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Town of Sardis

BILLY L. RUSSELL
MAYOR

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August 20, 2015

Office of the State Auditor
P. O. Box 956
Jackson, MS 39205

Re: Annual Municipal Audit

Accompanying this letter are two copies of the annual audit of the Town of Sardis, Mississippi, for the fiscal year ended September 30, 2014. In connection with this audit, a separate management letter was written to the town. Enclosed you will find a copy of this management letter along with the audit reports. I have also e-mailed an electronic copy to tech@osa.ms.gov.

Sincerely,

Billy L. Russell
Mayor

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CITY OF SARDIS, MISSISSIPPI
Audited Financial Statement
For the Year Ended September 30, 2014

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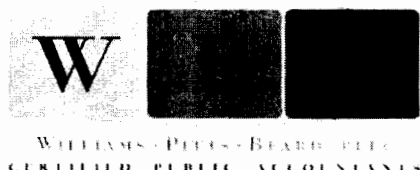


WILLIAMS-PETERS & DELOACH, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

CITY OF SARDIS, MISSISSIPPI
Audited Financial Statement
For the Year Ended September 30, 2014

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of cash receipts and disbursements of the governmental activities, the business-type activities, and the aggregate remaining fund information of the City of Sardis, Mississippi ("the City"), for the year ended September 30, 2014, and related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note A; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statement referred to above presents fairly, in all material respects, the respective cash balances of the governmental activities, the business-type activities, and the aggregate remaining fund information of the City of Sardis, Mississippi, as of September 30, 2014, and the respective changes in cash balances thereof for the year then ended in accordance with the cash basis of accounting described in Note A.

Basis of Accounting

We draw attention to Note A of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than

accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Schedule of Investments and Schedule of Surety Bonds of Municipal Officials are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 12, 2015, on our consideration of the City'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City's internal control over financial reporting and compliance.



Williams, Pitts & Beard, PLLC
Hernando, Mississippi
August 12, 2015

FINANCIAL STATEMENT

CITY OF SARDIS, MISSISSIPPI
Statement of Cash Receipts and Disbursements
For the Year Ended September 30, 2014

	Governmental Activities			Business-type	Fiduciary	Total
	Major Funds			Activities	Fund	
	General	Special Revenue	Capital Projects	Water and Sewer	Trust	Memorandum Only
RECEIPTS						
Taxes						
General property taxes	\$ 275,178	\$ -	\$ -	\$ -	\$ -	\$ 275,178
Penalties and interest on delinquent taxes	1,906	-	-	-	-	1,906
Licenses and permits						
Privilege licenses	14,240	-	-	-	-	14,240
Franchise charges - utilities	70,166	-	-	-	-	70,166
Intergovernmental revenues						
Federal receipts						
JAG grant	4,052	-	-	-	-	4,052
Fire wise grant	2,500	-	-	-	-	2,500
ARC grant	-	-	-	27,104	-	27,104
State shared revenues						
Sales tax	305,213	-	-	-	-	305,213
Tourism tax	-	92,516	-	-	-	92,516
Gasoline tax	5,506	-	-	-	-	5,506
Alcoholic beverage licenses	1,350	-	-	-	-	1,350
Homestead reimbursement	37,913	-	-	-	-	37,913
Fire protection	9,281	-	-	-	-	9,281
Grand gulf distribution	16,183	-	-	-	-	16,183
County shared revenues						
Road and bridge tax funds	25,617	-	-	-	-	25,617
Road and bridge motor vehicle	5,495	-	-	-	-	5,495
Fire protection	8,066	-	-	-	-	8,066
Charges for services						
Sanitation	147,557	-	-	-	-	147,557
Water utility	-	-	-	751,061	-	751,061
Special police services	5,503	-	-	-	-	5,503
Fines and forfeits	133,240	-	-	-	-	133,240
Interest income	2,404	151	-	430	41	3,026
Miscellaneous receipts						
Miscellaneous	74,810	-	-	23,215	-	98,025
Marina impact fees	22,560	-	-	-	-	22,560
Rent	3,300	-	-	-	-	3,300
Insurance proceeds	-	-	-	-	21	21
Total receipts	<u>1,172,040</u>	<u>92,667</u>	<u>-</u>	<u>801,810</u>	<u>62</u>	<u>2,066,579</u>

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

CITY OF SARDIS, MISSISSIPPI
Statement of Cash Receipts and Disbursements
For the Year Ended September 30, 2014

	Governmental Activities			Business-type Activities	Fiduciary Fund	Totals
	Major Funds					
	General	Special Revenue	Capital Projects	Water and Sewer	Trust	Memorandum Only
DISBURSEMENTS						
General government	\$ 284,715	\$ 12,128	\$ -	\$ -	\$ -	\$ 296,843
Public safety						
Police	443,309	-	-	-	-	443,309
Fire	37,635	-	-	-	-	37,635
Public Works	99,296	-	-	-	-	99,296
Culture and recreation						
Parks	1,018	29,117	-	-	-	30,135
Library	12,261	-	-	-	-	12,261
Sanitation	74,770	-	-	-	-	74,770
Enterprise						
Water Utility	-	-	-	564,923	-	564,923
Redemption of principal	72,564	-	-	65,002	-	137,566
Debt service interest	6,450	-	-	39,334	-	45,784
Other	-	-	-	-	-	-
Professional services	-	-	-	-	-	-
Construction	-	-	-	72,648	-	72,648
Total disbursements	<u>1,032,018</u>	<u>41,245</u>	<u>-</u>	<u>741,907</u>	<u>-</u>	<u>1,815,170</u>
Excess (deficiency) of receipts over disbursements	<u>140,022</u>	<u>51,422</u>	<u>-</u>	<u>59,903</u>	<u>62</u>	<u>251,409</u>
OTHER FINANCING SOURCES (USES)						
Sale of capital asset	96,033	-	-	15,000	-	111,033
Total other financing sources (uses)	<u>96,033</u>	<u>-</u>	<u>-</u>	<u>15,000</u>	<u>-</u>	<u>111,033</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>236,055</u>	<u>51,422</u>	<u>-</u>	<u>74,903</u>	<u>62</u>	<u>362,442</u>
CASH BASIS FUND BALANCE - BEGINNING OF YEAR	<u>866,461</u>	<u>246,720</u>	<u>1,835</u>	<u>762,848</u>	<u>20,624</u>	<u>1,898,488</u>
CASH BASIS FUND BALANCE - END OF YEAR	<u>\$ 1,102,516</u>	<u>\$ 298,142</u>	<u>\$ 1,835</u>	<u>\$ 837,751</u>	<u>\$ 20,686</u>	<u>\$ 2,260,930</u>

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

CITY OF SARDIS, MISSISSIPPI
Notes to Financial Statement
For the Year Ended September 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

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

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

Basis of Presentation

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

Fund Financial Statements

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

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

General Fund:

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

Special Revenue Fund:

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than capital projects) that are legally restricted for specific expenditure purposes.

Capital Projects Fund:

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

Proprietary Funds

All proprietary funds are usually accounted for using the economic resources measurement focus and the accrual basis of accounting. However, this statement was prepared using the cash basis of accounting as prescribed by the Mississippi Office of the State Auditor. The City has presented the following proprietary fund:

CITY OF SARDIS, MISSISSIPPI
Notes to Financial Statement
For the Year Ended September 30, 2014

Water and Sewer Fund:

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

Fiduciary Fund Types

Private-purpose Trust Fund:

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

Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made regardless of the measurement focus applied. The financial statement is prepared on the cash basis, as prescribed by the Mississippi Office of the State Auditor. Consequently, certain revenues are recognized when received rather than when earned and certain expenses are recognized when paid rather than when the obligation is incurred. This is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America ("OCBOA"). The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

Budgets and Budgetary Accounting

The City follows these procedures in establishing its budgetary data:

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

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

At the September board meeting, the budget is legally enacted through passage of ordinance. The City Clerk is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Aldermen.

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

Deposits and Investments

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

Investments are stated at cost. A schedule of investments is included on page 14.

CITY OF SARDIS, MISSISSIPPI
Notes to Financial Statement
For the Year Ended September 30, 2014

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

Capital Assets

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

Total Columns on Statements

The "Total" column on the statement is captioned "Memorandum Only" to indicate that it is presented only to facilitate financial analysis. Data in this column does not present financial position, results of operations, or change in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

Property Tax Revenues

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

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

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

NOTE B - CASH AND INVESTMENTS

Cash:

The collateral for public City's deposits in financial institutions are held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5 Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation ("FDIC").

Custodial credit risk is the risk that, in the event of a financial institution's failure, the City's deposits might not be recovered. As of September 30, 2014, the City's bank balance was not exposed to custodial credit risk.

As of September 30, 2014, the carrying amount of the City's deposits was \$2,260,930 and the bank balance totaled \$2,294,129. Of the bank balances, \$500,000 was insured by FDIC and \$1,794,129 was covered by pooled and/or pledged collateral. Of the \$2,260,779 in cash and investments, \$367,774 was restricted.

CITY OF SARDIS, MISSISSIPPI
Notes to Financial Statement
For the Year Ended September 30, 2014

Investments:

As provided in Section 91-13-8 Miss. Code Ann. (1972), the investments of the City are certificates of deposit with First Security Bank. (See page 14 for Schedule of Investments.)

Interest Rate Risk. The City does not have a formal investment policy that limits investments maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, Section 19-9-29, Miss. Code Ann. (1972) limits the maturity period of any investment to no more than one year.

Credit Risk. State law limits investments to those authorized by Section 19-9-29 and 91-13-8, Miss Code Ann. (1972). The City does not have a formal investment policy that would further limit its investments choices or one that addresses credit risk.

Custodial Credit Risk – Investments. Custodial credit risk is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a formal policy for custodial credit risk.

NOTE C – INSTALLMENT SALE OF CAPITAL ASSETS

The City entered into two separate installment sales agreements to sell buildings during the year ended September 30, 2014. The City sold an industrial building in the amount of \$225,000, with a down payment of \$25,000. The City financed the sale at 6% over 24 months beginning August 1, 2014 with a balloon payment at the end of the financing agreement. The purchaser paid approximately \$83,000 in principal on this loan during the year. The City also sold a building on July 1, 2014 in the amount of \$87,500, with a down payment of \$12,500. The City financed the sale at 6% over 84 months beginning August 1, 2014. The purchaser paid approximately \$13,000 in principal on this loan during the year.

NOTE D - SCHEDULE OF LONG-TERM DEBT

Long-term activity for the year ended September 30, 2014 was as follows:

	<u>Balance at</u> <u>9/30/2013</u>	<u>Transactions During Year</u>		<u>Balance at</u> <u>9/30/2014</u>	<u>Amounts due</u> <u>within one year</u>
		<u>Issued</u>	<u>Redeemed</u>		
Governmental activities:					
Loans:					
MS Development Authority	\$ 43,737	\$ -	\$ 43,737	\$ -	\$ -
MS Development Authority	167,809	-	14,577	153,232	15,028
Capital leases	6,765	30,900	14,250	23,415	7,643
Governmental activities long-term liabilities	<u>\$ 218,311</u>	<u>\$ 30,900</u>	<u>\$ 72,564</u>	<u>\$ 176,647</u>	<u>\$ 22,671</u>
Business-type activities:					
1992 Combined Water and					
Sewer System Bonds	\$ 794,321	\$ -	\$ 48,088	\$ 746,233	\$ 50,513
Capital leases	-	93,181	16,914	76,267	22,946
Business-type activities long-term liabilities	<u>\$ 794,321</u>	<u>\$ 93,181</u>	<u>\$ 65,002</u>	<u>\$ 822,500</u>	<u>\$ 73,459</u>

Revenue Bonds. The City also issues revenue bonds where the City pledges income derived from the acquired or constructed assets to pay debt service. The \$1,378,400 Combined Water and Sewer System revenue bonds dated 1992, due annually with interest at 5.0%, payable through 2026, had an outstanding balance at September 30, 2014 of \$746,233.

CITY OF SARDIS, MISSISSIPPI
Notes to Financial Statement
For the Year Ended September 30, 2014

The annual principal and interest requirements to amortize the bond outstanding as of September 30, 2014, are as follows:

Year Ending September 30	Business-type Activities	
	Principal	Interest
2015	\$ 50,513	\$ 35,637
2016	53,061	33,089
2017	55,738	30,412
2018	58,549	27,601
2019	61,502	24,648
2020-2024	357,294	73,457
2025-2026	109,576	3,762
Total	\$ 746,233	\$ 228,606

Loans. The City also uses loans to finance its projects. Loans outstanding as of September 30, 2014 are as follows:

Description	Interest Rate	Maturity Date	Issued	Amount Outstanding
Governmental				
MS Development Authority	3.00%	10/1/2023	292,835	153,232
Total			\$ 292,835	\$ 153,232

The annual principal and interest requirements to amortize all loans outstanding as of September 30, 2014, are as follows:

Year Ending September 30	Governmental Activities	
	Principal	Interest
2015	\$ 15,028	\$ 4,461
2016	15,492	3,996
2017	15,971	3,518
2018	16,464	3,024
2019	16,973	2,515
2020-2023	73,304	4,652
Total	\$ 153,232	\$ 22,166

Capital Leases. Future minimum lease payments and the net present value of these minimum lease payments as of September 30, 2014 are as follows

Year Ending September 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2015	\$ 7,643	\$ 416	\$ 22,946	\$ 1,303
2016	7,804	255	23,405	844
2017	7,968	92	23,873	376
2018	-	-	6,043	20
Total	\$ 23,415	\$ 763	\$ 76,267	\$ 2,523

CITY OF SARDIS, MISSISSIPPI
Notes to Financial Statement
For the Year Ended September 30, 2014

Legal Debt Margin. The amount of debt, excluding specific exempted debt that can be incurred by the City 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 City, according to the then last completed assessment for taxation. However, the limitation is increased to 20% whenever a city issues bonds to repair or replace washed out or collapsed bridges on the public roads of the city. As of September 30, 2014, the amount of outstanding debt was equal to 0% of the latest property assessments.

NOTE E - DEFINED BENEFIT PENSION PLAN

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

Funding Policy. PERS members are required to contribute 9.0% of their annual covered salary and the City is required to contribute at an actuarially determined rate. The rate at September 30, 2014 was 15.75% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The City's contributions (employer share only) to PERS for the years ended September 30, 2014, 2013, and 2012 were \$81,790, \$73,047, and \$69,560 respectively, equal to the required contributions for each year.

NOTE F - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. This exposure is covered by the purchase of commercial insurance.

NOTE G - LITIGATION

Management of the City and its legal counsel have not become aware of any unasserted possible claim or assessment against the City that calls for financial statement disclosure.

NOTE H - SUBSEQUENT EVENTS

Management of the City of Sardis evaluated the activity of the City through August 12, 2015, the date the financial statements were available to be issued, and determined that no subsequent events have occurred requiring disclosure in the notes to the financial statements.

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OTHER INFORMATION

CITY OF SARDIS, MISSISSIPPI
Schedule of Investments
September 30, 2014

Investment balances at September 30, 2014, are as follows:

<u>Investment Type</u>	<u>Maturities</u>	<u>Fair Value</u>
Certificates of Deposit	1 Year	\$ 10,138
Total		<u>\$ 10,138</u>

These Investments of the City are included in the cash balance of the financial statement.

CITY OF SARDIS, MISSISSIPPI
Schedule of Surety Bonds of Municipal Officials
September 30, 2014

<u>Name</u>	<u>Position</u>	<u>Surety</u>	<u>Amount</u>
Billy Russell	Mayor	Travelers	\$ 50,000
Mary McDowell	City Clerk	Travelers	50,000
Mary McDowell	Tax Collector	Travelers	50,000
City of Sardis	Rural Development	Travelers	174,000
Aldermen (each)	Board of Aldermen	Travelers	50,000
Policeman (each)	Public Safety	RLI Surety	50,000
Jeanne Beard	Deputy City Clerk	Travelers	50,000
Donna Kay Goforth	Deputy City Clerk	Travelers	50,000
Kimberly P. Bruce	Deputy City Clerk	Travelers	50,000
Shanan R. Baker	Court Clerk	Travelers	50,000

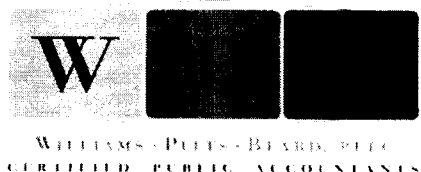
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DANNY L. WILLIAMS | 2042 ALBUQUERQUE ROAD, SUITE A
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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Mayor and Board of Aldermen
City of Sardis
Sardis, Mississippi

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the statement of cash receipts and disbursements of the governmental activities, the business-type activities and the aggregate remaining fund information of City of Sardis, Mississippi, for the year ended September 30, 2014, and the related notes to the financial statements and have issued our report thereon dated August 12, 2015.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness, finding 2014-001.

Compliance and Other Matters

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

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We noted certain matters that we reported to the management of City of Sardis, Mississippi, in the Independent Auditor's Report on Compliance with State Laws and Regulations dated August 12, 2015, included within this document.

City of Sardis, Mississippi's Response to Findings

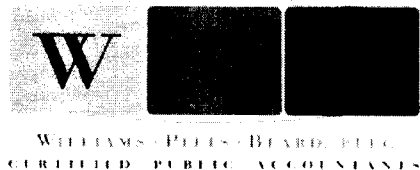
City of Sardis, Mississippi's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC
Hernando, Mississippi
August 12, 2015



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

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AUG 25 2015

Mayor and Board of Aldermen
City of Sardis
Sardis, Mississippi

We have audited the statement of cash receipts and disbursements of the City of Sardis, Mississippi (the "City") as of and for the year ended September 30, 2014 and have issued our report dated August 12, 2015. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*.

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

The results of those procedures and our audit of the statement of cash receipts and disbursements disclosed the following material instances of noncompliance with state laws and regulations. Our findings and recommendations and your responses are as follows:

1. **Finding:** We noted that the City is not completing a thorough inventory of all fixed assets owned by the municipality at the end of the fiscal year in accordance with the Mississippi municipal fixed assets management manual as required by Section 7-7-211, Mississippi Code Annotated (1972). (Repeated finding)

Recommendation: The City should follow the yearly inventory procedures as outlined in the Mississippi Municipal Audit and Accounting Guide.

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

2. **Finding:** The City is required to develop and maintain a completed and accurate accounting of fixed assets. Subsidiary ledgers should be used to track and record all inventory and fixed assets of the City. We noted that the City is not maintaining complete and accurate ledgers for all fixed assets in accordance with the Mississippi municipal fixed assets management manual as required by Section 7-7-211, Mississippi Code Annotated (1972). (Repeated finding)

Recommendation: Complete and accurate records and subsidiary ledgers should be maintained for all inventory and fixed assets in accordance with the Mississippi Municipal Audit and Accounting Guide. At the end of each fiscal year a thorough inventory of all fixed assets owned by the municipality must be made according to the guidelines set forth in the Mississippi Municipal Audit and Accounting Guide.

Response: The City has taken steps to improve and work on this problem. It plans on doing a better job in the future.

3. Finding: We noted that the City did not advertise for bids and receive bids in order to select a public depository in the last three years as required by Miss Code Ann. (1972) Section 27-105-305. (Repeated finding)

Recommendation: The City should establish procedures to comply with all state laws regarding depositories.

Response: The City is working to fix this issue. It plans on doing a better job in the future.

The instances of noncompliance of the prior year have been corrected by management unless it is specifically stated otherwise in the findings and recommendations noted above.

The Office of the State Auditor or a public accounting firm will review, on a subsequent year's audit engagement, the findings in this report to ensure that corrective action has been taken. The City's responses to the findings included in this report were not audited, and accordingly, we express no opinion on them.

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

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC
Hernando, Mississippi
August 12, 2015

SCHEDULE OF FINDINGS AND RESPONSES

CITY OF SARDIS, MISSISSIPPI
Schedule of Findings and Responses
For the Year Ended September 30, 2013

Section 1: Summary of Auditors' Results

- | | |
|--|----------------------|
| 1. Type of auditor's report issued on the financial statements: | <u>Unmodified</u> |
| 2. Internal Control over financial reporting: | |
| (a) Material weakness (es) identified? | <u>Yes</u> |
| (b) Significant deficiency (ies) identified that are not considered to be material weaknesses? | <u>None Reported</u> |
| 3. Noncompliance material to the financial statements: | <u>None Reported</u> |

Section 2: Financial Statement Findings

Material Weakness

2014-001 **Criteria:** The City is responsible for establishing and maintaining effective internal control over financial reporting.

Condition: During the audit, material adjustments to the financial statement were discovered and reported by the external auditors. The City also relies on external auditors in assisting in the preparation of external financial statement and related disclosures. Under auditing standards generally accepted in the United States of America, outside auditors cannot be considered part of the entity's internal control structure. The City does not have documented procedures in place that prevent or detect material misstatements in the external financial statement. However, City management reviewed and approved all adjustments.

Cause: The City has not developed procedures or provided staffing to prepare external financial statements and, consequently, relies on its external auditors for this function.

Effect: The City must incur the expense of outsourcing the preparation of its financial statements or train or hire someone who is capable of preparation of its financial statements, related notes and required supplemental information.

Recommendation: The City should develop internal control procedures to ensure that all material adjustments are reflected in the financial statement. Also, the City should evaluate the costs and benefits of providing for preparation of external financial statement and related disclosures by its personnel.

Response: It is not cost beneficial to hire another employee with the expertise to produce the financial statement.