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Town of Sardis

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MAYOR

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September 30, 2016

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

Re: Annual Municipal Audit

Accompanying this letter are two copies of the annual audit of the Town of Sardis, Mississippi, for the fiscal year ended September 30, 2015. In connection with this audit, a separate management letter was written to the town. Enclosed you will find a copy of this management letter along with the audit reports. I have also e-mailed an electronic copy to tom.chain@osa.ms.gov.

Sincerely,

Billy L. Russell
Mayor

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**CITY OF SARDIS, MISSISSIPPI
Audited Financial Statement
For the Year Ended September 30, 2015**

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**WILLIAM PITTS BEARD & CO.
CERTIFIED PUBLIC ACCOUNTANTS**

CITY OF SARDIS, MISSISSIPPI
Audited Financial Statement
For the Year Ended September 30, 2015

TABLE OF CONTENTS

Independent Auditors' Report	1
Financial Statement.....	3
Statement of Cash Receipts and Disbursements	4
Notes to Financial Statement	6
Other Information	13
Schedule of Investments	14
Schedule of Surety Bonds of Municipal Officials	15
Special Reports	17
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	19
Independent Auditors' Report on Compliance with State Laws and Regulations	21
Schedule of Findings and Responses.....	23



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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of cash receipts and disbursements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sardis, Mississippi ("the City"), for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statement referred to above presents fairly, in all material respects, the respective cash balances of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sardis, Mississippi, as of September 30, 2015, and the respective changes in cash balances thereof for the year then ended in accordance with the cash basis of accounting described in Note A.

Basis of Accounting

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

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

Other Matters

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2016, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City's internal control over financial reporting and compliance.



Williams, Pitts & Beard, PLLC
Hernando, Mississippi
September 23, 2016

FINANCIAL STATEMENT

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CITY OF SARDIS, MISSISSIPPI
Statement of Cash Receipts and Disbursements
Governmental and Business-type Activities
For the Year Ended September 30, 2015

	Governmental Activities			Business-type	Fiduciary	Total
	Major Funds			Activities	Fund	
	General	Tourism Tax	Capital Projects	Water and Sewer	Trust	
RECEIPTS						
Taxes						
General property taxes	\$ 280,995	\$ -	\$ -	\$ -	\$ -	\$ 280,995
Penalties and interest on delinquent taxes	1,737	-	-	-	-	1,737
Licenses and permits						
Privilege licenses	18,289	-	-	-	-	18,289
Franchise charges - utilities	75,715	-	-	-	-	75,715
Intergovernmental revenues						
Federal receipts						
Homeland security equipment grant	4,989	-	-	-	-	4,989
JAG grant	5,090	-	-	-	-	5,090
MOHS-OP grant	5,000	-	-	-	-	5,000
Fire wise grant	2,500	-	-	-	-	2,500
ARC grant	-	-	-	6,322	-	6,322
State shared revenues						
Sales tax	339,954	-	-	-	-	339,954
Tourism tax	-	96,837	-	-	-	96,837
Gasoline tax	5,958	-	-	-	-	5,958
Alcoholic beverage licenses	1,350	-	-	-	-	1,350
Homestead reimbursement	39,563	-	-	-	-	39,563
Fire protection	9,260	-	-	-	-	9,260
Grand gulf distribution	16,371	-	-	-	-	16,371
County shared revenues						
Road and bridge tax funds	26,123	-	-	-	-	26,123
Road and bridge motor vehicle	5,647	-	-	-	-	5,647
Fire protection	8,073	-	-	-	-	8,073
Charges for services						
Sanitation	147,206	-	-	-	-	147,206
Water utility	-	-	-	795,214	-	795,214
Special police services	5,573	-	-	-	-	5,573
Fines and forfeits	143,340	-	-	-	-	143,340
Interest income	12,709	102	-	476	36	13,323
Miscellaneous receipts						
Miscellaneous	45,515	-	-	26,156	-	71,671
Marina impact fees	22,560	-	-	-	-	22,560
Rent	300	-	-	-	-	300
Insurance proceeds	-	-	-	-	-	-
Total receipts	<u>1,223,817</u>	<u>96,939</u>	<u>-</u>	<u>828,168</u>	<u>36</u>	<u>2,148,960</u>

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

CITY OF SARDIS, MISSISSIPPI
Statement of Cash Receipts and Disbursements
Governmental and Business-type Activities
For the Year Ended September 30, 2015

	Governmental Activities			Business-type	Fiduciary	Total
	Major Funds			Activities	Fund	
	General	Tourism Tax	Capital Projects	Water and Sewer	Trust	
DISBURSEMENTS						
General government	\$ 318,000	\$ 173,380	\$ -	\$ -	\$ -	\$ 491,380
Public safety						
Police	465,985	-	-	-	-	465,985
Fire	30,798	-	-	-	-	30,798
Public Works	175,786	-	-	-	-	175,786
Culture and recreation						
Parks	935	33,425	-	-	-	34,360
Library	13,141	-	-	-	-	13,141
Sanitation	77,222	-	-	-	-	77,222
Enterprise						
Water Utility	-	-	-	575,425	-	575,425
Redemption of principal	22,671	-	-	73,459	-	96,130
Debt service interest	4,876	-	-	36,940	-	41,816
Other	-	-	-	-	-	-
Professional services	-	-	-	-	-	-
Construction	-	-	-	18,749	-	18,749
Total disbursements	<u>1,109,414</u>	<u>206,805</u>	<u>-</u>	<u>704,573</u>	<u>-</u>	<u>2,020,792</u>
Excess (deficiency) of receipts over disbursements	<u>114,403</u>	<u>(109,866)</u>	<u>-</u>	<u>123,595</u>	<u>36</u>	<u>128,168</u>
OTHER FINANCING SOURCES (USES)						
Sale of capital asset	62,263	-	-	-	-	62,263
Total other financing sources (uses)	<u>62,263</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>62,263</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>176,666</u>	<u>(109,866)</u>	<u>-</u>	<u>123,595</u>	<u>36</u>	<u>190,431</u>
CASH BASIS FUND BALANCE - BEGINNING OF YEAR	<u>1,102,516</u>	<u>298,142</u>	<u>1,835</u>	<u>837,751</u>	<u>20,686</u>	<u>2,260,930</u>
CASH BASIS FUND BALANCE - END OF YEAR	<u>\$ 1,279,182</u>	<u>\$ 188,276</u>	<u>\$ 1,835</u>	<u>\$ 961,346</u>	<u>\$ 20,722</u>	<u>\$ 2,451,361</u>

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

CITY OF SARDIS, MISSISSIPPI
Notes to Financial Statement
For the Year Ended September 30, 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

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

The financial statements of the City are presented on a cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America as established by the Governmental Accounting Standards Board. These financial statements present all the funds of the City. There are no component units as defined by GASB Statement 14.

Basis of Presentation

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

Fund Financial Statements

Fund financial statements of the City are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its receipts and disbursements. Funds are organized into governmental, proprietary and fiduciary.

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

General Fund:

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

Special Revenue Fund:

Special Revenue Funds are used to account for and report the proceeds of specific cash sources that are legally restricted or committed to disbursement for specific purposes other than debt service or capital projects.

Capital Projects Fund:

This fund is used to account for and report financial resources that are restricted, committed, or assigned to disbursement for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Proprietary Funds

All proprietary funds are usually accounted for using the economic resources measurement focus and the accrual basis of accounting. However, this statement was prepared using the cash basis of accounting as

CITY OF SARDIS, MISSISSIPPI
Notes to Financial Statement
For the Year Ended September 30, 2015

prescribed by the Mississippi Office of the State Auditor. The City has presented the following proprietary fund:

Water and Sewer Fund:

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

Fiduciary Fund Types

Private-purpose Trust Fund:

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

Measurement Focus/Basis of Accounting

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

Budgets and Budgetary Accounting

The City follows these procedures in establishing its budgetary data:

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

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

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

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

CITY OF SARDIS, MISSISSIPPI
Notes to Financial Statement
For the Year Ended September 30, 2015

Deposits and Investments

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

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

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

Capital Assets

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

Property Tax Revenues

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

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

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

NOTE B - CASH AND INVESTMENTS

Cash:

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

Custodial credit risk is the risk that, in the event of a financial institution's failure, the City's deposits might not be recovered. As of September 30, 2015, the City's bank balance was not exposed to custodial credit risk.

CITY OF SARDIS, MISSISSIPPI
Notes to Financial Statement
For the Year Ended September 30, 2015

As of September 30, 2015, the carrying amount of the City's deposits was \$2,451,360 and the bank balance totaled \$2,480,216. Of the bank balances, \$500,000 was insured by FDIC and \$1,980,216 was covered by pooled and/or pledged collateral. Of the \$2,451,360 in cash and investments, \$264,494 was restricted.

Investments:

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

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

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

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

NOTE C – INSTALLMENT SALE OF CAPITAL ASSETS

The City entered into two separate installment sales agreements to sell buildings during the year ended September 30, 2014. The purchasers paid approximately \$62,200 in principal and \$12,100 in interest on these loans during the year. The principal was recorded in the general funds sale of capital assets. The remaining balances on these receivables are \$95,258 and \$64,577 respectively at September 30, 2015.

NOTE D - SCHEDULE OF LONG-TERM DEBT

Long-term activity for the year ended September 30, 2015 was as follows:

	<u>Balance at</u> <u>9/30/2014</u>	<u>Transactions During Year</u>		<u>Balance at</u> <u>9/30/2015</u>	<u>Amounts due</u> <u>within one year</u>
		<u>Issued</u>	<u>Redeemed</u>		
Governmental activities:					
Loans:					
MS Development Authority	\$ 153,232	\$ -	\$ 15,028	\$ 138,204	\$ 15,492
Capital leases	23,415	-	7,643	15,772	7,804
Governmental activities long-term liabilities	<u>\$ 176,647</u>	<u>\$ -</u>	<u>\$ 22,671</u>	<u>\$ 153,976</u>	<u>\$ 23,296</u>
Business-type activities:					
1992 Combined Water and Sewer System Bonds	\$ 746,233	\$ -	\$ 50,513	\$ 695,720	\$ 53,061
Capital leases	76,267	-	22,946	53,321	23,405
Business-type activities long-term liabilities	<u>\$ 822,500</u>	<u>\$ -</u>	<u>\$ 73,459</u>	<u>\$ 749,041</u>	<u>\$ 76,466</u>

CITY OF SARDIS, MISSISSIPPI
Notes to Financial Statement
For the Year Ended September 30, 2015

Revenue Bonds. The City also issues revenue bonds where the City pledges income derived from the acquired or constructed assets to pay debt service. The \$1,378,400 Combined Water and Sewer System revenue bonds dated 1992, due annually with interest at 5.0%, payable through 2026, had an outstanding balance at September 30, 2015 of \$695,720.

The annual principal and interest requirements to amortize the bond outstanding as of September 30, 2015, are as follows:

<u>Year Ending September 30</u>	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2016	\$ 53,061	33,089
2017	55,738	30,412
2018	58,549	27,601
2019	61,502	24,648
2020	64,604	21,546
2021-2025	375,894	55,435
2026	26,372	238
Total	<u>\$ 695,720</u>	<u>\$ 192,969</u>

Loans. The City also uses loans to finance its projects. Loans outstanding as of September 30, 2015 are as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Issued</u>	<u>Amount Outstanding</u>
Governmental				
MS Development Authority	3.00%	10/1/2023	\$ 292,835	\$ 138,204
Total			<u>\$ 292,835</u>	<u>\$ 138,204</u>

The annual principal and interest requirements to amortize all loans outstanding as of September 30, 2015, are as follows:

<u>Year Ending September 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2016	\$ 15,492	\$ 3,996
2017	15,971	3,518
2018	16,464	3,024
2019	16,973	2,515
2020	17,498	1,991
2021-2023	55,806	2,661
Total	<u>\$ 138,204</u>	<u>\$ 17,705</u>

CITY OF SARDIS, MISSISSIPPI
Notes to Financial Statement
For the Year Ended September 30, 2015

Capital Leases. Future minimum lease payments and the net present value of these minimum lease payments as of September 30, 2015 are as follows

Year Ending September 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2016	\$ 7,804	\$ 255	\$ 23,405	\$ 844
2017	7,968	92	23,873	376
2018	-	-	6,043	20
Total	\$ 15,772	\$ 347	\$ 53,321	\$ 1,220

Legal Debt Margin. The amount of debt, excluding specific exempted debt that can be incurred by the City is limited by state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the City, according to the then last completed assessment for taxation. However, the limitation is increased to 20% whenever a city issues bonds to repair or replace washed out or collapsed bridges on the public roads of the city. As of September 30, 2015, the amount of outstanding debt was equal to 0% of the latest property assessments.

NOTE E - DEFINED BENEFIT PENSION PLAN

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

Funding Policy. PERS members are required to contribute 9.0% of their annual covered salary and the City is required to contribute at an actuarially determined rate. The rate at September 30, 2014 was 15.75% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The City's contributions (employer share only) to PERS for the years ended September 30, 2015, 2014, and 2013 were \$88,663, \$81,790, and \$73,047 respectively, equal to the required contributions for each year.

NOTE F - RISK MANAGEMENT

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

NOTE G - LITIGATION

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

NOTE H - SUBSEQUENT EVENTS

Management of the City of Sardis evaluated the activity of the City through September 23, 2016, the date the financial statements were available to be issued, and determined that no subsequent events have occurred requiring disclosure in the notes to the financial statements.

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OTHER INFORMATION

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CITY OF SARDIS, MISSISSIPPI
Schedule of Investments
September 30, 2015

Investment balances at September 30, 2015, are as follows:

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

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

CITY OF SARDIS, MISSISSIPPI
Schedule of Surety Bonds of Municipal Officials
September 30, 2015

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

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SPECIAL REPORTS

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

Mayor and Board of Aldermen
City of Sardis
Sardis, Mississippi

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the statement of cash receipts and disbursements of the governmental activities, the business-type activities and the aggregate remaining fund information of City of Sardis, Mississippi, for the year ended September 30, 2015, and the related notes to the financial statements and have issued our report thereon dated September 23, 2016.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a material weakness, 2015-001.

Compliance and Other Matters

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

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We noted certain matters that we reported to the management of City of Sardis, Mississippi, in the Independent Auditor's Report on Compliance with State Laws and Regulations dated September 23, 2016, included within this document.

City of Sardis, Mississippi's Response to Findings

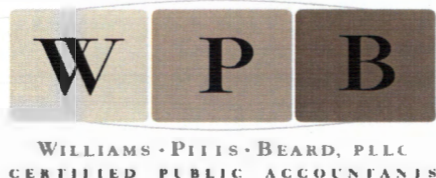
City of Sardis, Mississippi's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion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

Purpose of this Report

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

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC
Hernando, Mississippi
September 23, 2016



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Mayor and Board of Aldermen
City of Sardis
Sardis, Mississippi

We have audited the statement of cash receipts and disbursements of the City of Sardis, Mississippi (the "City") as of and for the year ended September 30, 2015 and have issued our report dated September 23, 2016. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*.

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

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

1. **Finding:** The City is required to develop and maintain a complete and accurate accounting of fixed assets. Subsidiary ledgers should be used to track and record all inventory and fixed assets of the City. We noted that the City is not maintaining complete and accurate ledgers for all fixed assets in accordance with the Mississippi municipal fixed assets management manual as required by Section 7-7-211, Mississippi Code Annotated (1972). (Repeated finding for 5 years)

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

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

2. **Finding:** We noted that the City did not advertise for bids and receive bids in order to select a public depository in the last three years as required by Miss Code Ann. (1972) Section 27-105-305. (Repeated finding for 4 years)

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

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

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

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

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

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC
Hernando, Mississippi
September 23, 2016

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SCHEDULE OF FINDINGS AND RESPONSES

CITY OF SARDIS, MISSISSIPPI
Schedule of Findings and Responses
For the Year Ended September 30, 2015

Section 1: Summary of Auditors' Results

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

Section 2: Financial Statement Findings

Material Weakness

- 2015-001 Criteria: The City is responsible for establishing and maintaining effective internal control over financial reporting.

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

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

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

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

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