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**TOWN OF SMITHVILLE**  
P.O. BOX 10  
SMITHVILLE, MS 38870  
**PHONE: (662) 651-4411 FAX: (662) 651-5226**  
**MAYOR: GREGG KENNEDY TOWN CLERK: ANN SEALES**  
**ALDERWOMAN: JOYCE AVERY**  
**ALDERMEN: EARL WAYNE COWLEY; JIMMY DABBS; JIM HERREN;**  
**JOHNNY SNOW**

February 23, 2016

Mr. Greg Higginbotham  
Division of Technical Assistance  
P.O. Box 956  
Jackson, Ms 39205

Dear Mr. Greg,

This letter is in reference to the letter I received from you today 2/23/2016 concerning that your office has not received a copy of the Town of Smithville Municipal Annual Financial Report for the Fiscal Year End 2014 and for this I apology.

When the Town received the 2014 report I sent a copy to your office and am sorry that it did not reach you.

Please accept my apology and accept this report and if you need anything further please contact me and I will see that you get the information you need.

My e-mail address is [tostc@traceroad.net](mailto:tostc@traceroad.net) phone number is 662-651-4411

Sincerely,



Ann Seales  
Town Clerk

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**FEB 29 2016**

FINANCIAL STATEMENTS  
TOWN OF SMITHVILLE, MISSISSIPPI  
Year Ended September 30, 2014

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**FEB 29 2016**

**TOWN OF SMITHVILLE, MISSISSIPPI  
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September 30, 2014**

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Gary Franks, CPA

Greg Jarrell, CPA

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Jonathan Hagood, CPA

Joseph Franks, CPA (emeritus)

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## INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Board of Aldermen  
Town of Smithville, Mississippi

We have audited the accompanying Statement of Cash Receipts and Disbursements – Government Wide of the Town of Smithville, Mississippi, for the year ended September 30, 2014 and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statement of Cash Receipts and Disbursements, Governmental and Business-Type Activities. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Opinions

As described more fully in Note A, the Town of Smithville, Mississippi has prepared these financial statements using accounting practices prescribed or permitted by the Mississippi Office of the State Auditor, which practices differ from accounting principles generally accepted in the United States of America. The effect 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 Town of Smithville, Mississippi as of September 30, 2014, the changes in its financial position, or, where applicable, its cash flows for the year then ended. Further, the Town of Smithville, 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 statements referred to above present fairly, in all material respects, the respective cash balances of each fund of the Town of Smithville, Mississippi, as of September 30, 2014 and the respective cash receipts and disbursements for the year then ended in accordance with the basis of accounting described in Note A.

#### **Other Information**

Our audit was conducted for the purpose of forming an opinion on the Statement of Cash Receipts and Disbursements, Governmental and Business-Type Activities of the Town of Smithville, Mississippi taken as a whole. Supplementary information is presented for the purpose of additional analysis and is not a required part of the financial statements. The supplementary information section is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information in those schedules has been subjected to the auditing procedures applied in the audit of the Statement of Cash Receipts and Disbursements, Governmental and Business-type Activities and, in our opinion, is fairly presented in all material respects in relation to the Statement of Cash Receipts and Disbursements, Governmental and Business-type Activities taken as a whole.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated March 6, 2015, on our consideration of the Town of Smithville, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

This report is intended for the information of the Town's management and the Office of the Mississippi State Auditor and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

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

FRANKS, FRANKS, JARRELL & WILEMON, P.A.

Tupelo, MS  
March 6, 2015

BASIC FINANCIAL STATEMENTS

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**FEB 29 2016**

**TOWN OF SMITHVILLE, MISSISSIPPI**  
**STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS**  
**For the year ended September 30, 2014**

	Governmental Activities			Business-type Activities			Total Government-wide
	General	Special	Total	Rural	Sewer	Total	
		Revenue		Water			
<b>RECEIPTS</b>							
Ad Valorem Taxes:							
Real and Personal Taxes	\$ 86,985	\$ 9,780	\$ 96,765	\$	\$	\$ 0	\$ 96,765
Penalties and Interest	1,332	0	1,332			0	1,332
Intergovernmental Revenues:							
Federal Revenue							
ARC Grant	0	0	0		73,053	73,053	73,053
FEMA Grant	24,992	0	24,992		0	0	24,992
CDBG Grant	0	0	0		2,500	2,500	2,500
State Shared Revenues							
Sales Tax	73,952	0	73,952		0	0	73,952
Gasoline Tax	2,517	0	2,517		0	0	2,517
Municipal Aid	470	0	470		0	0	470
Fire Protection Allocation		5,134	5,134		0	0	5,134
Homestead Reimbursement	13,538	1,504	15,042		0	0	15,042
TVA - In Lieu	6,075	0	6,075		0	0	6,075
Other State Grants	149,944	0	149,944		0	0	149,944
Other Intergovernmental Revenue							
County Fire Protection	0	10,000	10,000		0	0	10,000
Charges for Services:							
Water & Sewer Systems							
Garbage Collections	38,988	0	38,988	107,868	83,139	337,114	337,114
Franchise Fees	12,887	0	12,887		0	0	38,988
Privilege License	632	0	632		0	0	12,887
Court Fines	18,019	0	18,019		0	0	632
Building Permits	3,189	0	3,189		0	0	18,019
Interest Income	121	0	121	15	7	49	3,189
Disaster Relief Donations	8,641	3,500	12,141		0	0	170
Other Income	500	0	500	5,864	0	12,718	12,141
Other Receipts:							
Sale of Surplus Assets	7,669	0	7,669	0	0	0	7,669
Insurance Proceeds	27,624	0	27,624	0	0	0	27,624
<b>Total Receipts</b>	<b>\$ 478,525</b>	<b>\$ 29,918</b>	<b>\$ 508,443</b>	<b>\$ 113,747</b>	<b>\$ 152,988</b>	<b>\$ 425,434</b>	<b>\$ 933,877</b>

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**TOWN OF SMITHVILLE, MISSISSIPPI**  
**STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS**  
**For the year ended September 30, 2014**

	Governmental Activities				Business-type Activities			Total Government-wide
	General	Special Revenue	Total	Water	Rural		Total	
					Water	Sewer		
<b>DISBURSEMENTS</b>								
General Administration and Finance	\$ 269,207	\$ 0	\$ 269,207	\$	\$	\$	\$ 0	\$ 269,207
Public Safety:								
Police	142,317	0	142,317				0	142,317
Fire	0	13,494	13,494				0	13,494
Public Works								
Street Department	26,959	0	26,959				0	26,959
Sanitation	33,169	0	33,169				0	33,169
Park and Recreation	14,505	7,338	21,843				0	21,843
Proprietary - Water, Rural Water & Sewer				115,896	103,259		356,502	356,502
Interest and Fiscal Charges	12,847	0	12,847	12,776	0	20,579	33,355	46,202
Total Disbursements	499,004	20,832	519,836	128,672	103,259	157,926	389,857	909,693
Excess (Deficiency) of receipts over disbursements	(20,479)	9,086	(11,393)	(14,925)	55,440	(4,938)	35,577	24,184
<b>OTHER FINANCING SOURCES (USES)</b>								
Property Additions	(702,592)	(17,100)	(719,692)	0	(1,478)	(111,841)	(113,319)	(833,011)
Debt Issuance	465,000	0	465,000	0	0	0	0	465,000
Redemption of Principal	(142,897)	0	(142,897)	(12,592)	(38,442)	0	(51,034)	(193,931)
Customer Deposits	0	0	0	3,975	1,350	0	5,325	5,325
Transfers In	28,824	2,118	30,942	6,932	8,459	31,176	46,567	77,509
Transfers Out	(11,291)	(66,218)	(77,509)	0	0	0	0	(77,509)
Total Other Financing Sources (Uses)	(362,956)	(81,200)	(444,156)	(1,685)	(30,111)	(80,665)	(112,461)	(556,617)
Excess (Deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(383,435)	(72,114)	(455,549)	(16,610)	(35,049)	(25,225)	(76,884)	(532,433)
Cash Basis Fund Balance - Beginning of Year	519,874	103,579	623,453	29,213	48,050	104,125	727,578	727,578
Cash Basis Fund Balance - End of Year	\$ 136,439	\$ 31,465	\$ 167,904	\$ 12,603	\$ 13,001	\$ 1,637	\$ 27,241	\$ 195,145

See notes to the financial statements.

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**General Information**

The Town operates under the mayor/board of aldermen form of government and provides services as authorized by law.

**Basis of Accounting**

The Town of Smithville prepares its financial statements on the cash receipts and disbursements basis of accounting as permitted by the Mississippi Office of the State Auditor. This basis of accounting differs from generally accepted accounting principles in that revenues are recognized when received rather than when measurable and available as net current position and expenditures are recognized when the funds are disbursed rather than when the liability is incurred. Consequently, these financial statements are not intended to present financial position or results of operations in accordance with generally accepted accounting principles. Under this basis of accounting, the Town has elected to omit substantially all government-wide financial statements, fund financial statements, management discussion and analysis, required supplemental information, and other supplemental information required under generally accepted accounting principles.

**Government-Wide Financial Statements**

The statement of cash receipts and disbursements displays information on all non-fiduciary activities of the primary government. The statement distinguishes between those activities of the Town 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 cash receipts and disbursements presents a comparison between direct expenses and program revenues for each program or function of the Town's governmental activities and for the business-type activities of the Town. 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 Town, 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 Town.

**Financial Statement Presentation**

The Town 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.

**TOWN OF SMITHVILLE, MISSISSIPPI**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2014**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

The Town reports the following major proprietary funds:

*Water Fund* – This fund is used to account for the Town's water distribution system.

*Rural Water Fund* – This fund is used to account for the Town's rural water distribution system.

*Sewer Fund* – This fund is used to account for the Town's sewer collection and treatment system.

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

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

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

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

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

Financial Reporting Entity

The Town's combined financial statements include the accounts of all Town operations. The criteria for including organizations as component units within the Town'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 Town holds the corporate powers of the organization
- the Town appoints a voting majority of the organization's board
- the Town is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the Town
- there is a fiscal dependency by the organization on the Town

**TOWN OF SMITHVILLE, MISSISSIPPI**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2014**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Included within the reporting entity:

*Town of Smithville water, rural 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.

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 Town'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.

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.

**TOWN OF SMITHVILLE, MISSISSIPPI  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2014**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Revenue & Expense Recognition

Revenues for all fund types are recognized when received, expenditures are recorded when paid.

Property Tax Revenue

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1 and are due and payable at that time. All unpaid taxes levied October 1 become delinquent February 1 of the following year. Property taxes are recognized as revenues when they are received.

Interfund Transactions

Interfund transactions have not been eliminated from these financial statements.

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**NOTE B – CASH AND INVESTMENTS**

**FEB 29 2016**

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, Town bond ordinances and Town resolutions authorize the Town's investments. The Town 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 Town's investments as of September 30, 2014 are:

Investments:

Certificates of Deposit	\$ 40,318
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**TOWN OF SMITHVILLE, MISSISSIPPI**  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2014

**NOTE C – PROPERTY TAXES**

Property taxes, except motor vehicles, attach as an enforceable lien on property on January 1. The Town bills and collects its own property taxes, except motor vehicle taxes. Motor vehicle taxes are collected by the County Tax Collector and remitted to the Town.

**NOTE D – LONG-TERM DEBT**

The annual requirements to amortize all debt outstanding as of September 30, 2014 (including interest payments of \$503,680) are as follows:

Fiscal Year Ended September 30,	Notes Payable	Bonds Payable	USDA Loans	Interest	Total
2015	\$ 50,000	\$ 8,149	\$ 34,550	\$ 35,000	127,699
2016	50,000	-	35,285	41,730	127,015
2017	572,103	-	36,034	37,648	645,785
2018	174,511	-	36,800	27,040	238,351
2019	-	-	37,582	25,835	63,417
2020-2024	-	-	200,233	116,851	317,084
2025-2029	-	-	222,431	94,653	317,084
2030-2034	-	-	247,091	69,993	317,084
2035-2039	-	-	274,482	42,602	317,084
2040-2043	-	-	225,022	12,328	237,350
	<u>\$ 846,614</u>	<u>\$ 8,149</u>	<u>\$ 1,349,510</u>	<u>\$ 503,680</u>	<u>\$ 2,707,953</u>

**NOTE E – LITIGATION**

Certain claims, suits, and complaints arising in the ordinary course of business have been filed or are pending against the Town. 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 Town if disposed of unfavorably.

**NOTE F – DEFINED BENEFIT PENSION PLAN**

Plan Description - The Town of Smithville 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.

**TOWN OF SMITHVILLE, MISSISSIPPI**  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2014

**NOTE F – DEFINED BENEFIT PENSION PLAN (continued)**

That information may be obtained by writing to Public Employee Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling (601) 359-3589 or 1-800 444 PERS.

Funding Policy - PERS members are required to contribute 9.00% of their annual covered salary and the Town of Smithville is required to contribute at an actuarially determined rate. The current rate is 15.75 % of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The Town of Smithville's contributions to PERS for the years ending September 30, 2014, 2013 and 2012 were \$39,135, \$36,670, and \$30,962 respectively, equal to the required contributions for each year.

**NOTE G – RISK MANAGEMENT**

The Town of Smithville 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 Town 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 Town retains the risk of loss.

Risk of loss related to workers compensation for injuries to Town 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 Town 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 Town Attorney estimates that the amount of actual or potential claims against the Town as of September 30, 2014, will not materially affect the financial condition of the Town. Therefore, no provisions have been made for estimated claims. There have been no material claims paid by the Town during the current or prior year.

**NOTE H – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through March 6, 2015, the date on which the financial statements were available to be issued.

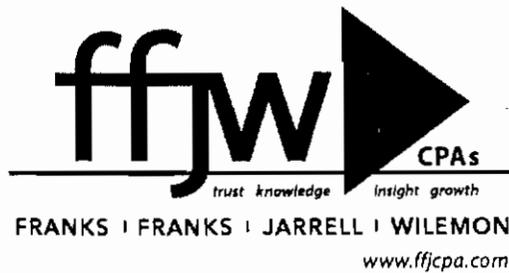
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**FEB 29 2016**

OTHER SUPPLEMENTAL INFORMATION

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Partners  
Gary Franks, CPA  
Greg Jarrell, CPA

Bryon Wilemon, CPA  
Jonathan Hagood, CPA

Rudolph Franks, CPA (emeritus)

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

Honorable Mayor and Board of Aldermen  
Town of Smithville, Mississippi

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Cash Receipts and Disbursements, Governmental and Business-Type Activities of the Town of Smithville, Mississippi, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the Town of Smithville, Mississippi's basic financial statements and have issued our report thereon dated March 6, 2015.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Town of Smithville, Mississippi's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Smithville, Mississippi's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Smithville, Mississippi's internal control.

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

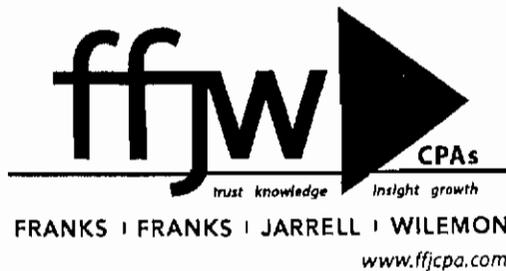
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies. See findings 2014-01 and 2014-02.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town of Smithville, Mississippi's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2014-02.

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

Honorable Mayor and Board of Aldermen  
Town of Smithville, Mississippi

We have audited the financial statements of the Town of Smithville, Mississippi, as of and for the year ended September 30, 2014, and have issued our report thereon dated March 6, 2015. 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 in the *Government Auditing Standards*.

As required by the State legal compliance audit program prescribed by the Mississippi 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 finding number 2014-02.

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

This report is intended for the information of management and the Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

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

FRANKS, FRANKS, JARRELL & WILEMON, P.A.  
March 6, 2015

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FEB 29 2016

**TOWN OF SMITHVILLE, MISSISSIPPI  
SCHEDULE OF FINDINGS AND RESPONSES  
September 30, 2014**

**SECTION 2 – FINANCIAL STATEMENT FINDINGS:**

**FINDING NO. 2014-01 Segregation of Duties (Significant Deficiency)**

**Criteria:** The Town is to establish an internal control structure to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements

**Cause of Condition:** The size of the Town's work force does not permit proper segregation of duties in various areas of the accounting system. The Town has only a few employees which makes proper segregation of duties impractical.

**Recommendation:** The Town should utilize other systems of checks and balances to minimize the inherent weaknesses in internal controls. Also, the Board of Aldermen should continue to monitor the Town's financial position on a monthly basis.

**Response:** The Board of Aldermen understands the inherent weakness in internal control that exists due to employing limited personnel who have access to many accounting phases, specifically the handling of cash. The Board of Aldermen will continue to closely monitor the Town's financial position on a monthly basis as a mitigating factor to the inherent weakness related to the Town's lack of segregation of duties.

**FINDING NO. 2014-02 Employee Files (Significant Deficiency, Noncompliance)**

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

**Cause of Condition:** The Town did not maintain adequate internal controls over certain areas of the payroll function. The deficiencies specifically related to the lack of documentation required for employee files.

**Recommendation:** The Town should implement a system of internal control over the employee file system to ensure proper documentation is maintained for all employees of the Town.

**Response:** The Town will review the current internal controls over employee files and implement additional controls as needed to ensure all documentation is properly maintained.

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**FEB 29 2016**