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**CITY OF SARDIS, MISSISSIPPI**

**Audited Financial Statements  
For the Year Ended September 30, 2009**

**CITY OF SARDIS, MISSISSIPPI**  
**For the Year Ended September 30, 2009**

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WILLIAMS • PITTS • BEARD, PLLC  
CERTIFIED PUBLIC ACCOUNTANTS

Danny L. Williams  
Jerry W. Pitts  
Rebecca A. Beard  
Kristopher A. Whitten

2042 McIngvale Road  
Hernando, MS 38632  
(662) 429-4436  
(901) 342-1417  
FAX: (662) 429-4438

## INDEPENDENT AUDITORS' REPORT

To the Mayor and Board of Aldermen  
City of Sardis  
Sardis, Mississippi

We have audited the accompanying statement of cash receipts and disbursements-all funds of the City of Sardis, Mississippi, for the year ended September 30, 2009. 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)D, 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, 2009, 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, 2009, 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)D.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated August 18, 2010, 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 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

August 18, 2010

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**CITY OF SARDIS, MISSISSIPPI**  
**Statement of Cash Receipts and Disbursements**  
**For the Year Ended September 30, 2009**  
**With Comparative Totals For 2008**

	Governmental Activities		Business-type	Fiduciary	
	Capital		Activities	Fund	
	General	Projects	Enterprise	Trust	
<b>REVENUE RECEIPTS</b>					
General property taxes	\$ 281,016	\$ -	\$ -	\$ -	\$ -
Penalties and interest	6,986	-	-	-	-
Licenses and permits	9,975	-	-	-	-
Franchise fees	100,887	-	-	-	-
Intergovernmental revenues					
State shared revenues					
Sales tax	319,993	-	-	-	-
Over 65 homestead reimbursement	38,179	-	-	-	-
North Panola Hospital	-	-	-	-	-
Fire protection	18,527	-	-	-	-
Grand gulf distribution	17,558	-	-	-	-
Charges for services					
Garbage collection fees	152,033	-	-	-	-
Metered sales	-	-	435,594	-	-
Sewer charges	-	-	218,795	-	-
Special police services	49,144	-	-	-	-
Fines and forfeits	91,062	-	-	-	-
Miscellaneous					
Interest	455	-	3,222	423	-
Late charges	-	-	21,575	-	-
Marina impact fees	20,680	-	-	-	-
Rent	60,652	-	-	-	-
Miscellaneous	31,552	-	-	-	-
County road and bridge tax funds	29,494	-	-	-	-
<b>TOTAL REVENUE RECEIPTS</b>	<b>1,228,193</b>	<b>-</b>	<b>679,186</b>	<b>423</b>	<b>-</b>

The accompanying notes are an integral part of the financial statements.

**CITY OF SARDIS, MISSISSIPPI**  
**Statement of Cash Receipts and Disbursements**  
**For the Year Ended September 30, 2009**  
**With Comparative Totals For 2008**

	<u>Governmental Activities</u>		<u>Business-type</u>	<u>Fiduciary</u>
	<u>Capital</u>		<u>Activities</u>	<u>Fund</u>
	<u>General</u>	<u>Projects</u>	<u>Enterprise</u>	<u>Trust</u>
<b>OTHER RECEIPTS</b>				
Cemetery lot sales	\$ 4,300	\$ -	\$ -	\$ -
Federal/State grants received	128,017	9,794	197,548	-
Transfers in	8,330	1,137	1,564	-
Insurance proceeds	11,871			
Lease proceeds	-	-	-	-
<b>TOTAL RECEIPTS</b>	<b>1,380,711</b>	<b>10,931</b>	<b>878,298</b>	<b>423</b>
<b>CASH AND INVESTMENTS - BEGINNING OF YEAR</b>	<b>151,434</b>	<b>6,773</b>	<b>236,765</b>	<b>21,924</b>
Prior period adjustment	-	-	-	-
<b>TOTAL AMOUNT TO ACCOUNT FOR</b>	<b><u>\$ 1,532,145</u></b>	<b><u>\$ 17,704</u></b>	<b><u>\$ 1,115,063</u></b>	<b><u>\$ 22,347</u></b>

The accompanying notes are an integral part of the financial statements.

**CITY OF SARDIS, MISSISSIPPI**  
**Statement of Cash Receipts and Disbursements**  
**For the Year Ended September 30, 2009**  
**With Comparative Totals For 2008**

	<u>Governmental Activities</u>		<u>Business-type</u>	<u>Fiduciary</u>	
	<u>General</u>	<u>Capital Projects</u>	<u>Activities</u>	<u>Fund</u>	
			<u>Enterprise</u>	<u>Trust</u>	
<b>OPERATING DISBURSEMENTS</b>					
General government	\$ 414,282	\$ -	\$ -	\$ -	\$ -
Public safety	571,185	-	-	-	-
Streets	113,211	-	-	-	-
Waste	66,134	-	-	-	-
Culture and recreation	24,931	-	-	-	-
Cemetery	-	-	-	-	-
Debt service	170,232	-	122,793	-	-
Enterprises	-	-	531,367	-	-
Other	3,010	-	-	-	-
Professional services	-	4,840	-	-	-
Construction - various grants/loans	-	1,137	197,548	-	-
<b>TOTAL OPERATING DISBURSEMENTS</b>	<b>1,362,985</b>	<b>5,977</b>	<b>851,708</b>	<b>-</b>	<b>-</b>
<b>OTHER DISBURSEMENTS</b>					
Transfers out	1,137	9,894	-	-	-
<b>TOTAL DISBURSEMENTS</b>	<b>1,364,122</b>	<b>15,871</b>	<b>851,708</b>	<b>-</b>	<b>-</b>
<b>CASH AND INVESTMENTS - END OF YEAR</b>	<b>168,023</b>	<b>1,833</b>	<b>263,355</b>	<b>22,347</b>	<b>-</b>
<b>TOTAL AMOUNT ACCOUNTED FOR</b>	<b>\$ 1,532,145</b>	<b>\$ 17,704</b>	<b>\$ 1,115,063</b>	<b>\$ 22,347</b>	<b>\$ -</b>

The accompanying notes are an integral part of the financial statements.

**CITY OF SARDIS, MISSISSIPPI**  
**Notes to Financial Statements**  
**For the Year Ended September 30, 2009**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. General Statement

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.

B. Financial Reporting Entity

These financial statements present all the accounts of the City. There are no component units as defined by GASB Statement 14.

C. Basis of Presentation

Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

*Fund Financial Statements*

The City segregated transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities.

Governmental Fund Types

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The City has presented the following governmental funds:

General Fund:

General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in the fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Capital Projects Fund:

This fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities. Such resources are derived principally from proceeds of general obligation bond issues and federal grants.

Proprietary Fund Types

All proprietary funds are usually accounted for using the economic resources measurement focus and the accrual basis of accounting. However, this statement was prepared using the cash basis of accounting as prescribed by the Mississippi Office of the State Auditor. FASB pronouncements issued subsequent to November 30, 1989 that conflict with GASB pronouncements have not been followed, as permitted under GASB No. 20, Accounting and Financial Reporting for Proprietary Funds and other Governmental Entities that use Proprietary Fund Accounting. The City has presented the following proprietary fund:

**CITY OF SARDIS, MISSISSIPPI**  
**Notes to Financial Statements**  
**For the Year Ended September 30, 2009**

**Water Fund:**

Water fund is used to account for the provision of water and sewer services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water and sewer system and billing and collections activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water and sewer debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the fund.

Proprietary funds distinguish operating revenues and expenses from non-operating 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. Operating expenses for the proprietary fund includes the cost of personal and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Fiduciary Fund Types

**Private-purpose Trust Fund:**

This fund is used to report all trust arrangements, other than those properly reported elsewhere, under which the principal and income benefit individuals, private organizations or other governments.

**D. Measurement Focus/Basis of Accounting**

Measurement focus refers to what is being measured; 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 relates 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. This 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.

**E. Budgets and Budgetary Accounting**

The City follows these procedures in establishing its budgetary data:

The City Charter establishes the fiscal year as the twelve-month period beginning October 1. The departments submit to the City Clerk a budget of estimated expenditures for the ensuing fiscal year after which the City Clerk submits a budget of estimated expenditure and revenues to the Mayor and Board of Aldermen by August 1.

Upon receipt of the budget estimates, the Board of Aldermen holds a public hearing on the proposed budget. Information about the Budget Ordinance is then published in the official newspaper of the City.

At the September board meeting, the budget is legally enacted through passage of ordinance. 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.

**CITY OF SARDIS, MISSISSIPPI**  
**Notes to Financial Statements**  
**For the Year Ended September 30, 2009**

The actual receipts and disbursements are accumulated each month and compared to the budgeted amounts and reviewed by the Mayor and Board of Aldermen. Any revisions on the budget during the year are approved by the Board of Aldermen.

F. Cash and Investments

For the purpose of the financial statement, "cash" includes all demand, savings accounts, and certificates of deposits (investments) of the City.

Investments are stated at cost. A schedule of investments is included on page 13.

Business-type cash is required to be held and/or used as specified in bond indentures, bond resolutions, trustee agreements, board resolutions, and donor specifications have been reported as restricted cash. When both restricted and non-restricted cash are available for use, the policy is to use restricted cash first.

G. Capital Assets

Capital 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.

H. Total Columns on Statements

The "Total" columns on the 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.

I. Property Tax Revenues

Restrictions associated with property tax levies vary with the statutory authority. The amount of increase in certain property taxes is limited by state law. Generally, this restriction provides that these tax levies shall produce no more the 110% of the amount which resulted from the assessments of the previous year.

The Board of Alderman, each year at a meeting in September, levies property taxes for the ensuing fiscal year which begins on October 1. Real property taxes become a lien on January 1 of the current year, and personal property taxes become a lien on March 1 of the current year. Taxes on both real and personal property, however, are due on or before February 1 of the next succeeding year. Taxes on motor vehicles and mobile homes become a lien are due in the month that coincides with the month of the original purchase.

Accounting principles generally accepted in the United States of America require property taxes to be recognized at the levy date when measurable and available; however, under cash basis they are recognized when received.

**CITY OF SARDIS, MISSISSIPPI**  
**Notes to Financial Statements**  
**For the Year Ended September 30, 2009**

**NOTE 2 - 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 Deposit Insurance Corporation (FDIC).

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, 2009, the City's bank balance was not exposed to custodial credit risk.

As of September 30, 2009, the carrying amount of the City's deposits was \$455,558 and the bank balance totaled \$488,902. Of the bank balances, \$460,711 was insured by FDIC and \$28,191 was covered by pooled and/or pledged collateral. Of the \$455,558 in cash and investments, \$87,803 was restricted.

**NOTE 3 - 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 2008 (general operations portion only)	\$ 320,015	
10% increase	32,002	
	\$ 352,017	

Actual collections:

For year ending 9/30/09	\$ 272,352	
Homestead exemption reimbursement	38,179	
Under (Over) limitation	41,486	
	\$ 352,017	

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 Statements**  
**For the Year Ended September 30, 2009**

**NOTE 4 - OPERATING LEASES**

As Lessor:

The City leases property to a private company under a five year contract ending December 2010, which does not give rise to property rights for the lessee at the end of the lease term. The total amount received for this lease was \$60,000 for the year ended September 30, 2009. The future minimum lease payments to be received are \$60,000 for the year ending September 30, 2010 and \$15,000 for the year ending September 30, 2011 for a total of \$75,000.

**NOTE 5 - SCHEDULE OF LONG-TERM DEBT**

Long-term activity for the year ended September 30, 2009 was as follows:

	Balance at 9/30/2008	Transactions During Year		Adjustment	Balance at 9/30/2009
		Issued	Redeemed		
Governmental activities:					
MS development authority	\$ 334,529	\$ -	\$ 53,933	\$ -	\$ 280,596
MS development authority	234,966	-	12,523	-	222,443
Capital leases	174,921	-	64,378	11,871	98,672
Governmental activities long-term liabilities	<u>\$ 744,416</u>	<u>\$ -</u>	<u>\$ 130,834</u>	<u>\$ 11,871</u>	<u>\$ 601,711</u>
Business-type activities:					
1992 Combined water and sewer system bonds	\$ 999,388	\$ -	\$ 37,027	\$ -	\$ 962,361
SRF loan	61,184	-	16,618	-	44,566
Capital leases	38,926	-	17,320	-	21,606
Business-type activities long-term liabilities	<u>\$ 1,099,498</u>	<u>\$ -</u>	<u>\$ 70,965</u>	<u>\$ 23,742</u>	<u>\$ 1,028,533</u>

The adjustment to capital leases of \$11,871 is for the payoff by the insurance company of the remaining principal balance on a wrecked vehicle.

Revenue Bonds. The City also issues revenue bonds where the City pledges income derived from the acquired or constructed assets to pay debt service. 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, 2009 of \$962,361.

**CITY OF SARDIS, MISSISSIPPI**  
**Notes to Financial Statements**  
**For the Year Ended September 30, 2009**

The annual principal and interest requirements to amortize the bond outstanding as of September 30, 2009, are as follows:

Year Ending September 30	Business-type Activities	
	Principal	Interest
2010	\$ 37,682	\$ 48,468
2011	40,485	45,665
2012	42,557	43,593
2013	44,734	41,416
2014	47,023	39,127
2015-2018	213,410	131,190
2019-2023	334,229	96,521
2024-2026	202,241	14,300
<b>Total</b>	<b>\$ 962,361</b>	<b>\$ 460,280</b>

Loans. The City also uses loans to finance its projects. Loans outstanding as of September 30, 2009 are as follows:

Description	Interest Rate	Maturity Date	Issued	Amount Outstanding
<b>Governmental</b>				
MS Development Authority	4.00%	6/1/2014	\$ 750,000	\$ 280,596
MS Development Authority	3.00%	10/1/2023	292,835	222,443
Total governmental			1,042,835	503,039
<b>Business-type</b>				
MS Dept. of Environmental Quality SRF Loan	3.33%	3/1/2012	257,070	44,566
Total business-type			257,070	44,566
<b>Total</b>			<b>\$ 1,299,905</b>	<b>\$ 547,605</b>

**CITY OF SARDIS, MISSISSIPPI**  
**Notes to Financial Statements**  
**For the Year Ended September 30, 2009**

The annual principal and interest requirements to amortize all loans outstanding as of September 30, 2009, are as follows:

Year Ending September 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
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	57,931	5,726	-	-
2015-2018	62,998	14,937	-	-
2019-2023	90,144	7,274	-	-
2024-2027	636	4	-	-
Total	<u>\$ 503,039</u>	<u>\$ 80,746</u>	<u>\$ 44,566</u>	<u>\$ 2,340</u>

Capital Leases. Future minimum lease payments and the net present value of these minimum lease payments as of September 30, 2009 are as follows

Year Ending September 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2010	\$ 59,886	\$ 2,879	\$ 9,861	\$ 651
2011	36,648	771	7,713	344
2012	2,138	24	4,032	60
Total	<u>\$ 98,672</u>	<u>\$ 3,674</u>	<u>\$ 21,606</u>	<u>\$ 1,055</u>

**NOTE 6 - 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, 2009 was 12.0% 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, 2009, 2008, and 2007 were \$76,684, \$75,310, and \$69,654 respectively, equal to the required contributions for each year.

**NOTE 7 - SUBSEQUENT EVENTS**

Management has evaluated subsequent events through August 18, 2010, which is the date the financial statements were available to be issued.

**SUPPLEMENTARY INFORMATION**

**CITY OF SARDIS, MISSISSIPPI**  
**Schedule of Investments**  
**September 30, 2009**

Fiduciary fund	
Agency (certificates of deposit)	<u>\$    10,138</u>
Total	<u><u>\$    10,138</u></u>

The accompanying notes are an integral part of the financial statements.

**CITY OF SARDIS, MISSISSIPPI**  
**Schedule of Surety Bonds of Municipal Officials**  
**September 30, 2009**

<u>Name</u>	<u>Position</u>	<u>Surety</u>	<u>Amount</u>
Alvis Dye	Mayor	Travelers	\$ 50,000
Mary McDowell	City Clerk	Travelers	50,000
Mary McDowell	Tax Collector	Travelers	50,000
City of Sardis	Rural Development	Travelers	174,000
Aldermen (each)	Board of Aldermen	Travelers	50,000
Policeman (each)	Public Safety	RLI Surety	50,000
Jeanne Beard	Deputy City Clerk	Travelers	50,000
Donna Kay Goforth	Deputy City Clerk	Travelers	50,000
Emily Appleton	Court Clerk	Travelers	50,000

The accompanying notes are an integral part of the financial statements.

## **SPECIAL REPORTS**



WILLIAMS • PITTS • BEARD, PLLC  
CERTIFIED PUBLIC ACCOUNTANTS

Danny L. Williams  
Jerry W. Pitts  
Rebecca A. Beard  
Kristopher A. Whitten

2042 McIngvale Road  
Hernando, MS 38632  
(662) 429-4436  
(901) 342-1417  
FAX: (662) 429-4438

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

Mayor and Board of Aldermen  
City of Sardis  
Sardis, Mississippi

We have audited the statement of cash receipts and disbursements of the City of Sardis, Mississippi, as of and for the year ended September 30, 2009, and have issued our report thereon dated August 18, 2010. 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 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.

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 the 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 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 09-1, 09-2 and 09-3 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 statement 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 09-1, 09-2 and 09-3 to be material weaknesses.

Continued...  
Page 2

### 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*.

The City of Sardis, Mississippi's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Alderman, others within the entity, 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  
August 18, 2010



WILLIAMS • PITTS • BEARD, PLLC  
CERTIFIED PUBLIC ACCOUNTANTS

Danny L. Williams  
Jerry W. Pitts  
Rebecca A. Beard  
Kristopher A. Whitten

2042 McIngvale Road  
Hernando, MS 38632  
(662) 429-4436  
(901) 342-1417  
FAX: (662) 429-4438

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

Mayor and Board of Aldermen  
City of Sardis  
Sardis, Mississippi

We have audited the statement of cash receipts and disbursements of the City of Sardis, Mississippi as of and for the year ended September 30, 2009 and have issued our report dated August 18, 2010. 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 statement disclosed no material instances of noncompliance with state laws and regulations.

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  
August 18, 2010

## **SCHEDULE OF FINDINGS AND RESPONSES**

**CITY OF SARDIS, MISSISSIPPI**  
**Schedule of Findings and Responses**  
**For the Year Ended September 30, 2009**

Section 1: Summary of Auditors' Results

- |  |                    |
|--|--------------------|
| 1. Type of auditor's report issued on the financial statements:                                | <u>Unqualified</u> |
| 2. Internal Control over financial reporting:  |                    |
| (a) Material weakness (es) identified?   | <u>Yes</u>         |
| (b) Significant deficiency (ies) identified that are not considered to be material weaknesses? | <u>No</u>          |
| 3. Noncompliance material to the financial statements:   | <u>No</u>          |

Section 2: Financial Statement Findings

Material Weaknesses

09-1 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.

09-2 Ability to Properly Produce Financial Statements

Condition: The City was not properly recording or classifying all of the transactions necessary to produce a set of materially correct financial statements.

Criteria: Part of effective internal controls over financial reporting is the ability to properly produce financial statements in accordance with cash basis of accounting. Management is responsible for ensuring that all items are reported correctly on the City's financial statement.

**CITY OF SARDIS, MISSISSIPPI**  
**Schedule of Findings and Responses**  
**For the Year Ended September 30, 2009**

Cause: The City has not designed internal control procedures for appropriate monitoring and recording of all transactions, or adequately preparing the City's financial statement.

Effect: The external auditors were required to make material adjusting journal entries to the financial statement.

Recommendation: Management should develop internal control procedures to ensure that all transactions are properly recorded and that the City's financial statement is properly prepared.

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

09-3 Lack of Segregation of Duties

Condition: The City's office staff consists of two deputy clerks and a city clerk. Because of the limited number of employees, the clerks all perform cash-related duties, some of which are incompatible.

Criteria: Part of effective internal controls over financial reporting is the ability to properly segregate duties over cash-related areas.

Cause: The City has not designed internal control procedures for appropriate segregation of cash-related duties.

Effect: The City is susceptible to misappropriation of cash or fraud.

Recommendation: Management should develop internal control procedures for segregating duties over cash receipts to reduce the risk of fraud.

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