

# SMITH COUNTY, MISSISSIPPI

Audited Financial Statements and Special Reports  
For the Year Ended September 30, 2017

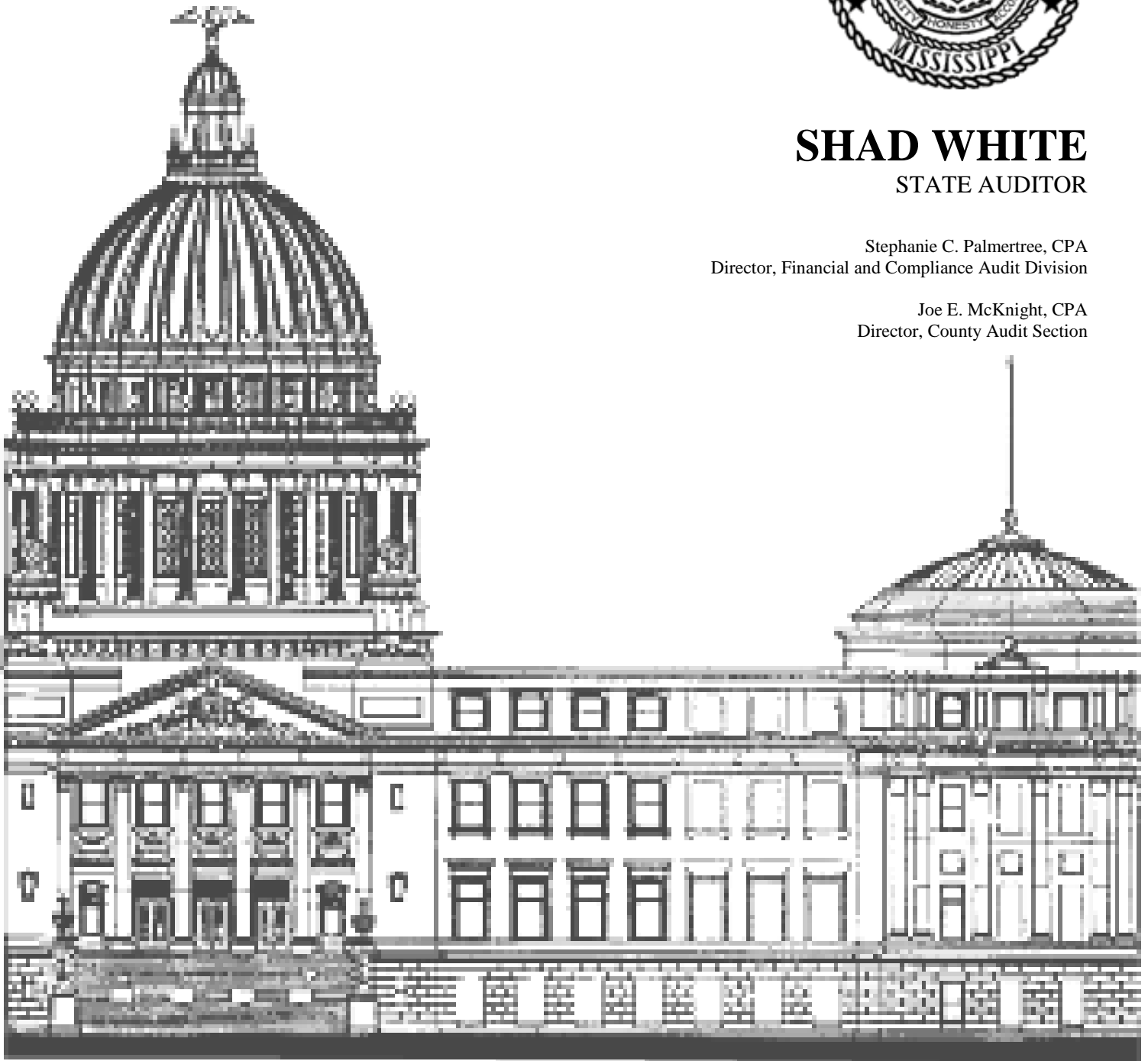


## SHAD WHITE

STATE AUDITOR

Stephanie C. Palmertree, CPA  
Director, Financial and Compliance Audit Division

Joe E. McKnight, CPA  
Director, County Audit Section



A Report from the County Audit Section

[www.osa.state.ms.us](http://www.osa.state.ms.us)









**STATE OF MISSISSIPPI  
OFFICE OF THE STATE AUDITOR**

**Shad White**  
AUDITOR

August 22, 2019

Members of the Board of Supervisors  
Smith County, Mississippi

Dear Board Members:

I am pleased to submit to you the 2017 financial and compliance audit report for Smith County. This audit was performed pursuant to Section 7-7-211(e), Mississippi Code Ann. (1972). The audit was performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Shad White", is written over a horizontal line.

Shad White



SMITH COUNTY

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SMITH COUNTY

FINANCIAL SECTION

SMITH COUNTY

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**STATE OF MISSISSIPPI  
OFFICE OF THE STATE AUDITOR  
SHAD WHITE  
AUDITOR**

**INDEPENDENT AUDITOR'S REPORT**

Members of the Board of Supervisors  
Smith County, Mississippi

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Smith County, Mississippi, (the County) as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the basic financial statements of the County's primary government as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

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 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.

### ***Basis for Adverse Opinion on the Aggregate Discretely Presented Component Unit***

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

### ***Adverse Opinion***

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on the Aggregate Discretely Presented Component Unit" paragraph, the financial statements referred to above do not present fairly, the financial position of the aggregate discretely presented component unit of Smith County, Mississippi, as of September 30, 2017, or the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Basis for Qualified Opinion on the General Fund***

Management did not maintain adequate subsidiary records documenting the existence and valuation of fines receivable of the Circuit Clerk or the aging of these fines receivable. Due to the nature of the County's records, we were unable to satisfy ourselves as to the fair presentation of fines receivable, net, reported in the General Fund at \$138,405, as of September 30, 2017. Also, because of the nature of the fines receivable records, we could not satisfy ourselves as to the fair presentation of the related transactions of the General Fund.

### ***Qualified Opinion***

In our opinion, except for the effects of such adjustments, if any, as might have been determined had we been able to examine evidence to determine the net realizable value of the Circuit Court fines receivable reported in the General Fund as described in the "Basis for Qualified Opinion on the General Fund" paragraph, the financial statements referred to previously presented fairly, in all material respects, the financial position of the General Fund of Smith County, Mississippi, as of September 30, 2017, and the changes in financial position thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

### ***Unmodified Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the Countywide Road and Bridge Fund, the County Engineer Fund, the 2005 Chancery Building and Jail GO Bond Fund, and the aggregate remaining fund information of Smith County, Mississippi, as of September 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Budgetary Comparison Schedules and corresponding notes, the Schedule of the County's Proportionate Share of the Net Pension Liability, and the Schedule of the County's Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Omission of Required Supplementary Information*

Smith County, Mississippi, has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

#### *Other Information*

The Schedule of Surety Bonds for County Officials has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

#### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated August 22, 2019 on our consideration of Smith County, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of Smith County, Mississippi's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Smith County, Mississippi's internal control over financial reporting and compliance.



JOE E. MCKNIGHT, CPA  
Director, County Audit Section

August 22, 2019

SMITH COUNTY

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SMITH COUNTY

FINANCIAL STATEMENTS

SMITH COUNTY

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SMITH COUNTY  
Statement of Net Position  
September 30, 2017

Exhibit 1

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash	\$ 12,364,727	823,050	13,187,777
Property tax receivable	7,764,785		7,764,785
Accounts receivable (net of allowance for uncollectibles of \$569,288)		595,635	595,635
Fines receivable (net of allowance for uncollectibles of \$846,306)	138,405		138,405
Intergovernmental receivables	150,879		150,879
Other receivables	8,621		8,621
Internal balances	24,880	(24,880)	
Capital assets:			
Land and construction in progress	3,258,235		3,258,235
Other capital assets, net	37,087,074	232,808	37,319,882
Total Assets	60,797,606	1,626,613	62,424,219
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	671,608	36,268	707,876
Total Deferred Outflows of Resources	671,608	36,268	707,876
LIABILITIES			
Claims payable	375,703	20,161	395,864
Intergovernmental payables	191,123		191,123
Accrued interest payable	5,798		5,798
Unearned revenue	228,527	70,421	298,948
Other payables	66,267		66,267
Long-term liabilities			
Net pension liability	7,329,480	432,648	7,762,128
Due within one year:			
Capital debt	538,049		538,049
Due in more than one year:			
Capital debt	2,746,462		2,746,462
Total Liabilities	11,481,409	523,230	12,004,639
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	66,277	3,989	70,266
Deferred revenues - property taxes	7,764,785		7,764,785
Total Deferred Inflows of Resources	7,831,062	3,989	7,835,051
NET POSITION			
Net investment in capital assets	37,060,798	232,808	37,293,606
Restricted for:			
Expendable:			
General government	752,286		752,286
Public safety	596,652		596,652
Public works	3,269,092	902,854	4,171,946
Culture and recreation	156,451		156,451
Economic development and assistance	23,696		23,696
Debt service	2,282,897		2,282,897
Unrestricted	(1,985,129)		(1,985,129)
Total Net Position	\$ 42,156,743	1,135,662	43,292,405

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

SMITH COUNTY  
Statement of Activities  
For the Year Ended September 30, 2017

Exhibit 2

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Primary government:							
Governmental activities:							
General government	\$ 2,626,775	172,890	16,110		(2,437,775)		(2,437,775)
Public safety	2,156,633	249,396	156,262		(1,750,975)		(1,750,975)
Public works	3,749,775		918,209	2,323,771	(507,795)		(507,795)
Health and welfare	119,863		21,638		(98,225)		(98,225)
Culture and recreation	184,135			10,462	(173,673)		(173,673)
Education	194,780		119,641		(75,139)		(75,139)
Conservation of natural resources	74,359				(74,359)		(74,359)
Economic development and assistance	60,731				(60,731)		(60,731)
Interest on long-term debt	82,461				(82,461)		(82,461)
Pension expense	1,263,418				(1,263,418)		(1,263,418)
Total Governmental Activities	10,512,930	422,286	1,231,860	2,334,233	(6,524,551)		(6,524,551)
Business-type activities:							
Solid waste	666,877	609,742				(57,135)	(57,135)
Total Business-type Activities	666,877	609,742	0	0		(57,135)	(57,135)
Total Primary Government	\$ 11,179,807	1,032,028	1,231,860	2,334,233	(6,524,551)	(57,135)	(6,581,686)
General revenues:							
Property taxes					\$ 7,376,394		7,376,394
Road & bridge privilege taxes					213,034		213,034
Grants and contributions not restricted to specific programs					781,186		781,186
In lieu taxes - salt dome					498,359		498,359
Unrestricted interest income					69,190	1,626	70,816
Miscellaneous					249,027	3,317	252,344
Gain on sale of capital asset						17,615	17,615
Total General Revenues					9,187,190	22,558	9,209,748
Changes in Net Position					2,662,639	(34,577)	2,628,062
Net Position - Beginning, as previously reported					39,493,050	1,170,239	40,663,289
Prior period adjustment					1,054		1,054
Net Position - Beginning, as restated					39,494,104	1,170,239	40,664,343
Net Position - Ending					\$ 42,156,743	1,135,662	43,292,405

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

SMITH COUNTY  
Balance Sheet - Governmental Funds  
September 30, 2017

Exhibit 3

	Major Funds					
	General Fund	County wide Road & Bridge Fund	County Engineer Fund	2005 Chy. Bldg. & Jail GO Bond Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>						
Cash	\$ 4,868,641	1,200,065	336	2,213,110	4,082,575	12,364,727
Property tax receivable	4,610,325	2,338,194		412,791	403,475	7,764,785
Fines receivable (net of allowance for uncollectibles of \$846,306)	138,405					138,405
Intergovernmental receivables	140,417				10,462	150,879
Other receivables	8,621					8,621
Due from other funds	50,697	31,651		67,342	99,270	248,960
Advances to other funds	46,911					46,911
Total Assets	\$ 9,864,017	3,569,910	336	2,693,243	4,595,782	20,723,288
<b>LIABILITIES</b>						
Liabilities:						
Claims payable	\$ 128,203	10,448			237,052	375,703
Intergovernmental payables	242,320					242,320
Due to other funds	77,882				107,280	185,162
Advances from other funds					34,632	34,632
Unearned revenue					228,527	228,527
Other payables	66,267					66,267
Total Liabilities	514,672	10,448	0	0	607,491	1,132,611
<b>DEFERRED INFLOWS OF RESOURCES:</b>						
Unavailable revenue - property taxes	4,610,325	2,338,194		412,791	403,475	7,764,785
Unavailable revenue - fines	138,405					138,405
Total Deferred Inflows of Resources	4,748,730	2,338,194	0	412,791	403,475	7,903,190
<b>Fund balances:</b>						
Nonspendable:						
Advances	46,911					46,911
Restricted for:						
General government					752,286	752,286
Public safety					596,652	596,652
Public works		1,221,268	336		2,047,488	3,269,092
Culture and recreation					156,451	156,451
Economic development and assistance					23,696	23,696
Debt service				2,280,452	8,243	2,288,695
Unassigned	4,553,704					4,553,704
Total Fund Balances	4,600,615	1,221,268	336	2,280,452	3,584,816	11,687,487
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 9,864,017	3,569,910	336	2,693,243	4,595,782	20,723,288

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

## SMITH COUNTY

Exhibit 3-1Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position  
September 30, 2017

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 11,687,487
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets are used in governmental activities and are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of \$52,710,443.	40,345,309
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	138,405
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(3,284,511)
Net pension obligations are not due and payable in the current period and, therefore, are not reported in the funds.	(7,329,480)
Accrued interest payable is not due and payable in the current period and, therefore, is not reported in the funds.	(5,798)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:	
Deferred outflows of resources related to pensions	671,608
Deferred inflows of resources related to pensions	<u>(66,277)</u>
Total Net Position - Governmental Activities	\$ <u><u>42,156,743</u></u>

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

## SMITH COUNTY

Exhibit 4

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds  
For the Year Ended September 30, 2017

	Major Funds				Other	Total
	General	Countywide	County	2005 Chy. Bldg.	Governmental	Governmental
	Fund	Road & Bridge	Engineer	& Jail GO Bond	Funds	Funds
	Fund	Fund	Fund	Fund		
<b>REVENUES</b>						
Property taxes	\$ 4,366,755	1,965,225		678,356	366,058	7,376,394
Road and bridge privilege taxes					213,034	213,034
Licenses, commissions and other revenue	111,889				2,969	114,858
Fines and forfeitures	94,818				67,384	162,202
In lieu taxes - salt dome	348,359	150,000				498,359
Intergovernmental revenues	640,850	26,691	2,438,306	6,589	1,234,843	4,347,279
Charges for services	18,395				146,562	164,957
Interest income	56,219	1,882		4,033	7,056	69,190
Miscellaneous revenues	171,178	227			51,273	222,678
Total Revenues	5,808,463	2,144,025	2,438,306	688,978	2,089,179	13,168,951
<b>EXPENDITURES</b>						
Current:						
General government	2,595,174				16,357	2,611,531
Public safety	1,993,175				241,982	2,235,157
Public works		328,674	2,469,111		2,875,961	5,673,746
Health and welfare	119,863					119,863
Culture and recreation	150,274				28,645	178,919
Education	194,780					194,780
Conservation of natural resources	76,451					76,451
Economic development and assistance	27,035				33,696	60,731
Debt service:						
Principal	49,403			315,000	349,534	713,937
Interest	2,771			71,987	8,105	82,863
Total Expenditures	5,208,926	328,674	2,469,111	386,987	3,554,280	11,947,978
Excess of Revenues over (under) Expenditures	599,537	1,815,351	(30,805)	301,991	(1,465,101)	1,220,973
<b>OTHER FINANCING SOURCES (USES)</b>						
Long-term capital debt issued					198,450	198,450
Compensation for loss of capital assets					87,231	87,231
Transfers in	122,632				1,464,741	1,587,373
Transfers out	(82,632)	(1,380,000)			(124,741)	(1,587,373)
Total Other Financing Sources and Uses	40,000	(1,380,000)	0	0	1,625,681	285,681
Net Changes in Fund Balances	639,537	435,351	(30,805)	301,991	160,580	1,506,654
Fund Balances - Beginning	3,961,078	785,917	31,141	1,978,461	3,424,236	10,180,833
Fund Balances - Ending	\$ 4,600,615	1,221,268	336	2,280,452	3,584,816	11,687,487

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

## SMITH COUNTY

Exhibit 4-1

Reconciliation of the Statement of Revenues, Expenditures and Changes in  
Fund Balances of Governmental Funds to the Statement of Activities  
For the Year Ended September 30, 2017

	<u>Amount</u>
Net Changes in Fund Balances - Governmental Funds	\$ 1,506,654
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Thus, the change in net position differs from the change in fund balances by the amount that capital outlays of \$2,450,603 exceeded depreciation of \$908,828 in the current period.	1,541,775
In the Statement of Activities, only gains and losses from the sale of capital assets are reported, whereas in the Governmental Funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net position differs from the change in fund balances by the amount of the net gain of \$26,349 and the compensation for loss of \$87,231 in the current period.	(60,882)
Fine revenue recognized on the modified accrual basis in the funds during the current year is reduced because prior year recognition would have been required on the Statement of Activities using the full-accrual basis of accounting.	(19,731)
Debt proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of debt principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Position. Thus, the change in net position differs from the change in fund balances by the amount that debt repayments of \$713,937 exceeded debt proceeds of \$198,450.	515,487
Under the modified accrual basis of accounting used in the Governmental Funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. However, in the Statement of Activities, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues. Thus, the change in net position differs from the change in fund balances by a combination of the following items:	
Decrease in accrued interest payable	402
Some items reported in the Statement of Activities relating to the implementation of GASB 68 are not reported in the governmental funds. These activities include:	
Recording of pension expense for the current period	(1,263,418)
Recording of contributions made during the year	<u>442,352</u>
Change in Net Position of Governmental Activities	\$ <u><u>2,662,639</u></u>

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

SMITH COUNTY  
Statement of Net Position - Proprietary Fund  
September 30, 2017

Exhibit 5

	Business-type Activities - Enterprise Fund
	Solid Waste Fund
ASSETS	
Current assets:	
Cash	\$ 823,050
Accounts receivable (net of allowance for uncollectibles of \$569,288)	595,635
Total Current Assets	1,418,685
Noncurrent assets:	
Capital assets:	
Other capital assets, net	232,808
Total Noncurrent Assets	232,808
Total Assets	1,651,493
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions	36,268
Total Deferred Outflows of Resources	36,268
LIABILITIES	
Current liabilities:	
Claims payable	20,161
Due to other funds	12,601
Advances from other funds	12,279
Unearned revenue	70,421
Total Current Liabilities	115,462
Noncurrent liabilities:	
Net pension liability	432,648
Total Noncurrent Liabilities	432,648
Total Liabilities	548,110
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	3,989
Total Deferred Inflows of Resources	3,989
NET POSITION	
Net investment in capital assets	232,808
Restricted for:	
Public works	902,854
Total Net Position	\$ 1,135,662

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

## SMITH COUNTY

Exhibit 6Statement of Revenues, Expenses and Changes in Net Position - Proprietary Fund  
For the Year Ended September 30, 2017

	Business-type Activities - Enterprise Fund
	Solid Waste Fund
Operating Revenues	
Charges for services	\$ 609,742
Miscellaneous	3,317
Total Operating Revenues	<u>613,059</u>
Operating Expenses	
Personal services	269,039
Contractual services	111,094
Materials and supplies	105,847
Depreciation expense	91,083
Indirect administrative cost	12,601
Pension expense	77,213
Total Operating Expenses	<u>666,877</u>
Operating Income (Loss)	<u>(53,818)</u>
Nonoperating Revenues (Expenses)	
Interest income	1,626
Gain on sale of capital assets	17,615
Net Nonoperating Revenue (Expenses)	<u>19,241</u>
Net Income (Loss)	<u>(34,577)</u>
Changes in Net Position	(34,577)
Net Position - Beginning	<u>1,170,239</u>
Net Position - Ending	<u>\$ 1,135,662</u>

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



SMITH COUNTY  
Statement of Cash Flows - Proprietary Fund  
For the Year Ended September 30, 2017

Exhibit 7

	<u>Business-type Activities - Enterprise Fund</u>
	<u>Solid Waste Fund</u>
Cash Flows From Operating Activities	
Receipts from customers	\$ 557,915
Payments to suppliers	(105,422)
Payments to employees	(296,072)
Payments for contractual services	(111,094)
Miscellaneous	3,317
Net Cash Provided (Used) by Operating Activities	<u>48,644</u>
Cash Flows From Capital and Related Financing Activities	
Proceeds from sale of capital assets	40,000
Acquisition and construction of capital assets	(24,987)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>15,013</u>
Cash Flows From Investing Activities	
Interest on deposits	1,626
Net Cash Provided (Used) by Investing Activities	<u>1,626</u>
Net Increase (Decrease) in Cash and Cash Equivalents	65,283
Cash and Cash Equivalents at Beginning of Year	757,767
Cash and Cash Equivalents at End of Year	<u>\$ 823,050</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating income (loss)	\$ (53,818)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	91,083
Provision for uncollectible accounts	55,818
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(107,475)
Increase (decrease) in claims payable	425
Increase (decrease) in unearned revenue	(170)
Increase (decrease) in interfund payables	12,601
Increase (decrease) in pension liability, deferred outflows and deferred inflows, net	50,180
Total Adjustments	<u>102,462</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 48,644</u>

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

SMITH COUNTY  
Statement of Fiduciary Assets and Liabilities  
September 30, 2017

Exhibit 8

	<u>Agency Funds</u>
ASSETS	
Cash	\$ 554,828
Due from other funds	5,550
Total Assets	\$ <u><u>560,378</u></u>
LIABILITIES	
Amounts held in custody for others	\$ 483,971
Intergovernmental payables	19,660
Due to other funds	56,747
Total Liabilities	\$ <u><u>560,378</u></u>

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

## SMITH COUNTY

### Notes to Financial Statements For the Year Ended September 30, 2017

#### (1) Summary of Significant Accounting Policies.

##### A. Financial Reporting Entity.

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

Management has chosen to omit from these financial statements the following component unit which has significant operational or financial relationships with the County. Accordingly, the financial statements do not include the data of the County's component unit necessary for reporting in accordance with accounting principles generally accepted in the United States of America.

- Smith County Economic Development Authority

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

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

##### B. Basis of Presentation.

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

##### Government-wide Financial Statements:

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

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

## SMITH COUNTY

### Notes to Financial Statements For the Year Ended September 30, 2017

#### Fund Financial Statements:

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

#### C. Measurement Focus and Basis of Accounting.

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

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

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

The County reports the following major Governmental Funds:

General Fund - This fund is used to account for and report all financial resources not accounted for and reported in another fund.

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

County Engineer Fund - This fund is used to account for monies from specific revenue sources that are restricted for road construction and maintenance.

2005 Chancery Building & Jail GO Bonds Fund - This fund is used to account for retirement of long-term debt of the County.

The County reports the following major Enterprise Fund:

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

## SMITH COUNTY

### Notes to Financial Statements For the Year Ended September 30, 2017

Additionally, the County reports the following fund types:

#### GOVERNMENTAL FUND TYPES

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

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

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

#### PROPRIETARY FUND TYPE

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

#### FIDUCIARY FUND TYPE

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

#### D. Account Classifications.

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing and Financial Reporting* as issued in 2012 by the Government Finance Officers Association.

#### E. Deposits and Investments.

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

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

#### F. Receivables.

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

#### G. Interfund Transactions and Balances.

Transactions between funds that are representative of short-term lending/borrowing arrangements and transactions that have not resulted in the actual transfer of cash at the end of the fiscal year are referred to as "due to/from other funds." Noncurrent portions of interfund receivables and payables are reported as "advances to/from other funds." Advances between funds, as reported in the fund financial statements, are offset by a nonspendable fund balance account in the General Fund, if applicable, to indicate that they are not available for appropriation and are not expendable available financial resources. However, this is not applicable to advances reported in other governmental funds, which are reported, by definition, as restricted,

# SMITH COUNTY

## Notes to Financial Statements For the Year Ended September 30, 2017

committed, or assigned. Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Position. Any outstanding balances between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

### H. Capital Assets.

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

Governmental accounting and financial reporting standards allow governments meeting certain criteria to elect not to report major general infrastructure assets retroactively. Smith County meets this criteria and has so elected. Therefore, the major general infrastructure assets acquired prior to October 1, 2002, are not reported in the government-wide financial statements. General infrastructure assets include all roads and bridges and other infrastructure assets acquired subsequent to October 1, 2002.

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

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

	Capitalization Thresholds	Estimated Useful Life
Land	\$ 0	N/A
Infrastructure	0	20-50 years
Buildings	50,000	40 years
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	*	*

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

## SMITH COUNTY

### Notes to Financial Statements For the Year Ended September 30, 2017

#### I. Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

Deferred outflows related to pensions – This amount represents the County’s proportionate share of the deferred outflows of resources reported by the pension plan in which the County participates. See Note 9 for additional details.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Property tax for future reporting period/unavailable revenue – property taxes – Deferred inflows of resources should be reported when resources associated with imposed nonexchange revenue transactions are received or reported as a receivable before the period for which property taxes are levied.

Unavailable revenue – fines – When an asset is recorded in the governmental fund financial statements but the revenue is not available, the government should report a deferred inflow of resources until such time as the revenue becomes available.

Deferred inflows related to pensions – This amount represents the County’s proportionate share of the deferred inflows of resources reported by the pension plan in which the County participates. See Note 9 for additional details.

#### J. Pensions.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employees’ Retirement System of Mississippi (PERS) and additions to/deductions from PERS’ fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

#### K. Long-term Liabilities.

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

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

#### L. Equity Classifications.

Government-wide Financial Statements:

Equity is classified as Net Position and displayed in three components:

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

## SMITH COUNTY

### Notes to Financial Statements For the Year Ended September 30, 2017

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

Unrestricted net position - All other net position not meeting the definition of “restricted” or “net investment in capital assets.”

#### Net Position Flow Assumption:

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

#### Fund Financial Statements:

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

Government fund balance is classified as nonspendable, restricted, or unassigned. The following are descriptions of fund classifications used by the County:

*Nonspendable fund balance* includes amounts that cannot be spent. This includes amounts that are either not in a spendable form (inventories, prepaid amounts, long-term portion of loans/notes receivable, or property held for resale unless the proceeds from the collection of those receivables or from the sale of those properties are restricted, committed or assigned) or amounts that are legally or contractually required to be maintained intact, such as a principal balance of a permanent fund.

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

*Unassigned fund balance* is the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds if expenditures incurred for specific purposes exceeded the amounts restricted, committed or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

#### Fund Balance Flow Assumption:

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

#### M. Property Tax Revenues:

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



# SMITH COUNTY

## Notes to Financial Statements For the Year Ended September 30, 2017

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

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

### N. Intergovernmental Revenues in Governmental Funds.

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

### O. Compensated Absences.

The County has adopted a policy of compensation for accumulated unpaid employee benefits; however, adequate records are not maintained for determining the amount of the liability. Therefore, no liability is recorded in the accompanying financial statements as required by accounting principles generally accepted in the United States of America. We believe the effects of the unrecorded liability on the financial statements are immaterial.

### P. Changes in Accounting Standards.

The County implemented the following standards issued by the Governmental Accounting Standards Board (GASB) in the current fiscal year as required: GASB Statement No. 77, *Tax Abatement Disclosures* and GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68 and No. 73*. The provisions of these standards have been incorporated into the financial statements and notes.

### (2) Prior Period Adjustment.

A summary of the significant fund equity adjustment is as follows:

Exhibit 2 – Statement of Activities – Governmental Activities.

Explanation	Amount
To correct prior year errors in capital assets, net.	\$ 1,054

### (3) Deposits.

The carrying amount of the County's total deposits with financial institutions at September 30, 2017, was \$13,742,605, and the bank balance was \$14,045,077. The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC).

# SMITH COUNTY

## Notes to Financial Statements For the Year Ended September 30, 2017

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

### (4) Interfund Transactions and Balances.

The following is a summary of interfund balances at September 30, 2017:

#### A. Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Solid Waste Fund	\$ 12,601
General Fund	Other Governmental Funds	38,096
Countywide Road and Bridge Fund	General Fund	30,713
Countywide Road and Bridge Fund	Other Governmental Funds	938
2005 Chy. Bldg. & Jail GO Bond Fund	General Fund	10,595
2005 Chy. Bldg. & Jail GO Bond Fund	Agency Funds	56,747
Other Governmental Funds	General Fund	31,024
Other Governmental Funds	Other Governmental Funds	68,246
Agency Funds	General Fund	5,550
Total		<u>\$ 254,510</u>

The receivables represent an error in the posting of revenue during the year, tax revenue collected in September, 2017, but not settled until October 2017, and the indirect cost from the Solid Waste Fund. All interfund balances are expected to be repaid within one year from the date of the financial statements.

#### B. Advances from/to Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Other Governmental Funds	\$ 34,632
General Fund	Solid Waste Fund	12,279
Total		<u>\$ 46,911</u>

The advances represent operating loans. These advances are not expected to be repaid within one year from the date of the financial statements.

SMITH COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2017

C. Transfers In/Out:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
General Fund	Other Governmental Funds	\$ 122,632
Other Governmental Funds	General Fund	82,632
Other Governmental Funds	Countywide Road and Bridge Fund	1,380,000
Other Governmental Funds	Other Governmental Funds	<u>2,109</u>
Total		<u>\$ 1,587,373</u>

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

(5) Intergovernmental Receivables.

Intergovernmental receivables at September 30, 2017, consisted of the following:

<u>Description</u>	<u>Amount</u>
<b>Governmental Activities:</b>	
Legislative tax credit	\$ 106,567
Reimbursement for housing prisoners	840
Litter grant	5,597
Schools and roads - grants to states	9,072
Emergency management performance grants	18,341
Recreational trail program grant	<u>10,462</u>
Total Governmental Activities	<u>\$ 150,879</u>

SMITH COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2017

(6) Capital Assets.

The following is a summary of capital assets activity for the year ended September 30, 2017:

**Governmental activities:**

	Balance Oct. 1, 2016	Additions	Deletions	Adjustments *	Balance Sept. 30, 2017
<u>Non-depreciable capital assets:</u>					
Land	\$ 450,044				450,044
Construction in progress	737,126	2,071,065			2,808,191
Total non-depreciable capital assets	1,187,170	2,071,065	0	0	3,258,235
<u>Depreciable capital assets:</u>					
Infrastructure	69,613,504	156,576			69,770,080
Buildings	11,770,008				11,770,008
Improvements other than buildings	171,231				171,231
Mobile equipment	6,077,788	106,061	103,325	558,176	6,638,700
Furniture and equipment	842,063		40,569		801,494
Leased property under capital leases	1,087,279	116,901		(558,176)	646,004
Total depreciable capital assets	89,561,873	379,538	143,894	0	89,797,517
<u>Less accumulated depreciation for:</u>					
Infrastructure	44,208,312	348,361			44,556,673
Buildings	1,693,626	226,332			1,919,958
Improvements other than buildings	21,024	8,244			29,268
Mobile equipment	4,847,240	230,291	46,500	296,415	5,327,446
Furniture and equipment	711,714	17,308	36,512		692,510
Leased property under capital leases	403,765	78,292		(297,469)	184,588
Total accumulated depreciation	51,885,681	908,828	83,012	(1,054)	52,710,443
Total depreciable capital assets, net	37,676,192	(529,290)	60,882	1,054	37,087,074
Governmental activities capital assets, net	\$ 38,863,362	1,541,775	60,882	1,054	40,345,309

**Business-type activities:**

	Balance Oct. 1, 2016	Additions	Deletions	Adjustments	Balance Sept. 30, 2017
<u>Depreciable capital assets:</u>					
Mobile equipment	\$ 560,981	24,987	79,957		506,011
Total depreciable capital assets	560,981	24,987	79,957	0	506,011
<u>Less accumulated depreciation for:</u>					
Mobile equipment	239,692	91,083	57,572		273,203
Total accumulated depreciation	239,692	91,083	57,572	0	273,203
Total depreciable capital assets, net	321,289	(66,096)	22,385	0	232,808
Governmental activities capital assets, net	\$ 321,289	(66,096)	22,385	0	232,808

\*Adjustments are for the reclassification of equipment transferred to mobile equipment from paid-off leases, and for prior year corrections.

# SMITH COUNTY

## Notes to Financial Statements For the Year Ended September 30, 2017

Depreciation expense was charged to the following functions:

	<u>Amount</u>
<b>Governmental activities:</b>	
General government	\$ 221,427
Public safety	74,006
Public works	608,179
Culture and recreation	<u>5,216</u>
Total governmental activities depreciation expense	<u>\$ 908,828</u>
	<u>Amount</u>
<b>Business-type activities:</b>	
Solid waste	<u>\$ 91,083</u>

Commitments with respect to unfinished capital projects at September 30, 2017, consisted of the following:

<u>Description of Commitment</u>	<u>Remaining Financial Commitment</u>	<u>Expected Date of Completion</u>
LSBP 65 23 - County Road 538	\$ 95,522	August, 2019
LSBP 65 24 - County Road 32/County Road 102	32,172	August, 2019
LSBP 65 25 - County Road 71 (Site B)	554,000	May, 2020
BR 0065 28 B - Strong River/Polkville Road	38,333	November, 2019
STP 0383 5 B - Taylorsville-Mt. Olive Road	762,096	January, 2020

### (7) Claims and Judgments.

#### Risk Financing.

The County finances its exposure to risk of loss related to workers' compensation for injuries to its employees through the Mississippi Public Entity Workers' Compensation Trust, a public entity risk pool. The County pays premiums to the pool for its workers' compensation insurance coverage, and the participation agreement provides that the pool will be self-sustaining through member premiums. The retention for the pool is \$1,000,000 for each accident and completely covers statutory limits set by the Workers' Compensation Commission. Risk of loss is remote for claims exceeding the pool's retention liability. However, the pool also has catastrophic reinsurance coverage for statutory limits above the pool's retention, provided by Safety National Casualty Corporation, effective from January 1, 2017, to January 1, 2018. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

# SMITH COUNTY

## Notes to Financial Statements For the Year Ended September 30, 2017

### (8) Capital Leases.

As Lessee:

The County is obligated for the following capital assets acquired through capital leases as of September 30, 2017:

Classes of Property	Governmental Activities
Mobile equipment	\$ 474,248
Furniture and equipment	171,756
Total	646,004
Less: Accumulated depreciation	(184,588)
Leased Property Under Capital Leases	\$ 461,416

The following is a schedule by years of the total payments due as of September 30, 2017:

Year Ending September 30	Governmental Activities	
	Principal	Interest
2018	\$ 188,515	6,642
2019	144,428	3,122
2020	67,937	361
Total	\$ 400,880	10,125

### (9) Defined Benefit Pension Plan.

#### *General Information about the Pension Plan*

**Plan Description.** Smith County, Mississippi contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing, multiple-employer, defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Plan provisions and the Board of Trustees' authority to determine contribution rates are established by Miss. Code Ann. Section 25-11-1 et seq., (1972, as amended) 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.

**Benefits Provided.** Membership in PERS is a condition of employment granted upon hiring for qualifying employees and officials of the State of Mississippi, state universities, community and junior colleges, and teachers and employees of the public school districts. For those persons employed by political subdivisions and instrumentalities of the State of Mississippi, membership is contingent upon approval of the entity's participation in PERS by the PERS' Board of Trustees. If approved, membership for the entity's employees is a condition of employment and eligibility is granted to those who qualify upon hiring. Participating members who are vested and retire at or after age 60 or those who retire regardless of age with at least 30 years of creditable service (25 years of creditable service for employees who became members of PERS before July 1, 2011) are entitled, upon application, to an annual retirement allowance payable monthly for life in an amount equal to 2.0 percent of their average compensation for each year of creditable service up to and including 30 years (25 years for those who became members of PERS before July 1, 2011), plus 2.5 percent for each additional year of creditable service with an actuarial reduction in the benefit for each year of creditable service below 30 years or the number of years in age that the member is below 65, whichever is less.

# SMITH COUNTY

## Notes to Financial Statements For the Year Ended September 30, 2017

Average compensation is the average of the employee's earnings during the four highest compensated years of creditable service. Benefits vest upon completion of eight years of membership service (four years of membership service for those who became members of PERS before July 1, 2007). PERS also provides certain death and disability benefits. A Cost-of-Living Adjustment (COLA) payment is made to eligible retirees and beneficiaries. The COLA is equal to 3.0 percent of the annual retirement allowance for each full fiscal year of retirement up to the year in which the retired member reaches age 60 (55 for those who became members of PERS before July 1, 2011), with 3.0 percent compounded for each fiscal year thereafter. Plan provisions are established and may be amended only by the State of Mississippi Legislature.

**Contributions.** At September 30, 2017, PERS members were required to contribute 9% of their annual covered salary, and the County is required to contribute at an actuarially determined rate. The employer's rate at September 30, 2017 was 15.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The County's contributions (employer share only) to PERS for the years ending September 30, 2017, 2016 and 2015 were \$469,384, \$476,527 and \$433,500, respectively, equal to the required contributions for each year.

### *Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*

At September 30, 2017, the County reported a liability of \$7,762,128 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on a projection of the County's long-term share of contribution to the pension plan relative to projected contributions of all participating entities, actuarially determined. The County's proportionate share used to calculate the September 30, 2017 net pension liability was 0.046694 percent, which was based on a measurement date of June 30, 2017. This was a decrease of 0.001419 percent from its proportionate share used to calculate the September 30, 2016 net pension liability, which was based on a measurement date of June 30, 2016.

For the year ended September 30, 2017, the County recognized pension expense of \$1,340,631. At September 30, 2017, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 111,428	56,637
Net difference between projected and actual earnings on pension plan investments	102,191	
Changes of assumptions	158,049	13,629
Changes in the proportion and differences between the County's contributions and proportionate share of contributions	228,208	-
County contributions subsequent to the measurement date	108,000	-
Total	\$ 707,876	70,266

\$108,000 reported as deferred outflows of resources related to pensions resulting from County contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended September 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

# SMITH COUNTY

## Notes to Financial Statements For the Year Ended September 30, 2017

Year ending September 30	Amount
2018	\$ 536,556
2019	159,041
2020	(16,051)
2021	(149,936)
Total	\$ 529,610

Actuarial Assumptions. The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods in the measurement:

Inflation	3.00 percent
Salary increases	3.25 – 18.50 percent, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 Healthy Annuitant Blue Collar Table Projected with Scale BB to 2022, with males rates set forward one year.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2012 to June 30, 2016. The experience report is dated April 18, 2017.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected nominal returns, net of pension plan investment expense and the assumed rate of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2017, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Broad	27.00 %	4.60
International Equity	18.00	4.50
Emerging Markets Equity	4.00	4.75
Global	12.00	4.75
Fixed Income	18.00	0.75
Real Assets	10.00	3.50
Private Equity	8.00	5.10
Emerging Debt	2.00	2.25
Cash	1.00	0.00
Total	100.00 %	

Discount Rate. The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate (9.00%) and that employer contributions will be made at the current employer contribution rate



SMITH COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2017

(15.75%). Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity to the County's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the County's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the County's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
County's proportionate share of the net pension liability	\$ 10,180,549	7,762,128	5,754,313

Pension Plan Fiduciary Net Position. Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial report.

(10) Long-term Debt:

Debt outstanding as of September 30, 2017, consisted of the following:

<u>Description and Purpose</u>	<u>Amount Outstanding</u>	<u>Interest Rate</u>	<u>Final Maturity Date</u>
<b>Governmental Activities:</b>			
A. General Obligation Bonds:			
G.O. refunding bonds, Series 2015	\$ <u>2,765,000</u>	1.09-3.12%	03/2025
B. Capital Leases:			
2015 Ford police interceptor	\$ 9,087	1.93%	03/2019
2015 Dodge Ram 1500 truck	10,949	2.43%	06/2019
2015 Dodge 1500 crew truck	10,618	1.93%	06/2019
2015 Dodge 1500 crew truck	10,618	1.93%	06/2019
Fingerprint equipment	8,139	2.12%	08/2019
2016 Ford Taurus	17,788	1.95%	06/2020
2016 Dodge Ram 1500 truck	22,520	1.90%	07/2020

SMITH COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2017

Description and Purpose	Amount Outstanding	Interest Rate	Final Maturity Date
<b>Governmental Activities:</b>			
<b>B. Capital Leases:</b>			
2016 Dodge Ram 1500 ST crew truck	22,384	1.90%	07/2020
E-911 system	23,125	2.17%	08/2019
New Holland tractor & Tiger Bengal boom	50,514	1.75%	04/2020
John Deere 6130 tractor w/ loader	26,356	1.93%	03/2019
John Deere 10 ft. wing rotary cutter	6,471	1.81%	08/2018
2005 International 7500 dump truck	26,198	2.00%	04/2020
2016 VT Leeboy towable roller	17,551	1.65%	08/2019
2016 VT Leeboy towable roller	17,551	1.65%	08/2019
John Deere motor grader	121,011	1.83%	04/2020
Total Capital Leases	\$ 400,880		
<b>C. Other Loans:</b>			
Road and bridge construction loan	\$ 118,631	1.84%	07/2021

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

Year Ending September 30	General Obligation Bonds		Other Loans	
	Principal	Interest	Principal	Interest
2018	\$ 320,000	66,649	29,534	1,890
2019	325,000	60,406	30,082	1,342
2020	330,000	53,329	30,640	784
2021	340,000	45,436	28,375	220
2022	350,000	36,772		
2023 - 2027	1,100,000	50,454		
Total	\$ 2,765,000	313,046	118,631	4,236

Legal Debt Margin - The amount of debt, excluding specific exempted debt that can be incurred by the County is limited by state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the County, according to the then last completed assessment for taxation. However, the limitation is increased to 20% whenever a county issues bonds to repair or replace washed out or collapsed bridges on the public roads of the County. As of September 30, 2017, the amount of outstanding debt was equal to 1.48% of the latest property assessments.

# SMITH COUNTY

## Notes to Financial Statements For the Year Ended September 30, 2017

The following is a summary of changes in long-term liabilities and obligations for the year ended September 30, 2017:

	Balance Oct. 1, 2016	Additions	Reductions	Balance Sept. 30, 2017	Amount due within one year
<b>Governmental Activities:</b>					
General obligation bond	\$ 3,080,000		315,000	2,765,000	320,000
Capital leases	574,779	198,450	372,349	400,880	188,515
Other loans	145,219		26,588	118,631	29,534
Total	\$ 3,799,998	198,450	713,937	3,284,511	538,049

### (11) Contingencies.

**Federal Grants** - The County has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a grantor audit may become a liability of the County. No provision for any liability that may result has been recognized in the County's financial statements.

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

The County has been named as a defendant in a lawsuit seeking damages for an incident involving the Sheriff's Department. The County has excess liability insurance coverage that it believes would cover any judgement against the County.

### (12) Effect of Deferred Amounts on Net Position

The governmental activities' unrestricted net position deficit amount of (\$1,985,129) includes the effect of deferred inflows/outflows of resources related to pensions. A portion of the deferred outflows of resources related to pensions in the amount of \$101,780 resulting from County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2018. The \$569,828 balance of the deferred outflows of resources related to pensions at September 30, 2017, will be recognized in pension expense over the next three years. The \$66,277 balance of the deferred inflows of resources related to pensions at September 30, 2017, will be recognized in pension expense over the next four years.

The business-type activities' restricted for public works net position amount of \$902,854 includes the effect of deferred inflows/outflows of resources related to pensions. A portion of the deferred outflows of resources related to pensions in the amount of \$6,220 resulting from County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2018. The \$30,048 balance of the deferred outflows of resources related to pensions at September 30, 2017, will be recognized in pension expense over the next three years. The \$3,989 balance of the deferred inflows of resources related to pensions at September 30, 2017, will be recognized in pension expense over the next four years.

## SMITH COUNTY

### Notes to Financial Statements For the Year Ended September 30, 2017

(13) Joint Venture.

The County participates in the following joint venture:

Smith County is a participant with Rankin, Scott and Simpson Counties in a joint venture, authorized by Section 39-3-9, Miss. Code Ann. (1972), to operate the Central Mississippi Regional Library System. The joint venture was created to provide free library service to the public and is governed by a five-member board of which two members are appointed by Rankin County and one member each from the other three counties. By contractual agreement, the County's appropriation to the joint venture was \$150,274 in fiscal year 2017. Complete financial statements for the Central Mississippi Regional Library System can be obtained from 3470 Highway 80 East, Pearl, MS 39208.

(14) Jointly Governed Organizations.

The County participates in the following jointly governed organizations:

Central Mississippi Emergency Medical Services District operates in a district composed of the Counties of Attala, Clarke, Copiah, Holmes, Lauderdale, Leake, Madison, Neshoba, Rankin, Scott, Smith, Warren and Yazoo. The Smith County Board of Supervisors appoints two of the 26 members of the board. The County provided no financial support for the district in fiscal year 2017.

Region Ten Health-Mental Retardation Commission operates in a district composed of the Counties of Clarke, Jasper, Kemper, Lauderdale, Leake, Neshoba, Newton, Scott and Smith. The Smith County Board of Supervisors appoints one of the nine members of the board of commissioners. The County appropriated \$20,840 for support of the commission in fiscal year 2017.

Jones County Junior College operates in a district composed of the Counties of Clarke, Covington, Greene, Jasper, Jones, Perry, Smith and Wayne. The Smith County Board of Supervisors appoints two of the 20 members of the college board of trustees. The County appropriated \$319,548 for maintenance and support of the college for the fiscal year 2017.

East Central Mississippi Planning and Development District operates in a district composed of the Counties of Clarke, Jasper, Kemper, Lauderdale, Leake, Neshoba, Newton, Scott and Smith. The Smith County Board of Supervisors appoints one of the 15 members of the board of directors. The County appropriated \$9,616 for support of the district in fiscal year 2017.

Mid-Mississippi Development District operates in a district composed of the Counties of Clarke, Jasper, Lauderdale, Newton, Scott and Smith. The district was organized to foster, encourage and facilitate economic development in the member counties. The district's board of trustees is composed of 30 members, five each from the six-member counties. The County appropriated \$21,750 for support of the district in fiscal year 2017.

(15) Subsequent Events.

Events that occur after the Statement of Net Position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Management of Smith County evaluated the activity of the County through August 22, 2019, and determined that the following subsequent events have occurred requiring disclosure in the notes to the financial statements.

# SMITH COUNTY

## Notes to Financial Statements For the Year Ended September 30, 2017

Subsequent to September 30, 2017, the County issued the following debt obligations:

<u>Issue Date</u>	<u>Interest Rate</u>	<u>Issue Amount</u>	<u>Type of Financing</u>	<u>Source of Financing</u>
01/15/2018	1.75%	\$ 36,000	Capital lease	Ad valorem taxes
02/03/2018	1.75%	38,135	Capital lease	Ad valorem taxes
07/09/2018	2.95%	750,000	Promissory note	Ad valorem taxes
02/04/2019	3.06%	44,056	Capital lease	Advalorem taxes
02/04/2019	3.06%	50,038	Capital lease	Advalorem taxes
02/04/2019	3.06%	54,629	Capital lease	Advalorem taxes
04/01/2019	2.94%	19,220	Capital lease	Advalorem taxes
04/01/2019	2.94%	49,964	Capital lease	Advalorem taxes
04/15/2019	3.05%	60,919	Capital lease	Advalorem taxes

SMITH COUNTY

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## SMITH COUNTY

### REQUIRED SUPPLEMENTARY INFORMATION

## SMITH COUNTY

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SMITH COUNTY  
 Budgetary Comparison Schedule -  
 Budget and Actual (Non-GAAP Basis)  
 General Fund  
 For the Year Ended September 30, 2017  
 UNAUDITED

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Property taxes	\$ 4,145,000	4,465,379	4,395,920	(69,459)
Licenses, commissions and other revenue	95,000	118,480	118,480	
Fines and forfeitures	110,000	86,916	86,916	
In lieu taxes - Salt Dome	300,000	348,359	348,359	
Intergovernmental revenues	492,500	540,226	540,226	
Charges for services	10,000	18,697	18,697	
Interest income	28,100	12,262	12,262	
Miscellaneous revenues	110,000	571,462	559,801	(11,661)
Total Revenues	<u>5,290,600</u>	<u>6,161,781</u>	<u>6,080,661</u>	<u>(81,120)</u>
<b>EXPENDITURES</b>				
Current:				
General government	2,977,031	3,083,730	3,095,319	(11,589)
Public safety	1,965,000	1,989,669	1,989,669	
Health and welfare	110,265	121,415	121,415	
Culture and recreation	150,274	150,274	150,274	
Education	542,000	0	0	
Conservation of natural resources	78,326	75,788	75,788	
Economic development and assistance	40,750	29,035	29,035	
Debt service:				
Principal		58,342	58,342	
Interest		760	760	
Total Expenditures	<u>5,863,646</u>	<u>5,509,013</u>	<u>5,520,602</u>	<u>(11,589)</u>
Excess of Revenues over (under) Expenditures	<u>(573,046)</u>	<u>652,768</u>	<u>560,059</u>	<u>(92,709)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	40,000	103,657	103,657	
Transfers out		(82,632)	(82,632)	
Other financing sources	221,962			
Total Other Financing Sources and Uses	<u>261,962</u>	<u>21,025</u>	<u>21,025</u>	<u>0</u>
Net Change in Fund Balance	(311,084)	673,793	581,084	(92,709)
Fund Balances - Beginning	<u>3,632,904</u>	<u>4,016,994</u>	<u>4,016,994</u>	<u>0</u>
Fund Balances - Ending	<u>\$ 3,321,820</u>	<u>4,690,787</u>	<u>4,598,078</u>	<u>(92,709)</u>

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

SMITH COUNTY  
 Budgetary Comparison Schedule -  
 Budget and Actual (Non-GAAP Basis)  
 Countywide Road & Bridge Fund  
 For the Year Ended September 30, 2017  
 UNAUDITED

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 1,900,000	1,988,316	1,958,439	(29,877)
Licenses, commissions and other revenue	150,000	150,000	150,000	
Intergovernmental revenues	10,000	28,979	28,979	
Interest income	1,000	1,882	1,882	
Miscellaneous revenues	150	8,250	8,250	
Total Revenues	<u>2,061,150</u>	<u>2,177,427</u>	<u>2,147,550</u>	<u>(29,877)</u>
EXPENDITURES				
Current:				
Public works	484,000	336,184	336,184	
Debt service:				
Principal	45,000			
Total Expenditures	<u>529,000</u>	<u>336,184</u>	<u>336,184</u>	<u>0</u>
Excess of Revenues over (under) Expenditures	<u>1,532,150</u>	<u>1,841,243</u>	<u>1,811,366</u>	<u>(29,877)</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(1,230,000)	(1,380,000)	(1,380,000)	
Other financing uses	(150,000)			
Total Other Financing Sources and Uses	<u>(1,380,000)</u>	<u>(1,380,000)</u>	<u>(1,380,000)</u>	<u>0</u>
Net Change in Fund Balance	152,150	461,243	431,366	(29,877)
Fund Balances - Beginning	<u>589,030</u>	<u>768,699</u>	<u>768,699</u>	<u>0</u>
Fund Balances - Ending	<u>\$ 741,180</u>	<u>1,229,942</u>	<u>1,200,065</u>	<u>(29,877)</u>

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

SMITH COUNTY  
 Budgetary Comparison Schedule -  
 Budget and Actual (Non-GAAP Basis)  
 County Engineer Fund  
 For the Year Ended September 30, 2017  
 UNAUDITED

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Intergovernmental revenues	\$ 300,000	241,471	241,471	0
Total Revenues	<u>300,000</u>	<u>241,471</u>	<u>241,471</u>	<u>0</u>
EXPENDITURES				
Current:				
Public works	300,000	295,644	295,644	0
Total Expenditures	<u>300,000</u>	<u>295,644</u>	<u>295,644</u>	<u>0</u>
Excess of Revenues over (under) Expenditures	<u>0</u>	<u>(54,173)</u>	<u>(54,173)</u>	<u>0</u>
Net Change in Fund Balance	0	(54,173)	(54,173)	0
Fund Balances - Beginning	<u>335</u>	<u>335</u>	<u>335</u>	<u>0</u>
Fund Balances - Ending	<u>\$ 335</u>	<u>(53,838)</u>	<u>(53,838)</u>	<u>0</u>

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

SMITH COUNTY

Schedule of the County's Proportionate Share of the Net Pension Liability

Last 10 Fiscal Years\*

For the Year Ended September 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>
County's proportion of the net pension liability (asset)	0.046694%	0.048113%	0.042588%
County's proportionate share of the net pension liability (asset)	\$ 7,762,128	8,594,182	6,583,263
County's covered payroll	\$ 2,994,595	3,077,917	2,660,635
County's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	259.20%	279.22%	247.43%
Plan fiduciary net position as a percentage of the total pension liability	61.49%	57.47%	61.70%

\* The amounts presented for each fiscal year were determined as of the twelve months ended at the measurement date of June 30 of the fiscal year presented. This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB Statement No. 68 was implemented for the fiscal year ended September 30, 2015, and, until a full 10 year trend is compiled, the County has only presented information for the years in which information is available.

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

SMITH COUNTY  
Schedule of County Contributions  
Last 10 Fiscal Years\*  
For the Year Ended September 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 469,384	476,527	433,500
Contributions in relation to the contractually required contribution	<u>469,384</u>	<u>476,527</u>	<u>433,500</u>
Contribution deficiency (excess)	\$ <u>0</u>	<u>0</u>	<u>0</u>
County's covered payroll	\$ 2,980,218	3,025,571	2,752,381
Contributions as a percentage of covered payroll	15.75%	15.75%	15.75%

\* This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB Statement No. 68 was implemented for the fiscal year ended September 30, 2015, and, until, a full 10 year trend is compiled, the County has only presented information for the years in which information is available.

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

SMITH COUNTY

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# SIMPSON COUNTY

## Notes to the Required Supplementary Information For the Year Ended September 30, 2017 UNAUDITED

### A. Budgetary Information.

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

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

### B. Basis of Presentation.

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

### C. Budget/GAAP Reconciliation.

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

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

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

	Governmental Fund Types		
	General Fund	Countywide Road & Bridge Fund	County Engineer Fund
Budget (Cash Basis)	\$ 581,084	431,366	(54,173)
Increase (Decrease)			
Net adjustments for revenue accruals	(253,223)	(3,525)	2,196,835
Net adjustments for expenditure accruals	311,676	7,510	(2,173,467)
GAAP Basis	\$ 639,537	435,351	(30,805)

## SIMPSON COUNTY

### Notes to the Required Supplementary Information For the Year Ended September 30, 2017 UNAUDITED

#### D. Excess of Actual Expenditures Over Budget in Individual Funds.

The following fund had an excess of actual expenditures over budget for the year ended September 30, 2017:

<u>Fund</u>	<u>Excess</u>
General Fund	\$ 11,589

The General Fund is in violation of Section 19-11-17, Miss. Code Ann. (1972). However, the County has no liability associated with these violations.

#### Pension Schedules

##### A. Changes of assumptions.

###### 2015

The expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Table projected to 2016 using Scale BB rather than the RP-2000 Mortality Table, which was used prior to 2015.

The expectation of disabled mortality was changed to the RP-2014 Disabled Retiree Table, rather than the RP-2000 Disabled Mortality Table, which was used prior to 2015.

Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to more closely reflect actual experience.

Assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience.

The price inflation and investment rate of return assumptions were changed from 3.50% to 3.00% and 8.00% to 7.75%, respectively.

###### 2016

The assumed rate of interest credited to employee contributions was changed from 3.50% to 2.00%.

###### 2017

The expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Mortality Table projected with Scale BB to 2022 rather than projected with Scale BB to 2016, which was used prior to 2017. Small adjustments were also made to the Mortality Table for disabled lives.

The wage inflation assumptions was reduced from 3.75% to 3.25%.

Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to more closely reflect actual experience.

The percentage of active member disabilities assumed to be in the line of duty was increased from 6.00% to 7.00%.



SIMPSON COUNTY

Notes to the Required Supplementary Information  
For the Year Ended September 30, 2017  
UNAUDITED

B. Changes in benefit provisions.

2016

Effective July 1, 2016, the interest rate on employee contributions shall be calculated based on the money market rate as published by the Wall Street Journal on December 31 of each preceding year with a minimum rate of one percent and a maximum rate of five percent.

Method and assumptions used in calculations of actuarially determined contributions.

The actuarially determined contribution rates in the schedule of employer contributions are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported (June 30, 2015 valuation for the June 30, 2017 fiscal year end).

The following actuarial methods and assumptions were used to determine the most recent contribution rate reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, open
Remaining amortization period	33.9 years
Asset valuation method	5-year smoothed market
Price inflation	3.00 percent
Salary increase	3.75 percent to 19.00 percent, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

SMITH COUNTY

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SMITH COUNTY

OTHER INFORMATION

SMITH COUNTY

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SMITH COUNTY  
Schedule of Surety Bonds for County Officials  
For the Year Ended September 30, 2017  
UNAUDITED

Name	Position	Company	Bond
Kenneth R. Cain	Supervisor District 1	Western Surety	\$100,000
Dwight D. Norris	Supervisor District 2	Western Surety	\$100,000
Benjie Ford	Supervisor District 3	Western Surety	\$100,000
Danny W. Arender	Supervisor District 4	Western Surety	\$100,000
Howard Hammons	Supervisor District 5	Western Surety	\$100,000
Cindy Austin	Chancery Clerk	Western Surety	\$100,000
Delia Hodge	Deputy Chancery Clerk	Western Surety	\$50,000
Bonita Huddleston	Deputy Chancery Clerk	Western Surety	\$50,000
Debra Burch	Deputy Chancery Clerk	Western Surety	\$50,000
Rita McDonald	Purchase Clerk	Western Surety	\$75,000
Justin Lowery Middleton	Assistant Purchase Clerk	Western Surety	\$50,000
Kathryn L. Scott	Receiving Clerk	Western Surety	\$75,000
Sheree Hester	Receiving Clerk	Western Surety	\$75,000
Marsha Ivy	Receiving Clerk	Western Surety	\$75,000
Andrew Holder	Assistant Receiving Clerk	Western Surety	\$50,000
Carlie Bowen	Assistant Receiving Clerk	Western Surety	\$50,000
John Hodge	Assistant Receiving Clerk	Western Surety	\$50,000
LA Ronnie Moffett	Assistant Receiving Clerk	Western Surety	\$50,000
Joseph Nickson	Assistant Receiving Clerk	Western Surety	\$50,000
Tex Walley	Assistant Receiving Clerk	Western Surety	\$50,000
Kathryn L. Scott	Inventory Control Clerk	Western Surety	\$75,000
David Easterling	Constable	Western Surety	\$50,000
Johnny Hancock	Constable	Western Surety	\$50,000
Anthony Grayson	Circuit Clerk	Western Surety	\$100,000
Hope Westbrook	Deputy Circuit Clerk	Western Surety	\$50,000
Amber Craft	Deputy Circuit Clerk	Western Surety	\$50,000
Clara Brown	Deputy Circuit Clerk	Western Surety	\$50,000
Charlie Crumpton	Sheriff	Western Surety	\$100,000
Marty Patterson	Sheriff's Deputy (hired under Section 45-5-9 Miss. Code Ann.	Western Surety	\$50,000
Hulon West	Justice Court Judge	Western Surety	\$50,000
Jerry Baldwin	Justice Court Judge	Western Surety	\$50,000
Melissa Walker	Justice Court Clerk	Western Surety	\$50,000
Arthur Newman	Deputy Justice Court Clerk	Western Surety	\$50,000
Teresa Stewart	Deputy Justice Court Clerk	Western Surety	\$50,000
Becky Martin	Tax Assessor-Collector	Western Surety	\$100,000
Jamie Moore	Deputy Tax Assessor	Western Surety	\$10,000
Sharon Sheldon	Deputy Tax Assessor	Western Surety	\$10,000
Sharon Ellis	Deputy Tax Collector	Western Surety	\$50,000
Jeannie Sullivan	Deputy Tax Collector	Western Surety	\$50,000
Kayla Crumpton	Deputy Tax Collector	Western Surety	\$50,000
Justin Lowery Middleton	Solid Waste Clerk	Western Surety	\$50,000
Kathryn L. Scott	Solid Waste Clerk	Western Surety	\$50,000
Sheree Hester	Solid Waste Clerk	Western Surety	\$50,000
Annette Thornton	Administrative Assistant	Western Surety	\$10,000
Kathryn L. Scott	Accountant Clerk	Western Surety	\$75,000

SMITH COUNTY

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## SMITH COUNTY

## SPECIAL REPORTS

SMITH COUNTY

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**STATE OF MISSISSIPPI**  
**OFFICE OF THE STATE AUDITOR**  
**SHAD WHITE**  
AUDITOR

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

Members of the Board of Supervisors  
Smith County, Mississippi

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Smith County, Mississippi (the County), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated August 22, 2019. Our report includes an adverse opinion on the aggregate discretely presented component unit due to the omission of the discretely presented component unit which is required by accounting principles generally accepted in the United States of America to be reported with the financial data of the County's primary government unless the County also issues financial statements for the financial reporting entity that include the financial data for its component unit. The report is qualified on the General Fund because the County did not maintain adequate subsidiary records documenting the existence, completeness and valuation of Circuit Court fines receivables as required by accounting principles generally accepted in the United States of America. Except for the limitations related to the Circuit Court fines receivables, 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 of the financial statements, we considered Smith County, Mississippi'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 statements, but not for the purpose of expressing an opinion on the effectiveness of Smith County, Mississippi's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as 2017-001, 2017-002, 2017-003, 2017-004 and 2017-005 to be material weaknesses.

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. We consider the deficiency described in the accompanying Schedule of Findings and Responses as 2017-006 to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Smith County, Mississippi'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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2017-003.

We also noted certain matters which we have reported to the management of Smith County, Mississippi, in the Independent Accountant's Report on Central Purchasing System, Inventory Control System and Purchase Clerk Schedules and the Limited Internal Control and Compliance Review Management Report dated August 22, 2019, included within this document.

### **Smith County's Responses to Findings**

Smith County's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. Smith County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **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 result 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. However, this report is a matter of public record and its distribution is not limited.



JOE E. MCKNIGHT, CPA  
Director, County Audit Section

August 22, 2019



**STATE OF MISSISSIPPI**  
**OFFICE OF THE STATE AUDITOR**  
**SHAD WHITE**  
AUDITOR

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

Members of the Board of Supervisors  
Smith County, Mississippi

We have examined Smith County, Mississippi's (the County) compliance with establishing and maintaining a central purchasing system and inventory control system in accordance with Sections 31-7-101 through 31-7-127, Miss. Code Ann. (1972) and compliance with the purchasing requirements in accordance with bid requirements of Section 31-7-13, Miss. Code Ann. (1972) during the year ended September 30, 2017. The Board of Supervisors of Smith County, Mississippi is responsible for the County's compliance with those requirements. Our responsibility is to express an opinion on the County's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the County's compliance with specified requirements. The Board of Supervisors of Smith County, Mississippi, has established centralized purchasing for all funds of the County and has established an inventory control system. The objective of the central purchasing system is to provide reasonable, but not absolute, assurance that purchases are executed in accordance with state law.

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

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

**Purchase Clerk.**

1. Emergency purchases should be authorized and documented in the Board of Supervisors' minutes and included on the Purchase Clerk's schedules.

**Repeat Finding** No

**Criteria** Section 31-7-13(k), Miss. Code Ann. (1972), requires the Board of Supervisors to authorize and document emergency purchases on its minutes.

**Condition** The Board of Supervisors did not document the approval of an emergency purchase on its minutes.

<b>Cause</b>	The Board of Supervisors did not comply with state laws.
<b>Effect</b>	The lack of proper approval and documentation could result in unauthorized purchases.
<b>Recommendation</b>	The Board of Supervisors should approve and document in its minutes all emergency purchases.
<b>Views of Responsible Official(s)</b>	As snow and ice was predicted for our area, the Beat 5 Supervisor directed me to purchase sand from Superior Asphalt since it was closer than Crystal Springs. I had made a note to place this on the minutes at our next meeting, but must have misplaced my sheet. I will make every effort in the future to comply with state laws.

In our opinion, except for the noncompliance referred to in the preceding paragraph, Smith County, Mississippi, complied, in all material respects, with state laws governing central purchasing, inventory and bid requirements for the year ended September 30, 2017.

The accompanying schedules of (1) Purchases Not Made from the Lowest Bidder, (2) Emergency Purchases and (3) Purchases Made Noncompetitively from a Sole Source are presented in accordance with Section 31-7-115, Miss. Code Ann. (1972). The information contained on these schedules has been subjected to procedures performed in connection with our aforementioned examination and, in our opinion, is fairly presented in relation to that examination.

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

This report is intended for use in evaluating Smith County, Mississippi's compliance with the aforementioned requirements, and is not intended to be and should not be relied upon for any other purpose. However, this report is a matter of public record and its distribution is not limited.



JOE E. MCKNIGHT, CPA  
Director, County Audit Section

August 22, 2019

SMITH COUNTY

Schedule 1

Schedule of Purchases From Other Than the Lowest Bidder  
For the Year Ended September 30, 2017

Our tests did not identify any purchases from other than the lowest bidder.

SMITH COUNTY  
Schedule of Emergency Purchases  
For the Year Ended September 30, 2017

Schedule 2

<u>Date</u>	<u>Item Purchased</u>	<u>Amount Paid</u>	<u>Vendor</u>	<u>Reason for Emergency Purchase</u>
01/04/2017	Sand	\$ 1,500	Superior Asphalt	To prepare bridges for freezing rain and sleet on January 6, 2017.

SMITH COUNTY

Schedule 3

Schedule of Purchases Made Noncompetitively From a Sole Source  
For the Year Ended September 30, 2017

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

SMITH COUNTY

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<b>Recommendation</b>	The Board of Supervisors should cite the appropriate statute from the Mississippi Code to authorize the levying of taxes for each tax levy.
<b>Views of Responsible Official(s)</b>	Issue was addressed with the Board Attorney and he said the issue has been corrected.
<b>2.</b>	<u>Actual expenditures exceeded final budget amounts.</u>
<b>Repeat Finding</b>	No
<b>Criteria</b>	Section 19-11-17, Miss. Code Ann. (1972), prohibits the incurring of expenditures in excess of the final budget as approved by the Board of Supervisors.
<b>Condition</b>	Actual expenditures exceeded the budgeted amount by \$11,589 in the General Fund.
<b>Cause</b>	The Board of Supervisors lacked the necessary controls to ensure that actual expenditures were not in excess of budgeted amounts.
<b>Effect</b>	Failure to limit actual expenditures to budgeted amounts, could result in the County having insufficient funds to pay expenditures.
<b>Recommendation</b>	The Board of Supervisors should not make expenditures in excess of the budgeted amounts.
<b>Views of Responsible Official(s)</b>	Matter will be corrected.
<b>Board of Supervisors and Payroll Clerk.</b>	
<b>3.</b>	<u>PERS Retirees should not be paid more than one-half salary of their position.</u>
<b>Repeat Finding</b>	Yes
<b>Criteria</b>	Section 25-11-127(4)(a), Miss. Code Ann. (1972), requires retirees to receive no more than one-half of the salary in effect for the position at the time of employment in a fiscal year.
<b>Condition</b>	As reported in the prior three years' audit reports, we noted that one PERS retiree was paid more than one-half of the salary for his position during the fiscal year 2017.
<b>Cause</b>	The Board of Supervisors and Payroll Clerk did not comply with state laws.
<b>Effect</b>	By overpaying PERS retirees, the County is not in compliance with state legal requirements.
<b>Recommendation</b>	The County should ensure that PERS retirees are not being paid more than the allowable amount.
<b>Views of Responsible Official(s)</b>	We will make sure that PERS retirees are paid the allowed amount by state law.
<b>4.</b>	<u>Officials were not properly reimbursed for mileage.</u>
<b>Repeat Finding</b>	No
<b>Criteria</b>	Section 25-3-41(1), Miss. Code Ann. (1972), allows the County to reimburse county officers or employees for expenses incurred while traveling on official business. Such officer or employee shall receive as expenses for each mile actually or necessarily traveled, when such travel is done by a privately owned automobile or other privately owned motor vehicle, the mileage reimbursement rate allowable to federal employees for the use of a privately owned vehicle while on official travel.

<b>Condition</b>	The County did not reimburse county officers or employees in accordance with state law. During the audit, we noted county officials were reimbursed at a mileage rate greater than the maximum reimbursement allowed. The county officers and employees were reimbursed at a mileage rate greater than the maximum reimbursement allowed.
<b>Cause</b>	The Board of Supervisors and Payroll Clerk did not comply with state laws.
<b>Effect</b>	Improper travel reimbursement resulted in the misuse of County monies.
<b>Recommendation</b>	The County should only reimburse mileage expense at the allowable rate.
<b>Views of Responsible Official(s)</b>	Talked to accounting clerk and reminded her to stay aware of mileage rates.
<b>5.</b>	<u>Internal controls over the payroll function should be strengthened.</u>
<b>Repeat Finding</b>	No
<b>Criteria</b>	An effective system of internal control over the payroll function should include proper payroll deductions, such as a cafeteria plan deduction. A Cafeteria Plan provides participants with an opportunity to receive qualified benefits on a pre-tax basis. Qualified benefits include accident and health benefits, adoption assistance, dependent care assistance, group-term life insurance coverage, and health savings accounts.
<b>Condition</b>	During testwork, it was noted that some employees had insurance amounts included twice in their cafeteria plan deductions.
<b>Cause</b>	The Payroll department lacked sufficient internal controls necessary over the payroll function.
<b>Effect</b>	As a result, inaccurate payroll checks were processed.
<b>Recommendation</b>	The County should implement the necessary internal controls to ensure that payroll checks are processed correctly.
<b>Views of Responsible Official(s)</b>	We had always manually entered the cafeteria plan for each employee. However, when we did our W2's it was detected that the cafeteria was more than it should be. We called Delta and they informed us at that time that they had changed our system to automatically do it. This made it double the amount and hold out less taxes. However, Delta never informed us when it happened.
<b>Circuit Clerk.</b>	
<b>6.</b>	<u>Internal controls should be strengthened in the Circuit Clerk's office.</u>
<b>Repeat Finding</b>	Yes
<b>Criteria</b>	An effective system of internal control over cash should include daily bank deposits and settlement of funds to the proper authorities each month.
<b>Condition</b>	As reported in the prior ten years' audit reports, we noted that bank deposits are not being made on a daily basis, which is a deficiency in internal control. Additionally, criminal and civil settlements are not being made in a timely manner, and it was noted that the Clerk is preparing deposits, taking deposits to the bank, preparing cash journals, preparing settlements, disbursing checks, and reconciling accounts each month.
<b>Cause</b>	The Circuit Clerk lacked the necessary internal controls needed over cash.
<b>Effect</b>	The failure to implement proper controls and have proper segregation of duties could result in the loss or misappropriation of public funds.

**Recommendation** The Circuit Clerk should ensure that bank deposits are made daily and settlements from the civil and criminal accounts are being made each month. Additionally, duties should be segregated between personnel in the Circuit Clerk's office.

**Views of Responsible Official(s)** Efforts will be made to correct the problems.

**Sheriff and Board of Supervisors.**

7. Sheriff should improve controls over special drug fund.

**Repeat Finding** Yes

**Criteria** Section 99-3-39, Miss. Code Ann. (1972), requires that the amount available for monetary rewards for information leading to the apprehension of any person subsequently convicted of any crime or misdemeanor committed within the state shall be fixed by the Board of Supervisors.

**Condition** The Smith County Sheriff's office has an account which they used to purchase information and evidence. As reported in the prior four years' audit reports, during our audit procedures, it was noted that the Board of Supervisors had not approved a set limit for the amount of cash to be appropriated to the Sheriff for the purchase of information and evidence.

**Cause** The County lacked the necessary controls needed over the special drug fund and they failed to comply with state laws.

**Effect** Without a set limit, the Sheriff's office could build up a material amount of cash on hand and increase the risk of misappropriation of public funds.

**Recommendation** The Board of Supervisors should approve a limit of cash that the Sheriff's office can have on hand for the purpose of information and evidence.

**Views of Responsible Official(s)** Issue was addressed with the Sheriff and Board of Supervisors; the Sheriff will only have a total of \$1,500 for drug buy money.

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

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



JOE E. MCKNIGHT, CPA  
Director, County Audit Section

August 22, 2019

## SMITH COUNTY

### SCHEDULE OF FINDINGS AND RESPONSES

## SMITH COUNTY

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# SMITH COUNTY

## Schedule of Findings and Responses For the Year Ended September 30, 2017

### Section 1: Summary of Auditor's Results

#### **Financial Statements:**

1. Type of auditor's report issued on the financial statements:
 

Governmental activities	Unmodified
Business-type activities	Unmodified
Aggregate discretely presented component units	Adverse
General Fund	Qualified
Countywide Road and Bridge Fund	Unmodified
County Engineer Fund	Unmodified
2005 Chancery Clerk Building & Jail GO Bond Fund	Unmodified
Solid Waste Fund	Unmodified
Aggregate remaining fund information	Unmodified
2. Internal control over financial reporting:
  - a. Material weaknesses identified? Yes
  - b. Significant deficiency identified? Yes
3. Noncompliance material to the financial statements noted? Yes

### Section 2: Financial Statement Findings

#### **Board of Supervisors.**

#### **Material Weakness**

<b>2017-001.</b>	<u>The component unit should be included in the financial statements.</u>
<b>Repeat Finding</b>	Yes
<b>Criteria</b>	Generally Accepted Accounting Principles require the financial data of the County's component units to be reported with the financial data of the County's primary government unless the County also issues financial statements for the financial reporting entity that include the financial data of the County's legally separate component unit.
<b>Condition</b>	As reported in the prior ten years' audit reports, the financial statements do not include the financial data for the County's legally separate component unit.
<b>Cause</b>	The County was unable to obtain audited financial statements of the component unit.
<b>Effect</b>	The failure to properly comply with Generally Accepted Accounting Principles resulted in an adverse opinion on the discretely presented component unit for the inclusion in the County's financial statements.
<b>Recommendation</b>	The Board of Supervisors should provide the financial data for its discretely presented component unit for the inclusion in the County's financial statements.

SMITH COUNTY

Schedule of Findings and Responses  
For the Year Ended September 30, 2017

**Views of Responsible  
Official(s)**

Issue was addressed with the Board of Supervisors, and Economic Development has been informed for several years the need to have an independent audit. So far they have not complied; we will inform them again of the need for an audit.

**Material Weakness**

**2017-002.**

Controls over financial statement preparation should be strengthened.

**Repeat Finding**

No

**Criteria**

An effective system of internal control over financial statement preparation and reporting in accordance with generally accepted accounting principles should include adequate detail to document the compilation of individual funds' balances and transactions, proper accrual of revenues and expenditures/expenses, proper classification of revenues and expenditures/expenses, proper posting of transactions, proper classification of restricted net position and fund balances, accurate reporting of debt and the inclusion of all required disclosures in the notes to the financial statements.

**Condition**

We noted the following deficiencies in the financial statement preparation and reporting:

- a. The beginning fund balance for the County Engineer Fund was understated by \$30,806. This caused an overstatement in intergovernmental revenue in the amount of \$30,806.
- b. Unearned revenue of \$70,421 was not recorded in the Solid Waste Fund and Business-type Activities opinion units.
- c. Business-type Activities' internal balances of \$12,279 was incorrectly reported as unearned revenue.
- d. Intergovernmental payables was understated by \$104,466 in the General Fund and the Governmental Activities opinion units.
- e. Engineering fees were incorrectly netted out against revenue. This caused an understatement of public works expenses of \$84,816 and an understatement of intergovernmental revenue of \$84,816 in the County Engineer Fund and the Governmental Activities opinion units. This error has a net effect of zero on these opinion units.
- f. Pension amounts were incorrectly reported causing an overstatement of \$254,102 to deferred outflows relating to pensions, an overstatement of \$711,186 in net pension liability, an overstatement of \$47,740 in deferred inflows relating to pensions, and an overstatement of \$154,486 in pension expense in the Governmental Activities opinion unit. It also caused an overstatement of \$43,616 to deferred outflows relating to pensions, an overstatement of \$26,776 to net pension liability, an overstatement of \$17,688 in deferred inflows relating to pensions, and an overstatement of \$1,267 in pension expense in the Business-type Activities opinion unit.
- g. Long term debt was understated due to a debt issuance of \$140,000 being excluded.
- h. Bond issuance cost was overstated by \$25,609 in Governmental Activities. This amount should have been recorded as debt principal payments.



SMITH COUNTY

Schedule of Findings and Responses  
For the Year Ended September 30, 2017

- i. Rental payments were included in debt service payments causing principal payments to be overstated by \$6,623 and interest payments to be overstated by \$300.
- j. The beginning balance for construction in progress was understated by \$737,126.
- k. The gain on disposed assets was overstated \$52,768 due to an asset deletion with a net value of \$56,825 being excluded from the computation in Governmental Activities. The gain on disposed assets of \$17,615 in Business-type Activities was incorrectly reported as a loss of \$14,970.

**Cause** The County lacked the necessary internal controls over financial statement preparation needed to safeguard themselves against possible material misstatements in the financial statements.

**Effect** Audit adjustments to correct these errors in the County's financial statements and notes to the financial statements were proposed to management and made to the financial statements with management's approval.

**Recommendation** The Board of Supervisors should implement a system of internal control over financial statement preparation and reporting in accordance with generally accepted accounting principles that includes adequate detail to document the compilation of individual funds' balances and transactions as well as any adjustments to these balances and transactions, proper accrual of revenues and expenditures/expenses, proper classification of revenue and expenditure/expenses, proper posting of transactions, proper classification of net position and fund balance, accurate reporting of debt and the inclusion of all required disclosures in the notes to the financial statements.

**Views of Responsible Official(s)** Discussed with Board of Supervisors and will address the issue with the CPA firm that prepares the financial statements.

**Material Weakness  
Material Noncompliance**

**2017-003.** Controls over repayment of interfund advances should be strengthened.

**Repeat Finding** No

**Criteria** The Mississippi Code is silent regarding the authority of the County to make interfund loans.

**Condition** The County has interfund loans outstanding that are over one year old. The loans were not repaid as of September 30, 2017.

**Cause** The County lacked the necessary controls to ensure that interfund loans were repaid within one year.

**Effect** Failure of the Board of Supervisors to ensure payment of these loans is an illegal diversion of legally restricted funds.

**Recommendation** For any interfund loan made, the Board of Supervisors should approve and record in the board minutes the reason for the loan, when the loan will be repaid and the source of funds for repayment. The Board of Supervisors should ensure these old loans are repaid by approving and recording in the minutes a repayment schedule and complying with the repayment schedule.

**Views of Responsible Official(s)** Loans will be repaid.

SMITH COUNTY

Schedule of Findings and Responses  
For the Year Ended September 30, 2017

**Board of Supervisors and Solid Waste Clerk.**

**Material Weakness**

<b>2017-004.</b>	<u>The County should establish adequate segregation of duties in Solid Waste.</u>
<b>Repeat Finding</b>	No
<b>Criteria</b>	An effective system of internal control over cash should include an adequate segregation of duties.
<b>Condition</b>	During testwork, it was noted that controls were inadequate over cash. The Solid Waste clerk receipts monies, posts receipts, prepares daily checkup sheets, prepares bank deposits and takes deposits to the bank.
<b>Cause</b>	The County lacks the proper segregation of duties necessary to maintain effective internal controls over cash in the Solid Waste department.
<b>Effect</b>	The failure to implement adequate controls over cash could result in the loss or misappropriation of public funds.
<b>Recommendation</b>	The County should take steps to ensure adequate segregation of duties over cash in the Solid Waste department is implemented.
<b>Views of Responsible Official(s)</b>	Plan to implement more controls.

**Circuit Clerk.**

**Material Weakness**

<b>2017-005.</b>	<u>Controls over fines receivable aging reports in the Circuit Clerk's office should be strengthened.</u>
<b>Repeat Finding</b>	No
<b>Criteria</b>	An effective system of internal control over Circuit Court fines receivable should include maintaining and preserving adequate subsidiary records to substantiate the total fines receivable balance.
<b>Condition</b>	Management did not maintain adequate subsidiary records documenting the existence and valuation of fines receivable for Circuit Clerk fines at year end.
<b>Cause</b>	The Circuit Clerk lacked sufficient internal controls over subsidiary records for fines receivable.
<b>Effect</b>	Therefore, the Independent Auditor's Report includes a qualified opinion on the General Fund because we were unable to satisfy ourselves as to the fair presentation of the Circuit Clerk's fines receivable. Failure to establish control procedures over aging of the Circuit Clerk fines receivable could result in erroneous amounts being reported in the financial statements.
<b>Recommendation</b>	The Circuit Court Clerk should establish procedures documenting the existence and valuation of Circuit Court fines receivable for inclusion in the financial statements.
<b>Views of Responsible Official(s)</b>	Efforts will be made to comply.

SMITH COUNTY

Schedule of Findings and Responses  
For the Year Ended September 30, 2017

**Payroll Clerk.**

**Significant Deficiency**

**2017-006.** Payroll Clerk should maintain adequate records for compensated absences liability.

**Repeat Finding** Yes

**Criteria** The County has adopted a policy of compensated absences for its employees. The Payroll Clerk should maintain records that account for the number of leave hours each employee accumulates on a monthly basis and the current hourly rate of pay for each employee. This information is needed to calculate the end of the year compensated absences liability. General accepted accounting principles require the resulting liability to be reported in the financial statements.

**Condition** As reported in the prior three years' audit reports, the Payroll Clerk did not maintain the necessary records to calculate the compensated absences liability.

**Cause** The Payroll Clerk failed to maintain adequate documentation for leave balances.

**Effect** Failure to properly account for compensated absences could result in the incorrect payments being made to employees leaving County service, and result in not reporting the compensated absences liability in the financial statements.

**Recommendation** The Payroll Clerk should maintain adequate records so the total compensated absences liability can be calculated and reported in the financial statements as required by generally accepted accounting principles.

**Views of Responsible Official(s)** We will maintain and correct the compensated absences.