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SMITH COUNTY SCHOOL DISTRICT

Audited Financial Statements
For the Year Ended June 30, 2011

Charles L. Shivers, CPA
Ridgeland, MS

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FINANCIAL AUDIT REPORT

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CHARLES L. SHIVERS

Certified Public Accountant

Post Office Box 2775
Ridgeland, Mississippi 39158

Phone: 601.941.6649
Email: clscpa@bellsouth.net

INDEPENDENT AUDITOR'S REPORT

Superintendent and School Board
Smith County School District

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Smith County School District as of and for the year ended June 30, 2011, which collectively comprise the Smith County School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Smith County School District's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, I express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Smith County School District, as of June 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated September 26, 2012, on my consideration of the Smith County School District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information 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. I have applied certain limited procedures to the required supplemental 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Smith County School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards and the Schedule of Instructional, Administrative and Other Expenditures for Governmental Funds are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Smith County School District's basic financial statements. The other information section, which includes the Statement of Revenues, Expenditures and Changes in Fund Balances—General Fund, Last Four Years and the Statement of Revenues, Expenditures and Changes in Fund Balances—All Governmental Funds, Last Four Years, is presented for purposes of additional analysis as required by the Mississippi Department of Education and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on it.

Charles L. Shivers, CPA

Ridgeland, MS
September 26, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

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SMITH COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011

The following discussion and analysis of Smith County School District's financial performance provides an overview of the School District's financial activities for the year ended June 30, 2011. The intent of this discussion and analysis is to look at the School District's performance as a whole. Readers are encouraged to review the financial statements and the notes to the financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

- Total net assets for 2011 increased \$1,582,533 which represents a 5% increase from fiscal year 2010. Total net assets for 2010 increased \$1,040,068 which represents a 4% increase from fiscal year 2009.
- General revenues amounted to \$18,391,903 and \$19,057,284, or 75% and 78% of all revenues for fiscal years 2011 and 2010, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$6,052,637, or 25% of total revenues for 2011, and \$5,255,474, or 22% of total revenues for 2010.
- The District had \$22,862,007 and \$23,272,801 in expenses for fiscal years 2011 and 2010; only \$6,052,637 for 2011 and \$5,255,474 for 2010 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$18,391,903 for 2011 and \$19,057,284 for 2010 were adequate to provide for these programs.
- Among major funds, the General Fund had \$17,641,241 in revenues and \$16,192,285 in expenditures for 2011, and \$17,681,865 in revenues and \$16,811,277 in expenditures in 2010. The General Fund's fund balance increased by \$810,294 from 2010 to 2011, and increased by \$270,655 from 2009 to 2010.
- Capital assets, net of accumulated depreciation, increased by \$1,743,678 for 2011 and decreased by \$598,533 for 2010. The increase for 2011 was due to the addition of capital assets.
- Long-term debt increased by \$2,623,942 for 2011 and decreased by \$343,921 for 2010. This increase for 2011 was due primarily to the issuance of Qualified School Construction Bonds. The liability for compensated absences increased by \$4,817 for 2011 and increased by \$11,907 for 2010.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the District's basic financial statements, which include government-wide financial statements, fund financial statements, and notes to the financial statements. This report also contains required supplemental information, supplemental information, and other information.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the District's finances. These statements consist of the Statement of Net Assets and the Statement of Activities, which are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. The current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

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

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

Fund Financial Statements

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

Governmental funds – Most of the District's general activities are reported in its governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, governmental funds are accounted for using the modified accrual basis of accounting and the flow of current financial resources measurement focus. The approach focuses on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at year end. The governmental fund statements provide a detailed view of the District's near-term financing requirements.

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

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

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

Reconciliation of Government-wide and Fund Financial Statements

The financial statements include two schedules that reconcile the amounts reported on the governmental funds financial statements (modified accrual basis of accounting) with government-wide financial statements (accrual basis of accounting). The following summarizes the major differences between the two statements:

Capital assets used in governmental activities are not reported on governmental funds financial statements.

Capital outlay spending results in capital assets on government-wide financial statements, but is reported as expenditures on the governmental funds financial statements.

Bond and note proceeds result in liabilities on government-wide financial statements, but are recorded as other financing sources on the governmental funds financial statements.

Certain other outflows represent either increases or decreases in liabilities on the government-wide financial statements, but are reported as expenditures on the governmental funds financial statements.

Notes to the financial statements

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

Required Supplemental Information

In addition to the basic financial statements and accompanying notes, this report also presents budgetary comparison schedules as required supplemental information. The District adopts an annual operating budget for all governmental funds. A budgetary comparison schedule has been provided for the General Fund and each additional major special revenue fund as required by the Governmental Accounting Standards Board.

Supplemental Information

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

Other Information

Although not a required part of the basic financial statements, the Statement of Revenues, Expenditures and Changes in Fund Balances—General Fund, Last Four Years and the Statement of Revenues, Expenditures and Changes in Fund Balances—All Governmental Funds, Last Four Years, is presented for purposes of additional analysis as required by the Mississippi Department of Education.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets

Net assets may serve over time as a useful indicator of the District's financial position. Assets exceeded liabilities by \$31,408,207 as of June 30, 2011.

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

Table 1 presents a summary of the District's net assets at June 30, 2011 and June 30, 2010.

Table 1
Condensed Statement of Net Assets

	June 30, 2011	June 30, 2010	Percentage Change
Current assets	\$ 13,111,763	\$ 12,019,925	9.08 %
Restricted assets	8,986,011	7,031,432	27.80 %
Capital assets, net	17,159,409	15,415,731	11.31 %
Total assets	39,257,183	34,467,088	13.90 %
Current liabilities	1,805,595	1,221,975	47.76 %
Long-term debt outstanding	6,043,381	3,419,439	76.74 %
Total liabilities	7,848,976	4,641,414	69.11 %
Net assets:			
Invested in capital assets, net of related debt	12,158,113	12,179,856	-0.18 %
Restricted	14,222,809	13,403,101	6.12 %
Unrestricted	5,027,285	4,242,717	18.49 %
Total net assets	\$ 31,408,207	\$ 29,825,674	5.31 %

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

- Increase in net capital assets in the amount of \$1,743,678.
- The issuance of \$3,000,000 of long-term debt and the principal retirement of \$380,875 of long-term debt.

Changes in net assets

The District's total revenues for the fiscal years ended June 30, 2011 and June 30, 2010 were \$24,444,540 and \$24,312,758, respectively. The total cost of all programs and services was \$22,862,007 for 2011 and \$23,272,801 for 2010.

Table 2 presents a summary of the changes in net assets for the fiscal years ended June 30, 2011 and June 30, 2010.

Table 2
Changes in Net Assets

	<u>Year Ended</u> <u>June 30, 2011</u>	<u>Year Ended</u> <u>June 30, 2010</u>	<u>Percentage</u> <u>Change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 1,081,590	\$ 1,193,389	(9.37) %
Operating grants and contributions	4,971,047	3,950,490	25.83 %
Capital Grants and Contributions	0	111,595	(100.00) %
General revenues:			
Property taxes	3,746,753	3,133,688	19.56 %
Grants and contributions not restricted	13,501,615	14,714,627	(8.24) %
Investment earnings	40,006	356,254	(88.77) %
Sixteenth section sources	1,087,046	838,142	29.70 %
Other	16,483	14,573	13.11 %
Total revenues	24,444,540	24,312,758	0.54 %
Expenses:			
Instruction	13,850,519	14,332,064	(3.36) %
Support services	7,058,374	7,067,744	(0.13) %
Non-instructional	1,634,163	1,638,894	(0.29) %
Sixteenth section	87,427	75,129	16.37 %
Interest and other expenses on long-term liabilities	231,524	158,970	45.64 %
Total expenses	22,862,007	23,272,801	(1.77) %
Increase (Decrease) in net assets	1,582,533	1,039,957	52.17 %
Net Assets, July 1, as originally reported	29,825,674	28,785,606	3.61 %
Prior Period Adjustment	0	111	(100.00) %
Net Assets, July 1, as restated	29,825,674	28,785,717	3.61 %
Net Assets, June 30	\$ 31,408,207	\$ 29,825,674	5.31 %

Governmental activities

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

Table 3
Net Cost of Governmental Activities

	<u>Total Expenses</u>		<u>Percentage</u> <u>Change</u>
	<u>2011</u>	<u>2010</u>	
Instruction	\$ 13,850,519	\$ 14,332,064	(3.36) %
Support services	7,058,374	7,067,744	(0.13) %
Non-instructional	1,634,163	1,638,894	(0.29) %
Sixteenth section	87,427	75,129	16.37 %
Interest and other expenses on long-term liabilities	231,524	158,970	45.64 %
Total expenses	\$ 22,862,007	\$ 23,272,801	(1.77) %

	<u>Net (Expense) Revenue</u>		<u>Percentage Change</u>
	<u>2011</u>	<u>2010</u>	
Instruction	\$ (10,344,482)	\$ (11,500,948)	(10.06) %
Support services	(5,764,285)	(6,392,086)	(9.82) %
Non-instructional	(381,652)	40,737	(1,036.87) %
Sixteenth section	(87,427)	(6,060)	1,342.69 %
Interest and other expenses on long-term liabilities	(231,524)	(158,970)	45.64 %
Total net (expense) revenue	\$ (16,809,370)	\$ (18,017,327)	(6.70) %

- Net cost of governmental activities (\$16,809,370 for 2011 and \$18,017,327 for 2010) was financed by general revenue, which is primarily made up of property taxes (\$3,746,753 for 2011 and \$3,133,688 for 2010) and state and federal revenues (\$13,501,615 for 2011 and \$14,714,627 for 2010). In addition, there was \$1,087,046 and \$838,142 in Sixteenth Section sources for 2011 and 2010, respectively.
- Investment earnings amounted to \$40,006 for 2011 and \$356,254 for 2010.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$20,322,273, an increase of \$2,573,366, which includes an increase in inventory of \$5,900. \$3,348,736 or 17% of the fund balance is unassigned, which represents the residual classification for the general fund's 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 remaining fund balance of \$16,973,537 or 83% is either nonspendable, restricted or assigned to indicate that it is not available for spending except only for the purposes to which it is restricted or assigned.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$810,294. The fund balance of Other Governmental Funds showed a decrease in the amount of (\$75,659). The increase (decrease) in the fund balances for the other major funds were as follows:

<u>Major Fund</u>	<u>Increase</u>
16th Section Interest Fund	\$ 647,907
16th Section Principal Fund	\$ 337,120
Qualified School Construction Bond Fund	\$ 853,704

BUDGETARY HIGHLIGHTS

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

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2011, the District's total capital assets were \$26,591,050, including land, construction in progress, school buildings, building improvements, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$2,370,981 from 2010. Total accumulated depreciation as of June 30, 2011, was \$9,431,641, and total depreciation expense for the year was \$691,685, resulting in total net capital assets of \$17,159,409.

Table 4
Capital Assets, Net of Accumulated Depreciation

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>Percentage Change</u>
Land	\$ 266,690	\$ 266,690	0.00 %
Construction in Progress	1,886,628	10,506	17,857.62 %
Buildings	12,747,827	13,082,908	(2.56) %
Building improvements	165,936	177,989	(6.77) %
Improvements other than buildings	525,710	558,998	(5.95) %
Mobile equipment	1,424,396	1,127,067	26.38 %
Furniture and equipment	142,222	164,173	(13.37) %
Leased property under capital leases	0	27,400	(100.00) %
Total	\$ 17,159,409	\$ 15,415,731	11.31 %

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

Debt Administration. At June 30, 2011, the District had \$6,043,381 in outstanding long-term debt, of which \$425,070 is due within one year. The liability for compensated absences increased \$4,817 from the prior year.

Table 5
Outstanding Long-Term Debt

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>Percentage Change</u>
General obligation refunding bonds payable	\$ 2,340,000	\$ 2,615,000	(10.52) %
Three mill notes payable	515,000	615,000	(16.26) %
Obligations under capital leases	0	5,875	(100.00) %
Qualified school construction bonds payable	3,000,000	0	N/A %
Compensated absences payable	188,381	183,564	2.62 %
Total	\$ 6,043,381	\$ 3,419,439	76.74 %

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

CURRENT ISSUES

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

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

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have any questions about this report or need additional financial information, contact the Superintendent's Office of the Smith County School District, P O Box 308, Raleigh, MS 39153.

FINANCIAL STATEMENTS

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Smith County School District
Statement of Net Assets
June 30, 2011

Exhibit A

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 8,965,804
Cash with fiscal agent	89,544
Investments	3,493,019
Due from other governments	401,683
Long-term deferred charge	125,449
Other receivables, net	917
Inventories	35,347
Restricted assets (Note 4)	8,986,011
Non-depreciable capital assets (Note 5)	2,153,318
Depreciable capital assets, net (Note 5)	15,006,091
Total Assets	<u>39,257,183</u>
Liabilities	
Accounts payable and accrued liabilities	1,645,847
Interest payable on long-term liabilities	155,543
Other payables	4,205
Long-term liabilities (Due within one year) (Note 6)	
Capital related liabilities	410,000
Non-capital related liabilities	15,070
Long-term liabilities (Due beyond one year) (Note 6)	
Capital related liabilities	5,445,000
Non-capital related liabilities	173,311
Total Liabilities	<u>7,848,976</u>
Net assets	
Invested in capital assets, net of related debt	12,158,113
Restricted net assets	
Expendable	
School-based activities	7,341,088
Debt service	125,508
Forestry improvements	38,281
Unemployment benefits	44,502
Non-expendable	
Sixteenth section	6,673,430
Unrestricted	<u>5,027,285</u>
Total Net Assets	<u>\$ 31,408,207</u>

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

Smith County School District
Statement of Activities
For the Year Ended June 30, 2011

Exhibit B

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
Governmental Activities				
Instruction	\$ 13,850,519	626,829	2,879,208	(10,344,482)
Support services	7,058,374	454,761	839,328	(5,764,285)
Non-instructional	1,634,163		1,252,511	(381,652)
Sixteenth section	87,427			(87,427)
Interest and other expenses on long-term liabilities	231,524			(231,524)
Total Governmental Activities	<u>22,862,007</u>	<u>1,081,590</u>	<u>4,971,047</u>	<u>(16,809,370)</u>
General Revenues				
Taxes				
				3,632,831
				113,922
Unrestricted grants and contributions				
				13,158,609
				343,006
Unrestricted investment earnings				
				40,006
Sixteenth section sources				
				1,087,046
Other				
				16,483
				<u>18,391,903</u>
Changes in Net Assets				
				<u>1,582,533</u>
Net Assets - Beginning				
				<u>29,825,674</u>
Net Assets - Ending				
				<u>\$ 31,408,207</u>

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

Smith County School District
Balance Sheet - Governmental Funds
June 30, 2011

Exhibit C

	Major Funds					Total Governmental Funds
	General Fund	16th Section Interest Fund	16th Section Principal Fund	Qualified School Construction Bond Fund	Other Governmental Funds	
Assets						
Cash and cash equivalents (Note 2)	\$ 4,609,501	3,581,449	1,514,036	1,161,878	1,396,551	12,263,415
Cash with fiscal agent (Note 2)		89,544	730,139			819,683
Investments (Note 2)	1,558,846	1,934,173	4,958,261		65,023	8,451,280
Due from other governments	336,660				118,141	401,683
Due from other funds (Note 3)	13,335		245,848			131,476
Advances to other funds (Note 3)					35,347	245,848
Inventories						35,347
Total Assets	6,518,342	5,605,166	7,448,284	1,161,878	1,615,062	22,348,732
Liabilities and Fund Balances						
Liabilities						
Accounts payable & accrued liabilities	1,060,399			308,174	277,274	1,645,847
Due to other funds (Note 3)	117,673	468			12,418	130,559
Advances from other funds (Note 3)	245,848					245,848
Other payables	4,205					4,205
Total Liabilities	1,428,125	468	0	308,174	289,692	2,026,459
Fund Balances						
Nonspendable					35,347	35,347
Inventory						6,427,582
Permanent fund principal			6,427,582			245,848
Advances			245,848			
Restricted						
Debt service					281,051	281,051
Capital projects				853,704		853,704
Forestry improvements					38,281	38,281
Unemployment benefits					44,502	44,502
Grant activities					846,589	846,589
Assigned						
School activities	186,076					186,076
Bus acquisitions	218,700					218,700
Facility Improvements	1,336,705	5,604,698	774,854		79,600	1,416,305
Other purposes						6,379,552
Unassigned	3,348,736					3,348,736
Total Fund Balances	5,090,217	5,604,698	7,448,284	853,704	1,325,370	20,322,273
Total Liabilities and Fund Balances	\$ 6,518,342	5,605,166	7,448,284	1,161,878	1,615,062	22,348,732

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

Smith County School District
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2011

Exhibit C-1

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 20,322,273
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets are used in governmental activities and are not financial resources and therefore are not reported in the governmental funds, net of accumulated depreciation of \$9,431,641.	\$17,159,409
Bond issue cost are reported as long-term deferred charges in the Statement of Net Assets, but were initially reported as current period expenditures in the governmental funds.	\$125,449
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.	(\$6,043,381)
Governmental funds recognize interest on long-term debt when it becomes due, however the Statement of Net Assets recognizes interest as it accrues.	<u>(\$155,543)</u>
Total Net Assets - Governmental Activities	<u>\$ 31,408,207</u>

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

Smith County School District
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
For the Year Ended June 30, 2011

Exhibit D

	Major Funds					Total Governmental Funds
	General Fund	16th Section Interest Fund	16th Section Principal Fund	Qualified School Construction Bond Fund	Other Governmental Funds	
Revenues						
Local sources	\$ 4,299,951			5,636	558,792	4,864,379
State sources	12,998,284				555,529	13,553,813
Federal sources	343,006	655,667	337,120		4,579,812	4,922,818
Sixteenth section sources					94,260	1,087,047
Total Revenues	17,641,241	655,667	337,120	5,636	5,788,393	24,428,057
Expenditures						
Instruction	9,854,262				3,558,413	13,412,675
Support services	6,037,233			275,810	1,072,472	7,385,515
Noninstructional services					1,592,596	1,592,596
Sixteenth section		7,760			79,667	87,427
Facilities acquisition and construction				1,876,122		1,876,122
Debt service						
Principal (Note 6)	180,961				199,914	380,875
Interest	118,894				22,035	140,929
Other	935					935
Total Expenditures	16,192,285	7,760	0	2,151,932	6,525,097	24,877,074
Excess (Deficiency) of Revenues Over Expenditures	1,448,956	647,907	337,120	(2,146,296)	(736,704)	(449,017)
Other Financing Sources (Uses)						
Proceeds of general obligation bonds (Note 6)				3,000,000		3,000,000
Insurances loss recoveries	21,155					21,155
Sale of other property	18,488					18,488
Operating transfers in (Note 3)	30,000				685,145	715,145
Operating transfers out (Note 3)	(685,145)				(30,000)	(715,145)
Other financing uses	(23,160)					(23,160)
Total Other Financing Sources (Uses)	(638,662)	0	0	3,000,000	655,145	3,016,483
Net Change in Fund Balances	810,294	647,907	337,120	853,704	(81,559)	2,567,466
Fund Balances						
July 1, 2010	4,279,923	4,956,791	7,111,164	0	1,401,029	17,748,907
Increase in reserve for inventory					5,900	5,900
June 30, 2011	\$ 5,090,217	5,604,698	7,448,284	853,704	1,325,370	20,322,273

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

Smith County School District
 Reconciliation of the Governmental Funds Statement of Revenues, Expenditures
 and Changes in Fund Balances to the Statement of Activities
 For the Year Ended June 30, 2011

Exhibit D-1

	<u>Amount</u>
Net Change in Fund Balance - Governmental Funds	\$ 2,567,466
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchased amounted to \$2,439,084 and the depreciation expense amounted to \$691,685.	1,747,399
Other long term assets are not available to pay for current-period expenditures and therefore are deferred in the governmental funds.	(20,909)
The repayment of the principal on long-term debt consumes current financial resources of governmental funds but has no effect on net assets.	380,875
The issuance of long-term debt provides current financial resources to governmental funds but has no effect on net assets.	(3,000,000)
Governmental funds recognize interest on long-term debt when it becomes due, however, the Statement of Activities recognizes interest as it accrues regardless of when it becomes due.	(89,660)
The sale and/or disposal of capital assets is reported as other financing sources in the governmental funds but is reported as a reduction of net capital assets on the Statement of Activities, along with any gain or loss.	(3,721)
An increase in the inventory reserve is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenses are decreased in the Statement of Activities.	5,900
Expenses for compensated absences reported in the Statement of Activities do not require use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	<u>(4,817)</u>
Changes in Net Assets of Governmental Activities	<u>\$ 1,582,533</u>

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

Smith County School District
Statement of Fiduciary Assets and Liabilities
June 30, 2011

Exhibit E

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents (Note 2)	\$ 143,124
Total Assets	<u>143,124</u>
Liabilities	
Accounts payable and accrued liabilities	27,849
Due to other funds (Note 2)	917
Due to student clubs	114,358
Total Liabilities	<u>\$ 143,124</u>

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

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Smith County School District
Notes to Financial Statements
For the Year Ended June 30, 2011

Note 1 – Summary of Significant Accounting Policies

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

A. Basis of Presentation

In February 2009, the GASB issued GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The fund balance amounts for governmental funds have been reclassified in accordance with GASB Statement No. 54. As a result, amounts previously reported as reserved and unreserved are now reported as nonspendable, restricted, committed, assigned, or unassigned.

B. Financial Reporting Entity

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

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

C. Government-wide and Fund Financial Statements

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

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

1. Invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, and reduced by outstanding balances of bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.
2. Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.
3. Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

Smith County School District
Notes to Financial Statements
For the Year Ended June 30, 2011

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

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

The school district reports the following major governmental funds:

General Fund - This is the school district's primary operating fund. The general fund is used to account for and report all financial resources not accounted for and reported in another fund.

16th Section Interest Fund -- This fund is used to account for the expendable resources generated from the use of sixteenth section lands.

16th Section Principal Fund -- This fund is used to account for the non-expendable resources generated from the sale of non-renewable resources on sixteenth section lands.

Qualified School Construction Bond Fund -- This capital projects fund is used to account for the expenditures associated with construction projects and is financed with proceeds of Qualified School Construction Bonds.

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

The District's fiduciary funds include the following:

Payroll Clearing Fund -- This fund is used as a clearing account for payroll and payroll related transactions.

Accounts Payable Clearing -- This fund is used as a clearing account for non-payroll transactions.

Student Club Accounts -- These funds are used to account for the transaction of student clubs.

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

Special Revenue Funds - Special Revenue 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.

Capital Projects Funds - Capital Projects 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.

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

Smith County School District
Notes to Financial Statements
For the Year Ended June 30, 2011

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

FIDUCIARY FUNDS

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

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

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

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

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

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

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

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

Smith County School District
Notes to Financial Statements
For the Year Ended June 30, 2011

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

E. Encumbrances

An encumbrance system is maintained to account for commitments or assignments resulting from approved purchase orders, work orders and contracts. However, the school district attempts to liquidate all encumbrances at year-end. Encumbrances outstanding at year-end are not reported within committed or assigned fund balances.

F. Assets, liabilities, and net assets/fund balances

1. Cash, Cash equivalents and Investments

Cash and cash equivalents.

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

Investments.

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

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

Investments for the district are reported at fair market value.

2. Receivables and payables

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

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

3. Due from Other Governments

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

Smith County School District
Notes to Financial Statements
For the Year Ended June 30, 2011

4. Inventories and Prepaid Items

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

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

5. Restricted Assets

Certain resources set aside for repayment of debt are classified as restricted assets on the Statement of Net Assets because their use is limited by applicable debt statutes, e.g. Qualified Zone Academy Bond sinking funds. Also, the nonexpendable portion of the Permanent Fund, if applicable, is classified as restricted assets because the 16th Section Principal fund is not available for use by the district except as provided for under state statute for loans from this fund.

6. Capital Assets

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

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

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

The following schedule details the capitalization thresholds:

	Capitalization Policy	Estimated Useful Life
Land	\$ 0	0
Buildings	50,000	40 years
Building improvements	25,000	20 years
Improvements other than buildings	25,000	20 years
Mobile equipment	5,000	5-10 years
Furniture and equipment	5,000	3-7 years

7. Compensated Absences

Employees of the school district accumulate sick leave at a minimum amount as required by state law. A greater amount may be provided by school district policy provided that it does not exceed the provisions for

Smith County School District
Notes to Financial Statements
For the Year Ended June 30, 2011

leave as provided in Sections 25-3-93 and 25-3-95. Some employees are allowed personal leave and/or vacation leave in accordance with school district policy. The district pays for unused leave for employees as required by Section 37-7-307(5), Miss. Code Ann. (1972).

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

8. Long-term Liabilities and Deferred Debt Expense

In the government-wide financial statements, outstanding debt is reported as liabilities. Significant bond issue costs are amortized over the terms of the respective bonds using the straight line method that is not significantly different from the effective interest method.

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

9. Fund Balances

Fund balance for governmental funds is 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.

Governmental fund balance is classified as nonspendable, restricted, committed, assigned or unassigned. Following are descriptions of fund classifications used by the district:

Nonspendable fund balance includes items that cannot be spent. This includes activity that is not in a spendable form (inventories, prepaid amounts, long-term portion of loans/notes receivable, or property held for resale unless the proceeds are restricted, committed, or assigned) and activity that is legally or contractually required to remain intact, such as a principal balance in 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.

Committed fund balance includes amounts that can be used only for the specific purposes pursuant to constraints imposed by a formal action of the School Board, the District's highest level of decision-making authority. This formal action is documented in the board minutes of the School Board. Currently there are no committed fund balances.

Assigned fund balance includes amounts that are constrained by the District's intent to be used for a specific purpose, but are neither restricted nor committed. For governmental funds, other than the general fund, this is the residual amount within the fund that is not restricted or committed. Assignments of fund balance are created by the Superintendent or Business Manager pursuant to authorization established by the School Board.

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, it may be necessary to report a negative unassigned fund balance.

Smith County School District
Notes to Financial Statements
For the Year Ended June 30, 2011

When an expenditure/expense is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) resources are available, it is the District's general policy to use restricted resources first. When expenditures/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 District's general policy to spend committed resources first, followed by assigned amounts, and then unassigned amounts.

Note 2 – Cash and Cash Equivalents, Cash with Fiscal Agents, and Investments

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

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

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

Cash and Cash Equivalents

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$14,032,878 (which includes \$1,769,463 of certificates of deposit with original maturities beyond three months and reported on the Balance Sheet as investments) and \$143,124 respectively.

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

Cash with Fiscal Agents

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$819,683.

Smith County School District
Notes to Financial Statements
For the Year Ended June 30, 2011

Investments

As of June 30, 2011, the district had the following investments.

Investment Type	Rating	Maturities (in years)	Fair Value
Negotiable certificates of deposit	A3	1 to 5	\$ 3,749,017
US Government Bonds	AAA	1 to 5	2,932,800
Nonnegotiable certificates of deposit	N/A	Less than 1	1,769,463
Total			\$ 8,451,280

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

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

Custodial Credit Risk - Investments. Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The district does not have a formal investment policy that addresses custodial credit risk. As of June 30, 2011, the district did not have any investments to which this would apply.

Concentration of Credit Risk. Disclosure of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds and external investment pools, and other pooled investments. As of June 30, 2011, the district had the following investments:

Issuer	Fair Value	% of Total Investments
Trustmark Bank - Negotiable certificates of deposit	\$ 3,749,017	44%
Trustmark Bank - Nonnegotiable certificates of deposit	1,348,229	16%
Magnolia Bank- Nonnegotiable certificates of deposit	421,234	5%

Note 3 – Inter-fund Receivables, Payables and Transfers

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

A. Due From/To Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Other governmental funds	\$ 12,418
	Fiduciary funds	917
Other governmental funds	General Fund	117,673
	Major fund - 16th Section Interest Fund	468
Total		\$ 131,476

Smith County School District
Notes to Financial Statements
For the Year Ended June 30, 2011

The purpose of the more significant inter-fund loans was to eliminate deficit cash balances in certain federal programs as part of normal year-end closing adjustments.

B. Advances To/From Other Funds

Receivable Fund	Payable Fund	Amount
Major fund - 16th Section Principal Fund	General Fund	<u>245,848</u>

Sixteenth section principal loans payable

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

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

Year Ending June 30	Principal	Interest	Total
2012	\$ 45,364	\$ 9,834	\$ 55,198
2013	18,944	8,019	26,963
2014	19,702	7,262	26,964
2015	20,490	6,474	26,964
2016	21,310	5,654	26,964
2017 - 2021	<u>120,038</u>	<u>14,782</u>	<u>134,820</u>
Total	<u>\$ 245,848</u>	<u>\$ 52,025</u>	<u>\$ 297,873</u>

C. Inter-fund Transfers

Transfers Out	Transfers In	Amount
General Fund	Other governmental funds	\$ 685,145
Other governmental funds	General Fund	<u>30,000</u>
Total		<u>\$ 715,145</u>

The transfer out of the General Fund was for the purpose of funding the vocational program and extended school year program in the Other Governmental Funds. The transfer out of the Other Governmental Funds was for indirect cost.

Note 4 – Restricted Assets

The restricted assets represent the cash, cash with fiscal agent and investment balances, totaling \$3,297,611, \$730,139 and \$4,958,261, respectively, which is legally restricted (i.e., Qualified School Construction Bond Fund, 16th Section Principal Fund, Debt Service Funds and similar type funds) and may not be used for purposes that support the district's programs.

Note 5 – Capital Assets

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

Smith County School District
Notes to Financial Statements
For the Year Ended June 30, 2011

	Balance 7/1/2010	Increases	Decreases	Adjustments	Balance 6/30/2011
Governmental Activities:					
<u>Non-depreciable capital assets:</u>					
Land	\$ 266,690				266,690
Construction in progress	10,506	1,876,122			1,886,628
Total non-depreciable capital assets	<u>277,196</u>	<u>1,876,122</u>	<u>0</u>	<u>0</u>	<u>2,153,318</u>
<u>Depreciable capital assets:</u>					
Buildings	18,637,790			52,691	18,690,481
Building improvements	301,302				301,302
Improvements other than buildings	832,181				832,181
Mobile equipment	3,124,198	525,378	(6,860)		3,642,716
Furniture and equipment	994,711	37,584	(61,243)		971,052
Leased property under capital leases	52,691			(52,691)	0
Total depreciable capital assets	<u>23,942,873</u>	<u>562,962</u>	<u>(68,103)</u>	<u>0</u>	<u>24,437,732</u>
<u>Less accumulated depreciation for:</u>					
Buildings	5,554,882	362,481		25,291	5,942,654
Building improvements	123,313	12,053			135,366
Improvements other than buildings	273,183	33,288			306,471
Mobile equipment	1,997,131	226,128	(4,939)		2,218,320
Furniture and equipment	830,538	57,735	(59,443)		828,830
Leased property under capital leases	25,291			(25,291)	0
Total accumulated depreciation	<u>8,804,338</u>	<u>691,685</u>	<u>(64,382)</u>	<u>0</u>	<u>9,431,641</u>
Total depreciable capital assets, net	<u>15,138,535</u>	<u>(128,723)</u>	<u>(3,721)</u>	<u>0</u>	<u>15,006,091</u>
Governmental activities capital assets, net	<u>\$ 15,415,731</u>	<u>1,747,399</u>	<u>(3,721)</u>	<u>0</u>	<u>17,159,409</u>

Depreciation expense was charged to the following governmental functions:

	Amount
Governmental activities:	
Instruction	\$ 437,844
Support services	227,283
Non-instructional	26,558
Total depreciation expense - Governmental activities	<u>\$ 691,685</u>

Construction in progress is composed of:

	Spent to June 30, 2011	Remaining Commitment
Governmental Activities:		
Mize cafeteria	\$ 1,281,812	\$ 205,188
Taylorville classrooms	604,816	194,484
Total construction in progress	<u>\$ 1,886,628</u>	<u>\$ 399,672</u>

Construction projects included in governmental activities are funded with Qualified School Construction Bond Fund.

Note 6 – Long-term Liabilities

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

Smith County School District
Notes to Financial Statements
For the Year Ended June 30, 2011

	Balance 7/1/2010	Additions	Reductions	Balance 6/30/2011	Amounts due within one year
A. General obligation refunding bonds payable	\$ 2,615,000		275,000	2,340,000	285,000
B. Three mill notes payable	615,000		100,000	515,000	125,000
C. Obligations under capital leases	5,875		5,875	0	
D. Qualified school construction bonds payable		3,000,000		3,000,000	0
E. Compensated absences payable	183,564	4,817		188,381	15,070
Total	\$ 3,419,439	3,004,817	380,875	6,043,381	425,070

A. General obligation bonds payable

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
General obligation refunding bonds, series 2002	4.1-4.9	7/15/2002	7/15/2017	\$ 3,870,000	2,340,000

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

Year Ending June 30	Principal	Interest	Total
2012	\$ 285,000	103,554	388,554
2013	300,000	90,605	390,605
2014	315,000	76,610	391,610
2015	330,000	61,610	391,610
2016	350,000	45,455	395,455
2017 – 2018	760,000	37,637	797,637
Total	\$ 2,340,000	415,471	2,755,471

The amount of bonded indebtedness that can be incurred by the school district is limited by Sections 37-59-5 and 37-59-7, Miss. Code Ann. (1972). Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in Section 37-59-7, Miss. Code Ann. (1972) have been met. As of June 30, 2011, the amount of outstanding bonded indebtedness was equal to 1.8% of property assessments as of October 1, 2010. This debt will be retired from the General Fund and the EEF building and Buses Fund (Special Revenue Fund).

B. Three mill notes payable

Debt currently outstanding is as follows:

Smith County School District
Notes to Financial Statements
For the Year Ended June 30, 2011

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Three mill notes, series 2006	3.9	8/1/2007	8/1/2014	\$ 910,000	515,000

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

Year Ending June 30	Principal	Interest	Total
2012	\$ 125,000	17,647	142,647
2013	130,000	12,675	142,675
2014	135,000	7,508	142,508
2015	125,000	2,437	127,437
Total	\$ 515,000	40,267	555,267

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

C. Obligations under capital leases

The obligations under capital lease were paid in full during the fiscal year.

D. Qualified school construction bonds payable

As more fully explained in Note 11, debt has been issued by the school district that qualifies as Qualified School Construction bonds. Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Qualified school construction bonds, series 2010A, 2010B and 2010C	5.5	12/8/2010	8/1/2025	\$ 3,000,000	3,000,000

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

Year Ending June 30	Principal	Interest	Total
2012	\$	106,792	106,792
2013		165,000	165,000
2014		165,000	165,000
2015		165,000	165,000
2016		165,000	165,000
2017 – 2021		825,000	825,000
2022 – 2026	3,000,000	825,000	3,825,000
Total	\$ 3,000,000	2,416,792	5,416,792

Smith County School District
Notes to Financial Statements
For the Year Ended June 30, 2011

This debt will be retired from the QSCB Debt Retirement Fund (Debt Service Fund). The district will make annual payments to a sinking fund maintained by the paying agent (see Note 11). At the end of the term the amount available in the sinking fund will be sufficient to make the balloon payment on the debt.

E. Compensated absences payable

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

Note 7 – Defined Benefit Pension Plan

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

Funding Policy. PERS members are required to contribute 9.00% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The employer's rate for fiscal year ended June 30, 2011 was 12.00% 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 school district's contributions to PERS for the fiscal years ending June 30, 2011, 2010 and 2009 were \$1,528,534, \$1,573,776 and \$1,520,134, respectively, which equaled the required contributions for each year.

Note 8 – Sixteenth Section Lands

Sixteenth section school lands, or lands granted in lieu thereof, constitute property held in trust for the benefit of the public schools. The school board, under the general supervision of the Office of the Secretary of State, has control and jurisdiction of said school trust lands and of all funds arising from any disposition thereof. It is the duty of the school board to manage the school trust lands and all funds arising therefrom as trust property. Accordingly, the board shall assure that adequate compensation is received for all uses of the trust lands, except for uses by the public schools. The following are the future rental payments to be made to the school district for the use of school trust lands. These future rental payments are from existing leases and do not anticipate renewals or new leases.

Year Ending June 30	Amount
2012	\$ 91,903
2013	87,661
2014	72,809
2015	61,330
2016	58,288
2017 – 2021	266,390
2022 – 2026	232,633
2027 – 2031	190,935
Thereafter	203,239
Total	\$ 1,265,188

Smith County School District
Notes to Financial Statements
For the Year Ended June 30, 2011

Note 9 – Contingencies

Federal Grants – The school district 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 the grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowances resulting from the grantor audit may become a liability of the school district.

Note 10 – Risk Management

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

Participation in Public Entity Risk Pool

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 72 school districts and covers risks of loss arising from injuries to the members' employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by Wells Fargo in Portland, Oregon. The funds in the trust account are used to pay any claim up to \$750,000. For a claim exceeding \$750,000, MSBAWCT has insurance which will pay the excess to the statutory amount required by the Mississippi Workers' Compensation Commission Act. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

Note 11 – Qualified School Construction Bonds

Section 1521 of the American Recovery and Reinvestment Act (ARRA) of 2009 provides for a source of capital at no or at nominal interest rates for costs incurred by certain public schools in connection with the construction, rehabilitation or repair of a public school facility or for the acquisition of land where a school will be built. Investors receive Federal income tax credits at prescribed tax credit rates in lieu of interest, which essentially allows state and local governments to borrow without incurring interest costs.

The school district makes annual payments into a sinking fund which is used to payoff the bonds at termination. The current maturity limit of tax credit bonds is 17 years, per the U. S. Treasury Department. Under this program, ten percent of the proceeds must be subject to a binding commitment to be spent within six months of issuance and 100% must be spent within three years. Up to two percent of bond proceeds can be used to pay costs of issuance. The amount on deposit at June 30, 2011 was \$-0-. The amount accumulated in the sinking fund at the end of the seventeen-year period will be sufficient to retire the debt. The following schedule reports the annual deposits to be made to the sinking fund by the school district.

Smith County School District
Notes to Financial Statements
For the Year Ended June 30, 2011

Year Ending June 30	Amount
2012	\$ 36,000
2013	62,000
2014	61,000
2015	76,000
2016	142,500
2017 – 2021	1,161,000
2022 – 2025	1,461,500
Total	\$ 3,000,000

Note 12 - Subsequent Events

Events that occur after the Statement of Net Assets date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Assets date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Assets date require disclosure in the accompanying notes. Management of the School District evaluated the activity of the district through September 26, 2012 and determined that the following subsequent events have occurred requiring disclosure in the notes to the financial statements:

On July 11, 2011, the school board borrowed \$227,300 in 16th Section Principal Funds (classified as an advance) for ten years at 4% interest for the purchase of school buses. On July 21, 2012, the school board borrowed \$550,000 in 16th Section Principal Funds (classified as an advance) for twenty years at 4% interest for a renovation project at the Mize Attendance Center. These advances will be repaid from the General Fund.

Note 13 - Other Disclosures - Long Term Deferred Charge

Upon the issuance of the General Obligation Refunding Bonds, Series 2002, the district incurred bond issue cost of \$292,721. This transaction is reported as a long-term deferred charge on the Statement of Net Assets and will be amortized over the life of the bonds using the straight line method at an annual cost of \$20,909. The unamortized balance was \$125,449 at fiscal year end.

Note 14 – Economic Dependency

The school district is economically dependent on one ad valorem tax payer which represents approximately 21% of the district's ad valorem taxes. In the event of a loss of these ad valorem taxes, the district would encounter an economic hardship.

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REQUIRED SUPPLEMENTAL INFORMATION

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Smith County School District
 Budgetary Comparison Schedule for the General Fund
 For the Year Ended June 30, 2011

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
	Revenues				
Local sources	\$ 4,279,262	4,299,951	4,299,951	20,689	0
State sources	12,376,755	12,998,284	12,998,284	621,529	0
Federal sources	0	343,006	343,006	343,006	0
Total Revenues	<u>16,656,017</u>	<u>17,641,241</u>	<u>17,641,241</u>	<u>985,224</u>	<u>0</u>
Expenditures					
Instruction	10,561,948	9,854,262	9,854,262	707,686	0
Support services	5,959,087	6,037,233	6,037,233	(78,146)	0
Debt service					
Principal	181,101	180,744	180,961	357	(217)
Interest	119,138	119,111	118,894	27	217
Other	2,000	935	935	1,065	0
Total Expenditures	<u>16,823,274</u>	<u>16,192,285</u>	<u>16,192,285</u>	<u>630,989</u>	<u>0</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(167,257)</u>	<u>1,448,956</u>	<u>1,448,956</u>	<u>1,616,213</u>	<u>0</u>
Other Financing Sources (Uses)					
Insurance loss recoveries	0	21,155	21,155	21,155	0
Sale of other property	0	18,488	18,488	18,488	0
Operating transfers in	3,444,300	2,495,121	30,000	(949,179)	(2,465,121)
Operating transfers out	(3,281,633)	(3,150,266)	(685,145)	131,367	2,465,121
Other financing uses	0	(23,160)	(23,160)	(23,160)	0
Total Other Financing Sources (Uses)	<u>162,667</u>	<u>(638,662)</u>	<u>(638,662)</u>	<u>(801,329)</u>	<u>0</u>
Net Change in Fund Balances	<u>(4,590)</u>	<u>810,294</u>	<u>810,294</u>	<u>814,884</u>	<u>0</u>
Fund Balances					
July 1, 2010			<u>4,279,923</u>		
June 30, 2011			<u>5,090,217</u>		

The notes to the required supplemental information are an integral part of this statement.

Smith County School District
 Budgetary Comparison Schedule for the Major Special Revenue Fund - 16th Section Interest Fund
 For the Year Ended June 30, 2011

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues					
Sixteenth section sources	\$ 442,000	655,667	655,667	213,667	0
Total Revenues	<u>442,000</u>	<u>655,667</u>	<u>655,667</u>	<u>213,667</u>	<u>0</u>
Expenditures					
Sixteenth section	6,000	7,760	7,760	(1,760)	0
Total Expenditures	<u>6,000</u>	<u>7,760</u>	<u>7,760</u>	<u>(1,760)</u>	<u>0</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>436,000</u>	<u>647,907</u>	<u>647,907</u>	<u>211,907</u>	<u>0</u>
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balances	<u>436,000</u>	<u>647,907</u>	<u>647,907</u>	<u>211,907</u>	<u>0</u>
Fund Balances					
July 1, 2010			<u>4,956,791</u>		
June 30, 2011			<u>5,604,698</u>		

The notes to the required supplemental information are an integral part of this statement.

Smith County School District
Notes to the Required Supplemental Information
For the Year Ended June 30, 2011

(1) Basis of Presentation.

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

(2) Budget Amendments and Revisions.

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

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SUPPLEMENTAL INFORMATION

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Smith County School District
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2011

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance No.	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Child nutrition cluster:		
School breakfast program	10.553	\$ 466,632
National school lunch program	10.555	1,248,643
Total child nutrition cluster		1,715,275
Total U.S. Department of Agriculture		1,715,275
 <u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company:		
The school and libraries program of the universal service fund	32.XXX	100,394
Total Federal Communications Commission		100,394
 <u>U.S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Career and technical education - basic grants to states	84.048	31,080
Safe and drug-free schools and communities - state grants	84.186	927
Improving teacher quality - state grants	84.367	207,987
School improvement grant	84.377	22,277
Education jobs fund	84.410	621,878
Total		884,149
State fiscal stabilization cluster:		
ARRA - State fiscal stabilization fund - education state grants, recovery act	84.394	832,791
Total state fiscal stabilization cluster		832,791
Title I cluster:		
Title I - grants to local educational agencies	84.010	976,065
Total title I cluster		976,065
Special education cluster:		
Special education - grants to states	84.027	637,038
Special education - preschool grants	84.173	25,891
Total special education cluster		662,929
Total passed-through Mississippi Department of Education		3,355,934
Total U.S. Department of Education		3,355,934
Total for All Federal Awards		\$ 5,171,603

NOTES TO SCHEDULE

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

Smith County School District
 Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
 For the Year Ended June 30, 2011

<u>Expenditures</u>	<u>Total</u>	<u>Instruction and Other Student Instructional Expenditures</u>	<u>General Administrative</u>	<u>School Administration</u>	<u>Other</u>
Salaries and fringe benefits	\$ 16,993,775	\$ 13,130,560	\$ 692,405	\$ 1,325,357	\$ 1,845,453
Other	\$ 7,883,299	\$ 1,304,948	\$ 162,640	\$ 15,026	\$ 6,400,685
Total	<u>\$ 24,877,074</u>	<u>\$ 14,435,508</u>	<u>\$ 855,045</u>	<u>\$ 1,340,383</u>	<u>\$ 8,246,138</u>
Total number of students	<u>2,784</u>				
Cost per student	<u>\$ 8,936</u>	<u>\$ 5,185</u>	<u>\$ 308</u>	<u>\$ 481</u>	<u>\$ 2,962</u>

Notes to the schedule.

Instruction and Other Student Instructional Expenditures - includes the activities dealing directly with the interaction between teachers and students. Included here are the activities of teachers, teachers aides or classroom assistants of any type.

General Administration - includes expenditures for the following functions: Support Services - General Administration and Support Services - Business.

School Administration - includes expenditures for the following function: Support Services - School Administration.

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

Total number of students - the ADA report submission for month 9, which is the final submission for the school year.

OTHER SUPPLEMENTAL INFORMATION

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Smith County School District
Statement of Revenues, Expenditures and Changes in Fund Balances
General Fund
Last Four Years

UNAUDITED

	2011	2010*	2009*	2008*
Revenues				
Local sources	\$ 4,299,951	3,737,460	3,582,337	3,542,397
State sources	12,998,284	13,581,114	14,635,136	15,450,350
Federal sources	343,006	363,291	427,788	401,071
Total Revenues	17,641,241	17,681,865	18,645,261	19,393,818
Expenditures				
Instruction	9,854,262	10,554,395	11,431,329	11,194,787
Support services	6,037,233	6,037,657	6,315,756	6,960,481
Debt service				
Principal	180,961	160,803	150,465	250,090
Interest	118,894	56,587	150,051	153,240
Other	935	1,835	1,835	2,670
Total Expenditures	16,192,285	16,811,277	18,049,436	18,561,796
Excess (Deficiency) of Revenues Over Expenditures	1,448,956	870,588	595,825	832,022
Other Financing Sources (Uses)				
Insurances loss recoveries	21,155	4,976	0	0
Sale of transportation equipment	0	0	0	2,268
Sale of other property	18,488	9,800	0	200
Operating transfers in	30,000	30,000	30,000	147,525
Other financing sources	0	65	14,276	17,122
Operating transfers out	(685,145)	(644,774)	(888,631)	(1,147,247)
Other financing uses	(23,160)	0	0	0
Total Other Financing Sources (Uses)	(638,662)	(599,933)	(844,355)	(980,132)
Net Change in Fund Balances	810,294	270,655	(248,530)	(148,110)
Fund Balances				
July 1, as originally reported	4,279,923	4,009,268	4,112,712	4,226,435
Prior period adjustments	0	0	145,086	34,387
July 1, as restated	4,279,923	4,009,268	4,257,798	4,260,822
June 30	\$ 5,090,217	4,279,923	4,009,268	4,112,712

* Source - Prior year audit reports.

Smith County School District
Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Funds
Last Four Years

	UNAUDITED			
	2011	2010*	2009*	2008*
Revenues				
Local sources	\$ 4,864,379	4,340,880	4,335,290	4,240,693
State sources	13,553,813	14,202,183	15,099,174	15,972,801
Federal sources	4,922,818	4,573,095	3,397,428	3,198,769
Sixteenth section sources	1,087,047	1,186,735	1,017,975	1,032,280
Total Revenues	<u>24,428,057</u>	<u>24,302,893</u>	<u>23,849,867</u>	<u>24,444,543</u>
Expenditures				
Instruction	13,412,675	13,908,645	13,524,802	13,409,660
Support services	7,385,515	6,942,723	7,360,073	7,877,020
Noninstructional services	1,592,596	1,570,679	1,518,392	1,464,406
Sixteenth section	87,427	75,129	99,083	75,119
Facilities acquisition and construction	1,876,122	10,506	47,010	317,640
Debt service				
Principal	380,875	355,717	340,379	360,090
Interest	140,929	82,425	179,496	195,458
Other	935	1,835	1,835	2,670
Total Expenditures	<u>24,877,074</u>	<u>22,947,659</u>	<u>23,071,070</u>	<u>23,702,063</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(449,017)</u>	<u>1,355,234</u>	<u>778,797</u>	<u>742,480</u>
Other Financing Sources (Uses)				
Proceeds of general obligation bonds	3,000,000	0	0	0
Insurances loss recoveries	21,155	4,976	0	166,458
Sale of transportation equipment	0	0	0	2,268
Sale of other property	18,488	9,800	0	200
Operating transfers in	715,145	674,774	928,711	1,590,574
Other financing sources	0	65	14,276	17,122
Operating transfers out	(715,145)	(674,774)	(928,711)	(1,590,574)
Other financing uses	(23,160)	0	0	0
Total Other Financing Sources (Uses)	<u>3,016,483</u>	<u>14,841</u>	<u>14,276</u>	<u>186,048</u>
Net Change in Fund Balances	<u>2,567,466</u>	<u>1,370,075</u>	<u>793,073</u>	<u>928,528</u>
Fund Balances				
July 1, as originally reported	17,748,907	16,379,517	15,338,874	14,382,592
Prior period adjustments	0	0	245,000	34,387
July 1, as restated	<u>17,748,907</u>	<u>16,379,517</u>	<u>15,583,874</u>	<u>14,416,979</u>
Increase (Decrease) in reserve for inventory	<u>5,900</u>	<u>(685)</u>	<u>2,570</u>	<u>(6,633)</u>
June 30	<u>\$ 20,322,273</u>	<u>17,748,907</u>	<u>16,379,517</u>	<u>15,338,874</u>

* Source - Prior year audit reports.

REPORTS ON INTERNAL CONTROLS AND COMPLIANCE

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CHARLES L. SHIVERS

Certified Public Accountant

Post Office Box 2775
Ridgeland, Mississippi 39158

Phone: 601.941.6649
Email: clscpa@bellsouth.net

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

Superintendent and School Board
Smith County School District

I have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Smith County School District as of and for the year ended June 30, 2011, which collectively comprise the district's basic financial statements and have issued my report thereon dated September 26, 2012. I conducted my 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

Management of the school district is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing my audit, I considered the school district's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the school district's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the school district's internal control over financial reporting.

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

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above. However, I identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs that I consider to be significant deficiencies in internal control over financial reporting. [Finding 2011-01, 2011-02 and 2011-03]. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The school district's responses to the findings identified in my audit are described in the accompanying Auditee's Corrective Action Plan. I did not audit the school district's responses and, accordingly, I express no opinion on them.

This report is intended solely for the information and use of the district's school board and management, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Charles L Shivers, CPA

Ridgeland, MS
September 26, 2012

CHARLES L. SHIVERS

Certified Public Accountant

Post Office Box 2775
Ridgeland, Mississippi 39158

Phone: 601.941.6649
Email: clscpa@bellsouth.net

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

Superintendent and School Board
Smith County School District

Compliance

I have audited the compliance of the Smith County School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The district's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the school district's management. My responsibility is to express an opinion on the school district's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the school district's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on the school district's compliance with those requirements.

In my opinion, the School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

The management of the Smith County School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered the school district's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.

Accordingly, I do not express an opinion on the effectiveness of the school district's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of the district's school board and management, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Charles L. Shivers, CPA

Ridgeland, MS
September 26, 2012

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

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CHARLES L. SHIVERS

Certified Public Accountant

Post Office Box 2775
Ridgeland, Mississippi 39158

Phone: 601.941.6649
Email: clscpa@bellsouth.net

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

Superintendent and School Board
Smith County School District

I have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the School District as of and for the year ended June 30, 2011, which collectively comprise the School District's basic financial statements and have issued my report thereon dated September 26, 2012. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

The results of my procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$10,402 of classroom supply funds carried over from previous years.

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

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

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

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

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

Charles L. Shivers, CPA

Ridgeland, MS
September 26, 2012

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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Smith County School District
 Schedule of Findings and Questioned Costs
 June 30, 2011

Section I: Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

- | | | |
|-----|--|---------------|
| 4. | Type of auditor's report issued on compliance for major federal programs: | Unqualified |
| 5. | Internal control over major programs: | |
| | a. Material weaknesses identified? | No |
| | b. Significant deficiency identified that are not considered to be material weaknesses? | None Reported |
| 6. | Any audit finding(s) disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? | No |
| 7. | Federal program identified as major program: | |
| | a. Child nutrition cluster | |
| | CFDA #: 10.553 | |
| | CFDA #: 10.555 | |
| | b. Education jobs fund | |
| | CFDA #: 84.410 | |
| | c. State fiscal stabilization fund - education state grants, recovery act | |
| | CFDA#: 84.394 | |
| 8. | The dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 9. | Auditee qualified as a low-risk auditee? | No |
| 10. | Prior fiscal year audit findings and questioned costs relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section ____ .315(b) of OMB Circular A-133? | No |

Section II: Financial Statement Findings

Significant deficiencies identified that are not considered to be material weaknesses.

Finding 2011-01

CONDITION: The business manager initiates, prepares, approves and enters all journal entries to correct, post, or otherwise cause the proper statement of the account balances and/or classes of transactions. The business manager also reconciles the bank statements to the general ledger.

CRITERIA: An appropriately and properly designed system of accounting controls would have these duties segregated to the greatest extent possible.

CAUSE OF CONDITION: This condition exists due to the limited staff available with adequate fund and governmental accounting knowledge.

Smith County School District
Schedule of Findings and Questioned Costs
June 30, 2011

EFFECT OF CONDITION: This condition could lead to errors being made and those errors not being prevented or detected.

RECOMMENDATION: It is recommended that the duties of the business manager relating to journal entries and bank statement reconciliations be segregated to the greatest extent possible.

Finding 2011-02

CONDITION: The financial accounting software affixes the electronic signature to the checks prepared and run by the accounts payable clerk and the payroll clerk. In substance, these individuals are signing checks prepared and processed by them.

CRITERIA: A well designed system of accounting controls would have someone other than these individuals affixing the electronic signature to their respective prepared checks.

CAUSE OF CONDITION: The cause of this condition is the result of an inadequately designed system.

EFFECT OF CONDITION: This condition could result in the payment of unauthorized claims or payroll.

RECOMMENDATION: It is recommended that the financial accounting software be modified such that someone other than these individuals has rights and access to affixing the electronic signature to the checks.

Finding 2011-03

CONDITION: Activity fund receipts collected at the Taylorsville High School were not being deposited in the bank in a timely manner. An excessive amount of cash was being maintained in the school vault for an excessive period of time before being deposited. The funds were being receipted the same day of the deposit.

CRITERIA: A well designed system of accounting controls would require a minimum amount of cash that could remain on hand without the need for deposit. Monies remitted to the principal's office should be receipted the same day. Significant amounts of cash on hand should be deposited the same day of remittance to the principal's office.

CAUSE OF CONDITION: The cause of this condition is an inadequately designed system of controls over the receipting and depositing of activity fund receipts.

EFFECT OF CONDITION: This condition could result in abuse, misappropriation, misuse or theft of the cash on hand.

RECOMMENDATION: It is recommended that significant amounts of cash remitted to the principal's office be properly receipted and deposited that same day.

Section III: Federal Award Findings and Questioned Costs

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

AUDITEE'S CORRECTIVE ACTION PLAN

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SMITH COUNTY SCHOOL DISTRICT

Boyd N. Hillman, Sr.
P.O. Box 308
Raleigh, Mississippi 39153
601-782-4296
601-782-9895 (Fax)

September 19, 2012

As required by Section 315(c) of OMB Circular A-133, the Smith County School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended June 30, 2011.

Finding 2011-01

Corrective Action Plan

- a. Contact person responsible for corrective action

Name: Lisa Thompson
Title: Business Manager
Phone Number: 601-782-4296

- b. Description of correction action to be taken

The school district will implement adequate internal controls over the process of recording transactions and/or reconciling of the accounts so that these are not performed by the same individual. The district will contract with a third party in order to segregate duties.

- c. Anticipated completion date of corrective action
June 30, 2012

Finding 2011-02

Corrective Action Plan

- a. Contact person responsible for corrective action

Name: Lisa Thompson
Title: Business Manager
Phone Number: 601-782-4296

- b. Description of correction action to be taken

The District will notify software vendor to allow the business manager or superintendent to authorize electronic signature to checks.

- c. Anticipated completion date of corrective action
June 30, 2012

Finding 2011-03

Corrective Action Plan

- a. Contact person responsible for corrective action

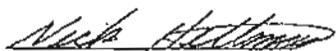
Name: Lisa Thompson
Title: Business Manager
Phone Numer: 601-782-4296

- b. Description of correction action to be taken

The District policy of a limited amount of cash on hand will be followed, and deposits made daily. Monies collected by teachers/persons will be taken to office daily and receipts written and copy given to teachers/persons collecting money.

- c. Anticipated completion date of corrective action
June 30, 2012

Sincerely,


Superintendent of Education