

SMITH COUNTY, MISSISSIPPI

Audited Financial Statements and Special Reports

For the Year Ended September 30, 2009



STACEY E. PICKERING

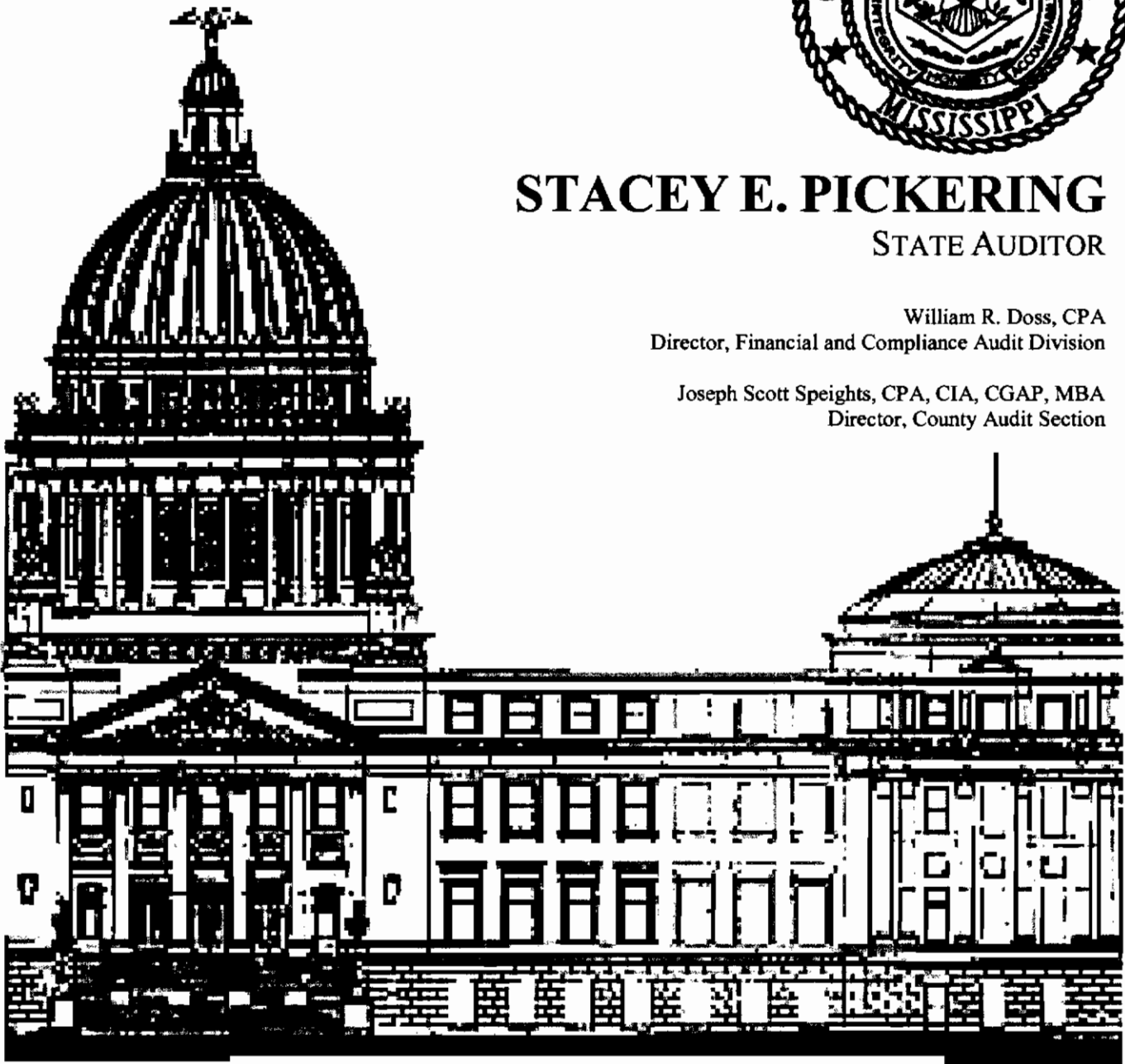
STATE AUDITOR

William R. Doss, CPA

Director, Financial and Compliance Audit Division

Joseph Scott Speights, CPA, CIA, CGAP, MBA

Director, County Audit Section



A Report from the County Audit Section

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State of Mississippi

OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

December 10, 2010

Members of the Board of Supervisors
Smith County, Mississippi

Dear Board Members:

I am pleased to submit to you the 2009 financial and compliance audit report for Smith County. This audit was performed pursuant to Section 7-7-211(e), Mississippi Code Ann. (1972). The audit was performed 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.

I appreciate the cooperation and courtesy extended by the officials and employees of Smith County throughout the audit. Thank you for working to move Mississippi forward by serving as a supervisor for Smith County. If I or this office can be of any further assistance, please contact me or J. Scott Speights of my staff at (601) 576-2674.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Stacey E. Pickering".

Stacey E. Pickering
State Auditor

SMITH COUNTY
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SMITH COUNTY

FINANCIAL SECTION

SMITH COUNTY

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State of Mississippi

OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Supervisors
Smith County, Mississippi

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Smith County, Mississippi, as of and for the year ended September 30, 2009, which collectively comprise the basic financial statements of the county's primary government as listed in the table of contents. These financial statements are the responsibility of the county's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Management has not maintained adequate subsidiary records documenting the existence, completeness and valuation of the governmental activities capital assets reported on the Statement of Net Assets at \$34,458,011 as of September 30, 2009. Accounting principles generally accepted in the United States of America require adequate subsidiary records documenting the existence, completeness and valuation of capital assets. The amount by which this departure would affect the assets and expenses of the governmental activities is not reasonably determinable. Accordingly, we were unable to satisfy ourselves as to the fair presentation of these capital assets and related transactions of the governmental activities.

The financial statements do not include financial data of the county's legally separate component unit. Accounting principles generally accepted in the United States of America require the financial data for this component unit to be reported with the financial data of the county's primary government unless the county also issues financial statements for the financial reporting entity that include the financial data for its component unit. The county has not issued such reporting entity financial statements. The amount by which this departure would affect the assets, liabilities, net assets, revenues and expenses of the aggregate discretely presented component unit is not reasonably determinable.

In our opinion, because of the omission of the discretely presented component unit, as discussed previously, the financial statements referred to previously do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the aggregate discretely presented component unit of Smith County, Mississippi, as of September 30, 2009, or the changes in financial position thereof for the year then ended.

In addition, in our opinion, except for the effects of the matters discussed in the third paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities for Smith County, Mississippi, as of September 30, 2009, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

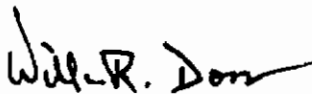
In addition, in our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the business-type activities, each major fund and the aggregate remaining fund information of Smith County, Mississippi, as of September 30, 2009, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2010, on our consideration of Smith County, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Smith County, Mississippi, has not presented Management's Discussion and Analysis that is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board.

The Budgetary Comparison Schedules and corresponding notes are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Smith County, Mississippi's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

December 10, 2010

SMITH COUNTY

FINANCIAL STATEMENTS

SMITH COUNTY

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SMITH COUNTY
Statement of Net Assets
September 30, 2009

Exhibit 1

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash	\$ 7,402,587	187,889	7,590,476
Property tax receivable	5,448,141		5,448,141
Accounts receivable (net of allowance for uncollectibles of \$185,532)		219,013	219,013
Fines receivable (net of allowance for uncollectibles of \$82,432)	59,258		59,258
Intergovernmental receivables	68,160		68,160
Other receivables	4,342		4,342
Internal balances	22,265	(22,265)	
Capital assets:			
Land and construction in progress	4,196,991		4,196,991
Other capital assets, net	30,261,020	103,641	30,364,661
Total Assets	47,462,764	488,278	47,951,042
LIABILITIES			
Claims payable	432,123	33,534	465,657
Intergovernmental payables	184,752		184,752
Accrued interest payable	17,344		17,344
Deferred revenue	5,448,141		5,448,141
Other payables	37,611		37,611
Long-term liabilities			
Due within one year:			
Capital debt	987,018	41,346	1,028,364
Due in more than one year:			
Capital debt	5,763,266	16,712	5,779,978
Total Liabilities	12,870,255	91,592	12,961,847
NET ASSETS			
Invested in capital assets, net of related debt	27,707,727	45,583	27,753,310
Restricted:			
Expendable:			
General government	404,827		404,827
Debt service	825,000		825,000
Public safety	16,261		16,261
Public works	1,887,878	351,103	2,238,981
Health and welfare	27,903		27,903
Culture and recreation	12,021		12,021
Economic development	967		967
Capital projects	2,459,266		2,459,266
Unrestricted	1,250,659		1,250,659
Total Net Assets	\$ 34,592,509	396,686	34,989,195

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

SMITH COUNTY
Statement of Activities
For the Year Ended September 30, 2009

Exhibit 2

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Primary government:							
Governmental activities:							
General government	\$ 2,213,486	275,038	3,963		(1,934,485)		(1,934,485)
Public safety	2,030,281	155,437	182,093	120,660	(1,572,091)		(1,572,091)
Public works	3,830,706	5,573	756,887	52,151	(3,016,095)		(3,016,095)
Health and welfare	106,814		24,367		(82,447)		(82,447)
Culture and recreation	179,549		13,000		(166,549)		(166,549)
Conservation of natural resources	49,871				(49,871)		(49,871)
Economic development and assistance	69,728		3,017		(66,711)		(66,711)
Interest on long-term debt	294,849				(294,849)		(294,849)
Total Governmental Activities	8,775,284	436,048	983,327	172,811	(7,183,098)	0	(7,183,098)
Business-type activities:							
Solid waste	413,028	780,154	24,547			391,673	391,673
Total Business-type Activities	413,028	780,154	24,547	0	0	391,673	391,673
Total Primary Government	\$ 9,188,312	1,216,202	1,007,874	172,811	(7,183,098)	391,673	(6,791,425)
General revenues:							
Property taxes					\$ 5,131,530		5,131,530
Road & bridge privilege taxes					195,126		195,126
Grants and contributions not restricted to specific programs					1,275,622		1,275,622
Unrestricted interest income					373,979	70	374,049
Miscellaneous					499,592	8,658	508,250
Total General Revenues					7,475,849	8,728	7,484,577
Changes in Net Assets					292,751	400,401	693,152
Net Assets - Beginning					34,299,758	3,789	34,303,547
Prior period adjustments						(7,504)	(7,504)
Net Assets - Beginning, as restated					34,299,758	(3,715)	34,296,043
Net Assets - Ending					\$ 34,592,509	396,686	34,989,195

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

SMITH COUNTY

Balance Sheet - Governmental Funds
September 30, 2009

Exhibit 3

	Major Funds					Total Governmental Funds
	General Fund	Countywide Road & Bridge Fund	Chancery Building Fund	Construction Fund	Other Governmental Funds	
ASSETS						
Cash	\$ 1,375,642	526,108	281,793	2,279,365	2,939,679	7,402,587
Property tax receivable	3,377,180	1,215,861			855,100	5,448,141
Fines receivable (net of allowance for uncollectibles of \$82,432)	59,258					59,258
Intergovernmental receivables	68,160					68,160
Other receivables	4,342					4,342
Due from other funds	40,627	17,861			30,993	89,481
Advances to other funds	128,138					128,138
Total Assets	\$ 5,053,347	1,759,830	281,793	2,279,365	3,825,772	13,200,107
LIABILITIES AND FUND BALANCES						
Liabilities:						
Claims payable	\$ 137,268	17	161,515		133,323	432,123
Intergovernmental payables	109,475					109,475
Due to other funds	52,758				30,000	82,758
Advances from other funds		71,373			116,500	187,873
Deferred revenue	3,436,438	1,215,861			855,100	5,507,399
Other payables	37,611					37,611
Total Liabilities	3,773,550	1,287,251	161,515	0	1,134,923	6,357,239
Fund balances:						
Reserved for:						
Debt service					842,344	842,344
Advances	128,138					128,138
Unreserved - undesignated, reported in:						
General Fund	1,151,659	472,579			1,788,882	1,151,659
Special Revenue Funds			120,278	2,279,365	59,623	2,261,461
Capital Project Funds			120,278	2,279,365		2,459,266
Total Fund Balances	1,279,797	472,579	240,556	2,279,365	2,690,849	6,842,868
Total Liabilities and Fund Balances	\$ 5,053,347	1,759,830	281,793	2,279,365	3,825,772	13,200,107

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

SMITH COUNTY

Exhibit 3-1

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
September 30, 2009

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 6,842,868
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets are used in governmental activities and are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of \$74,270,293.	34,458,011
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	59,258
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(6,750,284)
Accrued interest payable is not due and payable in the current period and, therefore, are not reported in the funds.	<u>(17,344)</u>
Total Net Assets - Governmental Activities	\$ <u>34,592,509</u>

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

SMITH COUNTY

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
For the Year Ended September 30, 2009

Exhibit 4

	Major Funds					Other Governmental Funds	Total Governmental Funds
	General Fund	Countywide Road & Bridge Fund	Chancery Building Fund	Jail Construction Fund			
REVENUES							
Property taxes	\$ 3,256,443	1,001,637				873,450	5,131,530
Road and bridge privilege taxes						195,126	195,126
Licenses, commissions and other revenue	110,721					4,325	115,046
Fines and forfeitures	155,660						155,660
Intergovernmental revenues	675,843	10,669				1,745,248	2,431,760
Charges for services	16,812					126,758	143,570
Interest income	126,809	6,616	113,129	85,858		41,567	373,979
Miscellaneous revenues	231,790	28,558				66,434	326,782
Total Revenues	4,574,078	1,047,480	113,129	85,858		3,052,908	8,873,453
EXPENDITURES							
Current:							
General government	2,236,674		3,125,801				5,362,475
Public safety	1,704,189			8,796		281,265	1,994,250
Public works		200,467				2,487,187	2,687,654
Health and welfare	103,797					3,017	106,814
Culture and recreation	177,607					1,942	179,549
Conservation of natural resources	49,871						49,871
Economic development and assistance	21,488					48,240	69,728
Debt service:							
Principal	25,550	26,188				890,065	941,803
Interest	9,432	819				285,438	295,689
Total Expenditures	4,328,608	227,474	3,125,801	8,796		3,997,154	11,687,833
Excess of Revenues over (under) Expenditures	245,470	820,006	(3,012,672)	77,062		(944,246)	(2,814,380)

SMITH COUNTY
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
For the Year Ended September 30, 2009

	Major Funds					Other Governmental Funds	Total Governmental Funds
	General Fund	Countywide Road & Bridge Fund	Chancery Building Fund	Jail Construction Fund			
OTHER FINANCING SOURCES (USES)							
Long-term capital debt issued	24,773	21,481				499,708	545,962
Proceeds from sale of capital assets	10,297					303,000	313,297
Transfers in	214,687					763,635	978,322
Transfers out	(45,000)	(710,980)				(222,342)	(978,322)
Total Other Financing Sources and Uses	204,757	(689,499)	0	0		1,344,001	859,259
Net Changes in Fund Balances	450,227	130,507	(3,012,672)	77,062		399,755	(1,955,121)
Fund Balances - Beginning	829,570	342,072	3,132,950	2,202,303		2,291,094	8,797,989
Fund Balances - Ending	\$ 1,279,797	472,579	120,278	2,279,365		2,690,849	6,842,868

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

SMITH COUNTY

Exhibit 4-1

Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2009

	<u>Amount</u>
Net Changes in Fund Balances - Governmental Funds	\$ (1,955,121)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Thus, the change in net assets differs from the change in fund balances by the amount that capital outlays of \$3,965,807 exceeded depreciation of \$1,995,901 in the current period.	1,969,906
In the Statement of Activities, only gains and losses from the sale of capital assets are reported, whereas in the Governmental Funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net assets differs from the change in fund balances by the amount of the net gain of \$172,810 and the proceeds from the sale of \$313,297 in the current period.	(140,487)
Fine revenue recognized on the modified accrual basis in the funds during the current year is reduced because prior year recognition would have been required on the Statement of Activities using the full-accrual basis of accounting.	21,772
Debt proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Thus, the change in net assets differs from the change in fund balances by the amount that debt repayments of \$941,803 exceeded debt proceeds of \$545,962.	395,841
Under the modified accrual basis of accounting used in the Governmental Funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. However, in the Statement of Activities, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues. Thus, the change in net assets differs from the change in fund balances by the amount of decrease in accrued interest payable.	<u>840</u>
Change in Net Assets of Governmental Activities	\$ <u>292,751</u>

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

SMITH COUNTY
Statement of Net Assets - Proprietary Fund
September 30, 2009

Exhibit 5

	Business-type Activities - Enterprise Fund
	<u>Solid Waste Fund</u>
ASSETS	
Current assets:	
Cash	\$ 187,889
Accounts receivable (net of allowance for uncollectibles of \$185,532)	219,013
Total Current Assets	<u>406,902</u>
Noncurrent assets:	
Capital assets:	
Other capital assets, net	103,641
Total Noncurrent Assets	<u>103,641</u>
Total Assets	<u>510,543</u>
LIABILITIES	
Current liabilities:	
Claims payable	33,534
Due to other funds	10,627
Advances from other funds	11,638
Capital debt:	
Capital leases payable	41,346
Total Current Liabilities	<u>97,145</u>
Noncurrent liabilities:	
Capital debt:	
Capital leases payable	16,712
Total Noncurrent Liabilities	<u>16,712</u>
NET ASSETS	
Invested in capital assets, net of related debt	45,583
Restricted for:	
Public works	351,103
Total Net Assets	\$ <u>396,686</u>

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

SMITH COUNTY

Exhibit 6Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Fund
For the Year Ended September 30, 2009

	Business-type Activities - Enterprise Fund
	Solid Waste Fund
Operating Revenues	
Charges for services	\$ 780,154
Operating grants	24,547
Total Operating Revenues	<u>804,701</u>
Operating Expenses	
Personal services	154,753
Contractual services	132,700
Materials and supplies	72,106
Depreciation expense	38,429
Indirect administrative cost	10,627
Total Operating Expenses	<u>408,615</u>
Operating Income (Loss)	<u>396,086</u>
Nonoperating Revenues (Expenses)	
Interest income	70
Insurance proceeds	8,658
Interest expense	(3,470)
Loss on the sale of capital assets	(943)
Net Nonoperating Revenue (Expenses)	<u>4,315</u>
Changes in Net Assets	<u>400,401</u>
Net Assets - Beginning	3,789
Prior period adjustment	(7,504)
Net Assets - Beginning, as restated	<u>(3,715)</u>
Net Assets - Ending	<u>\$ 396,686</u>

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

SMITH COUNTY
Statement of Cash Flows - Proprietary Fund
For the Year Ended September 30, 2009

Exhibit 7

	Business-type Activities - Enterprise Fund
	Solid Waste Fund
Cash Flows From Operating Activities	
Receipts from customers	\$ 693,549
Payments to suppliers	(72,179)
Payments to employees	(154,753)
Payments for contractual services	(133,400)
Operating grants received	24,547
Net Cash Provided (Used) by Operating Activities	357,764
Cash Flows From Noncapital Financing Activities	
Cash received from other funds:	
Loans from other funds	18,500
Cash paid to other funds:	
Interfund loan repayments	(189,880)
Net Cash Provided (Used) by Noncapital Financing Activities	(171,380)
Cash Flows From Capital and Related Financing Activities	
Acquisition and construction of capital assets	(5,000)
Proceeds from sale of capital assets	250
Cash received from insurance proceeds	8,658
Principal paid on long-term debt	(49,239)
Interest paid on debt	(3,470)
Net Cash Provided (Used) by Capital and Related Financing Activities	(48,801)
Cash Flows From Investing Activities	
Interest on deposits	70
Net Cash Provided (Used) by Investing Activities	70
Net Increase (Decrease) in Cash and Cash Equivalents	137,653
Cash and Cash Equivalents at Beginning of Year	50,236
Cash and Cash Equivalents at End of Year	\$ 187,889
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating income (loss)	\$ 396,086
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	38,429
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(86,605)
Increase (decrease) in claims payable	(773)
Increase (decrease) in interfund payables	107,219
Increase (decrease) in advances from other funds	(96,592)
Total Adjustments	(38,322)
Net Cash Provided (Used) by Operating Activities	\$ 357,764

Noncash Capital Financing Activity:

Principal payments of \$22,648 were made on the lease during the year.

Principal payments of \$26,591 were made on the lease during the year.

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

SMITH COUNTY
Statement of Fiduciary Assets and Liabilities
September 30, 2009

Exhibit 8

	<u>Agency Funds</u>
ASSETS	
Cash	\$ 157,994
Due from other funds	3,904
Advances to other funds	<u>71,373</u>
Total Assets	\$ <u>233,271</u>
LIABILITIES	
Amounts held in custody for others	\$ 146,347
Intergovernmental payables	<u>86,924</u>
Total Liabilities	\$ <u>233,271</u>

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

SMITH COUNTY

Notes to the Financial Statements For the Year Ended September 30, 2009

(1) Summary of Significant Accounting Policies.

A. Financial Reporting Entity.

Smith County is a political subdivision of the State of Mississippi. The county is governed by an elected five-member Board of Supervisors. Accounting principles generally accepted in the United States of America require Smith County to present these financial statements on the primary government and its component units which have significant operational or financial relationships with the county.

Management has chosen to omit from these financial statements the following component unit which has a significant operational or financial relationship with the county. Accordingly, the financial statements do not include the data of this component unit necessary for reporting in conformity with accounting principles generally accepted in the United States of America.

- Smith County Economic Development Authority

State law pertaining to county government provides for the independent election of county officials. The following elected and appointed officials are all part of the county legal entity and therefore are reported as part of the primary government financial statements.

- Board of Supervisors
- Chancery Clerk
- Circuit Clerk
- Justice Court Clerk
- Purchase Clerk
- Tax Assessor-Collector
- Sheriff

B. Basis of Presentation.

The county's basic financial statements consist of government-wide statements, including a Statement of Net Assets and a Statement of Activities, fund financial statements and accompanying note disclosures, which provide a detailed level of financial information.

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information concerning the county as a whole. The statements include all nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are generally financed through taxes, intergovernmental revenues and other nonexchange revenues and are reported separately from business-type activities. Business-type activities rely mainly on fees and charges for support.

The Statement of Net Assets presents the financial condition of the governmental activities and business-type activities of the county at year-end. The Government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the county's governmental activities and business-type activities. Direct expenses are those that are specifically associated with a service, program or department and therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other revenues not classified as program revenues are presented as general revenues of the county, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business-type activities or governmental function is self-financing or draws from the general revenues of the county.

SMITH COUNTY

Notes to the Financial Statements For the Year Ended September 30, 2009

Fund Financial Statements:

Fund financial statements of the county are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures. Funds are organized into governmental, proprietary and fiduciary. Major individual Governmental Funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column.

C. Measurement Focus and Basis of Accounting.

The Government-wide, Proprietary Funds and Fiduciary Funds (excluding agency funds) financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of when the related cash flows take place. Property taxes are recognized as revenue in the year for which they are levied. Shared revenues are recognized when the provider government recognizes the liability to the county. Grants are recognized as revenues as soon as all eligibility requirements have been satisfied. Agency funds have no measurement focus, but use the accrual basis of accounting.

The county's Proprietary Fund applies all applicable Governmental Accounting Standards Board (GASB) pronouncements and only the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

The revenues and expenses of Proprietary Funds are classified as operating or nonoperating. Operating revenues and expenses generally result from providing services in connection with a Proprietary Fund's primary operations. All other revenues and expenses are reported as nonoperating.

Governmental financial statements are presented using a current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period when they are both measurable and available to finance operations during the year or to liquidate liabilities existing at the end of the year. Available means collected in the current period or within 60 days after year-end to liquidate liabilities existing at the end of the year. Measurable means knowing or being able to reasonably estimate the amount. Expenditures are recognized in the accounting period when the related fund liabilities are incurred. Debt service expenditures and expenditures related to compensated absences and claims and judgments, are recognized only when payment is due. Property taxes, state appropriations and federal awards are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period.

The county reports the following major Governmental Funds:

General Fund - This fund is used to account for all activities of the general government for which a separate fund has not been established.

Countywide Road and Bridge Fund - This fund is used to account for resources designated and used for the maintenance of the county's infrastructure system.

Chancery Building Fund - This fund is used to account for bond proceeds designated to be used for the construction of a new chancery building.

Jail Construction Fund - This fund is used to account for bond proceeds designed to be used for construction of a new jail.

SMITH COUNTY

Notes to the Financial Statements For the Year Ended September 30, 2009

The county reports the following major Proprietary Fund:

Solid Waste Fund - This fund is used to account for the county's activities of disposal of solid waste within the county.

Additionally, the county reports the following fund types:

GOVERNMENTAL FUND TYPES

Special Revenue Funds - These funds are used to account for the proceeds of specific revenue sources (other than for major capital projects) that are legally restricted to expenditures for specified purposes. Special Revenue Funds account for, among others, certain federal grant programs, taxes levied with statutorily defined distributions and other resources restricted as to purpose.

Debt Service Funds - These funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Capital Projects Funds - These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities. Such resources are derived principally from proceeds of general obligation bond issues and federal grants.

PROPRIETARY FUND TYPES

Enterprise Funds - These funds are used to account for those operations that are financed and operated in a manner similar to private business enterprises or where the county has decided that periodic determination of revenues earned, expenses incurred and/or net income is necessary for management accountability.

FIDUCIARY FUND TYPES

Agency Funds - These funds account for various taxes, deposits and other monies collected or held by the county, acting in the capacity of an agent, for distribution to other governmental units or designated beneficiaries.

D. Account Classifications.

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing and Financial Reporting* as issued in 2005 by the Government Finance Officers Association.

E. Deposits and Investments.

State law authorizes the county to invest in interest bearing time certificates of deposit for periods of fourteen days to one year with depositories and in obligations of the U.S. Treasury, State of Mississippi, or any county, municipality or school district of this state. Further, the county may invest in certain repurchase agreements.

Cash includes cash on hand, demand deposits, all certificates of deposit and cash equivalents, which are short-term highly liquid investments that are readily convertible to cash (generally three months or less). Investments in governmental securities are stated at fair value. However, the county did not invest in any governmental securities during the fiscal year.

SMITH COUNTY

Notes to the Financial Statements For the Year Ended September 30, 2009

F. Receivables.

Receivables are reported net of allowances for uncollectible accounts, where applicable.

G. Interfund Transactions and Balances.

Transactions between funds that are representative of short-term lending/borrowing arrangements and transactions that have not resulted in the actual transfer of cash at the end of the fiscal year are referred to as "due to/from other funds." Noncurrent portions of interfund receivables and payables are reported as "advances 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. Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. Any outstanding balances between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

H. Capital Assets.

Capital acquisition and construction are reflected as expenditures in Governmental Fund statements and the related assets are reported as capital assets in the applicable governmental or business-type activities column in the government-wide financial statements. However, the county did not maintain adequate subsidiary records documenting the existence, completeness and valuation of capital assets. All purchased capital assets are stated at historical cost where records are available and at an estimated historical cost where no records exist. Capital assets include significant amounts of infrastructure which have been valued at estimated historical cost. The estimated historical cost was based on replacement cost multiplied by the consumer price index implicit price deflator for the year of acquisition. The extent to which capital assets, other than infrastructure, costs have been estimated and the methods of estimation are not readily available. Donated capital assets are recorded at estimated fair market value at the time of donation. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend their respective lives are not capitalized; however, improvements are capitalized. Interest expenditures are not capitalized on capital assets.

Governmental accounting and financial reporting standards allow governments meeting certain criteria to elect not to report major general infrastructure assets retroactively. Smith County elected to report general infrastructure assets acquired after September 30, 1980 on the government-wide financial statements. General infrastructure assets include all roads and bridges and other infrastructure assets.

Capital assets acquired or constructed for Proprietary Fund operations are capitalized at cost in the respective funds in which they are utilized. No interest is capitalized on self-constructed assets because noncapitalization of interest does not have a material effect on the county's financial statements. Donated capital assets are recorded at their fair value at the time of donation.

SMITH COUNTY

Notes to the Financial Statements For the Year Ended September 30, 2009

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives are used to report capital assets in the government-wide statements and Proprietary Funds. Depreciation is calculated on the straight-line basis for all assets, except land. A full year's depreciation expense is taken for all purchases and sales of capital assets during the year. The following schedule details those thresholds and estimated useful lives:

	Capitalization Thresholds	Estimated Useful Life
Land	\$ 0	N/A
Infrastructure	0	20-50 years
Buildings	50,000	40 years
Mobile equipment	5,000	5-10 years
Furniture and equipment	5,000	3-7 years
Leased property under capital leases	*	*

* Leased property capitalization policy and estimated useful life will correspond with the amounts for the asset classification, as listed above.

I. Long-term Liabilities.

Long-term liabilities are the unmatured principal of bonds, loans, notes or other forms of noncurrent or long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments.

In the government-wide financial statements and in the Proprietary Fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or Proprietary Funds Statement of Net Assets.

J. Equity Classifications.

Government-wide Financial Statements:

Equity is classified as net assets and displayed in three components:

Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings attributable to the acquisition, construction or improvement of those assets.

Restricted net assets - Consists of net assets with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or law through constitutional provisions or enabling legislation.

Unrestricted net assets - All other net assets not meeting the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Financial Statements:

Governmental fund equity is classified as fund balance. Fund balance is classified as reserved or unreserved with unreserved classified as designated and undesignated.

SMITH COUNTY

Notes to the Financial Statements For the Year Ended September 30, 2009

Unreserved fund balance represents the amount available for budgeting future operations. Reservations of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose.

K. Property Tax Revenues.

Numerous statutes exist under which the Board of Supervisors may levy property taxes. The selection of authorities is made based on the objectives and responsibilities of the county. Restrictions associated with property tax levies vary with the statutory authority. The amount of increase in certain property taxes is limited by state law. Generally, this restriction provides that these tax levies shall produce no more than 110% of the amount which resulted from the assessments of the previous year.

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

Accounting principles generally accepted in the United States of America require property taxes to be recognized at the levy date if measurable and available. All property taxes are recognized as revenue in the year for which they are levied. Motor vehicle and mobile home taxes do not meet the measurability and collectability criteria for property tax recognition because the lien and due date cannot be established until the date of original purchase occurs.

L. Intergovernmental Revenues in Governmental Funds.

Intergovernmental revenues, consisting of grants, entitlements and shared revenues, are usually recorded in Governmental Funds when measurable and available. However, the "available" criterion applies for certain federal grants and shared revenues when the expenditure is made because expenditure is the prime factor for determining eligibility. Similarly, if cost sharing or matching requirements exist, revenue recognition depends on compliance with these requirements.

(2) Prior Period Adjustment.

A summary of significant fund equity adjustment is as follows:

Exhibit 2 - Statement of Activities.

Business-type Activities.

<u>Explanation</u>	<u>Amount</u>
Depreciation correction from prior year	\$ <u>(7,504)</u>

Exhibit 6 - Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Fund.

<u>Explanation</u>	<u>Amount</u>
Depreciation correction from prior year	\$ <u>(7,504)</u>

SMITH COUNTY

Notes to the Financial Statements For the Year Ended September 30, 2009

(3) Deposits.

The carrying amount of the county's total deposits with financial institutions at September 30, 2009, was \$7,748,470, and the bank balance was \$8,071,857. The collateral for public entities' 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 (FDIC).

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of the failure of a financial institution, the county will not be able to recover deposits or collateral securities that are in the possession of an outside party. The county does not have a formal policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the county. 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 county.

(4) Interfund Transactions and Balances.

The following is a summary of interfund balances at September 30, 2009:

A. Due From/To Other Funds:

Receivable Fund	Payable Fund	Amount
General	Other Governmental Funds	\$ 30,000
General	Solid Waste Fund	10,627
Countywide Road & Bridge Fund	General	17,861
Other Governmental Funds	General	30,993
Agency Funds	General	3,904
Total		\$ 93,385

The receivables represent the tax revenue collected but not settled until October, 2009, short-term loans, and indirect cost from the Solid Waste Fund. All interfund balances are expected to be repaid within one year from the date of the financial statements.

B. Advances from/to Other Funds:

Receivable Fund	Payable Fund	Amount
General	Other Governmental Funds	116,500
General	Solid Waste Fund	11,638
Agency Funds	Countywide Road & Bridge Fund	71,373
Total		\$ 199,511

The advances represent indirect costs associated with solid waste operations and an interfund loan resulting from errors in the settlement of tax revenues. These advances are not expected to be repaid within one year from the date of the financial statements.

SMITH COUNTY

Notes to the Financial Statements For the Year Ended September 30, 2009

C. Transfers In/Out:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General	Other Governmental Funds	\$ 212,342
General	Countywide Road & Bridge Fund	2,345
Other Governmental Funds	General	45,000
Other Governmental Funds	Countywide Road & Bridge Fund	708,635
Other Governmental Funds	Other Governmental Funds	10,000
Total		<u>\$ 978,322</u>

The principal purpose of interfund transfers was to allocate amounts to the individual road maintenance funds, to transfer specified funds for accounting purposes, or to transfer funds for operating purposes. All interfund transfers were routine and consistent with the activities of the fund making the transfer.

(5) Intergovernmental Receivables.

Intergovernmental receivables at September 30, 2009, consisted of the following:

<u>Description</u>	<u>Amount</u>
Governmental Activities:	
Legislative tax credit	\$ 59,845
Federal emergency management funds	6,701
Reimbursement of food stamp/welfare	1,614
Total Governmental Activities	<u>\$ 68,160</u>

(6) Capital Assets.

The following is a summary of capital assets activity for the year ended September 30, 2009:

Governmental activities:

	Balance Oct. 1, 2008	Additions	Deletions	Adjustments *	Balance Sept. 30, 2009
<u>Non-depreciable capital assets:</u>					
Land	\$ 407,890	58,247		(100,000)	366,137
Construction in progress	732,942	3,097,912			3,830,854
Total non-depreciable capital assets	<u>1,140,832</u>	<u>3,156,159</u>	<u>0</u>	<u>(100,000)</u>	<u>4,196,991</u>
<u>Depreciable capital assets:</u>					
Infrastructure	64,180,637				64,180,637
Buildings	2,479,368			100,000	2,579,368
Mobile equipment	4,272,414	197,928	130,186	177,293	4,517,449
Furniture and equipment	317,509	82,754	8,605		391,658
Leased property under capital leases	2,601,282	528,966	351,774	(177,293)	2,601,181
Total depreciable capital assets	<u>73,851,210</u>	<u>809,648</u>	<u>490,565</u>	<u>100,000</u>	<u>74,270,293</u>

SMITH COUNTY

Notes to the Financial Statements For the Year Ended September 30, 2009

	Balance Oct. 1, 2008	Additions	Deletions	Adjustments *	Balance Sept. 30, 2009
<u>Less accumulated depreciation for:</u>					
Infrastructure	37,526,919	1,377,908			38,904,827
Buildings	789,511	37,694			827,205
Mobile equipment	2,813,257	230,422	88,270	(12,121)	2,943,288
Furniture and equipment	280,497	47,227	8,520		319,204
Leased property under capital leases	953,266	302,650	253,288	12,121	1,014,749
Total accumulated depreciation	42,363,450	1,995,901	350,078	0	44,009,273
Total depreciable capital assets, net	31,487,760	(1,186,253)	140,487	100,000	30,261,020
Governmental activities capital assets, net	\$ 32,628,592	1,969,906	140,487	0	34,458,011

* All adjustments represent reclassification of equipment transferred to mobile equipment from paid off leases, correction of building previously classified as land, and a correction of leased property under capital leases previously classified as mobile equipment.

Business-type activities:

	Balance Oct. 1, 2008	Additions	Deletions	Adjustments **	Balance Sept. 30, 2009
<u>Depreciable capital assets:</u>					
Mobile equipment	\$ 154,153	19,349	11,927		161,575
Leased property under capital leases	194,142				194,142
Total depreciable capital assets	348,295	19,349	11,927	0	355,717
<u>Less accumulated depreciation for:</u>					
Mobile equipment	131,235	3,483	10,734	7,504	131,488
Leased property under capital leases	85,642	34,946			120,588
Total accumulated depreciation	216,877	38,429	10,734	7,504	252,076
Total depreciable capital assets, net	131,418	(19,080)	1,193	(7,504)	103,641
Business-type activities capital assets, net	\$ 131,418	(19,080)	1,193	(7,504)	103,641

** All adjustments are to correct prior period depreciation.

SMITH COUNTY

Notes to the Financial Statements For the Year Ended September 30, 2009

Depreciation expense was charged to the following functions:

	Amount
Governmental Activities:	
General government	\$ 43,855
Public safety	187,536
Public works	1,764,510
Total governmental activities depreciation expense	\$ 1,995,901
Business-type activities:	
Solid waste	\$ 38,429

Commitments with respect to unfinished capital projects at September 30, 2009, consisted of the following:

Description of Commitment	Remaining Financial Commitment	Expected Date of Completion
Chancery Building	\$ 179,840	March 2010
Jail	\$ 1,900,000	Unknown

(7) Claims and Judgments.

Risk Financing.

The county finances its exposure to risk of loss related to workers' compensation for injuries to its employees through the Mississippi Public Entity Workers' Compensation Trust, a public entity risk pool. The county pays premiums to the pool for its workers' compensation insurance coverage, and the participation agreement provides that the pool will be self-sustaining through member premiums. The retention for the pool is \$1,000,000 for each accident and completely covers statutory limits set by the Workers' Compensation Commission. Risk of loss is remote for claims exceeding the pool's retention liability. However, the pool also has catastrophic reinsurance coverage for statutory limits above the pool's retention, provided by Safety National Casualty Corporation, effective from January 1, 2009, to January 1, 2010. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

(8) Capital Leases.

As Lessee:

The county is obligated for the following capital assets acquired through capital leases as of September 30, 2009:

Classes of Property	Governmental Activities	Business-type Activities
Mobile equipment	\$ 2,302,743	194,142
Furniture and equipment	298,438	
Total	2,601,181	194,142
Less: Accumulated depreciation	1,014,749	120,588
Leased Property Under Capital Leases	\$ 1,586,432	73,554

SMITH COUNTY

Notes to the Financial Statements For the Year Ended September 30, 2009

The following is a schedule by years of the total payments due as of September 30, 2009:

Year Ending September 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2010	\$ 737,018	46,834	41,346	1,505
2011	332,880	28,652	16,712	235
2012	253,407	17,646		
2013	305,871	4,700		
2014	28,736	956		
2015 - 2019	7,372	51		
Total	\$ 1,665,284	98,839	58,058	1,740

(9) Long-term Debt.

Debt outstanding as of September 30, 2009, consisted of the following:

Description and Purpose	Amount Outstanding	Interest Rate	Final Maturity Date
Governmental Activities:			
A. General Obligation Bonds:			
Chancery building and jail	\$ 4,750,000	3.60/5.00%	03/2025
Agriculture complex	335,000	3.85/5.60%	03/2016
Total General Obligation Bonds	\$ 5,085,000		
B. Capital Leases:			
Voting machines	\$ 7,594	4.20%	11/2010
Toshiba copier	4,439	3.70%	05/2012
Radio tower	15,950	7.91%	12/2010
2008 Ford Crown Victoria	19,865	3.14%	11/2012
Printer	2,101	4.49%	04/2010
E-911 equipment	139,855	4.15%	12/2014
Broce broom	15,130	3.14%	10/2011
Mack truck	49,476	4.36%	09/2011
Cat 320C excavator	131,831	4.28%	07/2012
Cat 416E backhoe	45,140	4.41%	03/2012
Caterpillar 140M motor grader	205,605	3.24%	12/2012
Kubota tractor	5,916	3.92%	05/2010
Case 590 backhoe	56,665	4.41%	01/2010
2007 Mack truck	54,944	4.18%	09/2011
2008 Ford F-150 truck	15,597	3.80%	07/2012
Caterpillar 140M motor grader	207,402	3.24%	01/2013
Used Massey Ferguson tractor	2,664	3.75%	01/2010
Two 2007 Mack trucks	102,899	4.36%	09/2011
2008 Silverado truck	18,879	2.85%	09/2012
Case 590 Super M backhoe	45,947	3.25%	04/2012
Caterpillar 315CL excavator w/shovel	70,466	3.94%	01/2010
2007 Mack truck	49,476	4.36%	09/2011
Cat 416E backhoe	45,140	4.41%	03/2012
2007 Dodge pickup	3,543	4.31%	03/2010

SMITH COUNTY

Notes to the Financial Statements For the Year Ended September 30, 2009

Description and Purpose	Amount Outstanding	Interest Rate	Final Maturity Date
Case JX 80 tractor	14,512	4.06%	09/2011
2008 Ford F-150 truck	8,123	3.09%	02/2011
Komatsu motor grader	119,603	3.99%	10/2009
John Deere 2W drive tractor	15,104	4.14%	02/2011
Case 590 backhoe	56,665	4.14%	09/2011
Mack truck	69,315	4.36%	09/2011
Mack dump truck	49,476	4.36%	09/2011
2008 Silverado truck	15,962	2.95%	03/2012
Total Capital Leases	\$ 1,665,284		

Business-type Activities:

Capital Leases:

Garbage truck	\$ 13,623	3.90%	04/2010
2007 International truck	44,435	4.17%	04/2011
Total Capital Leases	\$ 58,058		

Annual debt service requirements to maturity for the following debt reported in the Statement of Net Assets are as follows:

Governmental Activities:

Year Ending September 30	General Obligation Bonds	
	Principal	Interest
2010	\$ 250,000	202,871
2011	265,000	191,996
2012	275,000	180,544
2013	290,000	168,531
2014	300,000	156,456
2015 - 2019	1,525,000	600,297
2020 - 2024	1,775,000	277,235
2025 - 2029	405,000	8,606
Total	\$ 5,085,000	1,786,536

Legal Debt Margin - The amount of debt, excluding specific exempted debt, that can be incurred by the county is limited by state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the county, according to the then last completed assessment for taxation. However, the limitation is increased to 20% whenever a county issues bonds to repair or replace washed out or collapsed bridges on the public roads of the county. As of September 30, 2009, the amount of outstanding debt was equal to 3.13% of the latest property assessments.

SMITH COUNTY

Notes to the Financial Statements For the Year Ended September 30, 2009

The following is a summary of changes in long-term liabilities and obligations for the year ended September 30, 2009:

	Balance Oct. 1, 2008	Additions	Reductions	Adjustments	Balance Sept. 30, 2009	Amount due within one year
Governmental Activities:						
General obligation bonds	\$ 5,325,000		240,000		5,085,000	250,000
Capital leases	1,821,125	545,962	701,803		1,665,284	737,018
Total	\$ 7,146,125	545,962	941,803	0	6,750,284	987,018
Business-type Activities:						
Capital leases	\$ 107,297	0	49,239	0	58,058	41,346

(10) Contingencies.

Federal Grants - The county 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 grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a grantor audit may become a liability of the county. No provision for any liability that may result has been recognized in the county's financial statements.

Litigation - The county is party to legal proceedings, many of which occur in the normal course of governmental operations. It is not possible at the present time to estimate ultimate outcome or liability, if any, of the county with respect to the various proceedings. However, the county's legal counsel believes that ultimate liability resulting from these lawsuits will not have a material adverse effect on the financial condition of the county.

(11) Joint Venture.

The county participates in the following joint venture:

Smith County is a participant with Rankin, Scott and Simpson Counties in a joint venture, authorized by Section 39-3-9, Miss. Code Ann. (1972), to operate the Central Mississippi Regional Library System. The joint venture was created to provide free library service to the public and is governed by a five-member board of which two members are appointed by Rankin County and one member each from the other three counties. By contractual agreement, the county's appropriation to the joint venture was \$128,300 in fiscal year 2009. Complete financial statements for the Central Mississippi Regional Library System can be obtained from 3470 Highway 80 East, Pearl, MS 39208.

(12) Jointly Governed Organizations.

The county participates in the following jointly governed organizations:

Central Mississippi Emergency Medical Services District operates in a district composed of the Counties of Attala, Clarke, Copiah, Holmes, Lauderdale, Leake, Madison, Neshoba, Rankin, Scott, Smith, Warren and Yazoo. The Smith County Board of Supervisors appoints two of the 26 members of the board. The county provided no financial support for the district in fiscal year 2009.

Region Ten Health - Mental Retardation Commission operates in a district composed of the Counties of Clarke, Jasper, Kemper, Lauderdale, Leake, Neshoba, Newton, Scott and Smith. The Smith County Board of Supervisors appoints one of the nine members of the board of commissioners. The county provided \$20,840 for support of the commission in fiscal year 2009.

SMITH COUNTY

Notes to the Financial Statements For the Year Ended September 30, 2009

Jones County Junior College operates in a district composed of the Counties of Clarke, Covington, Greene, Jasper, Jones, Perry, Smith and Wayne. The Smith County Board of Supervisors appoints two of the 20 members of the college board of trustees. The county appropriated \$220,686 for maintenance and support of the college for the fiscal year 2009.

East Central Mississippi Planning and Development District operates in a district composed of the Counties of Clarke, Jasper, Kemper, Lauderdale, Leake, Neshoba, Newton, Scott and Smith. The Smith County Board of Supervisors appoints one of the 15 members of the board of directors. The county appropriated \$9,153 for support of the district in fiscal year 2009.

Mid-Mississippi Development District operates in a district composed of the Counties of Clarke, Jasper, Lauderdale, Newton, Scott and Smith. The district was organized to foster, encourage and facilitate economic development in the member counties. The district's board of trustees is composed of 30 members, five each from the six-member counties. The county appropriated \$20,663 for support of the district in fiscal year 2009.

(13) Defined Benefit Pension Plan.

Plan Description. Smith County, Mississippi, contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing, multiple-employer, defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to Public Employees' Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling 1-800-444-PERS.

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the county is required to contribute at an actuarially determined rate. The rate at September 30, 2009 was 12% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The county's contributions (employer share only) to PERS for the years ending September 30, 2009, 2008 and 2007 were \$270,451, \$263,677 and \$249,737, respectively, equal to the required contributions for each year.

(14) Subsequent Events.

Subsequent to September 30, 2009, Smith County issued the following debt obligations:

Issue Date	Interest Rate		Issue Amount	Type of Financing	Source of Financing
11/06/2009	3.40%	\$	21,907	Capital lease	Ad valorem taxes
01/11/2010	3.37%		53,000	Capital lease	Ad valorem taxes
01/11/2010	3.37%		53,000	Capital lease	Ad valorem taxes
01/11/2010	3.41%		68,000	Capital lease	Ad valorem taxes
06/01/2010	3.27%		63,500	Other loan	Ad valorem taxes
07/23/2010	3.00%		18,300	Capital lease	Ad valorem taxes
08/16/2010	2.43%		78,624	Capital lease	Ad valorem taxes
08/16/2010	2.43%		78,624	Capital lease	Ad valorem taxes

SMITH COUNTY

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SMITH COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

SMITH COUNTY

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SMITH COUNTY
 Budgetary Comparison Schedule -
 Budget and Actual (Non-GAAP Basis)
 General Fund
 For the Year Ended September 30, 2009

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 3,085,782	3,246,222	3,246,352	130
Licenses, commissions and other revenue	80,000	105,914	105,914	
Fines and forfeitures	110,000	155,659	155,659	
Intergovernmental revenues	575,000	1,112,104	1,112,104	
Charges for services	20,000	15,551	15,551	
Interest income	20,000	107,690	107,690	
Miscellaneous revenues	140,925	258,709	259,987	1,278
Total Revenues	<u>4,031,707</u>	<u>5,001,849</u>	<u>5,003,257</u>	<u>1,408</u>
EXPENDITURES				
Current:				
General government	2,233,300	2,702,637	2,702,637	
Public safety	1,526,552	1,734,003	1,734,003	
Health and welfare	94,856	104,828	104,828	
Culture and recreation	210,555	177,607	177,607	
Conservation of natural resources	60,859	49,690	49,690	
Economic development and assistance	37,250	21,488	21,488	
Debt service:				
Principal	31,065	28,571	28,571	
Interest		2,497	2,497	
Total Expenditures	<u>4,194,437</u>	<u>4,821,321</u>	<u>4,821,321</u>	<u>0</u>
Excess of Revenues over (under) Expenditures	<u>(162,730)</u>	<u>180,528</u>	<u>181,936</u>	<u>1,408</u>
OTHER FINANCING SOURCES (USES)				
Other financing sources	466,118	1,327,037	1,327,037	
Other financing uses	(245,000)	(918,868)	(918,868)	
Total Other Financing Sources and Uses	<u>221,118</u>	<u>408,169</u>	<u>408,169</u>	<u>0</u>
Net Change in Fund Balance	58,388	588,697	590,105	1,408
Fund Balances - Beginning	<u>382,714</u>	<u>1,192,557</u>	<u>560,684</u>	<u>(631,873)</u>
Fund Balances - Ending	<u>\$ 441,102</u>	<u>1,781,254</u>	<u>1,150,789</u>	<u>(630,465)</u>

The accompanying notes to the Required Supplementary Information are an integral part of this statement.

SMITH COUNTY
 Budgetary Comparison Schedule -
 Budget and Actual (Non-GAAP Basis)
 Countywide Road and Bridge Fund
 For the Year Ended September 30, 2009

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 971,861	1,007,780	1,007,780	
Intergovernmental revenues	8,000	10,669	10,669	
Interest income		4,105	4,105	
Miscellaneous revenues		28,558	28,558	
Total Revenues	<u>979,861</u>	<u>1,051,112</u>	<u>1,051,112</u>	<u>0</u>
EXPENDITURES				
Current:				
Public works	373,000	209,942	209,942	
Debt service:				
Principal		26,239	26,239	
Interest		768	768	
Total Expenditures	<u>373,000</u>	<u>236,949</u>	<u>236,949</u>	<u>0</u>
Excess of Revenues over (under) Expenditures	<u>606,861</u>	<u>814,163</u>	<u>814,163</u>	<u>0</u>
OTHER FINANCING SOURCES (USES)				
Other financing sources		353,992	353,992	
Other financing uses	(700,000)	(1,038,635)	(1,038,635)	
Total Other Financing Sources and Uses	<u>(700,000)</u>	<u>(684,643)</u>	<u>(684,643)</u>	<u>0</u>
Net Change in Fund Balance	(93,139)	129,520	129,520	0
Fund Balances - Beginning	<u>298,172</u>	<u>526,108</u>	<u>396,588</u>	<u>(129,520)</u>
Fund Balances - Ending	<u>\$ 205,033</u>	<u>655,628</u>	<u>526,108</u>	<u>(129,520)</u>

The accompanying notes to the Required Supplementary Information are an integral part of this statement.

SMITH COUNTY

Notes to the Required Supplementary Information For the Year Ended September 30, 2009

A. Budgetary Information.

Statutory requirements dictate how and when the county's budget is to be prepared. Generally, in the month of August, prior to the ensuing fiscal year beginning each October 1, the Board of Supervisors of the county, using historical and anticipated fiscal data and proposed budgets submitted by the Sheriff and the Tax Assessor-Collector for his or her respective department, prepares an original budget for each of the Governmental Funds for said fiscal year. The completed budget for the fiscal year includes for each fund every source of revenue, each general item of expenditure, and the unencumbered cash and investment balances. When during the fiscal year it appears to the Board of Supervisors that budgetary estimates will not be met, it may make revisions to the budget.

The county's budget is prepared principally on the cash basis of accounting. All appropriations lapse at year-end, and there are no encumbrances to budget because state law does not require that funds be available when goods or services are ordered, only when payment is made.

B. Basis of Presentation.

The Budgetary Comparison Schedule - Budget and Actual (Non-GAAP Basis) presents the original legally adopted budget, the final legally adopted budget, actual amounts on a budgetary (Non-GAAP Basis) and variances between the final budget and the actual amounts. The schedule is presented for the General Fund and each major Special Revenue Fund. The Budgetary Comparison Schedule - Budget and Actual (Non-GAAP Basis) is a part of required supplemental information.

C. Budget/GAAP Reconciliation.

The major differences between the budgetary basis and the GAAP basis are:

1. Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

The following schedule reconciles the budgetary basis schedules to the GAAP basis financial statements for the General Fund and each major Special Revenue Fund:

	Governmental Fund Types	
	General Fund	Countywide Road and Bridge Fund
Budget (Cash Basis)	\$ 590,105	129,520
Increase (Decrease)		
Net adjustments for revenue accruals	(1,771)	(6,144)
Net adjustments for expenditure accruals	(7,354)	7,131
Other reconciling item:		
Net of interfund loans made and repaid	(130,753)	
GAAP Basis	\$ 450,227	130,507

SMITH COUNTY

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SMITH COUNTY

SUPPLEMENTAL INFORMATION

SMITH COUNTY

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SMITH COUNTY
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2009

Federal Grantor/ Pass-through Grantor/ Program Title or Cluster	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. Department of Agriculture/Passed-through the Mississippi State Treasurer's Office School and roads-grants to states*	10.665	N/A	\$ 549,056
U.S. Department of Housing and Urban Development/ Passed-through the Mississippi Development Authority HOME investment partnership program	14.239	M03-SG-280-978	3,017
U.S. Department of Justice - Office of Community Oriented Policing Services/Passed-through the Mississippi Department of Public Safety Public safety partnership and community policing grants	16.710	N/A	60,794
U.S. Department of Justice - Office of Justice Programs/ Passed-through the Mississippi Department of Public Safety Edward Byrne memorial justice assistance grant program	16.738	07LB1652	2,497
Total U.S. Department of Justice			63,291
U.S. Department of Transportation - Federal Highway Administration/Passed-through the Mississippi Department of Transportation Highway planning and construction	20.205	N/A	8,600
U.S. Department of Transportation - National Highway Traffic Safety Administration/Passed-through the Mississippi Governor's Office of Highway Safety Alcohol impaired driving countermeasures incentive grants	20.601	09TA1651	42,552
Total U.S. Department of Transportation			51,152
U.S. Department of Homeland Security/Passed-through the Mississippi Emergency Management Agency Disaster grants - public assistance	97.036	FEMA-1604-DR-MS	152,176
Disaster grants - public assistance	97.036	FEMA-3291-EM-MS	5,247
Subtotal			157,423
Emergency management performance grants	97.042	2008 EMPG	6,701
U.S. Department of Homeland Security/Passed-through the Mississippi Department of Public Safety - Office of Homeland Security Homeland security grant program	97.067	S6LE065	59,866
Total U. S. Department of Homeland Security			223,990
Total Expenditures of Federal Awards			\$ 890,506

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note A - Significant Accounting Policies
*Denotes major federal program

SMITH COUNTY

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SMITH COUNTY

SPECIAL REPORTS

SMITH COUNTY

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State of Mississippi

OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

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

Members of the Board of Supervisors
Smith County, Mississippi

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Smith County, Mississippi, as of and for the year ended September 30, 2009, which collectively comprise the county's basic financial statements and have issued our report thereon dated December 10, 2010. Our report includes an adverse opinion on the aggregate discretely presented component unit due to the omission of the discretely presented component unit which is required by accounting principles generally accepted in the United States of America to be reported with the financial data of the county's primary government unless the county also issues financial statements for the financial reporting entity that include the financial data for its component unit. The report is qualified on the governmental activities because the county did not maintain adequate subsidiary records documenting the existence, completeness and valuation of capital assets as required by accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the county's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the county's financial statements that is more than inconsequential will not be prevented or detected by the county's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as 09-1, 09-2, and 09-3 to be significant deficiencies in internal control over financial reporting.

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

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

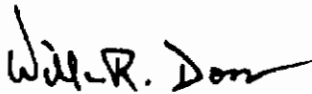
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Smith County, Mississippi's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain instances of noncompliance which we have reported to the management of Smith County, Mississippi, in the Independent Auditor's Report on Central Purchasing System, Inventory Control System and Purchase Clerk Schedules and the Limited Internal Control and Compliance Review Management Report dated December 10, 2010, included within this document.

Smith County's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Smith County's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Supervisors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

December 10, 2010



State of Mississippi

OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Members of the Board of Supervisors
Smith County, Mississippi

Compliance

We have audited the compliance of Smith County, Mississippi with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended September 30, 2009. Smith County, Mississippi's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Smith County, Mississippi's management. Our responsibility is to express an opinion on Smith County, Mississippi's compliance based on our audit.

We conducted our 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 we 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, Mississippi's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Smith County, Mississippi's compliance with those requirements.

In our opinion, Smith County, Mississippi, complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended September 30, 2009.

Internal Control Over Compliance

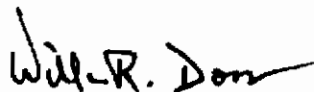
The management of Smith County, Mississippi, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Smith County, Mississippi's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the county's internal control over compliance.

A control deficiency in a county's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the county's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the county's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the county's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Supervisors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read "Will R. Dooss".

WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

December 10, 2010



State of Mississippi

OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

INDEPENDENT AUDITOR'S REPORT ON CENTRAL PURCHASING SYSTEM, INVENTORY CONTROL SYSTEM AND PURCHASE CLERK SCHEDULES (REQUIRED BY SECTION 31-7-115, MISS. CODE ANN. (1972))

Members of the Board of Supervisors
Smith County, Mississippi

We have made a study and evaluation of the central purchasing system and inventory control system of Smith County, Mississippi, as of and for the year ended September 30, 2009. Our study and evaluation included tests of compliance of the Purchase Clerk and Inventory Control Clerk records and such other auditing procedures as we considered necessary in the circumstances.

The Board of Supervisors of Smith County, Mississippi, is responsible for establishing and maintaining a central purchasing system and inventory control system in accordance with Sections 31-7-101 through 31-7-127, Miss. Code Ann. (1972). In addition, the Board of Supervisors is responsible for purchasing in accordance with the bid requirements of Section 31-7-13, Miss. Code Ann. (1972). The Board of Supervisors of Smith County, Mississippi, has established centralized purchasing for all funds of the county and has established an inventory control system. The objective of the central purchasing system is to provide reasonable, but not absolute, assurance that purchases are executed in accordance with state law.

The county did not maintain adequate subsidiary records documenting the existence, completeness and valuation of capital assets.

Because of inherent limitations in any central purchasing system and inventory control system, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

The results of our audit procedures disclosed certain instances of noncompliance with the aforementioned code sections. These instances of noncompliance were considered in forming our opinion on compliance. Our finding and recommendation and your response are disclosed below:

Inventory Control Clerk.

Finding

As reported in the prior two years' audit reports, capital assets control procedures were inadequate for maintaining an accurate inventory or adequate subsidiary records documenting the existence, valuation and completeness of capital assets. We noted the following deficiencies in the policies and procedures of the internal control structure for capital assets.

- a. The list of county capital assets did not agree to the indicated total assets values of prior years' balances. Prior year capital assets values could not be reconciled to current year detailed capital asset listings.
- b. No capital additions were entered by the county for current fiscal year infrastructure.
- c. Observation during the audit existence test revealed that there were several assets that did not have county decals on them.

Therefore, the Independent Auditor's Report on the Governmental Activities financial statements is qualified because we were unable to satisfy ourselves as to the fair presentation of the county's investment in capital assets. The failure to maintain an effective inventory control system could result in the reporting of inaccurate amounts and increases the possibility of the loss or misappropriation of public funds.

Recommendation

The Board of Supervisors should establish adequate control procedures to ascertain the historical and/or estimated cost of capital assets and to maintain accurate inventory records documenting the existence, valuation and completeness of capital assets. Infrastructure reports should be prepared and used to include current fiscal year additions in the capital asset listing.

Inventory Clerk's Response

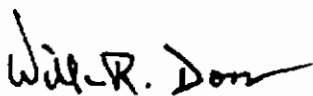
We will exercise due diligence to rectify this issue.

In our opinion, except as explained in the third paragraph and except for the noncompliance referred to in the preceding paragraph, Smith County, Mississippi, complied, in all material respects, with state laws governing central purchasing, inventory and bid requirements.

The accompanying schedules of (1) purchases not made from the lowest bidder, (2) emergency purchases and (3) purchases made noncompetitively from a sole source are presented in accordance with Section 31-7-115, Miss. Code Ann. (1972). The information contained on these schedules has been subjected to procedures performed in connection with our aforementioned study and evaluation of the purchasing system and, in our opinion, is fairly presented when considered in relation to that study and evaluation.

Smith County's response to the finding included in this report was not audited, and accordingly, we express no opinion on it.

This report is intended for use in evaluating the central purchasing system and inventory control system of Smith County, Mississippi, and is not intended to be and should not be relied upon for any other purpose. However, this report is a matter of public record and its distribution is not limited.



WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

December 10, 2010

SMITH COUNTY

Schedule 1Schedule of Purchases Not Made From the Lowest Bidder
For the Year Ended September 30, 2009

<u>Date</u>	<u>Item Purchased</u>	<u>Bid Accepted</u>	<u>Vendor</u>	<u>Lowest Bid</u>	<u>Reason for Accepting Other Than the Lowest Bid</u>
05/01/2009	Clay gravel	\$ 2.85 per cubic yard	C & O Dirt Service	\$ 2.30 per cubic yard	Loader was not available at the county dirt pit and the material was needed.

SMITH COUNTY
Schedule of Emergency Purchases
For the Year Ended September 30, 2009

Schedule 2

<u>Date</u>	<u>Item Purchased</u>	<u>Amount Paid</u>	<u>Vendor</u>	<u>Reason for Emergency Purchase</u>
05/04/2009	Plastic pipe	\$ 684.00	Raleigh Road Supply	Culvert had blown out. Needed to be replaced so the school bus could run.
09/01/2009	Plastic pipe	\$ 873.10	Raleigh Road Supply	Emergency road repair on SCR 32.

SMITH COUNTY

Schedule 3

**Schedule of Purchases Made Noncompetitively From a Sole Source
For the Year Ended September 30, 2009**

Our test results did not identify any purchases made noncompetitively from a sole source.

SMITH COUNTY

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State of Mississippi

OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

LIMITED INTERNAL CONTROL AND COMPLIANCE REVIEW MANAGEMENT REPORT

Members of the Board of Supervisors
Smith County, Mississippi

In planning and performing our audit of the financial statements of Smith County, Mississippi for the year ended September 30, 2009, we considered Smith County, Mississippi's internal control to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on internal control.

In addition, for areas not considered material to Smith County, Mississippi's financial reporting, we have performed some additional limited internal control and state legal compliance review procedures as identified in the state legal compliance audit program issued by the Office of the State Auditor. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the county's compliance with these requirements. Accordingly, we do not express such an opinion. This report does not affect our report dated December 10, 2010, on the financial statements of Smith County, Mississippi.

Due to the reduced scope, these review procedures and compliance tests cannot and do not provide absolute assurance that all state legal requirements have been complied with. Also, our consideration of internal control would not necessarily disclose all matters within the internal control that might be weaknesses. In accordance with Section 7-7-211, Miss. Code Ann. (1972), the Office of the State Auditor, when deemed necessary, may conduct additional procedures and tests of transactions for this or other fiscal years to ensure compliance with legal requirements.

The results of our review procedures and compliance tests identified certain areas that are opportunities for strengthening internal controls and operating efficiency. Our findings, recommendations and your responses are disclosed below:

Board of Supervisors.

1. Finding

As reported in prior year's audit reports, the county has an interfund loan outstanding that is over a year old. This loan was created as a result of an error in settlements made by a former Tax Collector during the 1990 audit year. The amount remaining unpaid to date is \$71,373. Failure to repay this loan constitutes a diversion of legally restricted funds.

Recommendation

The Board of Supervisors should ensure that the old loan is repaid as soon as possible. The tax funds are owed by the Countywide Road and Bridge Fund to the School Tax Clearing Fund and are subsequently due to the Smith County School District.

Board of Supervisors' Response

The Board of Supervisors acknowledges the recommendation.

2. Finding

Section 19-3-27, Miss. Code Ann. (1972), requires that a complete and accurate record be maintained for the proceedings of the Board of Supervisors. As reported in the prior two years' audit reports, interfund transfers were made without board orders spread on the minutes. The failure to obtain board approval for interfund transfers could result in erroneous amounts being reported and increases the possibility of the loss or misuse of public funds.

Recommendation

The Board of Supervisors should spread complete orders on the minutes relative to interfund transfers.

Board of Supervisors' Response

This issue has been corrected.

3. Finding

An effective system of internal controls includes accurate payroll leave records. As reported in the prior year's audit report, our test results revealed that the county's personnel department does not maintain accurate annual or sick leave records and the county pays its employees for any unused leave at termination of employment. Neither of these are in adherence to the county's personnel policy. By not keeping a record of these employees' annual and sick leave and paying employees for unused leave, the county could incur an unknown financial liability.

Recommendation

The Board of Supervisors should ensure that all employees, including salaried employees, adhere to the county's personnel policy.

Board of Supervisors' Response

This issue has been corrected.

Circuit Clerk.

4. Finding

As reported in the prior two years' audit reports, we noted that bank deposits are not being made on a daily basis, which is a deficiency of internal control. The failure to implement the proper controls could result in the loss or misappropriation of public funds.

Recommendation

The Circuit Clerk should ensure that bank deposits are made daily.

Circuit Clerk's Response

Efforts will be made to make more frequent deposits.

Justice Court Clerk.

5. Finding

The Justice Court Clerk should prepare a report at September 30 of each year identifying the distribution of all funds held by the respective official in order to include these funds in the financial statements of the county. This report should specify the revenues that are due to the General Fund, other funds, state governments or others and should be submitted to the Chancery Clerk by October 31 of each year. As reported in the prior years' audit reports, this report was not prepared for the fiscal year ended. By not preparing these reports properly, there could be a risk of funds being misclassified in the financial statements.

Recommendation


In the future, the Justice Court Clerk should prepare the report described above at September 30 of each year.

Justice Court Clerk's Response

The Board has addressed this issue with the Justice Court Clerk and this issue has been resolved.

Smith County's responses to the findings included in this report were not audited, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Supervisors, and others within the entity and is not intended to be and should not be used by anyone other than these parties. However, this report is a matter of public record and its distribution is not limited.



WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

December 10, 2010

SMITH COUNTY

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SMITH COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SMITH COUNTY

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SMITH COUNTY

Schedule of Findings and Questioned Costs For the Year Ended September 30, 2009

Section 1: Summary of Auditor's Results

Financial Statements:

- | | | |
|----|---|---------------|
| 1. | Type of auditor's report issued on the financial statements: | |
| | Governmental activities | Qualified |
| | Business-type activities | Unqualified |
| | General Fund | Unqualified |
| | Countywide Road and Bridge Fund | Unqualified |
| | Chancery Building Fund | Unqualified |
| | Jail Construction Fund | Unqualified |
| | Aggregate remaining fund information | Unqualified |
| | Aggregate discretely presented component units | Adverse |
| 2. | Internal control over financial reporting: | |
| | a. Material weaknesses identified? | Yes |
| | b. Significant deficiencies identified that are not considered to be material weaknesses? | None Reported |
| 3. | Noncompliance material to the financial statements noted? | No |

Federal Awards:

- | | | |
|-----|---|---------------|
| 4. | Internal control over major programs: | |
| | a. Material weakness identified? | No |
| | b. Significant deficiency identified that is not considered to be a material weakness? | None Reported |
| 5. | Type of auditor's report issued on compliance for major federal programs: | Unqualified |
| 6. | Any audit findings disclosed that are required to be reported in accordance with Section __.510(a) of OMB Circular A-133? | No |
| 7. | Federal program identified as major program: | |
| | a. Schools and roads - grants to states, CFDA #10.665 | |
| 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 finding and questioned cost 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 |

SMITH COUNTY

Schedule of Findings and Questioned Costs For the Year Ended September 30, 2009

Section 2: Financial Statement Findings

Board of Supervisors.

Significant Deficiency - Material Weakness

09-1. Finding

Generally accepted accounting principles require the financial data for the county's component unit to be reported with the financial data of the county's primary government unless the county also issues financial statements for the financial reporting entity that include the financial data of the county's legally separate component unit. As reported in the prior two years' audit reports, the financial statements do not include the financial data for the county's legally separate component unit. The failure to properly follow generally accepted accounting principles resulted in an adverse opinion on the discretely presented component units for the inclusion in the county's financial statements.

Recommendation

The Board of Supervisors should provide the financial data for its discretely presented component unit for the inclusion in the county's financial statements.

Board of Supervisors' Response

Cost prohibitive. They are a separate entity.

Significant Deficiency - Material Weakness

09-2. Finding

As reported in the two prior years' audit reports, capital assets control procedures were inadequate for maintaining an accurate inventory or adequate subsidiary records documenting the existence, valuation and completeness of capital assets. We noted the following deficiencies in the policies and procedures of the internal control structure for capital assets.

- a. The list of county capital assets did not agree to the indicated total assets values of prior years' balances. Prior year capital assets values could not be reconciled to current year detailed capital asset listings.
- b. No capital additions were entered by the county for current fiscal year infrastructure.
- c. Observation during the existence test revealed that there were several assets that did not have county decals on them.

Therefore, the Independent Auditor's Report on the Governmental Activities financial statements is qualified because we were unable to satisfy ourselves as to the fair presentation of the county's investment in capital assets. The failure to maintain an effective inventory control system could result in the reporting of inaccurate amounts and increases the possibility of the loss or misappropriation of county property.

Recommendation

The Board of Supervisors should establish adequate control procedures to ascertain the historical and/or estimated cost of capital assets and to maintain accurate inventory records documenting the existence, valuation and completeness of capital assets. Infrastructure reports should be prepared and used to include current fiscal year additions in the capital asset listing.

SMITH COUNTY

Schedule of Findings and Questioned Costs For the Year Ended September 30, 2009

Board of Supervisors' Response

We will exercise due diligence to rectify this issue.

Justice Court Clerk.

Significant Deficiency - Material Weakness

09-3. Finding

An effective system of internal control over the collection, recording and disbursement of cash should include maintaining cash journals and the supporting documentation. As reported in the two prior years' audit reports, the following deficiencies were noted in the accounting for cash:

- a. The criminal cash journal, civil cash journal and clearing cash journal were not reconciled to the corresponding bank accounts.
- b. Proper criminal, civil and clearing cash journals were not being kept on a monthly basis.
- c. Proper settlement reports were not being completed each month.
- d. Daily deposits were not being made.
- e. An August 2010 cash count revealed a net cash overage of \$10,976 in the criminal, civil and clearing bank accounts.

Without adequate accounting records, inaccurate information may be reported and increases the possibility of the loss or misappropriation of public funds.

Recommendation

The Justice Court Clerk should properly maintain cash journals and the supporting documentation. The cash journals should be reconciled to the bank accounts on a monthly basis and daily deposits should be made. A cash overage should be reviewed and documented.

Justice Court Clerk's Response

The Board has addressed this issue with the Justice Court Clerk and this issue has been resolved.

Section 3: Federal Award Findings and Questioned Costs

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