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Smith County School District

Audited Financial Statements
June 30, 2010

Fortenberry & Ballard, PC
Certified Public Accountants

Smith County School District

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FINANCIAL AUDIT REPORT

FORTENBERRY & BALLARD, P.C.

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON THE BASIC FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

Superintendent and School Board
Smith County School District

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Smith County School District as of and for the year ended June 30, 2010, which collectively comprise the Smith County School District's financial statements as listed in the table of contents. These financial statements are the responsibility of the Smith County School District'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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Smith County School District, as of June 30, 2010, and the respective changes in financial position, thereof for the year 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 30, 2010, on our consideration of the Smith County School District's internal control over financial reporting and 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.

The Management's Discussion and Analysis and 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.

AICPA & MSCPA

1929 Spillway Road, Suite B, Brandon, MS 39047, Telephone (601) 992-5292, Fax (601) 992-2033

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Smith County School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards 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. In addition, the Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds is presented for purposes of additional analysis 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.

The other supplemental information section, which includes the Statement of Revenues, Expenditures and Changes in Fund Balances, General Fund, Last Four Years and the Statement of Revenues, Expenditures and Changes in Fund Balances, All Governmental Funds, Last Four Years, is presented for purposes of additional analysis as required by the Mississippi Department of Education and is 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 express no opinion on it.

FORTENBERRY & BALLARD, PC

Fortenberry & Ballard, PC
December 30, 2010

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

**SMITH COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

The discussion and analysis of Smith County School District's financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 2010. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in this district's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the district's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

FINANCIAL HIGHLIGHTS

- Total net assets for 2010 increased \$1,040,068, including a prior period adjustment of \$111, which represents a 4% increase from fiscal year 2009.
- General revenues amounted to \$19,057,284 and \$19,013,731, or 78% and 80% of all revenues for fiscal years 2010 and 2009, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$5,255,474, or 22% of total revenues for 2010, and \$4,850,412, or 20% of total revenues for 2009.
- The District had \$23,272,801 and \$23,326,166 in expenses for fiscal years 2010 and 2009; only \$5,255,474 for 2010 and \$4,850,412 for 2009 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$19,057,284 for 2010, and \$19,013,731 for 2009 were adequate to provide for these programs.
- Among the major funds, the General Fund had \$17,681,865 in revenues and \$16,811,277 in expenditures for 2010, and \$18,645,261 in revenues and \$18,049,436 in expenditures for 2009. The General Fund's fund balance increased by 270,655 from 2009 to 2010, and decreased by \$103,444 from 2008 to 2009, including a prior period adjustment of \$145,086.
- Capital assets, net of accumulated depreciation, decreased by \$598,533 for 2010 and decreased by \$546,219 for 2009. The decrease for 2010 was due primarily to the increase in accumulated depreciation.
- Long-term debt decreased by \$355,828 for 2010 and decreased by \$95,379 for 2009. This decrease was due primarily to the principal payments on outstanding long-term debt. In addition, the liability for compensated absences increased by \$11,907 for 2010 and increased by \$21,874 for 2009.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. These statements are prepared using the accrual basis of accounting and include all assets and liabilities.

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

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

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, non-instructional, sixteenth section and interest on long-term liabilities.

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

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's current financing requirements. Governmental Funds are reported using modified accrual accounting. This method of accounting measures cash and other assets that can be easily converted to cash. The Governmental Funds Statements provide a detailed short-term view of the School District's operations.

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

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

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

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

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's budget process.

The District adopts an annual operating budget for all governmental funds. Budgetary comparison schedules have been provided for the General Fund and each additional major special revenue fund.

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

Also, included in the other supplemental information section are the Statement of Revenues, Expenditures and Changes in Fund Balances, General Fund, Last Four Years and the Statement of Revenues, Expenditures and Changes in Fund Balances, All Governmental Funds, Last Four Years. This information is presented for purposes of additional analysis as required by the Mississippi Department of Education and is not a required part of the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of government's financial position. In the case of the District, assets exceeded liabilities by \$29,825,674 as of June 30, 2010.

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

Table 1 presents a summary of the District's net assets at June 30, 2010 and June 30, 2009.

Table 1
Condensed Statement of Net Assets

	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>Percentage Change</u>
Current assets	\$ 12,019,925	10,799,433	11%
Restricted assets	7,031,432	6,442,701	9%
Capital assets, net	<u>15,415,731</u>	<u>16,014,264</u>	<u>(4)%</u>
Total assets	<u>34,467,088</u>	<u>33,256,398</u>	<u>4%</u>
Current liabilities	1,221,975	707,432	73%
Long-term debt outstanding	<u>3,419,439</u>	<u>3,763,360</u>	<u>(9)%</u>
Total liabilities	<u>4,641,414</u>	<u>4,470,792</u>	<u>4%</u>
Net assets:			
Invested in capital assets, net of related debt	12,179,856	12,422,561	(2)%
Restricted	13,403,101	12,258,252	9%
Unrestricted	<u>4,242,717</u>	<u>4,104,793</u>	<u>3%</u>
Total net assets	<u>\$ 29,825,674</u>	<u>28,785,606</u>	<u>4%</u>

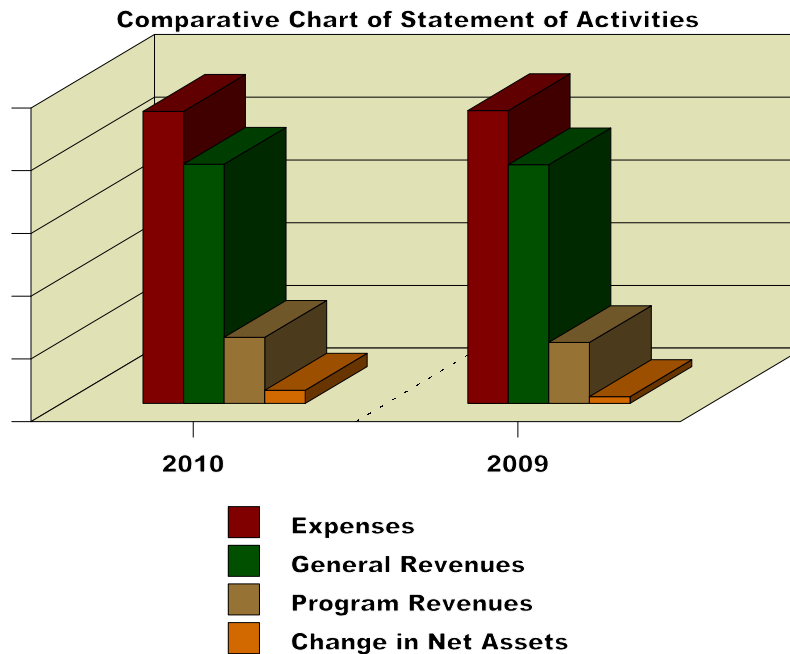
The following are significant current year transactions that have had an impact on the Statement of Net Assets:

- Decrease in net capital assets in the amount of \$598,533.
- The principal retirement of \$355,717 of long-term debt.

Changes in net assets. The District's total revenues for the fiscal years ended June 30, 2010 and June 30, 2009 were \$24,312,758 and \$23,864,143, respectively. The total cost of all programs and services was \$23,272,801 for 2010 and \$23,326,166 for 2009. Table 2 presents a summary of the changes in net assets for the fiscal years ended June 30, 2010 and June 30, 2009.

Table 2
Changes in Net Assets

	Year Ended June 30, 2010	Year Ended June 30, 2009	Percentage Change
Revenues:			
Program revenues:			
Charges for services	\$ 1,193,389	1,153,307	3%
Operating grants and contributions	3,950,490	3,597,191	10%
Capital grants and contributions	111,595	99,914	12%
Total program revenues	5,255,474	4,850,412	8%
General revenues:			
Property taxes	3,133,688	3,012,286	4%
Grants and contributions not restricted	14,714,627	14,803,803	(1)%
Investment earnings	356,254	573,820	(38)%
Sixteenth section sources	838,142	594,458	41%
Other	14,573	29,364	(50)%
Total general revenues	19,057,284	19,013,731	0%
Total revenues	24,312,758	23,864,143	2%
Expenses:			
Instruction	14,332,064	13,970,702	3%
Support services	7,067,744	7,470,752	(5)%
Non-instructional	1,638,894	1,584,883	3%
Sixteenth section	75,129	99,083	(24)%
Interest on long-term debt	158,970	200,746	(21)%
Total expenses	23,272,801	23,326,166	0%
 Increase (Decrease) in net assets	 1,039,957	 537,977	 93%
 Net Assets, July 1, as originally reported	 28,785,606	 28,237,092	 2%
Prior Period Adjustment	111	10,537	(99)%
Net Assets, July 1, as restated	28,785,717	28,247,629	2%
Net Assets, June 30	\$ 29,825,674	28,785,606	4%



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

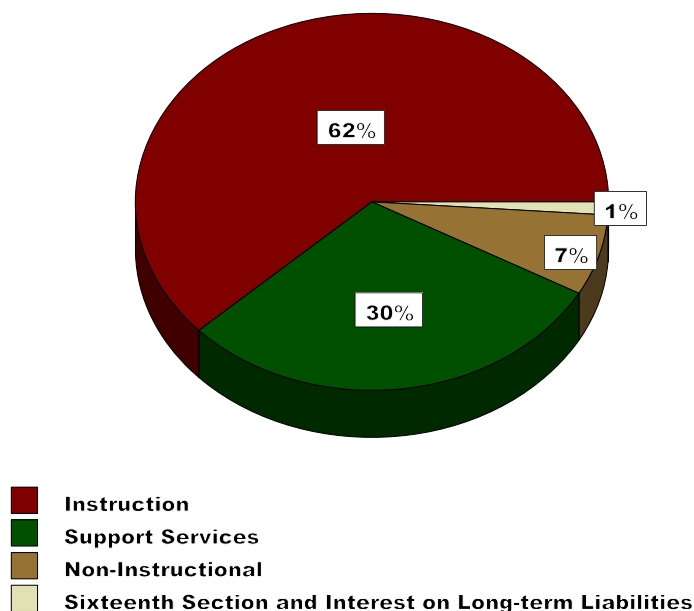
Table 3
Net Cost of Governmental Activities

	<u>Total Expenses</u>		
	2010	2009	Percentage Change
Instruction	\$ 14,332,064	13,970,702	3%
Support services	7,067,744	7,470,752	(5)%
Non-instructional	1,638,894	1,584,883	3%
Sixteenth section	75,129	99,083	(24)%
Interest on long-term liabilities	158,970	200,746	(21)%
Total expenses	\$ 23,272,801	23,326,166	0%

Net (Expense) Revenue

	<u>2010</u>	<u>2009</u>	<u>Percentage Change</u>
Instruction	\$ (11,500,948)	(11,393,548)	1%
Support services	(6,392,086)	(6,860,319)	(7)%
Non-instructional	40,737	70,887	(43)%
Sixteenth section	(6,060)	(92,028)	(93)%
Interest on long-term liabilities	(158,970)	(200,746)	(21)%
Total net (expense) revenue	\$ (18,017,327)	(18,475,754)	(2)%

Chart of Expenses as per Statement of Activities



- Net cost of governmental activities (\$18,017,327 for 2010 and \$18,475,754 for 2009) was financed by general revenue, which is primarily made up of property taxes (\$3,133,688 for 2010 and \$3,012,286 for 2009) and state and federal revenues (\$14,714,627 for 2010 and \$14,803,803 for 2009). In addition, there was \$838,142 and \$594,458 in Sixteenth Section sources for 2010 and 2009, respectively.
- Investment earnings amounted to \$356,254 for 2010 and \$573,820 for 2009.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$17,748,907, an increase of \$1,369,390, which includes a decrease in reserve for inventory of \$685. \$10,162,500 or 57% of the fund balance represents unreserved and undesignated fund balance, which is available for spending at the District's discretion. The remaining fund balance of \$7,586,407 or 43% is reserved or designated to indicate that it is not available for spending because it has already been committed.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$270,655. The fund balance of Other Governmental Funds showed an increase in the amount of \$10,816, which includes a decrease in reserve for inventory of \$685. The increase (decrease) in the fund balances for the other major funds were as follows:

Major Fund	Increase (Decrease)
Title I Fund	\$ no increase or decrease
EHA Part B Fund	no increase or decrease
Sixteenth Section Interest Fund	578,321
Sixteenth Section Principal Fund	509,598

BUDGETARY HIGHLIGHTS

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

- Budgeted amounts for revenue from state sources in the General Fund were decreased to to reflect actual revenue received during the fiscal year. The original budget amounts were overstated.
- Budgeted amounts for instruction and support services expenditures in the Title I Fund were increased to more accurately reflect actual expenditures incurred during the fiscal year. The original budget amounts were understated.

- Budgeted amounts for revenue from federal sources in the EHA Part B Fund were decreased to reflect actual revenue received during the fiscal year. The original budget amounts were overstated.
- Budgeted amounts for sixteenth section sources in the Sixteenth Section Interest Fund were increased to more accurately reflect the actual revenue generated during the fiscal year primarily from sixteenth section leases and earnings on investments. The original budget amounts were understated.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2010, the District's total capital assets were \$24,220,069, including land, construction in progress, school buildings, building improvements, improvements other than buildings, buses, other school vehicles, mobile equipment, furniture and equipment and leased property under capital leases. This amount represents a decrease of \$76,771 from 2009. Total accumulated depreciation as of June 30, 2010, was \$8,804,338, and total depreciation expense for the year was \$675,304, resulting in total net capital assets of \$15,415,731.

Table 4
Capital Assets, Net of Accumulated Depreciation

	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>Percentage Change</u>
Land	\$ 266,690	266,690	0%
Construction in progress	10,506		
Buildings	13,082,908	13,447,125	(3)%
Building improvements	177,989	190,041	(6)%
Improvements other than buildings	558,998	592,285	(6)%
Mobile equipment	1,127,067	1,321,866	(15)%
Furniture and equipment	164,173	166,047	(1)%
Leased property under capital leases	27,400	30,210	(9)%
Total	\$ <u>15,415,731</u>	<u>16,014,264</u>	<u>(4)%</u>

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

Debt Administration. At June 30, 2010, the District had \$3,419,439 in outstanding long-term debt, of which \$380,875 is due within one year. The liability for compensated absences increased \$11,907 from the prior year.

Table 5
Outstanding Long-Term Debt

		<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>Percentage Change</u>
General obligation bonds payable	\$	2,615,000	2,870,000	(9)%
Three mill notes payable		615,000	710,000	(13)%
Obligations under capital leases		5,875	11,703	(50)%
Compensated absences		183,564	171,657	7%
Total	\$	<u><u>3,419,439</u></u>	<u><u>3,763,360</u></u>	<u><u>(9)%</u></u>

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

CURRENT ISSUES

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

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

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

Enrollment for the 2009-2010 school year decreased by 2% to 2,852 students.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Smith County School District, PO Box 785, Woodville, MS 39669.

FINANCIAL STATEMENTS

SMITH COUNTY SCHOOL DISTRICT**STATEMENT OF NET ASSETS**

JUNE 30, 2010

	Governmental Activities
Assets	
<i>Cash and cash equivalents</i>	\$ 7,303,120
<i>Cash with fiscal agents</i>	12,619
<i>Investments</i>	3,537,263
<i>Due from other governments</i>	991,118
<i>Inventories</i>	29,447
<i>Deferred charges, bond issuance costs</i>	146,358
<i>Restricted assets</i>	7,031,432
<i>Capital assets, non-depreciable:</i>	
<i>Land</i>	266,690
<i>Construction in progress</i>	10,506
<i>Capital assets, net of accumulated depreciation:</i>	
<i>Buildings</i>	13,082,908
<i>Building improvements</i>	177,989
<i>Improvements other than buildings</i>	558,998
<i>Mobile equipment</i>	1,127,067
<i>Furniture and equipment</i>	164,173
<i>Leased property under capital leases</i>	27,400
Total Assets	34,467,088
Liabilities:	
<i>Accounts payable and accrued liabilities</i>	1,156,084
<i>Due to other governments</i>	8
<i>Interest payable on long-term liabilities</i>	65,883
<i>Long-term liabilities (due within one year)</i>	
<i>Capital related liabilities</i>	380,875
<i>Long-term liabilities (due beyond one year)</i>	
<i>Capital related liabilities</i>	2,855,000
<i>Non-capital related liabilities</i>	183,564
Total Liabilities	4,641,414
Net Assets:	
Invested in Capital Assets, Net of Related Debt	12,179,856
Restricted Net Assets:	
Expendable:	
School Based Activities	5,912,024
Debt Service	223,731
Capital Improvements	79,600
Forestry Improvements	23,687
Unemployment Benefits	52,895
Sixteenth Section	566,298
Non-expendable:	
Sixteenth Section	6,544,866
Unrestricted	4,242,717
Total Net Assets	\$ 29,825,674

The accompanying notes are an integral part of this statement.

SMITH COUNTY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2010

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for	Operating	Capital	Revenue and
		Services	Grants and	Grants and	Changes in
			Contributions	Contributions	Net Assets
Governmental Activities:					Governmental
					Activities
<i>Instruction</i>	14,332,064	637,023	2,082,498	111,595	(11,500,948)
<i>Support services</i>	7,067,744	--	675,658	--	(6,392,086)
<i>Noninstructional services</i>	1,638,894	487,297	1,192,334	--	40,737
<i>Sixteenth section</i>	75,129	69,069	--	--	(6,060)
<i>Interest on long-term liabilities</i>	158,970	--	--	--	(158,970)
Total Governmental Activities	<u>\$ 23,272,801</u>	<u>\$ 1,193,389</u>	<u>\$ 3,950,490</u>	<u>\$ 111,595</u>	<u>(18,017,327)</u>
General Revenues:					
Taxes:					
<i>General purpose levies</i>					3,020,961
<i>Debt purpose levies</i>					112,727
Unrestricted grants and contributions:					
<i>State</i>					13,298,508
<i>Federal</i>					1,416,119
<i>Unrestricted investment earnings</i>					356,254
<i>Sixteenth section sources</i>					838,142
<i>Other</i>					14,573
Total General Revenues					<u>19,057,284</u>
Change in Net Assets					<u>1,039,957</u>
Net Assets- Beginning, as originally reported					28,785,606
Prior Period Adjustment					111
Net Assets - Restated					<u>28,785,717</u>
Net Assets- Ending					<u>\$ 29,825,674</u>

The accompanying notes are an integral part of this statement.

SMITH COUNTY SCHOOL DISTRICT**BALANCE SHEET - GOVERNMENTAL FUNDS**

JUNE 30, 2010

	General Fund	Title I Fund	EHA Part B Fund
Assets			
<i>Cash and other deposits</i>	\$ 3,049,169	\$ --	\$ --
<i>Cash with fiscal agents</i>	--	--	--
<i>Investments</i>	1,547,421	--	--
<i>Due from other governments</i>	315,038	276,433	231,493
<i>Due from other funds</i>	390,976	55	4,855
<i>Advances to other funds</i>	--	--	--
<i>Inventories</i>	--	--	--
Total Assets	\$ 5,302,604	\$ 276,488	\$ 236,348
Liabilities and Fund Balances			
Liabilities:			
<i>Accounts payable and accrued liabilities</i>	\$ 933,107	\$ 58,073	\$ 24,272
<i>Due to other funds</i>	5,850	218,415	212,076
<i>Advances from other funds</i>	79,904	--	--
<i>Other payables</i>	3,820	--	--
Total Liabilities	1,022,681	276,488	236,348
Fund balances:			
Reserved for:			
<i>Inventory</i>	--	--	--
<i>Forestry improvements</i>	--	--	--
<i>Unemployment benefits</i>	--	--	--
<i>Capital projects fund</i>	--	--	--
<i>Debt service fund</i>	--	--	--
<i>Permanent funds</i>	--	--	--
Unreserved:			
Undesignated, reported in:			
<i>General fund</i>	4,279,923	--	--
<i>Special revenue fund</i>	--	--	--
Total Fund Balances	4,279,923	--	--
Total Liabilities and Fund Balances	\$ 5,302,604	\$ 276,488	\$ 236,348

The accompanying notes are an integral part of this statement.

Sixteenth Section Interest Fund	Sixteenth Section Principal Fund	Other Governmental Funds	Total Governmental Funds
\$ 2,955,459	\$ 1,314,281	\$ 1,298,492	\$ 8,617,401
12,619	1,534	--	14,153
1,989,842	5,715,617	--	9,252,880
--	--	165,539	988,503
951	78	173,342	570,257
--	79,904	--	79,904
--	--	29,447	29,447
<u>\$ 4,958,871</u>	<u>\$ 7,111,414</u>	<u>\$ 1,666,820</u>	<u>\$ 19,552,545</u>
\$ --	\$ --	\$ 136,812	\$ 1,152,264
2,080	250	128,979	567,650
--	--	--	79,904
--	--	--	3,820
<u>2,080</u>	<u>250</u>	<u>265,791</u>	<u>1,803,638</u>
--	--	29,447	29,447
--	--	23,687	23,687
--	--	52,895	52,895
--	--	79,600	79,600
--	--	289,614	289,614
--	7,111,164	--	7,111,164
--	--	--	4,279,923
4,956,791	--	925,786	5,882,577
<u>4,956,791</u>	<u>7,111,164</u>	<u>1,401,029</u>	<u>17,748,907</u>
<u>\$ 4,958,871</u>	<u>\$ 7,111,414</u>	<u>\$ 1,666,820</u>	<u>\$ 19,552,545</u>

SMITH COUNTY SCHOOL DISTRICT

*RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2010*

Total Fund Balances - Governmental Funds	\$ 17,748,907
Amounts reported for governmental activities in the Statement of Net Assets ("SNA") are different because:	
Capital assets used in governmental activities are not reported in the funds.	15,415,731
Liabilities due in one year are not recognized in the funds.	(380,875)
Payables for bond principal which are not due in the current period are not reported in the funds.	(2,340,000)
Payables for bond interest which are not due in the current period are not reported in the funds.	(65,883)
Payables for notes which are not due in the current period are not reported in the funds.	(515,000)
Payables for compensated absences not due in the current period are not reported in the funds.	(183,564)
Bond issuance costs is deferred and amortized in the SNA but not in the funds.	146,358
Total Net Assets - Governmental Activities	\$ <u>29,825,674</u>

The accompanying notes are an integral part of this statement.

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SMITH COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	General Fund	Title I Fund	EHA Part B Fund
Revenues:			
Local sources	\$ 3,737,460	\$ --	\$ --
State sources	13,581,114	--	--
Federal sources	363,291	837,459	610,444
Sixteenth section sources	--	--	--
Total Revenues	17,681,865	837,459	610,444
Expenditures:			
Instruction	10,554,395	588,554	381,138
Support services	6,037,657	220,606	229,306
Noninstructional services	--	28,299	--
Sixteenth section	--	--	--
Facilities acquisition and construction	--	--	--
Debt service:			
Principal	160,803	--	--
Interest	56,587	--	--
Other	1,835	--	--
Total Expenditures	16,811,277	837,459	610,444
Excess (Deficiency) of Revenues Over (Under) Expenditures	870,588	--	--
Other Financing Sources (Uses):			
Insurance loss recoveries	4,976	--	--
Sale of other property	9,800	--	--
Transfers In	30,000	--	--
Other financing sources	65	--	--
Transfers Out	(644,774)	--	--
Total Other Financing Sources (Uses)	(599,933)	--	--
Net Change in Fund Balances	270,655	--	--
Fund Balances:			
July 1, 2009	4,009,268	--	--
Increase (decrease) in reserve for inventory	--	--	--
June 30, 2010	\$ 4,279,923	\$ --	\$ --

The accompanying notes are an integral part of this statement.

Sixteenth Section Interest Fund	Sixteenth Section Principal Fund	Other Governmental Funds	Total Governmental Funds
\$ --	\$ --	\$ 603,420	\$ 4,340,880
--	--	621,069	14,202,183
--	--	2,761,901	4,573,095
583,832	509,598	93,305	1,186,735
<u>583,832</u>	<u>509,598</u>	<u>4,079,695</u>	<u>24,302,893</u>
--	--	2,384,558	13,908,645
--	--	455,154	6,942,723
--	--	1,542,380	1,570,679
5,511	--	69,618	75,129
--	--	10,506	10,506
--	--	194,914	355,717
--	--	25,838	82,425
--	--	--	1,835
<u>5,511</u>	<u>--</u>	<u>4,682,968</u>	<u>22,947,659</u>
<u>578,321</u>	<u>509,598</u>	<u>(603,273)</u>	<u>1,355,234</u>
--	--	--	4,976
--	--	--	9,800
--	--	644,774	674,774
--	--	--	65
--	--	(30,000)	(674,774)
<u>--</u>	<u>--</u>	<u>614,774</u>	<u>14,841</u>
<u>578,321</u>	<u>509,598</u>	<u>11,501</u>	<u>1,370,075</u>
4,378,470	6,601,566	1,390,213	16,379,517
--	--	(685)	(685)
<u>\$ 4,956,791</u>	<u>\$ 7,111,164</u>	<u>\$ 1,401,029</u>	<u>\$ 17,748,907</u>

SMITH COUNTY SCHOOL DISTRICT

*RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010*

Net Change in Fund Balances - Governmental Funds	\$ 1,370,075
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	76,771
The depreciation of capital assets used in governmental activities is not reported in the funds.	(675,304)
Bond issuance costs and similar items are amortized in the SOA but not in the funds.	(20,909)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	255,000
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.	5,717
Repayment of note principal is an expenditure in the funds but is not an expense in the SOA.	95,000
(Increase) decrease in accrued interest from beginning of period to end of period.	(53,801)
Change in inventory is an adjustment to fund balance in the funds but affects expense in the SOA.	(685)
Compensated absences are reported as amount earned in SOA but as amount paid in the funds.	(11,907)
	<hr/>
Change in Net Assets of Governmental Activities	\$ <u>1,039,957</u>

The accompanying notes are an integral part of this statement.

SMITH COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
JUNE 30, 2010

	Agency Funds
Assets	
<i>Cash and other deposits</i>	\$ 107,018
<i>Due from other funds</i>	8
Total Assets	\$ 107,026
Liabilities	
<i>Performance bonds payable</i>	\$ 16,537
<i>Due to student clubs</i>	87,481
<i>Due to other funds</i>	2,615
<i>Other payables</i>	393
Total Liabilities	\$ 107,026

The accompanying notes are an integral part of this statement.

Smith County School District

Notes to the Financial Statement
June 30, 2010

Smith County School District

Notes to the Financial Statements For the Year Ended June 30, 2010

(1) Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

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

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

B. Basis of Presentation

Government-wide Financial Statements:

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

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

1. Invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, and reduced by outstanding balances of

Smith County School District

Notes to the Financial Statements For the Year Ended June 30, 2010

bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

2. Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.
3. Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

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

Fund Financial Statements:

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

The school district reports the following major governmental funds:

General Fund - This is the school district's primary operating fund. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

Title I Fund - This fund is the school district's federally funded program offering remedial mathematics, language arts, and reading instruction to eligible students under a school-wide structured project.

EHA Part B Fund - This fund accounts for the resources related to the education of children with disabilities.

Sixteenth Section Interest Fund - The Sixteenth Section Interest Funds are funds used to account for maintaining and improving sixteenth section lands.

Smith County School District

Notes to the Financial Statements For the Year Ended June 30, 2010

Sixteenth Section Principal Fund - This fund is used to account for sixteenth section resources that are legally restricted; only earnings, and not the principal, may be used for purposes that support the district's programs.

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

The District's fiduciary funds include eight (8) agency funds, which are used to report resources held by the district in a purely custodial capacity.

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUND TYPES

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

Capital Projects Funds - Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

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

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

FIDUCIARY FUNDS

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

C. Measurement Focus and Basis of Accounting

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

Smith County School District

Notes to the Financial Statements For the Year Ended June 30, 2010

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

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

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

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

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

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

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

Smith County School District

Notes to the Financial Statements For the Year Ended June 30, 2010

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

D. Account Classifications

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing, and Financial Reporting*, issued in 2005 by the Government Finance Officers Association and are consistent with the broad classifications recommended in the *Financial Accounting for Local and State School Systems, 2003*, issued by the U.S. Department of Education.

E. Encumbrances

An encumbrance system is not maintained to account for commitments resulting from approved purchase orders, work orders and contracts.

F. Assets, liabilities, and net assets or equity

1. Cash, Cash equivalents and Investments

Cash and cash equivalents

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

Investments

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

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

Investments for the district are reported at fair market value.

Smith County School District

Notes to the Financial Statements For the Year Ended June 30, 2010

2. Receivables and payables

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

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

3. Due from Other Governments

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

4. Inventories and Prepaid Items

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

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

5. Restricted Assets

Certain resources set aside for repayment of debt are classified as restricted assets on the Statement of Net Assets because their use is limited by applicable debt statutes. Also, the nonexpendable portion of the Permanent Fund, if applicable, is classified as restricted assets because the Sixteenth Section Principal fund is not available for use by the district except as provided for under state statute for loans from this fund.

6. Capital Assets

Capital assets include land, improvements to land, easements, water rights, timber rights, buildings, building improvements, vehicles, machinery,

Smith County School District

Notes to the Financial Statements For the Year Ended June 30, 2010

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

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

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

The following schedule details the capitalization thresholds:

	Capitalization Policy	Estimated Useful Life
Land	\$ 0	0
Buildings	50,000	40 years
Building Improvements	25,000	20 years
Improvements other than Buildings	25,000	20 years
Mobile Equipment	5,000	5-10 years
Furniture and Equipment	5,000	3-7 years
Leased Property Under Capital Leases	*	*

(*) The threshold amount will correspond with the amounts for the asset classifications, as listed. See Note 5 for details.

7. Compensated Absences

Employees of the school district accumulate sick leave at a minimum amount as required by state law. A greater amount may be provided by school district policy provided that it does not exceed the provisions for leave as provided in Sections 25-3-93 and 25-3-95. Some employees are

Smith County School District

Notes to the Financial Statements For the Year Ended June 30, 2010

allowed personal and/or vacation leave in accordance with school district policy. The district pays for unused leave for employees as required to do so by Section 37-7-307(5), Miss. Code Ann. (1972).

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

8. Long-term Liabilities, Deferred Debt Expense, and Bond Discounts/Premiums

In the government-wide financial statements, outstanding debt is reported as liabilities. Bond issue cost, bond discounts or premiums, and the difference between reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures. See Note 6 for details.

9. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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

Fund reserves are portions of fund equity that are legally segregated for a specific future use or are not available for current operations. Following are descriptions of fund reserves used by the district:

Reserved for inventory - An account that represents a portion of the fund balance which indicates that inventories do not represent available spendable resources even though they are a component of net current assets.

Smith County School District

Notes to the Financial Statements For the Year Ended June 30, 2010

Reserved for capital projects - An account that represents that portion of fund balance in the Capital Projects Fund which is legally restricted and not available for spending for any other purpose than that for which it is restricted.

Reserved for debt service - An account that represents that portion of fund balance in the Debt Service Fund which is legally restricted and not available for spending for any other purpose than that for which it is restricted.

Reserved for unemployment benefits - An account that represents a portion of the fund balance that is legally restricted for the payment of unemployment benefits.

Reserved for forestry improvements - An account that represents a portion of the fund balance that is legally restricted for improving sixteenth section forest lands.

Reserved for permanent fund purposes - An account that represents a portion of the fund balance that is legally restricted for investment purposes or borrowing by the school board for capital purposes.

Unreserved, undesignated - An account that represents the portion of fund balance that is expendable available financial resources.

(2) Cash and Cash Equivalents, Cash with Fiscal Agents, and Investments

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

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

Smith County School District

Notes to the Financial Statements For the Year Ended June 30, 2010

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

Cash and Cash Equivalents

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$8,617,401 and \$107,018, respectively. The carrying amount of deposits reported in government-wide statements was: cash and cash equivalents \$7,303,120 and restricted assets of \$1,314,281. The bank balance was \$9,910,004.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2010, none of the district's bank balance of \$9,910,004 was exposed to custodial credit risk.

Cash with Fiscal Agents

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$14,153. \$1,534 of this amount is shown as Restricted Assets on Exhibit A.

Smith County School District

Notes to the Financial Statements For the Year Ended June 30, 2010

Investments

As of June 30, 2010 the district had the following investments.

<u>Investment Type</u>	<u>Maturities (in yrs)</u>	<u>Fair Value</u>
Trustmark Certificate of Deposit (CDs)	6 months	\$1,340,426
Magnolia State Bank (CDs)	1 year	413,990
Trustmark Brokerage Accounts	1 year	<u>7,498,464</u>
Total Investments		<u>\$ 9,252,880</u>

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

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

Custodial Credit Risk - Investments. Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The district does not have a formal investment policy that addresses custodial credit risk. As of June 30, 2010, the district did not have any investments to which this would apply.

Concentration of Credit Risk. Disclosures of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds and external investment pools, and other pooled investments. As of June 30, 2010, the district had the following investments:

<u>Issuer</u>	<u>Fair Value</u>	<u>% of Total Investments</u>
Trustmark Certificate of Deposit (CDs)	\$ 1,340,426	15%
Magnolia State Bank (CDs)	413,990	4%
Trustmark Brokerage Accounts	<u>7,498,464</u>	81%
Total	<u>\$ 9,252,880</u>	

Smith County School District

Notes to the Financial Statements For the Year Ended June 30, 2010

(3) Inter-fund Receivables, Payables, and Transfers

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

A. Due From/To Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Title I Fund	\$ 218,415
	EHA Part B Fund	84,900
	Other Governmental Funds	84,817
	Fiduciary Funds	2,594
	Sixteenth Section Principal Fund	250
Title I Fund	General Fund	55
EHA Part B Fund	General Fund	4,855
Sixteenth Section Interest Fund	General Fund	940
	Fiduciary Funds	11
Sixteenth Section Principal Fund	Sixteenth Section Interest Fund	78
Fiduciary Fund	Fiduciary Fund	8
Other Governmental Funds	EHA Part B Fund	127,176
	Other Governmental Funds	44,162
	Sixteenth Section Interest Fund	2,002
	Fiduciary Fund	2
Total		\$ <u>570,265</u>

The purpose of the inter-fund receivables and payables was to remove negative cash balances from pooled bank accounts. All balances are expected to be repaid within one year from the date of the financial statements.

B. Advances To/From Other Funds

Receivable Fund	Payable Fund	Amount
Sixteenth Section Principal Fund	General Fund	\$ 79,904
Total		\$ <u>79,904</u>

Sixteenth section loans payable

The sixteenth section principal loans payable is not reflected on the Statement of Net Assets because these funds were borrowed by the General Fund from the Sixteenth Section Trust Fund (Permanent Trust) in accordance with Section 29-3-113, Miss. Code Ann. (1972). The revenues and expenditures associated with these transactions were reflected on Exhibit D-1.

Smith County School District

Notes to the Financial Statements For the Year Ended June 30, 2010

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

Year Ending June 30		Principal	Interest	Total
2011	\$	52,757	3,195	55,952
2012		27,147	1,086	28,233
Total	\$	<u>79,904</u>	<u>4,281</u>	<u>84,185</u>

C. Inter-fund Transfers

Transfers Out	Transfers In	Amount
General Fund	Other Governmental Funds	\$ 30,000
Other Governmental funds	General Fund	644,774
Total		\$ <u>674,774</u>

Transfers were made for indirect cost transfers and budgetary allocations. All transfers were routine and consistent with the fund making the transfer.

(4) Restricted Assets

The restricted assets represent the cash balance, cash with fiscal agent balance, and the investment balance, totaling \$1,314,281, \$1,534, and \$5,715,617, respectively, of the Sixteenth Section Principal Fund (Permanent Fund) which is legally restricted and may not be used for purposes that support the district's programs.

(5) Capital Assets

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

	Balance 7-1-2009	Additions	Balance 6-30-2010
<u>Non-depreciable capital assets:</u>			
Land	\$ 266,690		266,690
Construction in progress		10,506	10,506
Total non-depreciable capital assets	<u>266,690</u>	<u>10,506</u>	<u>277,196</u>
<u>Depreciable capital assets:</u>			
Buildings	18,637,790		18,637,790
Building improvements	301,302		301,302
Improvements other than buildings	832,181		832,181
Mobile equipment	3,119,134	5,064	3,124,198
Furniture and equipment	933,510	61,201	994,711
Leased property under capital leases	52,691		52,691
Total depreciable capital assets	<u>23,876,608</u>	<u>66,265</u>	<u>23,942,873</u>
<u>Less accumulated depreciation for :</u>			
Buildings	5,190,665	364,217	5,554,882

Smith County School District

Notes to the Financial Statements For the Year Ended June 30, 2010

Building improvements	111,261	12,052	123,313
Improvements other than buildings	239,896	33,287	273,183
Mobile equipment	1,797,268	199,863	1,997,131
Furniture and equipment	767,463	63,075	830,538
Leased property under capital leases	22,481	2,810	25,291
Total accumulated depreciation	<u>8,129,034</u>	<u>675,304</u>	<u>8,804,338</u>
 Total depreciable capital assets, net	 <u>15,747,574</u>	 <u>(609,039)</u>	 <u>15,138,535</u>
 Governmental activities capital assets, net	 \$ <u>16,014,264</u>	 <u>(598,533)</u>	 <u>15,415,731</u>

Depreciation expense was charged to the following governmental functions:

	<u>Amount</u>
Instruction	\$ 472,713
Support services	135,061
Non-Instructional	<u>67,530</u>
Total depreciation expense	<u>\$ 675,304</u>

Commitments under construction contracts at June 30, 2010, are summarized as follows:

	<u>Spent to June 30, 2010</u>	<u>Remaining Commitment</u>
Mize New Cafeteria Building	\$ 4,803	0
Taylorville New Classroom Building	5,703	0
Total	<u>\$ 10,506</u>	<u>0</u>

Construction projects included in governmental activities are funded with Other Capital Projects Fund (#3901).

(6) Long-term liabilities

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

	<u>Balance 7-1-2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Adjustments</u>	<u>Balance 6-30-2009</u>	<u>Amounts due within one year</u>
A. General obligation bonds payable	\$ 2,870,000		255,000		2,615,000	275,000
B. Three mill notes payable	710,000		95,000		615,000	100,000
C. Obligations under capital leases	11,703		5,717	(111)	5,875	5,875
D. Compensated absences payable	171,657	11,907			183,564	
Total	<u>\$ 3,763,360</u>	<u>11,907</u>	<u>355,717</u>	<u>(111)</u>	<u>3,419,439</u>	<u>380,875</u>

Adjustments were made to accurately record actual amount outstanding on obligations under capital leases.

Smith County School District

Notes to the Financial Statements For the Year Ended June 30, 2010

A. General obligation bonds payable

General obligation bonds are direct obligations and pledge the full faith and credit of the school district. General obligation bonds currently outstanding are as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
General obligation bonds payable	4.1-4.9%	07-15-02	07-15-17	\$ 3,870,000	2,615,000
Total				\$ 3,870,000	2,615,000

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

Year Ending June 30	Principal	Interest	Total
2011	\$ 275,000	115,596	390,596
2012	285,000	103,554	388,554
2013	300,000	90,605	390,605
2014	315,000	76,610	391,610
2015	330,000	61,610	391,610
2016 - 2018	1,110,000	73,530	1,183,530
Total	\$ 2,615,000	521,505	3,136,505

The amount of bonded indebtedness that can be incurred by the school district is limited by Sections 37-59-5 and 37-59-7, Miss. Code Ann. (1972). Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, accordingly to the then completed assessment for taxation, unless certain conditions, as set forth in Section 37-59-7, Miss. Code Ann. (1972) have been met. As of June 30, 2010, the amount of outstanding bonded indebtedness was equal to 9% of property assessments as of October 1, 2009. This debt will be retired from the District Maintenance Fund (General Fund) and the EEF Buildings and Buses Fund (Special Revenue Fund).

B. Three mill notes payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Three mill note payable	3.9 %	08-01-07	08-01-14	\$ 910,000	615,000
Total				\$ 910,000	615,000

Smith County School District

Notes to the Financial Statements For the Year Ended June 30, 2010

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

Year Ending June 30		Principal	Interest	Total
2011	\$	100,000	22,036	122,036
2012		125,000	17,648	142,648
2013		130,000	12,675	142,675
2014		135,000	7,509	142,509
2015		125,000	2,437	127,437
Total	\$	<u>615,000</u>	<u>62,305</u>	<u>677,305</u>

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

C. Obligations under capital leases

The school district has entered into a lease agreement as a lessee for financing the acquisition of a modular classroom at a cost of \$52,691 with a down payment of \$5,269. This lease qualifies as a capital lease for accounting purposes.

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Capital leases	5.64%	10-26-01	10-26-10	\$ 52,691	5,875
Total				<u>\$ 52,691</u>	<u>5,875</u>

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

Year Ending June 30		Principal	Interest and Maintenance Charges	Total
2011	\$	5,875	344	6,219
Total	\$	<u>5,875</u>	<u>344</u>	<u>6,219</u>

This debt will be retired from the District Maintenance Fund.

D. Compensated absences payable

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

Smith County School District

Notes to the Financial Statements For the Year Ended June 30, 2010

(7) Prior Year Defeasance of Debt

In prior years, the Smith County School District defeased certain lease trust certificates by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the district's financial statements. On June 30, 2010, \$2,490,000 of bonds outstanding are defeased.

(8) Defined Benefit Pension Plan

Plan Description. The school district contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Public Employees' Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, MS 39201 or by calling (601) 359-3589 or 1-800-444-PERS.

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The employer's rate for fiscal year ended June 30, 2010 was 12.00% of the annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2010, 2009 and 2008 were \$1,573,776, \$1,520,134 and \$1,480,685, respectively, which equaled the required contributions for each year.

(9) Other Disclosures - Long Term Deferred Charge

Upon the issuance of the General Obligation Bonds, Series 2002, the district incurred bond issue cost of \$292,721. This transaction is reported as a long-term deferred charge on the Statement of Net Assets and will be amortized over the life of the bonds using the straight line method at an annual cost of \$20,909. The unamortized balance was \$146,358 at fiscal year end.

(10) Sixteenth Section Lands

Sixteenth section school lands, or lands granted in lieu thereof, constitute property held in trust for the benefit of the public schools. The school board, under the general supervision of the Office of the Secretary of State, has control and jurisdiction of said school trust lands and of all funds arising from any disposition thereof. It is the duty of the school board to manage the school trust lands and all funds arising therefrom as trust property.

Smith County School District

Notes to the Financial Statements For the Year Ended June 30, 2010

Accordingly, the board shall assure that adequate compensation is received for all uses of the trust lands, except for uses by the public schools. The following are the future rental payments to be made to the school district for the use of school trust lands. These future rental payments are from existing leases and do not anticipate renewals or new leases.

Year Ending June 30	Amount
2011	\$ 76,830
2012	76,312
2013	63,186
2014	56,875
2015	49,823
2016 - 2020	241,966
2021 - 2025	249,115
2026 - 2030	219,351
Thereafter	224,320
Total	\$ <u>1,257,778</u>

(11) Prior Period Adjustments

A summary of significant fund equity adjustments are as follows:

Exhibit B - Statement of Activities

Explanation(s)	Amount
1 Adjustments were made to long-term debt to accurately record actual amount outstanding on obligations under capital leases.	\$ 111
Total	\$ <u>111</u>

(12) Risk Management

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

Participation in Public Entity Risk Pool

The school district is a member of the Mississippi Municipal Workers' Compensation Group (MMWCG). The group is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. MMWCG covers risks of loss arising from injuries to the school district's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the

Smith County School District

Notes to the Financial Statements For the Year Ended June 30, 2010

employers comprising the group to meet the workers' compensation obligations of each member. Each member of MMWCG contributes quarterly to a fund held in trust. The funds in the trust account are used to pay any claim up to \$500,000. For a claim exceeding \$500,000, MMWCG has insurance which will pay the excess up to the statutory amount required by the Mississippi Workers' Compensation Commission Act. If total claims during a year were to deplete the trust account, then the pool members would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

(13) Subsequent Events

Events that occur after the statement of net assets date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the statement of net assets date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the statement of net assets date require disclosure in the accompanying notes. Management of the Smith County School District evaluated the activity of the district through the date the report was available to be issued, and determined that the following subsequent events have occurred that require disclosure in the notes to the financial statements:

On June 14, 2010, the Board approved Qualified School Construction Bond in the amount of \$3,000,000. These funds will be used for the following:

1. Making repairs, alterations and additions to school buildings of the District.
2. Erecting school buildings and other buildings used for school purposes
3. Purchasing heating plants, air conditioning, fixtures and equipment for such buildings
4. Purpose of purchasing land for school purposes
5. Purchase school buses and transportation equipment
6. Improving and equipping such lands for school recreational and athletic purposes

(14) Insurance Loss Recoveries

The Smith County School District received \$4,976 in insurance loss recoveries related to building damage during the 2009 - 2010 fiscal year. In the government-wide Statement of Activities, the insurance loss recoveries were reported as support services expenditure function.

REQUIRED SUPPLEMENTARY INFORMATION

SMITH COUNTY SCHOOL DISTRICT

Exhibit 1

Budgetary Comparison Schedule

General Fund

For the Year Ended June 30, 2010

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 3,466,395	3,737,463	3,737,460	271,068	(3)
State sources	14,330,638	13,581,113	13,581,114	(749,525)	1
Federal sources	112,000	363,291	363,291	251,291	-
Total Revenues	17,909,033	17,681,867	17,681,865	(227,166)	(2)
Expenditures:					
Instruction	11,072,724	10,546,775	10,554,395	525,949	(7,620)
Support services	6,033,496	6,144,853	6,037,657	(111,357)	107,196
Noninstructional services	500			500	-
Debt Service:					
Principal	160,776	160,803	160,803	(27)	-
Interest	132,562	56,587	56,587	75,975	-
Other	1,700	1,835	1,835	(135)	-
Total Expenditures	17,401,758	16,910,853	16,811,277	490,905	99,576
Excess (Deficiency) of Revenues over (under) Expenditures	507,275	771,014	870,588	263,739	99,574
Other Financing Sources (Uses):					
Insurance loss recoveries		4,976	4,976	4,976	-
Sale of other property		9,800	9,800	9,800	-
Operating transfers in	2,701,387	2,501,489	30,000	(199,898)	(2,471,489)
Other financing sources		65	65	65	-
Operating transfers out	(3,439,329)	(3,116,264)	(644,774)	323,065	2,471,490
Total Other Financing Sources (Uses)	(737,942)	(599,934)	(599,933)	138,008	1
Net Change in Fund Balances	(230,667)	171,080	270,655	401,747	99,575
Fund Balances:					
July 1, 2009	12,645	4,009,269	4,009,268	3,996,624	(1)
June 30, 2010	\$ (218,022)	4,180,349	4,279,923	4,398,371	99,574

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

SMITH COUNTY SCHOOL DISTRICT

Exhibit 2

Budgetary Comparison Schedule

Title I Fund

For the Year Ended June 30, 2010

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$ 810,000	837,459	837,459	27,459	-
Total Revenues	810,000	837,459	837,459	27,459	-
Expenditures:					
Instruction	572,126	588,555	588,554	(16,429)	1
Support services	207,592	220,605	220,606	(13,013)	(1)
Noninstructional services			28,299	-	(28,299)
Total Expenditures	779,718	809,160	837,459	(29,442)	(28,299)
Excess (Deficiency) of Revenues over (under) Expenditures	30,282	28,299	-	(1,983)	(28,299)
Net Change in Fund Balances	30,282	28,299	-	(1,983)	(28,299)
Fund Balances:					
July 1, 2009	-	-	-	-	-
June 30, 2010	\$ 30,282	28,299	-	(1,983)	(28,299)

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

SMITH COUNTY SCHOOL DISTRICT

Exhibit 3

Budgetary Comparison Schedule

EHA Part B Fund

For the Year Ended June 30, 2010

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$ 657,000	610,444	610,444	(46,556)	-
Total Revenues	657,000	610,444	610,444	(46,556)	-
Expenditures:					
Instruction	408,731	381,138	381,138	27,593	-
Support services	248,269	229,306	229,306	18,963	-
Total Expenditures	657,000	610,444	610,444	46,556	-
Excess (Deficiency) of Revenues over (under) Expenditures	-	-	-	-	-
Net Change in Fund Balances	-	-	-	-	-
Fund Balances:					
July 1, 2009	-	-	-	-	-
June 30, 2010	\$ -	-	-	-	-

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

SMITH COUNTY SCHOOL DISTRICT

Exhibit 4

 Budgetary Comparison Schedule
 Sixteenth Section Interest Fund
 For the Year Ended June 30, 2010

			Actual (GAAP Basis)	Variances	
				Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Sixteenth section sources	\$ 357,500	583,832	583,832	226,332	-
Total Revenues	357,500	583,832	583,832	226,332	-
Expenditures:					
Sixteenth section	-	5,510	5,511	(5,510)	(1)
Total Expenditures	-	5,510	5,511	(5,510)	(1)
Excess (Deficiency) of Revenues over (under) Expenditures	357,500	578,322	578,321	220,822	(1)
Net Change in Fund Balances	357,500	578,322	578,321	220,822	(1)
Fund Balances:					
July 1, 2009	-	4,378,469	4,378,470	4,378,469	1
June 30, 2010	\$ 357,500	4,956,791	4,956,791	4,599,291	-

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

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

Smith County School District

Notes to the Required Supplementary Information
For the Year Ended June 30, 2010

Budgetary Comparison Schedules

(1) Basis of Presentation

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

(2) Budget Amendments and Revisions

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

SUPPLEMENTAL INFORMATION

Smith County School District
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

Schedule 1

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Passed-through the Mississippi Department of Education:		
Child Nutrition Cluster:		
School Breakfast Program	10.553	\$ 315,782
National School Lunch Program	10.555	929,144
Total Child Nutrition cluster		<u>1,244,926</u>
National Forest Foundation	10.682	254,582
Total		<u>254,582</u>
Total U.S. Department of Agriculture		<u><u>1,499,508</u></u>
<u>Federal Communications Commission</u>		
Administered through Universal Service Administrative Company:		
The Schools and Libraries Program of the Universal Service Fund	32.xxx	107,197
Total Federal Communications Commission		<u>107,197</u>
<u>U.S. Department of Education</u>		
Passed-through the Mississippi Department of Education:		
Title I Grants to Local Educational Agencies	84.010	837,459
Career and Technical Education - Basic Grants to States	84.048	35,499
Safe and Drug-Free Schools and Communities - State Grants	84.186	12,999
Rural Education	84.358	93,600
Improving Teacher Quality State Grants	84.367	230,058
School Improvement Grants	84.377	71,465
ARRA - State Fiscal Stabilization Fund, Recovery Act	84.394	1,052,828
Subtotal		<u>2,333,908</u>
Special Education Cluster		
Special Education - Grants to States	84.027	622,126
Special Education - Preschool Grants	84.173	8,845
Total Special Education Cluster		<u>630,971</u>
Total passed-through the Mississippi Department of Education		<u>2,964,879</u>
Total U.S. Department of Education		<u><u>2,964,879</u></u>
Total For All Federal Awards		\$ <u><u>4,571,584</u></u>

Notes to Schedule

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

Smith County School District

Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
For the Year Ended June 30, 2010

Schedule 2

Expenditures	Total	Instruction and Other Student			General Administration	School Administration	Other
		Instructional	Expenditures				
Salaries and fringe benefits	\$ 17,803,315	13,906,145		592,237	1,359,789	1,945,144	
Other	5,144,344	1,552,274		160,370	22,368	3,409,332	
Total	\$ 22,947,659	15,458,419		752,607	1,382,157	5,354,476	

Total number of students *

2,852

Cost per student

\$

8,046

5,420

264

485

1,877

For purposes of this schedule, the following columnar descriptions are applicable:

Instruction and other Student Instructional Expenditures - includes the activities dealing directly with the interaction between teachers and students. Included here are the activities of teachers, teachers aides or classroom assistants of any type. (all the 1000, 2100 & 2200 functional codes)

General Administration - includes expenditures for the following functions: Support Services - General Administration (2300s); Support Services - Business (2500s)

School Administration - includes expenditures for the following functions: Support Services - School Administration (2400s)

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

* Includes the number of students reported on the ADA report submission for month 9, which is the final submission for the fiscal year.

Note: includes 100 and 200 range object codes on the "Salaries and fringe benefits" line; all other expenditures on the "Other" line

OTHER SUPPLEMENTAL INFORMATION

SMITH COUNTY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

"UNAUDITED"

General Fund

Last Four Years

	2010	2009*	2008*	2007*
Revenues:				
Local sources	\$ 3,737,460	3,582,337	3,542,397	3,444,798
State sources	13,581,114	14,635,136	15,450,350	14,410,446
Federal sources	363,291	427,788	401,071	531,990
Total Revenues	<u>17,681,865</u>	<u>18,645,261</u>	<u>19,393,818</u>	<u>18,387,234</u>
Expenditures:				
Instruction	10,554,395	11,431,329	11,194,787	10,523,843
Support services	6,037,657	6,315,756	6,960,481	6,461,504
Noninstructional services			528	
Facilities acquisition and construction				50,000
Debt service:				
Principal	160,803	150,465	250,090	139,901
Interest	56,587	150,051	153,240	89,441
Other	1,835	1,835	2,670	1,775
Total Expenditures	<u>16,811,277</u>	<u>18,049,436</u>	<u>18,561,796</u>	<u>17,266,464</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>870,588</u>	<u>595,825</u>	<u>832,022</u>	<u>1,120,770</u>
Other Financing Sources (Uses):				
Proceeds of loans				601,127
Insurance loss recoveries	4,976			1,965
Sale of transportation equipment			2,268	5,961
Sale of other property	9,800		200	
Operating transfers in	30,000	30,000	147,525	30,701
Other financing sources	65	14,276	17,122	36,223
Operating transfers out	<u>(644,774)</u>	<u>(888,631)</u>	<u>(1,147,247)</u>	<u>(949,516)</u>
Total Other Financing Sources (Uses)	<u>(599,933)</u>	<u>(844,355)</u>	<u>(980,132)</u>	<u>(273,539)</u>
Net Change in Fund Balances	<u>270,655</u>	<u>(248,530)</u>	<u>(148,110)</u>	<u>847,231</u>
Fund Balances:				
July 1, as originally reported	4,009,268	4,112,712	4,226,435	3,379,204
Prior period adjustments		145,086	34,387	
July 1, as restated	<u>4,009,268</u>	<u>4,257,798</u>	<u>4,260,822</u>	<u>3,379,204</u>
June 30	<u>\$ 4,279,923</u>	<u>4,009,268</u>	<u>4,112,712</u>	<u>4,226,435</u>

*SOURCE - PRIOR YEAR AUDIT REPORTS

SMITH COUNTY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

"UNAUDITED"

All Governmental Funds

Last Four Years

	2010	2009*	2008*	2007*
Revenues:				
Local sources	\$ 4,340,880	4,335,290	4,240,693	4,123,223
State sources	14,202,183	15,099,174	15,972,801	14,856,833
Federal sources	4,573,095	3,397,428	3,198,769	3,749,719
Sixteenth section sources	1,186,735	1,017,975	1,032,280	715,079
Total Revenues	24,302,893	23,849,867	24,444,543	23,444,854
Expenditures:				
Instruction	13,908,645	13,524,802	13,409,660	12,864,191
Support services	6,942,723	7,360,073	7,877,020	8,214,436
Noninstructional services	1,570,679	1,518,392	1,464,406	1,379,013
Sixteenth section	75,129	99,083	75,119	44,986
Facilities acquisition and construction	10,506	47,010	317,640	2,122,568
Debt service:				
Principal	355,717	340,379	360,090	751,815
Interest	82,425	179,496	195,458	183,225
Other	1,835	1,835	2,670	1,775
Total Expenditures	22,947,659	23,071,070	23,702,063	25,562,009
Excess (Deficiency) of Revenues over (under) Expenditures	1,355,234	778,797	742,480	(2,117,155)
Other Financing Sources (Uses):				
Proceeds of loans				910,000
Insurance loss recoveries	4,976		166,458	2,020,475
Sale of transportation equipment			2,268	5,961
Sale of other property	9,800		200	
Operating transfers in	674,774	928,711	1,590,574	1,207,999
Other financing sources	65	14,276	17,122	36,499
Operating transfers out	(674,774)	(928,711)	(1,590,574)	(1,207,999)
Total Other Financing Sources (Uses)	14,841	14,276	186,048	2,972,935
Net Change in Fund Balances	1,370,075	793,073	928,528	855,780
Fund Balances:				
July 1, as originally reported	16,379,517	15,338,874	14,382,592	13,542,691
Prior period adjustments		245,000	34,387	(17,991)
July 1, as restated	16,379,517	15,583,874	14,416,979	13,524,700
Increase (Decrease) in reserve for inventory	(685)	2,570	(6,633)	2,112
June 30	\$ 17,748,907	16,379,517	15,338,874	14,382,592

*SOURCE - PRIOR YEAR AUDIT REPORTS

REPORTS ON INTERNAL CONTROLS AND COMPLIANCE

FORTENBERRY & BALLARD, PC
Certified Public Accountants

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*

Superintendent and School Board
Smith County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Smith County School District as of and for the year ended June 30, 2010, which collectively comprise the Smith County School District's basic financial statements and have issued our report thereon dated December 30, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the school district'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 school district's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the school district's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs that we consider to be significant deficiencies in internal control over financial reporting. [Finding **2010-1** and Finding **2010-2**]. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

AICPA & MSCPA

1929 Spillway Road, Suite B, Brandon, MS 39047, Telephone (601) 992-5292, Fax (601) 992-2033

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the school district'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 did not disclose any instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Smith County School District's responses to the findings identified in our audit are described in the accompanying Auditee's Corrective Action Plan. We did not audit Smith County School District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the school board and management, entities with accreditation overview, 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.

FORTENBERRY & BALLARD, PC

Fortenberry & Ballard, PC
December 30, 2010

Certified Public Accountants

FORTENBERRY & BALLARD, PC
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
FEDERAL PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133

Superintendent and School Board
Smith County School District

Compliance

We have audited the compliance of the Smith County School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The Smith County School District's major federal programs are identified in the summary of the auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contract and grants applicable to each of its major federal programs is the responsibility of the school district's management. Our responsibility is to express an opinion on the school district'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 the school district'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 the school district's compliance with those requirements.

In our opinion, the Smith County School District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The management of the Smith County School District 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 School District's internal control over compliance with 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, and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 school

district's internal control over compliance.

A deficiency in 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 and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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 the school board and management, others within the entity, entities with accreditation overview, 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.

FORTENBERRY & BALLARD, PC

Fortenberry & Ballard, PC
December 30, 2010

Certified Public Accountants

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

FORTENBERRY & BALLARD, PC
Certified Public Accountants

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

Superintendent and School Board
Smith County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Smith County School District as of and for the year ended June 30, 2010, which collectively comprise Smith County School District's basic financial statements and have issued our report thereon dated December 30, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$5,070 of classroom supply funds carried over from previous years.

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

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

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

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

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

FORTENBERRY & BALLARD, PC

Fortenberry & Ballard, PC
December 30, 2010

Certified Public Accountants

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Smith County School District

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2010

Section I: Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

4. Type of auditor's report issued on compliance for major federal programs: Unqualified.
5. Internal control over major programs:
 - a. Material weakness(es) identified? No.
 - b. Significant deficiency(ies) identified that are not considered to be material weakness(es)? None reported.
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 programs identified as major programs:
 - a. Special Education Cluster:
CFDA# 84.027
CFDA# 84.173
 - b. Title I Grants to Local Educational Agencies
CFDA# 84.010
 - c. Improving Teacher Quality State Grants
CFDA# 84.367
 - d. ARRA - State Fiscal Stabilization Fund, Recovery Act
CFDA# 84.394

8. Dollar threshold used to distinguish between type A and type B programs: \$300,000.
9. Auditee qualified as low-risk auditee? No.

Section II: Financial Statement Findings

The results of our tests disclosed the following findings related to the financial statements that are required to be reported by *Government Auditing Standards*.

Significant Deficiencies:

Finding 2010-1:

Sound internal control dictates that the individual responsible for recording transactions should not be the same individual responsible for reviewing and/or reconciling the related accounts. While our observation of the bank account reconciliations and journal entry transaction postings revealed that these processes are being performed, the Business Manager is responsible for both recording transactions through the journal entry process and reconciling the bank statements. Control account reconciliation review should be performed by someone other than the person performing the recording function. When one individual performs both the recording and reconciling functions, proper independent oversight of these tasks is not being achieved.

Recommendation:

Duties should be separated so that the Business Manager is not the only person involved in the bank account reconciliation process and the journal entry recording processes. Someone other than the Business Manager should be responsible for the initial preparation of the bank reconciliations and the recording of journal entries. Alternatively, if these processes continue to be performed by the Business Manager, someone in a higher managerial or administrative role should review and approve these processes in order to achieve a proper level of oversight.

Finding 2010-2:

During our observation of activity fund transactions at Mize Attendance Center, we noted one invoice did not have a purchase order and none of the invoices were cancelled to prevent reuse.

Recommendation:

The District should implement internal control procedures to ensure purchase orders are submitted and approved prior to purchasing to eliminate overspending. Also, the District should cancel all invoices to prevent reuse.

Section III: Federal Award Findings and Questioned Costs

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

AUDITEE'S CORRECTIVE ACTION PLAN

Smith County School District
PO Box 785
Woodville, MS 39669
Jimmy Hancock - Superintendent
Duane Fewell - Business Manager

AUDITEE'S CORRECTIVE ACTION PLAN

As required by Section ____ .315(b) of OMB Circular A-133, the Smith County School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended June 30, 2010:

<u>Finding</u>	<u>Corrective Action Plan Details</u>
2010 - 1	<p>a. Name of Contact Person Responsible for Corrective Action:</p> <p>Name: Duane Fewell Title: Business Manager Phone Number: 601-782-4296</p> <p>b. Corrective Action Planned:</p> <p>The school district will implement adequate internal controls over the process of recording transactions and/or the reconciling of the accounts so that these are not performed by the same individual.</p> <p>c. Anticipated Completion Date:</p> <p>June 30, 2010</p>
2010 - 2	<p>a. Name of Contact Person Responsible for Corrective Action:</p> <p>Name: Duane Fewell Title: Business Manager Phone Number: 601-782-4296</p> <p>b. Corrective Action Planned:</p> <p>The District will implement internal control procedures to ensure purchase orders are submitted and approved prior to purchasing to eliminate overspending. Also, the District will cancel all invoices to prevent reuse.</p> <p>c. Anticipated Completion Date:</p> <p>June 30, 2010</p>