2 Reduction of Required Bond Bank Accounts

Condition: The City removed the majority of funds from three bank accounts that are required under their bond covenants.

Criteria: Part of the 1992 Sewer Bond covenants required that the City maintain three bank accounts with a certain dollar threshold in them as a reserve.

Cause: The City saw this money as a potential grant match, and consequently broke the covenants of the bond agreement.

Effect: The City must close the grant matching account and reestablish the required bank accounts or repay the outstanding principal on the bond.

Recommendation: We recommend that all of these required bank accounts be reimbursed for the required bond covenant amounts.

Response: We have addressed this issue, corrected some areas, and our staff is working diligently to bring the remaining issues current.

Significant Deficiencies

08-3 Inadequate Collateralization of Bank Deposits

Condition: *Section 27-105-5, Miss Code Ann (1972)* requires a public depositor shall notify the State Treasurer of its official name, address, federal tax identification number, and provide a listing of all accounts that it had with qualified public depositories, including the deposit balance in those accounts, as of its fiscal year end. As of September 30, 2008, \$94,206 of the City's \$476,431 bank balance was not reported to the State Treasurer, thus exposing the funds to custodial risk.

Cause: Due to the opening of a certificate of deposit in order to receive a grant match, the City did not report this account to the State of Mississippi.

Effect: By not reporting this particular account, the City's funds were not adequately collateralized.

Recommendation: The City should review the Collateral Sufficiency Report provided by the State Treasurer's office to ensure accuracy of the accounts listed.

Response: We have addressed this issue, corrected some areas, and our staff is working diligently to bring the remaining issues current.