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SMITH COUNTY SCHOOL DISTRICT

Audited Financial Statements
For the Year Ended June 30, 2013

Charles L. Shivers, CPA
Ridgeland, MS

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INDEPENDENT AUDITOR'S REPORT

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CHARLES L. SHIVERS

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INDEPENDENT AUDITOR'S REPORT

Superintendent and School Board
Smith County School District

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities each major fund, and the aggregate remaining fund information of the Smith County School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Smith County School District'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.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities each major fund, and the aggregate remaining fund information of the Smith County School District, as of June 30, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Smith County School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by the Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133), the Schedule of Instructional, Administrative and Other Expenditures for Governmental Funds, and the other information section, which includes the Statement of Revenues, Expenditures and Changes in Fund Balances—General Fund, Last Four Years and the Statement of Revenues, Expenditures and Changes in Fund Balances—All Governmental Funds, Last Four Years are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying Schedule of Expenditures of Federal Awards, as required by the Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133) and the Schedule of Instructional, Administrative and Other Expenditures for Governmental Funds, as required by the Mississippi State Auditor's Office, are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The other information section, which includes the Statement of Revenues, Expenditures and Changes in Fund Balances—General Fund, Last Four Years and the Statement of Revenues, Expenditures and Changes in Fund Balances—All Governmental Funds, Last Four Years, as required by the Mississippi Department of Education, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated December 16, 2013, on my consideration of the Smith County School District's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Smith County School District's internal control over financial reporting and compliance.

Charles L. Shivers, CPA

Ridgeland, MS
December 16, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

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The following discussion and analysis of Smith County School District's financial performance provides an overview of the School District's financial activities for the year ended June 30, 2013. The intent of this discussion and analysis is to look at the School District's performance as a whole. Readers are encouraged to review the financial statements and the notes to the financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

- Total net position for 2013 decreased $1,260,937, including a prior period adjustment of $90,488, which represents a 4% decrease from fiscal year 2012. Total net position for 2012 increased $199,114, which represents a 1% increase from fiscal year 2011.

- General revenues amounted to $18,332,441 and $18,901,642, or 79% and 81% of all revenues for fiscal years 2013 and 2012, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for $4,913,133, or 21% of total revenues for 2013, and $4,553,321, or 19% of total revenues for 2012.

- The District had $24,416,023 and $23,255,849 in expenses for fiscal years 2013 and 2012; only $4,913,133 for 2013 and $4,553,321 for 2012 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of $18,332,441 for 2013 were not adequate to provide for these programs. General revenues of $18,901,642 for 2012 were adequate to provide for these programs.

- Among major funds, the General Fund had $18,293,623 in revenues and $18,731,489 in expenditures for 2013, and $18,534,577 in revenues and $19,553,452 in expenditures in 2012. The General Fund's fund balance decreased by $1,028,065, including a prior period adjustment of $14,052, from 2012 to 2013, and increased by $4,817,010 from 2011 to 2012.

- Capital assets, net of accumulated depreciation, decreased by $730,077 for 2013 and decreased by $82,993 for 2012. The decrease for 2013 was due primarily to the increase in accumulated depreciation.

- Long-term debt decreased by $164,531 for 2013 and decreased by $2,446,475 for 2012. The decrease for 2013 was due primarily to the principal payment on outstanding long-term debt. The liability for compensated absences decreased by $34,531 for 2013 and increased by $18,525 for 2012.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the District's basic financial statements, which include government-wide financial statements, fund financial statements, and notes to the financial statements. This report also contains required supplementary information, supplementary information, and other information.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the District's finances. These statements consist of the Statement of Net Position and the Statement of Activities, which are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. The current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Position presents information on all the District's nonfiduciary assets and liabilities, with the differences between the two reported as "net position." Over time, increases or decreases in the District's net position may serve as a useful indicator of whether its financial position is improving or deteriorating.

The Statement of Activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support

services, non-instructional, sixteenth section and interest on long-term liabilities.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds – Most of the District's general activities are reported in its governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, governmental funds are accounted for using the modified accrual basis of accounting and the flow of current financial resources measurement focus. The approach focuses on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at year end. The governmental fund statements provide a detailed view of the District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the reader may gain a better understanding of the long-term impact of the District's near-term financing decisions. The governmental funds Balance Sheet is reconciled to the Statement of Net Position, and the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances is reconciled to the Statement of Activities to facilitate this comparison between governmental funds and governmental activities.

The District maintains individual governmental funds in accordance with the *Financial Accounting Manual for Mississippi Public School Districts.* Information is presented separately in the governmental funds Balance Sheet and in the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances for all major funds. All non-major funds are combined and presented in these reports as other governmental funds.

Fiduciary funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the District's own programs. These funds are reported using the accrual basis of accounting. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

Reconciliation of Government-wide and Fund Financial Statements

The financial statements include two schedules that reconcile the amounts reported on the governmental funds financial statements (modified accrual basis of accounting) with government-wide financial statements (accrual basis of accounting). The following summarizes the major differences between the two statements:

Capital assets used in governmental activities are not reported on governmental funds financial statements.

Capital outlay spending results in capital assets on government-wide financial statements, but is reported as expenditures on the governmental funds financial statements.

Bond and note proceeds result in liabilities on government-wide financial statements, but are recorded as other financing sources on the governmental funds financial statements.

Certain other outflows represent either increases or decreases in liabilities on the government-wide financial statements, but are reported as expenditures on the governmental funds financial statements.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents budgetary comparison schedules as required supplementary information. The District adopts an annual operating budget for all governmental funds. A budgetary comparison schedule has been provided for the General Fund as required by the Governmental Accounting Standards Board.

Supplementary Information

Additionally, a Schedule of Expenditures of Federal Awards as required by OMB Circular A-133 and a Schedule of Instructional, Administrative and Other Expenditures for governmental funds can be found in this report.

Other Information

Although not a required part of the basic financial statements, the Statement of Revenues, Expenditures and Changes in Fund Balances—General Fund, Last Four Years and the Statement of Revenues, Expenditures and Changes in Fund Balances—All Governmental Funds, Last Four Years, is presented for purposes of additional analysis as required by the Mississippi Department of Education.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position

Net position may serve over time as a useful indicator of the District's financial position. Assets exceeded liabilities by $30,346,384 as of June 30, 2013.

The District's financial position is a product of several financial transactions including the net result of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets and the depreciation of capital assets.

Table 1 presents a summary of the District's net position at June 30, 2013 and June 30, 2012.

Table 1
Condensed Statement of Net Position

	June 30, 2013	June 30, 2012	Percentage Change
Current assets	$ 9,950,390	$ 10,543,621	(5.63) %
Restricted assets	7,745,584	7,808,938	(0.81) %
Capital assets, net	16,346,339	17,076,416	(4.28) %
Total assets	**34,042,313**	**35,428,975**	**(3.91) %**
Current liabilities	263,554	224,748	17.27 %
Long-term debt outstanding	3,432,375	3,596,906	(4.57) %
Total liabilities	**3,695,929**	**3,821,654**	**(3.29) %**
Net position:			
Net investment in capital assets	13,086,339	13,686,416	(4.38) %
Restricted	8,553,258	8,116,044	5.39 %
Unrestricted	8,706,787	9,804,861	(11.20) %
Total net position	**$ 30,346,384**	**$ 31,607,321**	**(3.99) %**

The following are significant current year transactions that have had an impact on the Statement of Net Position.

- Decrease in net capital assets in the amount of $730,077.
- The principal retirement of $130,000 of long-term debt.

Changes in net position

The District's total revenues for the fiscal years ended June 30, 2013 and June 30, 2012 were $23,245,574 and $23,454,963, respectively. The total cost of all programs and services was $24,416,023 for 2013 and $23,255,849 for 2012.

Table 2 presents a summary of the changes in net position for the fiscal years ended June 30, 2013 and June 30, 2012.

Table 2
Changes in Net Position

	Year Ended June 30, 2013	Year Ended June 30, 2012	Percentage Change
Revenues:			
Program revenues:			
Charges for services	$ 1,201,014	$ 1,075,640	11.66 %
Operating grants and contributions	3,712,119	3,477,681	6.74 %
General revenues:			
Property taxes	4,233,477	3,817,894	10.89 %
Grants and contributions not restricted	13,373,980	14,118,697	(5.27) %
Investment earnings	86,209	28,837	198.95 %
Sixteenth section sources	617,501	906,088	(31.85) %
Other	21,274	30,126	(29.38) %
Total revenues	**23,245,574**	**23,454,963**	**(0.89) %**
Expenses:			
Instruction	13,799,941	13,861,369	(0.44) %
Support services	8,648,283	7,540,032	14.70 %
Non-instructional	1,709,704	1,613,460	5.97 %
Sixteenth section	64,880	46,813	38.59 %
Interest on long-term liabilities	193,215	194,175	(0.49) %
Total expenses	**24,416,023**	**23,255,849**	**4.99 %**
Increase (Decrease) in net position	**(1,170,449)**	**199,114**	**(687.83) %**
Net Position, July 1, as previously reported	**31,607,321**	**31,408,207**	0.63 %
Prior Period Adjustment	**(90,488)**	**0**	N/A %
Net Position, July 1, as restated	**31,516,833**	**31,408,207**	**0.35 %**
Net Position, June 30	**$ 30,346,384**	**$ 31,607,321**	**(3.99) %**

Governmental activities

The following table presents the cost of five major District functional activities: instruction, support services, non-instructional, sixteenth section, and interest on long-term liabilities. The table also shows each functional activity's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost presents the financial burden that was placed on the State and District's taxpayers by each of these functions.

Table 3
Net Cost of Governmental Activities

	Total Expenses		Percentage
	2013	2012	Change
Instruction	$ 13,799,941	$ 13,861,369	(0.44) %
Support services	8,648,283	7,540,032	14.70 %
Non-instructional	1,709,704	1,613,460	5.97 %
Sixteenth section	64,880	46,813	38.59 %
Interest on long-term liabilities	193,215	194,175	(0.49) %
Total expenses	**$ 24,416,023**	**$ 23,255,849**	**4.99 %**

	Net (Expense) Revenue		Percentage
	2013	2012	Change
Instruction	$ (11,616,555)	$ (11,522,002)	0.82 %
Support services	(7,628,642)	(6,621,414)	15.21 %
Non-instructional	(24,528)	(318,124)	(92.29) %
Sixteenth section	(39,950)	(46,813)	(14.66) %
Interest on long-term liabilities	(193,215)	(194,175)	(0.49) %
Total net (expense) revenue	**$ (19,502,890)**	**$ (18,702,528)**	**4.28 %**

- Net cost of governmental activities ($19,502,890 for 2013 and $18,702,528 for 2012) was financed by general revenue, which is primarily made up of property taxes ($4,233,477 for 2013 and $3,817,894 for 2012) and state and federal revenues ($13,373,980 for 2013 and $14,118,697 for 2012). In addition, there was $617,501 and $906,088 in Sixteenth Section sources for 2013 and 2012, respectively.

- Investment earnings amounted to $86,209 for 2013 and $28,837 for 2012.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of $17,587,151, a decrease of $593,107, which includes a prior period adjustment of $14,052 and a decrease in inventory of $3,055. $7,450,438, or 42%, of the fund balance is unassigned, which represents the residual classification for the general fund's fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The remaining fund balance of $10,136,713, or 58%, is either nonspendable, restricted, committed or assigned to indicate that it is not available for spending except only for the purposes to which it is restricted, committed or assigned.

The General Fund is the principal operating fund of the District. The decrease in fund balance in the General Fund for the fiscal year was $1,028,065, which includes a prior period adjustment of $14,052. The fund balance of Other Governmental Funds showed an increase in the amount of $71,753, which includes a decrease in inventory of $3,055. The increase (decrease) in the fund balances for the other major funds were as follows:

Major Fund		Increase
Sixteenth Section Principal Fund	$	363,205

BUDGETARY HIGHLIGHTS

During the year, the District revised the annual operating budget. Budget revisions were made to address and correct the original budgets to reflect more accurately the sources and uses of funding for the School District. Budget revisions during the fiscal year

were routine in nature and were insignificant when compared to total revenues and expenditures of the District.

A schedule showing the original and final budget amounts compared to the District's actual financial activity for the General Fund is provided in this report as required supplementary information.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2013, the District's total capital assets were $26,843,127, including land, school buildings, building improvements and other improvements, buses, other school vehicles, and furniture and equipment. This amount represents a gross decrease of $12,220 from 2012. Total accumulated depreciation as of June 30, 2013, was $10,496,788, and total depreciation expense for the year was $766,285, resulting in total net capital assets of $16,346,339.

Table 4
Capital Assets, Net of Accumulated Depreciation

	June 30, 2013	June 30, 2012	Percentage Change
Land	$ 266,690	$ 266,690	0.00 %
Buildings	14,046,730	14,449,582	(2.79) %
Building improvements	141,832	153,884	(7.83) %
Improvements other than buildings	459,136	492,423	(6.76) %
Mobile equipment	1,177,736	1,641,313	(28.24) %
Furniture and equipment	254,215	72,524	250.53 %
Total	**$ 16,346,339**	**$ 17,076,416**	**(4.28) %**

Additional information on the District's capital assets can be found in Note 5 included in this report.

Debt Administration. At June 30, 2013, the District had $3,432,375 in outstanding long-term debt, of which $143,619 is due within one year. During the fiscal year, the District made principal payments totaling $130,000 on outstanding long-term debt. The liability for compensated absences decreased $34,531 from the prior year.

Table 5
Outstanding Long-Term Debt

	June 30, 2013	June 30, 2012	Percentage Change
Three mill notes payable	$ 260,000	$ 390,000	(33.33) %
Qualified school construction bonds payable	3,000,000	3,000,000	0.00 %
Compensated absences payable	172,375	206,906	(16.69) %
Total	**$ 3,432,375**	**$ 3,596,906**	**(4.57) %**

Additional information on the District's long-term debt can be found in Note 6 included in this report.

CURRENT ISSUES

The Smith County School District is financially stable. The District is proud of its community support of the public schools.

The District has committed itself to financial excellence for many years. The District's system of financial planning, budgeting, and internal financial controls is well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

The District actively pursues grant funding to supplement the local, state, and federal revenues.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have any questions about this report or need additional financial information, contact the Superintendent's Office of the Smith County School District, P. O. Box 308, Raleigh, MS 39153.

BASIC FINANCIAL STATEMENTS

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Smith County School District
Statement of Net Position
June 30, 2013

Exhibit A

	Governmental Activities
Assets	
Cash and cash equivalents	$ 5,762,347
Cash with fiscal agent	5,445
Investments	3,616,630
Due from other governments	535,660
Accrued interest receivable	865
Inventories	29,443
Restricted assets (Note 4)	7,745,584
Non-depreciable capital assets (Note 5)	266,690
Depreciable capital assets, net (Note 5)	16,079,649
Total Assets	34,042,313
Liabilities	
Accounts payable and accrued liabilities	108,823
Interest payable on long-term liabilities	154,731
Long-term liabilities (Due within one year) (Note 6)	
Capital related liabilities	135,000
Non-capital related liabilities	8,619
Long-term liabilities (Due beyond one year) (Note 6)	
Capital related liabilities	3,125,000
Non-capital related liabilities	163,756
Total Liabilities	3,695,929
Net Position	
Net investment in capital assets	13,086,339
Restricted net position	
Expendable	
School-based activities	828,297
Debt service	174,406
Forestry improvements	31,138
Unemployment benefits	52,736
Non-expendable	
Sixteenth section	7,466,681
Unrestricted	8,706,787
Total Net Position	$ 30,346,384

The notes to the financial statements are an integral part of this statement.

SMITH COUNTY SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2013

Exhibit B

Functions / Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities
Governmental Activities				
Instruction	$ 13,799,941	508,061	1,675,325	(11,616,555)
Support services	8,648,283	202,522	817,119	(7,628,642)
Non-instructional	1,709,704	465,501	1,219,675	(24,528)
Sixteenth section	64,880	24,930		(39,950)
Interest on long-term liabilities	193,215			(193,215)
Total Governmental Activities	24,416,023	1,201,014	3,712,119	(19,502,890)
General Revenues				
Taxes				
General purpose levies				4,054,604
Debt purpose levies				178,873
Unrestricted grants and contributions				
State				12,911,678
Federal				462,302
Unrestricted investment earnings				86,209
Sixteenth section sources				617,501
Other				21,274
Total General Revenues				18,332,441
Changes in Net Position				(1,170,449)
Net Position - Beginning, as previously reported				31,607,321
Prior Period Adjustments (Note 9)				(90,488)
Net Position - Beginning - as restated				31,516,833
Net Position - Ending				$ 30,346,384

The notes to the financial statements are an integral part of this statement.

Smith County School District
Balance Sheet - Governmental Funds
June 30, 2013

Exhibit C

	Major Funds			
	General Fund	16th Section Principal Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents (Note 2)	$ 5,762,347	843,365	1,119,947	7,725,659
Cash with fiscal agent (Note 2)	5,445	6,632	864	12,941
Investments (Note 2)	3,616,630	5,676,776	98,000	9,391,406
Due from other governments	279,175		256,309	535,484
Accrued interest receivable			865	865
Due from other funds (Note 3)	242,328			242,328
Advances to other funds (Note 3)		939,908		939,908
Inventories			29,443	29,443
Total Assets	9,905,925	7,466,681	1,505,428	18,878,034
Liabilities and Fund Balances				
Liabilities				
Accounts payable & accrued liabilities	86,855		21,968	108,823
Due to other funds (Note 3)			242,152	242,152
Advances from other funds (Note 3)	939,908			939,908
Total Liabilities	1,026,763	0	264,120	1,290,883
Fund Balances				
Nonspendable				
Inventory			29,443	29,443
Permanent fund principal		6,274,017		6,274,017
Advances		939,908		939,908
Restricted				
Debt service			329,137	329,137
Forestry improvements			31,138	31,138
Unemployment benefits			52,736	52,736
Grant activities			798,854	798,854
Assigned				
School activities	195,693			195,693
Facility improvements	1,233,031			1,233,031
Other purposes		252,756		252,756
Unassigned	7,450,438			7,450,438
Total Fund Balances	8,879,162	7,466,681	1,241,308	17,587,151
Total Liabilities and Fund Balances	$ 9,905,925	7,466,681	1,505,428	18,878,034

The notes to the financial statements are an integral part of this statement.

Smith County School District
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2013

Exhibit C-1

		Amount
Total Fund Balance - Governmental Funds		$ 17,587,151
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:		
Land	$ 266,690	
Buildings	20,796,844	
Building improvements	301,302	
Improvement other than buildings	832,181	
Mobile equipment	3,460,246	
Furniture and equipment	1,185,864	
Accumulated depreciation	(10,496,788)	16,346,339
Long-term liabilities and related accrued interest are not due and payable in the current period and therefore are not reported in the funds:		
Qualified school construction bonds payable	(3,000,000)	
Notes payable	(260,000)	
Compensated absences	(172,375)	
Accrued interest payable	(154,731)	(3,587,106)
Total Net Position - Governmental Activities		$ 30,346,384

The notes to the financial statements are an integral part of this statement.

SMITH COUNTY SCHOOL DISTRICT

Exhibit D

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
For the Year Ended June 30, 2013

	Major Funds			
	General Fund	16th Section Principal Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Local sources	$ 4,605,585		638,296	5,243,881
State sources	12,913,454		810,981	13,724,435
Federal sources	462,302		2,899,362	3,361,664
Sixteenth section sources	312,282	363,205	37,314	712,801
Total Revenues	18,293,623	363,205	4,385,953	23,042,781
Expenditures				
Instruction	11,506,075		1,932,128	13,438,203
Support services	7,031,316		1,334,042	8,365,358
Noninstructional services	8,302		1,648,319	1,656,621
Sixteenth section	3,000		61,880	64,880
Debt service				
Principal (Note 6)			130,000	130,000
Interest	181,396		12,675	194,071
Other	1,400			1,400
Total Expenditures	18,731,489	0	5,119,044	23,850,533
Excess (Deficiency) of Revenues Over Expenditures	(437,866)	363,205	(733,091)	(807,752)
Other Financing Sources (Uses)				
Insurances loss recoveries	202,522			202,522
Sale of other property	855			855
Operating transfers in (Note 3)	30,000		899,899	929,899
Other financing sources	271			271
Operating transfers out (Note 3)	(837,899)		(92,000)	(929,899)
Total Other Financing Sources (Uses)	(604,251)	0	807,899	203,648
Net Change in Fund Balances	(1,042,117)	363,205	74,808	(604,104)
Fund Balances				
July 1, 2012, as previously reported	9,907,227	7,103,476	1,169,555	18,180,258
Prior period adjustments (Note 9)	14,052			14,052
July 1, 2012, as restated	9,921,279	7,103,476	1,169,555	18,194,310
Decrease in reserve for inventory			(3,055)	(3,055)
June 30, 2013	$ 8,879,162	7,466,681	1,241,308	17,587,151

The notes to the financial statements are an integral part of this statement.

SMITH COUNTY SCHOOL DISTRICT
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2013

Exhibit D-1

		Amount
Net Change in Fund Balance - Governmental Funds		$ (604,104)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, those amounts are:		
Capital outlay	73,058	
Depreciation expense	(766,285)	(693,227)
In the Statement of Activities, only the gain/loss on the sale of assets is reported, while in the governmental funds, the proceeds from the sale increases financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the asset sold.		(36,850)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance cost, premiums, discounts and the difference between the carrying value of refunded debt and the acquisition cost of refunded debt when debt is first issued. These amounts are deferred and amortized in the statement of activities:		
Payments of debt principal	130,000	
Accrued interest payable	2,256	132,256
Some items reported in the Statement of Activities do not provide or require the use of current financial resources and therefore are not reported as revenues/expenditures in the governmental funds. These activities include:		
Change in compensated absences	34,531	
Change in inventory reserve	(3,055)	31,476
Changes in Net Position of Governmental Activities		$ (1,170,449)

The notes to the financial statements are an integral part of this statement.

Smith County School District
Statement of Fiduciary Assets and Liabilities
June 30, 2013

Exhibit E

	Agency Funds
Assets	
Cash and cash equivalents (Note 2)	$ 1,273,973
Total Assets	1,273,973
Liabilities	
Accounts payable and accrued liabilities	1,163,677
Due to other funds (Note 3)	176
Due to student clubs	110,120
Total Liabilities	$ 1,273,973

The notes to the financial statements are an integral part of this statement.

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Note 1 – Summary of Significant Accounting Policies

The accompanying financial statements of the school district have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for governmental accounting and financial reporting principles. The most significant of the school district's accounting policies are described below.

A. Financial Reporting Entity

As defined by accounting principles generally accepted in the United States of America, the school district is considered a "primary government." The school district is governed by a five member board to which each member is elected by the citizens of each defined county district.

For financial reporting purposes, the School District has included all funds and organizations. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District.

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements – The Statement of Net Position and the Statement of Activities report information on all of the non-fiduciary activities of the District. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Position presents the District's non-fiduciary assets and liabilities, with the difference reported as net position. Net position is reported in three categories:

1. Net investment in capital assets consists of capital assets, net of accumulated depreciation, and reduced by outstanding balances of bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

2. Restricted net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

3. Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function, or segment, are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property taxes and other items not included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported in separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other governmental funds.

The school district reports the following major governmental funds:

General Fund - This is the school district's primary operating fund. The general fund is used to account for and report all financial resources not accounted for and reported in another fund.

16th Section Principal Fund – This fund is used to account for the non-expendable resources generated from the sale of non-renewable resources on sixteenth section lands.

All other governmental funds not meeting the criteria established for major funds are presented in the other governmental column of the fund financial statements.

The District's fiduciary funds include the following:

Payroll Clearing Fund – This fund is used as a clearing account for payroll and payroll related transactions.

Accounts Payable Clearing – This fund is used as a clearing account for non-payroll transactions.

Student Club Accounts – These funds are used to account for the transaction of student clubs.

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

Special Revenue Funds - Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Capital Projects Funds - Capital Projects Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Debt Service Funds - Debt Service Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

Permanent Funds - Permanent Funds are used to account for and report resources that are restricted to the extent that only earnings, and not the principal, may be used for purposes that support the district's programs.

FIDUCIARY FUNDS

Agency Funds - Agency Funds are used to report resources held by the district in a purely custodial capacity (assets equal liabilities) and do not involve measurement of results of operations.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

In the government-wide Statement of Net Position and Statement of Activities, governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting, as are the Fiduciary Fund financial statements. Revenues are recorded when earned, and expenses are recorded when a liability is incurred or economic asset used, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and judgments, are recorded only when payment is due.

Federal grants and assistance awards made on the basis of entitlement periods are recorded as receivables and revenues when entitlement occurs. Federal reimbursement type grants are recorded as revenues when the related expenditures are recognized. Use of grant resources is conditioned upon compliance with terms of the grant agreements and applicable federal regulations, which include subjecting grants to financial and compliance audits.

Property taxes, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual.

Ad valorem property taxes are levied by the governing authority of the county on behalf of the school district based upon an order adopted by the school board of the school district requesting an ad valorem tax effort in dollars. Since the taxes are not levied and collected by the school district, the revenues to be generated by the annual levies are not recognized until the taxes are actually collected by the tax levying authority.

Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

The effect of inter-fund activity has been eliminated from the government-wide statements.

Revenues from the Mississippi Adequate Education Program are appropriated on a fiscal year basis and are recorded at the time the revenues are received from the State of Mississippi.

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing, and Financial Reporting,* issued in 2012 by the Government Finance Officers Association and are consistent with the broad classifications recommended in *Financial Accounting for Local and State School Systems, 2003,* issued by the U.S. Department of Education.

D. Encumbrances

An encumbrance system is maintained to account for commitments or assignments resulting from approved purchase orders, work orders and contracts. However, the school district attempts to liquidate all encumbrances at year-end. Encumbrances outstanding at year-end are not reported within committed or assigned fund balances.

E. Assets, liabilities and net position/fund balances

1. Cash, Cash equivalents and Investments

Cash and cash equivalents

The district's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. The school district deposits excess funds in the financial institutions selected by the school board. State statutes specify how these depositories are to be selected.

Investments

The school district can invest its excess funds, as permitted by Section 29-3-113, Miss. Code Ann. (1972), in interest-bearing deposits or other obligations of the types described in Section 27-105-33, Miss. Code Ann. (1972), or in any other type investment in which any other agency, instrumentality or subdivision of the State of Mississippi may invest, except that 100% of said funds are authorized to be so invested.

For accounting purposes, certificates of deposit are classified as investments if they have an original maturity greater than three months when acquired.

Investments for the district are reported at fair market value.

2. Receivables and payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of inter-fund loans) or "advances to/from other funds"(i.e. the non-current portion of inter-fund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

3. Due from Other Governments

Due from other governments represents amounts due from the State of Mississippi and various grants and reimbursements from other governments.

4. Inventories and Prepaid Items

Donated commodities are received from the USDA and are valued at USDA cost. Other inventories are valued at cost (calculated on the first-in, first-out basis). The costs of governmental fund type inventories are reported as expenditures when purchased.

Prepaid items, such as prepaid insurance, are not reported for governmental fund types since the costs of such items are accounted for as expenditures in the period of acquisition.

5. Restricted Assets

Certain resources set aside for repayment of debt are classified as restricted assets on the Statement of Net Position because their use is limited by applicable debt statutes, e.g. Qualified School Construction Bond sinking funds. Also, the nonexpendable portion of the Permanent Fund is classified as restricted assets because the 16th Section Principal fund is not available for use by the district except as provided for under state statute for loans from this fund.

6. Capital Assets

Capital assets include land, improvements to land, easements, water rights, timber rights, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Capital assets are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Position. Capital assets are recorded at historical cost or estimated historical cost based on appraisals or deflated current replacement cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the thresholds in the table below.

Capital acquisition and construction are reflected as expenditures in the Governmental Fund statements and the related assets are reported as capital assets in the governmental activities column in the government-wide financial statements.

Depreciation is calculated on the straight-line basis for all assets, except land.

The following schedule details the capitalization thresholds:

	Capitalization Policy	Estimated Useful Life
Land	$ 0	0
Buildings	50,000	40 years
Building improvements	25,000	20 years
Improvements other than buildings	25,000	20 years
Mobile equipment	5,000	5-10 years
Furniture and equipment	5,000	3-7 years

7. Compensated Absences

Employees of the school district accumulate sick leave at a minimum amount as required by state law. A greater amount may be provided by school district policy provided that it does not exceed the provisions for leave as provided in Sections 25-3-93 and 25-3-95. Some employees are allowed personal leave and/or vacation leave in accordance with school district policy. The district pays for unused leave for employees as required by Section 37-7-307(5), Miss. Code Ann. (1972).

The liability for these compensated absences is recorded as a long-term liability in the government-wide statements. The current portion of this liability is estimated based on historical trends. In the fund financial statements, governmental funds report the liability for compensated absences from expendable available financial resources only if the payable has matured, for example, an employee retires.

8. Long-term Liabilities

In the government-wide financial statements, outstanding debt is reported as liabilities.

9. Fund Balances

Fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Governmental fund balance is classified as nonspendable, restricted, committed, assigned or unassigned. Following are descriptions of fund classifications used by the district:

Nonspendable fund balance includes items that cannot be spent. This includes activity that is not in a spendable form (inventories, prepaid amounts, long-term portion of loans/notes receivable, or property held for resale unless the proceeds are restricted, committed, or assigned) and activity that is legally or contractually required to remain intact, such as a principal balance in a permanent fund.

Restricted fund balance includes amounts that have constraints placed upon the use of the resources either by an external party or imposed by law through a constitutional provision or enabling legislation.

Committed fund balance includes amounts that can be used only for the specific purposes pursuant to constraints imposed by a formal action of the School Board, the District's highest level of decision-making authority. This formal action is documented in the board minutes of the school board. Currently there is no committed fund balance for this school district.

Assigned fund balance includes amounts that are constrained by the District's intent to be used for a specific purpose, but are neither restricted nor committed. For governmental funds, other than the general fund, this is the residual amount within the fund that is not restricted or committed. Assignments of fund balance are created by the Superintendent of Education and the Business Manager pursuant to authorization established by the school board.

Unassigned fund balance is the residual classification for the general fund. This classification represents fund

balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, it may be necessary to report a negative unassigned fund balance.

When an expenditure/expense is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) resources are available, it is the District's general policy to use restricted resources first. When expenditures/expenses are incurred for purposes for which unrestricted (committed, assigned, and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the District's general policy to spend committed resources first, followed by assigned amounts, and then unassigned amounts.

It is the policy of the School District to maintain a minimum fund balance in the General Fund that is not less than 7% of the revenues of the General Fund.

Note 2 – Cash and Cash Equivalents, Cash with Fiscal Agents, and Investments

The district follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Restrictions on deposits and investments are imposed by statutes as follows:

Deposits. The school board must advertise and accept bids for depositories no less than once every three years as required by Section 37-7-333, Miss. Code Ann. (1972). The collateral pledged for the school district's deposits in financial institutions is 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.

Investments. Section 29-3-113 and 37-59-43, Miss. Code Ann. (1972), authorizes the school board to invest excess funds in the types of investments authorized by Section 27-105-33(d) and (e), Miss. Code Ann. (1972). This section permits the following types of investments: (a) certificates of deposit or interest bearing accounts with qualified state depositories; (b) direct United States Treasury obligations; (c) United States Government agency, United States Government instrumentality or United States Government sponsored enterprise obligations, not to exceed fifty percent of all monies invested with maturities of thirty days or longer ; (d) direct security repurchase agreements and reverse direct security repurchase agreements of any federal book entry of only those securities enumerated in (b) and (c) above; (e) direct obligations issued by the United States of America that are deemed to include securities of, or other interests in, any open-end or closed-end management type investment company or investment trust approved by the State Treasurer and the Executive Director of the Department of Finance and Administration, not to exceed twenty percent of invested excess funds. Investment income on bond funds (Capital Projects), bond sinking funds (Debt Service Funds) and sixteenth section principal funds (Permanent Funds) must be credited to those funds. Investment income of $100 or more of any fund must be credited to that fund. Investment income of less than $100 can be credited to the General Fund.

Cash and Cash Equivalents

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was $12,717,973 (which includes $ 4,992,314 of certificates of deposit with original maturities beyond three months and reported on the Balance Sheet as investments) and $1,273,973, respectively.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the district.

Cash with Fiscal Agents

The carrying amount of school district's cash with fiscal agents held by financial institutions was $12,941.

Investments

As of June 30, 2013, the district had the following investments.

Investment Type	Rating	Maturities (in years)		Fair Value
US Treasury Notes	AAA	1 to 5	$	3,045,451
US Treasury SLGS Deposit	Not Rated	More than		98,000
Federal Farm Credit Bank Bond	AAA	1 to 5		298,911
Federal Home Loan Bank Bond	AAA	5 to 10		956,730
Certificates of deposit	Not Rated	Less than 1		2,076,869
Certificates of deposit	Not Rated	1		429,702
Certificates of deposit	Not Rated	1 to 5		2,485,743
Total			$	9,391,406

Interest Rate Risk. The district does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits investments to those prescribed in Sections 27-105-33(d) and 27-105-33(e), Miss. Code Ann. (1972). The district does not have a formal investment policy that would further limit its investment choices or one that addresses credit risk.

Custodial Credit Risk - Investments. Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The district does not have a formal investment policy that addresses custodial credit risk. As of June 30, 2013, the district did not have any investments to which this would apply.

Concentration of Credit Risk. Disclosure of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds and external investment pools, and other pooled investments. As of June 30, 2013, the district had the following investments:

Issuer		Fair Value	% of Total Investments
Trustmark National Bank - Certificates of Deposit	$	4,992,314	53.1%

Note 3 – Inter-fund Receivables, Payables and Transfers

The following is a summary of inter-fund transactions and balances:

A. Due From/To Other Funds

Receivable Fund	Payable Fund		Amount
General Fund	Other governmental funds	$	242,152
	Fiduciary funds		176
Total		$	242,328

The purpose of the more significant inter-fund loans was to eliminate deficit cash balances in certain federal programs as part of the normal year end closing adjustments.

B. Advances To/From Other Funds

Receivable Fund	Payable Fund	Amount
Major fund - 16th section principal fund	General Fund	$ 939,908

Sixteenth section principal loans payable

Note: The sixteenth section principal loans payable are not reflected on the Statement of Net Position because these funds were borrowed by the General Fund from the Sixteenth Section Trust Fund (Permanent Trust) in accordance with Section 29-3-113, Miss. Code Ann. (1972). The revenues and expenditures associated with these transactions are reflected on the Statement of Revenues, Expenditures and Changes in Fund Balances.

The following is a schedule by years of the total payments due on this debt:

Year Ending June 30	Principal	Interest	Total
2014	$ 85,201	37,597	122,798
2015	88,609	34,189	122,798
2016	92,154	30,644	122,798
2017	95,840	26,958	122,798
2018	99,674	23,124	122,798
2019 - 2023	478,430	53,600	532,030
Total	$ 939,908	206,112	1,146,020

C. Inter-fund Transfers

Transfers Out	Transfers In	Amount
General Fund	Other governmental funds	$ 837,899
Other governmental funds	General Fund	30,000
	Other governmental funds	62,000
Total		$ 929,899

The transfer out of the General Fund was for the purpose of funding the vocational program, worker's compensation and construction fund in the Other Governmental Funds. The transfer from other governmental funds to the general fund was for indirect cost. The transfer within the Other Governmental Funds was to fund a construction project.

Note 4 – Restricted Assets

The restricted assets represent the cash, cash with fiscal agent and investment balances, totaling $1,963,312, $7,496 and $5,774,776, respectively, which is legally restricted (i.e., 16th Section Principal Fund, Debt Service Funds and similar type funds) and may not be used for purposes that support the district's programs.

Note 5 – Capital Assets

The following is a summary of changes in capital assets for governmental activities:

	Balance 7/1/2012	Increases	Decreases		Balance 6/30/2013
Governmental Activities:					
Non-depreciable capital assets:					
Land	$ 266,690				266,690
Total non-depreciable capital assets	266,690	0	0	0	266,690
Depreciable capital assets:					
Buildings	20,796,844				20,796,844
Building improvements	301,302				301,302
Improvements other than buildings	832,181				832,181
Mobile equipment	3,688,114	33,386	(15,078)	(246,176)	3,460,246
Furniture and equipment	970,216	39,672	(70,200)	246,176	1,185,864
Total depreciable capital assets	26,588,657	73,058	(85,278)	0	26,576,437
Less accumulated depreciation for:					
Buildings	6,347,262	402,852			6,750,114
Building improvements	147,418	12,052			159,470
Improvements other than buildings	339,758	33,287			373,045
Mobile equipment	2,046,801	238,423	(2,714)		2,282,510
Furniture and equipment	897,692	79,671	(45,714)		931,649
Total accumulated depreciation	9,778,931	766,285	(48,428)	0	10,496,788
Total depreciable capital assets, net	16,809,726	(693,227)	(36,850)	0	16,079,649
Governmental activities capital assets, net	$ 17,076,416	(693,227)	(36,850)	0	16,346,339

Depreciation expense was charged to the following governmental functions:

	Amount
Governmental activities:	
Instruction	$ 385,910
Support services	301,845
Non-instructional	78,530
Total depreciation expense - Governmental activities	$ 766,285

Note 6 – Long-term Liabilities

The following is a summary of changes in long-term liabilities and other obligations for governmental activities:

	Balance 7/1/2012	Additions	Reductions	Balance 6/30/2013	Amounts due within one year
A. Three mill notes payable	390,000		130,000	260,000	135,000
B. Qualified school construction bonds payable	3,000,000			3,000,000	0
C. Compensated absences payable	206,906		34,531	172,375	8,619
Total	$ 3,596,906	0	164,531	3,432,375	143,619

A. Three mill notes payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Three mill notes, series 2006	3.9	11/6/2006	8/1/2014	$ 910,000	260,000

The following is a schedule by years of the total payments due on this debt:

Year Ending June 30	Principal	Interest	Total
2014	$ 135,000	7,508	142,508
2015	125,000	2,437	127,437
Total	$ 260,000	9,945	269,945

This debt will be retired from the Three Mill Note Fund (Debt Service Fund).

B. Qualified school construction bonds payable

As more fully explained in Note 12, debt has been issued by the school district that qualifies as Qualified School Construction bonds. Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Qualified school construction bonds, series 2010A, 2010B and 2010C	5.5	12/8/2010	8/1/2025	$ 3,000,000	3,000,000

The following is a schedule by years of the total payments due on this debt:

Year Ending June 30	Principal	Interest	Total
2014	$	165,000	165,000
2015		165,000	165,000
2016		165,000	165,000
2017		165,000	165,000
2018		165,000	165,000
2019 – 2023		825,000	825,000
2024 – 2026	3,000,000	495,000	3,495,000
Total	$ 3,000,000	2,145,000	5,145,000

This debt will be retired from the QSCB Debt Retirement Fund (Debt Service Fund). The district will make annual payments to a sinking fund maintained by the paying agent (see Note 12). At the end of the term the amount available in the sinking fund will be sufficient to make the balloon payment on the debt.

C. Compensated absences payable

As more fully explained in Note 1(E)(7), compensated absences payable is adjusted on an annual basis as required by Section 37-7-307(5), Miss. Code Ann. (1972). Compensated absences will be paid from the fund from which the employees' salaries were paid.

Note 7 – Defined Benefit Pension Plan

Plan Description. The school district contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and

may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Public Employees' Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, MS 39201 or by calling (601) 359-3589 or 1-800-444-PERS.

Funding Policy. PERS members are required to contribute 9.00% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The employer's rate as of June 30, 2013 was 14.26% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2013, 2012 and 2011 were $1,921,891, $1,592,807 and $1,530,650, respectively, which equaled the required contributions for each year.

Note 8 – Sixteenth Section Lands

Sixteenth section school lands, or lands granted in lieu thereof, constitute property held in trust for the benefit of the public schools. The school board, under the general supervision of the Office of the Secretary of State, has control and jurisdiction of said school trust lands and of all funds arising from any disposition thereof. It is the duty of the school board to manage the school trust lands and all funds arising therefrom as trust property. Accordingly, the board shall assure that adequate compensation is received for all uses of the trust lands, except for uses by the public schools. The following are the future rental payments to be made to the school district for the use of school trust lands. These future rental payments are from existing leases and do not anticipate renewals or new leases.

Year Ending June 30		Amount
2014	$	73,274
2015		61,150
2016		58,287
2017		56,104
2018		52,827
2019 -- 2023		251,533
2024 – 2028		232,433
2029 – 2033		146,455
Thereafter		156,737
Total	$	1,088,800

Note 9 – Prior Period Adjustments

A summary of significant Net Position/Fund Balance adjustments is as follows:

Exhibit B - Statement of Activities

	Explanation		Amount
1.	Restatement of prior year asset	$	14,052
2.	Restatement of prior year asset - write off of prio year deferred bond issue cost		(104,540)
	Total	$	(90,488)

Exhibit D - Statement of Revenues, Expenditures and Changes in Fund Balances

Fund	Explanation		Amount
General Fund	Restatement of prior year asset	$	14,052

Note 10 – Contingencies

Federal Grants – The school district has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowances resulting from the grantor audit may become a liability of the school district.

Note 11 – Risk Management

The school district is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Except as described below, the district carries commercial insurance for these risks. Settled claims resulting from these insured risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 90 school districts and covers risks of loss arising from injuries to the members' employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by Wells Fargo in Portland, Oregon. The funds in the trust account are used to pay any claim up to $750,000. For a claim exceeding $750,000, MSBAWCT has insurance which will pay the excess to the statutory amount required by the Mississippi Workers' Compensation Commission Act. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

Note 12 – Qualified School Construction Bonds

Section 1521 of the American Recovery and Reinvestment Act (ARRA) of 2009 provides for a source of capital at no or at nominal interest rates for costs incurred by certain public schools in connection with the construction, rehabilitation or repair of a public school facility or for the acquisition of land where a school will be built. Investors receive Federal income tax credits at prescribed tax credit rates in lieu of interest, which essentially allows state and local governments to borrow without incurring interest costs. While Qualified School Construction Bonds (QSCBs) are intended to be interest free to a borrower, the ARRA legislation allows a lender to charge supplemental interest, and such supplemental interest is the responsibility of the school district.

When the stated interest rate on the QSCB results in interest payments that exceed the supplemental interest payments discussed in the preceding paragraph, the school district may apply for a direct cash subsidy payment from the U.S. Treasury which is intended to reduce the stated interest rate to a nominal percentage. These subsidy payments do not include the amount of any supplemental interest paid on a QSCB.

The school district makes equal annual payments into a sinking fund which is used to payoff the bonds at termination. The current maturity limit of tax credit bonds is 17 years, per the U. S. Treasury Department. Under this program, ten percent of the proceeds must be subject to a binding commitment to be spent within six months of issuance and 100% must be spent within three years. Up to two percent of bond proceeds can be used to pay costs of issuance. The amount on deposit at June 30, 2013 was $98,864. The amount accumulated in the sinking fund at the end of the seventeen-year period will be sufficient to retire the debt. The following schedule reports the annual deposits to be made to the sinking fund by the school district.

Year Ending June 30		Amount
2014	$	61,000
2015		76,000
2016		142,500
2017		142,500
2018		142,500
2019 – 2023		1,460,000
2024 – 2026		877,500
Total	$	2,902,000

Note 13 - Insurance loss recoveries

The School District received $202,522 in insurance loss recoveries related to hail damage to building roofs during the 2012-2013 fiscal year. In the government-wide Statement of Activities, the insurance loss recoveries were reported as charges for services and allocated among the expense functions based on the following percentages:

Insurance Loss Recoveries	Percentage	Expense Function
$ 202,522	100%	Instruction

Note 14 - Subsequent Events

Events that occur after the Statement of Net Position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Management of the School District evaluated the activity of the district through December 16, 2013, and determined that the following subsequent event has occurred requiring disclosure in the notes to the financial statements:

In September 2013, the school district issued $285,061 in ad valorem short fall notes. The notes will be paid in three equal installments using the resources generated from ad valorem taxes.

Note 15 – Economic Dependency

The school district is significantly economically dependent on an ad valorem tax payer which generates approximately 20% of the district's ad valorem taxes. In the event of a loss of ad valorem taxes, the district would encounter an economic hardship.

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REQUIRED SUPPLEMENTARY INFORMATION

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SMITH COUNTY SCHOOL DISTRICT
Budgetary Comparison Schedule for the General Fund
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variances Positive (Negative)	
	Original	Final	(GAAP Basis)	Original to Final	Final to Actual
Revenues					
Local sources	$ 4,558,762	4,605,585	4,605,585	46,823	0
State sources	12,915,422	12,913,454	12,913,454	(1,968)	0
Federal sources	259,000	462,302	462,302	203,302	0
Sixteenth section sources	0	0	312,282	0	312,282
Total Revenues	17,733,184	17,981,341	18,293,623	248,157	312,282
Expenditures					
Instruction	11,645,633	11,506,075	11,506,075	139,558	0
Support services	6,701,527	7,031,316	7,031,316	(329,789)	0
Noninstructional services	9,006	8,302	8,302	704	0
Sixteenth section	0	0	3,000	0	(3,000)
Debt service					
Interest	182,111	181,396	181,396	715	0
Other	0	1,400	1,400	(1,400)	0
Total Expenditures	18,538,277	18,728,489	18,731,489	(190,212)	(3,000)
Excess (Deficiency) of Revenues Over Expenditures	(805,093)	(747,148)	(437,866)	57,945	309,282
Other Financing Sources (Uses)					
Insurance loss recoveries	0	202,522	202,522	202,522	0
Sale of other property	0	855	855	855	0
Operating transfers in	0	2,783,594	30,000	2,783,594	(2,753,594)
Other financing sources	500	271	271	(229)	0
Operating transfers out	(2,778,209)	(3,291,493)	(837,899)	(513,284)	2,453,594
Total Other Financing Sources (Uses)	(2,777,709)	(304,251)	(604,251)	2,473,458	(300,000)
Net Change in Fund Balances			(1,042,117)		
Fund Balances					
July 1, 2012, as previously reported			9,907,227		
Prior period adjustments			14,052		
July 1, 2012, as restated			9,921,279		
June 30, 2013			$ 8,879,162		

The notes to the supplementary information are an integral part of this schedule.

SMITH COUNTY SCHOOL DISTRICT
Notes to the Required Supplementary Information
For the Year Ended June 30, 2013

(1) Basis of Presentation.

The Budgetary Comparison Schedule presents the original legally adopted budget, the final legally adopted budget, the actual data on the GAAP basis, variances between the original budget and the final budget and variances between the final budget and the actual data.

(2) Budget Amendments and Revisions.

The budget is adopted by the school board and filed with the taxing authority. Amendments can be made on the approval of the school board. By statute, final budget revisions must be approved on or before October 15 following the end of the fiscal year. A budgetary comparison is presented for the general fund on the same basis of accounting as the budget which is consistent with accounting principles generally accepted in the United States of America.

SUPPLEMENTARY INFORMATION

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SMITH COUNTY SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance No.	Federal Expenditures
U.S. Department of Agriculture		
Passed-through Mississippi Department of Education:		
Child nutrition cluster:		
School breakfast program	10.553	$ 487,106
National school lunch program	10.555	1,334,555
Total child nutrition cluster		1,821,661
Total U.S. Department of Agriculture		1,821,661
Federal Communications Commission		
Administered through the Universal Service Administrative Company:		
The school and libraries program of the universal service fund	32.XXX	100,154
Total Federal Communications Commission		100,154
U.S. Department of Education		
Passed-through Mississippi Department of Education:		
Title I – grants to local educational agencies	84.010	688,492
Career and technical education - basic grants to states	84.048	35,431
Rural education	84.358	66,433
Improving teacher quality - state grants	84.367	169,354
Total		959,710
Special education cluster:		
Special education - grants to states	84.027	610,637
Special education - preschool grants	84.173	21,047
Total special education cluster		631,684
Total passed-through Mississippi Department of Education		1,591,394
Total U.S. Department of Education		1,591,394
Total for All Federal Awards		$ 3,513,209

NOTES TO SCHEDULE

1. This schedule was prepared using the same basis of accounting and the same significant accounting policies, as applicable, used for the basic financial statements.
2. The expenditure amounts include transfers out.
3. The pass-through entities did not assign identifying numbers to the school district.

SMITH COUNTY SCHOOL DISTRICT
Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
For the Year Ended June 30, 2013

Expenditures	Total	Instruction and Other Student Instructional Expenditures	General Administrative	School Administration	Other
Salaries and fringe benefits	$ 16,740,283	13,566,698	710,487	1,438,341	1,024,757
Other	7,110,250	1,503,607	198,370	26,792	5,381,481
Total	$ 23,850,533	15,070,305	908,857	1,465,133	6,406,238
Total number of students	2,692				
Cost per student	$ 8,860	5,598	338	544	2,380

Notes to the schedule.

Instruction and Other Student Instructional Expenditures - includes the activities dealing directly with the interaction between teachers and students. Included here are the activities of teachers, teachers aides or classroom assistants of any type.

General Administration - includes expenditures for the following functions: Support Services - General Administration and Support Services - Business.

School Administration - includes expenditures for the following function: Support Services - School Administration.

Other - includes all expenditure functions not included in Instruction or Administration Categories.

Total number of students - the ADA report submission for month 9, which is the final submission for the school year.

OTHER INFORMATION

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SMITH COUNTY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
General Fund
Last Four Years

UNAUDITED

	2013	2012*	2011*	2010*
Revenues				
Local sources	$ 4,605,585	4,350,559	4,299,951	3,737,460
State sources	12,913,454	13,410,448	12,998,284	13,581,114
Federal sources	462,302	288,909	343,006	363,291
Sixteenth section sources	312,282	484,661	0	0
Total Revenues	18,293,623	18,534,577	17,641,241	17,681,865
Expenditures				
Instruction	11,506,075	11,237,849	9,854,262	10,554,395
Support services	7,031,316	5,956,134	6,037,233	6,037,657
Noninstructional services	8,302	1,021	0	0
Sixteenth section	3,000	8,000	0	0
Debt service				
Principal	0	2,175,365	180,961	160,803
Interest	181,396	171,283	118,894	56,587
Other	1,400	3,800	935	1,835
Total Expenditures	18,731,489	19,553,452	16,192,285	16,811,277
Excess (Deficiency) of Revenues Over Expenditures	(437,866)	(1,018,875)	1,448,956	870,588
Other Financing Sources (Uses)				
Insurances loss recoveries	202,522	0	21,155	4,976
Sale of transportation equipment	855	14,737	0	0
Sale of other property	0	0	18,488	9,800
Operating transfers in	30,000	6,411,688	30,000	30,000
Other financing sources	271	10,835	0	65
Operating transfers out	(837,899)	(600,921)	(685,145)	(644,774)
Other financing uses	0	(454)	(23,160)	0
Total Other Financing Sources (Uses)	(604,251)	5,835,885	(638,662)	(599,933)
Net Change in Fund Balances	(1,042,117)	4,817,010	810,294	270,655
Fund Balances				
July 1, as previously reported	9,907,227	5,090,217	4,279,923	4,009,268
Prior period adjustments	14,052	0	0	0
July 1, as restated	9,921,279	5,090,217	4,279,923	4,009,268
June 30	$ 8,879,162	9,907,227	5,090,217	4,279,923

* Source - Prior year audit reports.

SMITH COUNTH SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Funds
Last Four Years

UNAUDITED

	2013	2012*	2011*	2010*
Revenues				
Local sources	$ 5,243,881	4,922,375	4,864,379	4,340,880
State sources	13,724,435	14,218,427	13,553,813	14,202,183
Federal sources	3,361,664	3,377,946	4,922,818	4,573,095
Sixteenth section sources	712,801	906,089	1,087,047	1,186,735
Total Revenues	23,042,781	23,424,837	24,428,057	24,302,893
Expenditures				
Instruction	13,438,203	13,386,372	13,412,675	13,908,645
Support services	8,365,358	7,459,725	7,385,515	6,942,723
Noninstructional services	1,656,621	1,577,577	1,592,596	1,570,679
Sixteenth section	64,880	46,813	87,427	75,129
Facilities acquisition and construction	0	465,911	1,876,122	10,506
Debt service				
Principal	130,000	2,465,000	380,875	355,717
Interest	194,071	188,931	140,929	82,425
Other	1,400	3,800	935	1,835
Total Expenditures	23,850,533	25,594,129	24,877,074	22,947,659
Excess (Deficiency) of Revenues Over Expenditures	(807,752)	(2,169,292)	(449,017)	1,355,234
Other Financing Sources (Uses)				
Proceeds of general obligation bonds	0	0	3,000,000	0
Insurances loss recoveries	202,522	0	21,155	4,976
Sale of transportation equipment	0	14,737	0	0
Sale of other property	855	5,008	18,488	9,800
Operating transfers in	929,899	7,092,209	715,145	674,774
Other financing sources	271	10,835	0	65
Operating transfers out	(929,899)	(7,092,209)	(715,145)	(674,774)
Other financing uses	0	(454)	(23,160)	0
Total Other Financing Sources (Uses)	203,648	30,126	3,016,483	14,841
Net Change in Fund Balances	(604,104)	(2,139,166)	2,567,466	1,370,075
Fund Balances				
July 1, as previously reported	18,180,258	20,322,273	17,748,907	16,379,517
Prior period adjustments	14,052	0	0	0
July 1, as restated	18,194,310	20,322,273	17,748,907	16,379,517
Increase (Decrease) in reserve for inventory	(3,055)	(2,849)	5,900	(685)
June 30	$ 17,587,151	18,180,258	20,322,273	17,748,907

* Source - Prior year audit reports.

REPORTS ON INTERNAL CONTROLS AND COMPLIANCE

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CHARLES L. SHIVERS

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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*

Independent Auditor's Report

Superintendent and School Board
Smith County School District

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Smith County School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Smith County School District's basic financial statements, and have issued my report thereon dated December 16, 2013.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Smith County School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Smith County School District's internal control. Accordingly, I do not express an opinion on the effectiveness of Smith County School District'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.

My 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 my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified. I did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs that I consider to be significant deficiencies. [2013-01, 2013-02 and 2013-03].

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Smith County School District's financial statements are free from material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

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Smith County School District's Response to Findings

Smith County School District's responses to the findings identified in my audit are described in the accompanying Auditee's Corrective Action Plan. Smith County School District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on them.

Purpose of this Report

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

Charles L. Shivers, CPA

Ridgeland, MS
December 16, 2013

CHARLES L. SHIVERS

Certified Public Accountant

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE AS REQUIRED BY OMB CIRCULAR A-133

Independent Auditor's Report

Superintendent and School Board
Smith County School District

Report on Compliance for Each Major Federal Program

I have audited Smith County School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Smith County School District's major federal programs for the year ended June 30, 2013. Smith County School District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

My responsibility is to express an opinion on compliance for each of Smith County School District's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Smith County School District's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination of Smith County School District's compliance.

Opinion on Each Major Federal Program

In my opinion, Smith County School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of Smith County School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered Smith County School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of

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expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of Smith County School District's internal control over compliance.

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

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

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

Charles L. Shivers, CPA

Ridgeland, MS
December 16, 2013

INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

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CHARLES L. SHIVERS

Certified Public Accountant

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Ridgeland, Mississippi 39158

Phone: 601.941.6649
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Superintendent and School Board
Smith County School District

I have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Smith County School District as of and for the year ended June 30, 2013, which collectively comprise Smith County School District's basic financial statements and have issued my report thereon dated December 16, 2013. I conducted my 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.

Section 37-9-18(3)(a), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure that the school district is complying with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), relating to classroom supply funds." As required by the state legal compliance audit program prescribed by the Office of the State Auditor, I have also performed procedures to test compliance with certain other state laws and regulations. However, providing an opinion on compliance with all state laws and regulations was not an objective of my audit and, accordingly, I do not express such an opinion.

The results of my procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported $-0- of classroom supply funds carried over from previous years.

Section 37-9-18(3)(b), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure correct and appropriate coding at the function level. The audit must include a report showing the correct and appropriate functional level expenditure codes in expenditures by the school district."

The results of my procedures performed to test compliance with the requirements of Section 37-9-18(3)(b), Miss. Code Ann. (1972), disclosed no instances of noncompliance related to incorrect or inappropriate functional level expenditure coding.

As required by the state legal compliance audit program prescribed by the Office of the State Auditor, I have also performed procedures to test compliance with certain other state laws and regulations. However, providing an opinion on compliance with all state laws and regulations was not an objective of my audit and, accordingly, I do not express such an opinion.

The results of procedures performed to test compliance with certain other state laws and regulations and my audit of the financial statements did not disclose any instances of noncompliance with other state laws and regulations.

This report is intended solely for the information and use of the school board and management, entities with accreditation overview, and federal awarding agencies, the Office of the State Auditor and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Charles L. Shivers, CPA

Ridgeland, MS
December 16, 2013

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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SMITH COUNTY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
June 30, 2013

Section I: Summary of Auditor's Results

Financial Statements:

1.	Type of auditor's report issued on the basic financial statements:	Unqualified
2.	Noncompliance material to the basic financial statements noted?	No
3.	Internal control over financial reporting:	
	a. Material weaknesses identified?	No
	b. Significant deficiency identified that are not considered to be material weaknesses?	Yes

Federal Awards:

4.	Type of auditor's report issued on compliance for major federal programs:	Unqualified
5.	Internal control over major programs:	
	a. Material weaknesses identified?	No
	b. Significant deficiency identified that are not considered to be material weaknesses?	None Reported
6.	Any audit finding(s) disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	No
7.	Federal program identified as major program:	
	a. Child nutrition cluster	
	CFDA #: 10.553	
	CFDA #: 10.555	
	b. Title I grants to local educational agencies	
	CFDA #: 84.010	
	c. Special education cluster	
	CFDA #: 84.027	
	CFDA#: 84.173	
8.	The dollar threshold used to distinguish between type A and type B programs:	$300,000
9.	Auditee qualified as a low-risk auditee?	No
10	Prior fiscal year audit findings and questioned costs relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section ____.315(b) of OMB Circular A-133?	No

Section II: Financial Statement Findings

Significant deficiencies identified that are not considered to be material weaknesses.

Finding 2013-01

CONDITION: The business manager initiates, prepares, approves and enters all journal entries to correct, post, or otherwise cause the proper statement of the account balances and/or classes of transactions.
CRITERIA: An appropriately and properly designed system of accounting controls would have these duties segregated to the greatest extent possible.
CAUSE OF CONDITION: This condition exists due to the limited staff available with adequate fund and governmental accounting knowledge.
EFFECT OF CONDITION: This condition could lead to errors being made and those errors not being prevented or detected.

RECOMMENDATION: It is recommended that the duties of the business manager relating to journal entries be segregated to the greatest extent possible.

Finding 2013-02

CONDITION: The accounts payable clerk has total access to data entry into accounting software without any review or oversight by management.
CRITERIA: A well designed system of accounting controls would be structured such that assurances of correct and proper accounts payable data entry would be obtained by management.
CAUSE OF CONDITION: The cause of the condition is an inadequately design system of controls.
EFFECT OF CONDITION: The effect of this condition could result in errors occurring in the data entry of claims payable and those errors not being prevented or detected by management.
RECOMMENDATION: It is recommended that the accounting software generate a report comparing purchase order amounts to actual claim amounts. Management would then document their review of the report noting explanations of differences not meeting their expectations.

Finding 2013-03

CONDITION: The food service department enters their claims (invoices) for payment. There is no system of review by the central office staff for assurance of accuracy regarding the data entry by this department.
CRITERIA: A well designed system of accountability would be such that these claims would not be entered by that department. Rather, the data entry would be performed by the central office staff with assigned duties to process claims for payment.
CAUSE OF CONDITION: The cause of this condition is an inadequately designed system of accounting controls for payment of claims.
EFFECT OF CONDITION: The effect of this condition could result in errors occurring in accounting for payment of school claims and those errors not being prevented or detected.
RECOMMENDATION: It is recommended that the processing of invoices for payment be performed by the central office staff with assigned duties to process claims for payment. However, should it be the desire of management to maintain the current data entry process by this department, it is recommended that a documented system of review be implemented at the central office to gain assurance of the accuracy of the data entry by this department.

Section III: Federal Award Findings and Questioned Costs

The results of my tests did not disclose any findings and questioned costs related to the federal awards.

AUDITEE'S CORRECTIVE ACTION PLAN

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SMITH COUNTY SCHOOL DISTRICT

Boyd N. Hillman, Sr.
P.O. Box 308
Raleigh, Mississippi 39153
601-782-4296
601-782-9895 (Fax)

December 16, 2013

As required by Section 315(c) of OMB Circular A-133, the Smith County School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended June 30, 2013.

Finding 2013-01

Corrective Action Plan

a. Contact person responsible for corrective action

Name: Lisa Thompson
Title: Business Manager
Phone Number: 601-782-4296

b. Description of correction action to be taken

The school district will implement adequate controls over the process of recording transactions and/or reconciling of the accounts, so that these are not performed by the same individual. The district did contract out with a third party in order to segregate duties.

c. Anticipated completion date of corrective action
January 1, 2014

Finding 2013-02

Corrective Action Plan

a. Contact person responsible for corrective action

Name: Lisa Thompson
Title: Business Manager
Phone Number: 601-782-4296

b. Description of correction action to be taken

The software company will write a query allowing the district to compare claims amounts against purchase order amounts for verification by someone other than the accounts payable clerk, before checks are printed.

c. Anticipated completion date of corrective action

January 1, 2014

Finding 2013-03

Corrective Action Plan

a. Contact person responsible for corrective action

Name: Lisa Thompson
Title: Business Manager
Phone Number: 601-782-4296

b. Description of correction action to be taken

Claims entered in the system by the food service department will be verified by someone at central office before checks are printed.

c. Anticipated completion date of corrective action

January 1, 2014

Sincerely,

Superintendent of Education