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CITY OF NEWTON, MISSISSIPPI
AUDITED FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

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**CITY OF NEWTON, MISSISSIPPI
AUDITED FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Statement of Net Assets	2
Statement of Activities.....	3
Balance Sheet – Governmental Funds	4
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets.....	5
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	6
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	7
Statement of Net Assets – Proprietary Fund	8
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Fund	9
Statement of Cash Flows – Proprietary Fund.....	10
Notes to Financial Statements.....	11
REQUIRED SUPPLEMENTARY INFORMATION.....	20
Budgetary Comparison Schedule – Budget and Actual (Non-GAAP Basis) General Fund (and each major special revenue fund).....	21
Notes to the Required Supplementary Information.....	22
SUPPLEMENTAL INFORMATION	23
Schedule of Expenditures of Federal Awards	24
SPECIAL REPORTS	25
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Basic Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	26
Independent Auditor's Report on Compliance with Requirements that could have a Direct and Material Effect on each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.....	27
Independent Auditor's Report on Compliance with State Laws and Regulations	29
SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....	30

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

Honorable Mayor, Members of the
Board of Aldermen, and City Clerk
City of Newton, Mississippi

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Newton, Mississippi, as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. My responsibility is to express an opinion 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.


In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Newton, Mississippi, as of September 30, 2010, and the respective changes in financial position and cash flows, where applicable, 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 May 16, 2011, on my consideration of the City of Newton, Mississippi's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

The City of Newton, Mississippi, has not presented Management's Discussion and Analysis that is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board.

The Budgetary Comparison Schedule and corresponding notes are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Newton, Mississippi's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.


Marcus J. Martin
Certified Public Accountant
May 16, 2011

City of Newton
Statement of Net Assets
September 30, 2010

EXHIBIT 1

	Primary Government		
	Governmental	Business-Type	Total
ASSETS	Activities	Activities	
Cash, Cash Equivalents, and Investments	\$ 613,364	\$ 418,617	\$ 1,031,981
Receivables (net of uncollectibles):			
Property Taxes	743,700		743,700
Accounts	45,638	129,826	175,464
Intergovernmental	158,179		158,179
Special Assessments	674		674
			-
Prepaid Items	42,202	11,095	53,297
Internal Balances	(144,678)	144,678	-
Inventory of Supplies, at Cost		25,188	25,188
Capital Assets (net of accumulated depreciation):			
Land	401,642	119,051	520,693
Buildings	1,010,729		1,010,729
Improvements Other Than Buildings	1,527,648		1,527,648
Mobile Equipment	485,716	269,375	755,091
Other Furniture and Equipment	36,851		36,851
Water and Sewer Lines and Facilities		2,862,769	2,862,769
Infrastructure	97,477		97,477
Construction in Progress	1,036,621	285,529	1,322,150
Total Assets	\$ 6,055,763	\$ 4,266,128	\$ 10,321,891
LIABILITIES AND NET ASSETS			
Liabilities:			
Accounts Payable	\$ 106,858	\$ 45,554	\$ 152,412
Other Accrued Liabilities	51,106	3,040	54,146
Customer Deposits		80,630	80,630
Compensated Absences	34,084	5,815	39,899
Deferred Revenue	743,700		743,700
Non-Current Liabilities:			
Due Within One Year	142,485	92,957	235,442
Due in More Than One Year	366,725	883,173	1,249,898
Total Liabilities	1,444,958	1,111,169	2,556,127
Net Assets:			
Invested in Capital Assets, Net of Related Debt	4,087,474	2,560,594	6,648,068
Restricted			-
Unrestricted	523,331	594,365	1,117,696
Total Net Assets	4,610,805	3,154,959	7,765,764
Total Liabilities and Net Assets	\$ 6,055,763	\$ 4,266,128	\$ 10,321,891

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

City of Newton
Statement of Activities
For the Year Ended September 30, 2010

EXHIBIT 2

Function/Programs:	Expenses	Program Revenues			Governmental Activities	Business-Type Activities	Total
		Charges for Services	Operating Grants	Capital Grants and Contributions			
Governmental Activities:							
General Government	\$ 494,825				\$ (494,825)		\$ (494,825)
Public Safety	1,241,420		57,678		(1,183,742)		(1,183,742)
Public Works	853,008	662,424		1,099,982	909,398		909,398
Health and Welfare	60,489		55,700		(4,789)		(4,789)
Culture and Recreation	346,109				(346,109)		(346,109)
Interest on Long-term Debt	35,927				(35,927)		(35,927)
Total Governmental Activities	3,031,778	662,424	113,378	1,099,982	(1,155,994)		(1,155,994)
Business-Type Activities:							
Water and Sewer Activities	844,834	898,335		231,290		284,791	284,791
Total Functions/Programs	\$ 3,876,612	\$ 1,560,759	\$ 113,378	\$ 1,331,272	(1,155,994)	284,791	(871,203)
General Revenues:							
Property Tax					764,175		764,175
Intergovernmental, Not Restricted to Specific Functions/Programs					912,843		912,843
Other Revenue					90,491	26,382	116,873
Transfers					3,333	(3,333)	-
Total General Revenues and Transfers					1,770,842	23,049	1,793,891
Change in Net Assets					614,848	307,840	922,688
Net Assets, Beginning of Year as restated					3,995,957	2,847,119	6,843,076
Net Assets, End of Year					\$ 4,610,805	\$ 3,154,959	\$ 7,765,764

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

**City of Newton
Balance Sheet
Governmental Funds
September 30, 2010**

EXHIBIT 3

	General Fund	Special Revenue	Debt Service	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash, Cash Equivalents and Investments	\$ 232,878	\$ 108,672	\$ 260,557	\$ 11,257	\$ 613,364
Property Tax Receivable	627,500		116,200		743,700
Accounts Receivable - Net	45,638				45,638
Intergovernmental Receivable	156,117	761	1,301		158,179
Special Assessments Receivable	674				674
Prepaid Items	42,202				42,202
Total Assets	\$ 1,105,009	\$ 109,433	\$ 378,058	\$ 11,257	\$ 1,603,757
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts Payable	\$ 104,998	\$ 1,099	\$ 761		\$ 106,858
Other Accrued Liabilities	51,106				51,106
Due to Other Funds	144,678				144,678
Deferred Revenue	627,500		116,200		743,700
Total Liabilities	928,282	1,099	116,961	-	1,046,342
Fund Balances:					
Reserved for:					
Debt Service			261,097		261,097
Capital Expenditures		108,334			108,334
Unemployment Compensation				11,257	11,257
Unreserved:					
Undesignated	176,727				176,727
Total Fund Balances (Deficits)	176,727	108,334	261,097	11,257	557,415
Total Liabilities and Fund Balances	\$ 1,105,009	\$ 109,433	\$ 378,058	\$ 11,257	\$ 1,603,757

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

City of Newton
Reconciliation of Governmental Funds Balance Sheet
to the Statement of Net Assets
September 30, 2010

EXHIBIT 3.1

Fund Balances - Total Governmental Funds	\$	557,415
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Amounts reported for governmental activities in the Statement of
Net Assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported in the funds.

Governmental Capital Assets	\$ 6,684,575	
Less: Accumulated Depreciation	<u>(2,087,891)</u>	4,596,684

Long-term liabilities, including bonds payable, are not due and payable
in the current period and therefore are not reported in the funds.

Bonds Payable	(45,000)	
Notes Payable	(304,715)	
Capital Leases Payable	(159,495)	
Compensated Absences	<u>(34,084)</u>	<u>(543,294)</u>

Net Assets of Governmental Activities	\$	<u>4,610,805</u>
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The notes to the financial statements are an integral part of this statement.

City of Newton
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2010

EXHIBIT 4

	General Fund	Special Revenue	Debt Service	Other Governmental Funds	Total Governmental Funds
REVENUES					
Property Taxes	\$ 662,351		\$ 101,824		\$ 764,175
Licenses and Permits	317,629				317,629
Intergovernmental	1,181,474	935,858	8,871		2,126,203
Charges for Services	290,026				290,026
Fines and Forfeitures	54,769				54,769
Miscellaneous	86,080	173	4,057	181	90,491
Total Revenues	2,592,329	936,031	114,752	181	3,643,293
EXPENDITURES					
Current:					
General Government	458,967				458,967
Public Safety	1,166,459				1,166,459
Public Works	712,068	838,519			1,550,587
Health and Welfare	4,345	56,144			60,489
Culture and Recreation	317,931	1,305			319,236
Debt Service:					
Principal	119,701	27,317	80,000		227,018
Interest and Fiscal Charges	27,028	4,084	4,815		35,927
Total Expenditures	2,806,499	927,369	84,815	-	3,818,683
Excess (Deficiency) of Revenues Over Expenditures	(214,170)	8,662	29,937	181	(175,390)
OTHER FINANCING SOURCES AND (USES)					
Transfers In	7,880		4,583		12,463
Transfers Out			(9,130)		(9,130)
Total Other Financing Sources and (Uses)	7,880	-	(4,547)	-	3,333
Net Change in Fund Balances	(206,290)	8,662	25,390	181	(172,057)
Fund Balances (Deficits) - Beginning	383,017	99,672	235,707	11,076	729,472
Fund Balances (Deficits) - Ending	\$ 176,727	\$ 108,334	\$ 261,097	\$ 11,257	\$ 557,415

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

City of Newton
Reconciliation of the Statement of Revenues,
Expenditures and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended September 30, 2010

EXHIBIT 4.1

Net Change in Fund Balances - Total Governmental Funds	\$ (172,057)
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures.

However, in the Statement of Activities, the cost of these assets is depreciated over their estimated useful lives.

Expenditures for Capital Assets	\$ 820,624	
Less: Current Year Depreciation	<u>(226,653)</u>	593,971

Under the modified accrual basis of accounting used in the Governmental Funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. However, in the Statement of Activities, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. Thus, the change in net assets differs from the change in fund balance by the following item:

Deferred Compensation	<u>(34,084)</u>	(34,084)
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Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

Principal Payments	227,018	
Loan/Lease Proceeds	<u>-</u>	227,018

Change in Net Assets of Governmental Activities	<u>\$ 614,848</u>
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The notes to the financial statements are an integral part of this statement.

City of Newton
Statement of Net Assets
Proprietary Funds
September 30, 2010

EXHIBIT 5

	Enterprise Fund	Enterprise Fund	Enterprise Funds
	Water & Sewer	ARRA	Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 418,603	\$ 14	\$ 418,617
Accounts Receivable	129,826		129,826
Prepaid Items	11,095		11,095
Inventories	25,188		25,188
Due from Other Funds	144,678		144,678
Total Current Assets	729,390	14	729,404
Noncurrent Assets:			
Capital Assets:			
Land	119,051		119,051
Construction in Progress		285,529	285,529
Water and Sewer Lines and Facilities	6,109,986		6,109,986
Machinery and Equipment	589,955		589,955
Less Accumulated Depreciation	(3,567,797)		(3,567,797)
Total Noncurrent Assets	3,251,195	285,529	3,536,724
Total Assets	3,980,585	285,543	4,266,128
LIABILITIES			
Current Liabilities:			
Accounts Payable	45,554		45,554
Customer Deposits	80,630		80,630
Other Accrued Liabilities	3,040		3,040
Bonds Payable	37,373	19,225	56,598
Capital Leases Payable	36,359		36,359
Total Current Liabilities	202,956	19,225	222,181
Noncurrent Liabilities:			
Compensated Absences Payable	5,815		5,815
Long-term Debt	840,190	42,983	883,173
Total Noncurrent Liabilities	846,005	42,983	888,988
Total Liabilities	1,048,961	62,208	1,111,169
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	2,337,273	223,321	2,560,594
Unrestricted	594,351	14	594,365
Total Net Assets	\$ 2,931,624	\$ 223,335	\$ 3,154,959

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

City of Newton
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended September 30, 2010

EXHIBIT 6

	<u>Enterprise Fund</u> <u>Water & Sewer</u>	<u>Enterprise Fund</u> <u>ARRA</u>	<u>Enterprise Funds</u> <u>Total</u>
Operating Revenues:			
Charges for Services	\$ 898,335		\$ 898,335
Total Operating Revenues	898,335	0	898,335
Operating Expenses:			
Personnel Services	214,668		214,668
Contractual Services, Materials, and Supplies	446,051		446,051
Depreciation	122,922		122,922
Total Operating Expenses	783,641	-	783,641
Operating Income (Loss)	114,694	-	114,694
Nonoperating Revenues (Expenses):			
Interest Income	4,744	14	4,758
Interest Expense	(39,569)		(39,569)
Operating grant		223,321	223,321
Miscellaneous Revenue (Expenses)	7,969		7,969
Total Nonoperating Revenues (Expenses)	(26,856)	223,335	196,479
Income (Loss) Before Transfers	87,838	223,335	311,173
Transfers In	9,130		9,130
Transfers Out	(12,463)		(12,463)
Change in Net Assets	84,505	223,335	307,840
Total Net Assets - Beginning as restated	2,847,119	-	2,847,119
Total Net Assets - Ending	\$ 2,931,624	\$ 223,335	\$ 3,154,959

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

City of Newton
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2010

EXHIBIT 7

	Enterprise Fund Water & Sewer	Enterprise Fund ARRA	Enterprise Fund Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers and users	\$ 898,335		\$ 898,335
Cash payments to suppliers	(461,072)		(461,072)
Cash payments to employees	(214,668)		(214,668)
Net cash provided (used) by operating activities	222,595	0	222,595
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds of long-term debt	55,850	62,208	118,058
Acquisition of capital assets	(6,300)	(285,529)	(291,829)
Principal paid on long-term debt	(133,324)		(133,324)
Interest expense	(39,569)		(39,569)
Net cash provided (used) by capital and related financing activities	(123,343)	(223,321)	(346,664)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating grants		223,321	223,321
Other receipts (payments)	(42,567)	14	(42,553)
Transfers from other funds	9,130		9,130
Transfers to other funds	(12,463)		(12,463)
Net cash provided (used) by Noncapital Financing Activities	(45,900)	223,335	177,435
Net increase (decrease) in cash and cash equivalents	53,352	14	53,366
Cash and cash equivalents, October 1	365,251	0	365,251
Cash and cash equivalents, September 30	418,603	14	418,617
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	114,694	0	114,694
Adjustments:			
Depreciation expense	122,922		122,922
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	(7,591)		(7,591)
(Increase) decrease in investments	(398)		(398)
(Increase) decrease in prepaid items	(2,286)		(2,286)
(Increase) decrease in inventory	770		770
Increase (decrease) in accounts payable	(7,787)		(7,787)
Increase (decrease) in other accrued liabilities	2,405		2,405
Increase (decrease) in customer deposits	(160)		(160)
Increase (decrease) in compensated absences payable	26		26
Total adjustments	107,901	-	107,901
Net cash provided (used) by operating activities	\$ 222,595	\$ -	\$ 222,595

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

CITY OF NEWTON, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The City of Newton, Mississippi, was incorporated in 1867. The City operates under a Mayor, Aldermen form of government and provides the following services as authorized by its character: public safety (police and volunteer fire protection), highways and streets, sanitation, culture and recreation, public improvements, planning and zoning, and general administrative services.

B. Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a Statement of Net Assets and a Statement of Activities and fund financial statements, which provide a detailed level of financial information.

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

C. Measurement Focus and Basis of Accounting

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

The City's Proprietary Funds apply all applicable Governmental Accounting Standards Board (GASB) pronouncements and only the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

CITY OF NEWTON, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

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

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

The City reports the following major Governmental Funds:

General Fund – This fund is used to account for all activities of the general government for which a separate fund has not been established.

Special Revenue Fund – This fund accounts for grant income and other proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.

Debt Service Fund – This fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

The City reports the following major Proprietary Funds:

Water and Sewer Fund – This fund accounts for the provision of water and sewer services to customers within the service area.

ARRA Fund - This fund accounts for transaction regarding drinking water system improvement project.

Additionally, the City reports the following fund types:

GOVERNMENTAL FUND TYPES

Special Revenue Funds – These funds are used to account for the proceeds of specific revenue sources (other than for major capital projects) that are legally restricted to expenditures for specified purposes. Special Revenue Funds account for, among others, certain federal grant programs, taxes levied with statutorily defined distributions and other resources restricted as to purpose.

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

Capital Projects Funds – These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities. Such resources are derived principally from proceeds of general obligation bond issues and federal grants. However, the City did not have any active Capital Projects Funds in the current year.

PROPRIETARY FUND TYPES

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

**CITY OF NEWTON, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

D. Capital Assets

Property and equipment purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Pursuant to GASB Statement 34, small governmental entities (less than \$10 million in annual revenue) are not required to retroactively state the values of infrastructure purchased or constructed in prior years. Therefore, infrastructure acquired prior to October 1, 2002 has not been recorded, unless the value was already included in the City's inventory of capital assets.

Depreciation has been provided using the straight-line method over the following estimated useful lives:

Building & Improvements	20-40 Years
Machinery & Equipment	5-10 Years
Other Furniture & Equipment	5-10 Years
Infrastructure	20-50 Years
Water & Sewer Lines & Facilities	5-20 Years

E. Cash and Cash Equivalents

For purposes of the statement of cash flows for the City's Proprietary Fund, all highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents.

F. Allowances for Doubtful Accounts

The City uses the direct write-off method for writing off uncollectible accounts. This is done at the end of each year after reviewing accounts. The difference between this method and the reserve method, which is required by accounting principles generally accepted in the United States of America, is immaterial.

G. Inventories

Inventories for the Proprietary Fund are stated at cost, which approximates market.

H. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed as an extension of formal budgetary integration.

I. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

J. Prepaid Items

Payments made to vendors for services that will benefit periods beyond September 30, 2010 are prepaid items.

K. Sick and Vacation Leave

The City allows for five days sick leave per year, with no maximum accumulation of unused leave. All unused sick leave shall be counted as creditable service for the purpose of the retirement system, but employees will not be paid for accumulated sick leave.

**CITY OF NEWTON, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

Annual leave is accumulated at a rate of one day per month of employment. Annual leave accumulated will be paid to employees upon termination for up to fourteen days' accumulation. Any excess of fourteen days will be counted as creditable service for purposes of the retirement system.

L. Equity Classifications

Government-wide Financial Statements:

Equity is classified as net assets and displayed in three components:

Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings attributable to the acquisition, constructions or improvements of those assets.

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

Unrestricted net assets - All other net assets not meeting the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Financial Statements:

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

Unreserved fund balance represents the amount available for budgeting future operations. Reservations of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose.

M. Surety Bonds

Surety bond coverage meets the legal requirements for the year ended September 30, 2010.

N. Mississippi Municipal Compliance Questionnaire

The Mississippi Municipal Compliance Questionnaire was completed but not entered into the City's Minute Book as prescribed by law.

O. Construction in Progress

Construction in progress represents costs accumulated for various construction and improvement and expansion projects that were not completed at year end.

NOTE 2 – CASH AND INVESTMENTS

The City deposits funds in financial institutions selected by the Board of Aldermen in accordance with state statutes. Various restrictions on deposits are imposed by statutes.

Code Sec. 21-33-323 allows municipalities to invest their surplus funds. The City may only invest in direct obligations of the United States, or the State of Mississippi, or certain local Mississippi governments. They may also invest in certificates of deposit from municipal depositories or State of Mississippi depositories located within the municipality. There is no authority to invest in mutual funds or brokerage firm accounts.

All investments of the City throughout the year and at year-end were interest bearing time certificates of deposit which are recorded at cost plus interest earned at September 30, 2010. The market value equals the carrying amount of these investments.

CITY OF NEWTON, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

The collateral for public entities' deposits in financial institutions is now 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 City'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 Depository Insurance Corporation.

The City's deposits, which include all cash accounts and certificates of deposits, with a carrying value of \$1,031,981 and a bank balance of \$1,064,169 at September 30, 2010, are covered by federal depository insurance and by deposits held in banks that are members of the State of Mississippi's Collateral Pool.

NOTE 3 – CAPITAL ASSETS

The following is a summary of changes in capital assets during the year ended September 30, 2010.

	Beginning Balance	Increases	Decreases	Adjustments	Ending Balance
Governmental Activities:					
<i>Capital assets not being depreciated:</i>					
Land	\$ 401,642				\$ 401,642
Construction in progress	216,647	819,974			1,036,621
Total capital assets not being depreciated	618,289	819,974	-	-	1,438,263
<i>Capital assets being depreciated:</i>					
Buildings	1,541,966				1,541,966
Improvements other than buildings	1,801,578				1,801,578
Mobile equipment	1,616,696	650			1,617,346
Other furniture and equipment	152,057				152,057
Infrastructure	133,365				133,365
Total capital assets being depreciated	5,245,662	650	-	-	5,246,312
<i>Less accumulated depreciation for:</i>					
Buildings	(503,877)	(27,360)			(531,237)
Improvements other than buildings	(198,746)	(75,184)			(273,930)
Mobile equipment	(1,024,118)	(107,512)			(1,131,630)
Other furniture and equipment	(103,277)	(11,929)			(115,206)
Infrastructure	(31,220)	(4,668)			(35,888)
Total accumulated depreciation	(1,861,238)	(226,653)	-	-	(2,087,891)
Total capital assets being depreciated, net	3,384,424	(226,003)	-	-	3,158,421
Governmental activities capital assets, net	\$ 4,002,713	\$ 593,971	\$ -	\$ -	\$ 4,596,684

Depreciation expense was charged to the following functions:

Governmental Activities:	
General Government	\$ 21,543
Public Safety	67,772
Public Works	114,215
Culture and Recreation	23,123
Total Depreciation Expense	<u>\$ 226,653</u>
Business-type Activities:	
Water and Sewer	<u>\$ 122,922</u>

CITY OF NEWTON, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

	Beginning Balance	Increases	Decreases	Adjustments	Ending Balance
Business Type Activities:					
<i>Capital assets not being depreciated:</i>					
Land	\$ 119,051				\$ 119,051
Construction in progress	56,723	285,529		(56,723)	285,529
Total capital assets not being depreciated	175,774	285,529	-	(56,723)	404,580
<i>Capital assets being depreciated:</i>					
Water, sewer lines, and facilities	6,109,986				6,109,986
Machinery and equipment	583,655	6,300			589,955
Total capital assets being depreciated	6,693,641	6,300	-	-	6,699,941
<i>Less accumulated depreciation for:</i>					
Water, sewer lines, and facilities	(3,181,441)	(65,776)			(3,247,217)
Machinery and equipment	(263,434)	(57,146)			(320,580)
Total accumulated depreciation	(3,444,875)	(122,922)	-	-	(3,567,797)
Total capital assets being depreciated, net	3,248,766	(116,622)	-	-	3,132,144
Governmental activities capital assets, net	\$ 3,424,540	\$ 168,907	\$ -	\$ (56,723)	\$ 3,536,724

Adjustments Column reflects correction for prior year transaction improperly recorded as construction in progress.

NOTE 4 – LONG-TERM DEBT

Debt outstanding as of September 30, 2010, consisted of the following:

Governmental Activities:

A. General Obligation Bonds

Description	Original Issue	Int. Rate	Balance Outstanding 10/01/09	New Issue	Bonds Redeemed	Balance Outstanding 9/30/10	Current Maturity
1992 Fire Station	\$ 225,000	6.25	\$ 60,000	\$	\$ (15,000)	\$ 45,000	\$ 15,000
2000 Street Paving	600,000	5.50	80,000		(80,000)		
	<u>\$ 825,000</u>		<u>\$ 140,000</u>	<u>\$</u>	<u>\$ (95,000)</u>	<u>\$ 45,000</u>	<u>\$ 15,000</u>

B. Capital Leases

Description	Original Issue	Int. Rate	Balance Outstanding 10/01/09	New Issue	Bonds Redeemed	Balance Outstanding 9/30/10	Current Maturity
Fire Truck	200,000	3.29	135,218		(19,299)	115,919	20,249
2007 Crown Vic	24,000	4.19	1,041		(1,041)		
2008 Trail Blazer	18,303	4.01	4,714		(4,714)		
Int, 4300 W/Boom	74,936	3.63	43,483		(18,889)	24,594	19,586
2008 Ford ¾ Ton	22,530	3.15	13,399		(8,230)	5,169	5,169
2009 Crown Vic	23,212	3.24	21,364		(7,551)	13,813	7,791
	<u>\$ 362,981</u>		<u>\$ 219,219</u>	<u>\$</u>	<u>\$ (59,724)</u>	<u>\$ 159,495</u>	<u>\$ 52,795</u>

CITY OF NEWTON, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

C. Other Loans

Description	Original Issue	Int. Rate	Balance Outstanding 10/01/09	New Issue	Bonds Redeemed	Balance Outstanding 9/30/10	Current Maturity
1997 Fire Truck CAP Loan	\$ 151,778	3.70	\$ 29,573	\$	\$ (12,317)	\$ 17,256	\$ 12,744
NCB Unsecured	46,000	4.10	27,600		(9,200)	18,400	9,200
NCB Bldg.	81,124	4.10	69,836		(4,484)	65,352	4,671
NCB BLDG	250,000	3.85	250,000		(46,293)	203,707	48,075
	<u>\$ 528,902</u>		<u>\$ 377,009</u>	<u>\$</u>	<u>\$ (72,294)</u>	<u>\$ 304,715</u>	<u>\$ 74,690</u>

Business-type Activities:

A. General Obligation Bonds

Description	Original Issue	Int. Rate	Balance Outstanding 10/01/09	New Issue	Bonds Redeemed	Balance Outstanding 9/30/10	Current Maturity
Series 2003 RUS Water & Sewer Revenue	\$ 800,000	4.25	\$ 748,459	\$	\$ (12,773)	\$ 735,686	\$ 13,319
**1983 Water & Sewer System	<u>372,400</u>	5.00	<u>54,346</u>		<u>(30,292)</u>	<u>24,054</u>	<u>24,054</u>
	<u>\$1,172,400</u>		<u>\$ 802,805</u>	<u>\$</u>	<u>\$ (43,065)</u>	<u>\$ 759,740</u>	<u>\$ 37,373</u>

** Beginning balance was reduced from prior year amount of \$68,179 to \$54,346 to correct principal payment posting classification in prior year.

B. Capital Leases

Description	Original Issue	Int. Rate	Balance Outstanding 10/01/09	New Issue	Bonds Redeemed	Balance Outstanding 9/30/10	Current Maturity
Excavator	\$ 108,615	3.95	\$ 63,918	\$	\$ (63,918)	\$	\$
Excavator – ref.	55,850	3.55		55,850	(4,358)	51,492	13,386
Caterpillar	89,025	4.39	61,066		(11,702)	49,364	12,226
Caterpillar D3G	<u>82,083</u>	4.44	<u>63,607</u>		<u>(10,281)</u>	<u>53,326</u>	<u>10,747</u>
	<u>\$ 335,573</u>		<u>\$ 188,591</u>	<u>\$ 55,850</u>	<u>\$ (90,259)</u>	<u>\$ 154,182</u>	<u>\$ 36,359</u>

C. Other Loans

Description	Original Issue	Int. Rate	Balance Outstanding 10/01/09	New Issue	Bonds Redeemed	Balance Outstanding 9/30/10	Current Maturity
Water System Improvement	\$ 62,208	1.95	\$	\$ 62,208	\$	\$ 62,208	\$ 19,225

CITY OF NEWTON, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

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

Year	<u>Governmental-type Activities</u>		<u>Business-type Activities</u>	
	Principal	Interest	Principal	Interest
2011	\$ 142,485	\$ 20,087	\$ 92,957	\$ 51,256
2012	115,774	14,482	109,610	49,119
2013	96,197	9,838	69,726	34,681
2014	80,538	5,909	24,994	29,562
2015	30,038	2,611	15,782	28,546
2016-2020	35,358	5,191	89,782	131,858
2021-2025	8,820	262	110,998	110,642
2026-2030			137,227	84,413
2031-2035			169,654	51,986
2036-2040			155,400	13,444
2041-2045				
	<u>\$ 509,210</u>	<u>\$ 58,380</u>	<u>\$ 976,130</u>	<u>\$ 585,507</u>

Legal Debt Margin – The amount of debt, excluding specific exempted debt, that can be incurred by the City is limited by state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the City, according to the then last completed assessment for taxation. However, the limitation is increased to 20% whenever a city issues bonds to repair or replace washed out or collapsed bridges on the public roads of the City. As of September 30, 2010, the amount of outstanding debt was within appropriate limits.

NOTE 5 – INDUSTRIAL REVENUE BOND

Long-term debt does not include amounts for Industrial Revenue Bonds issued under authority § 57-3-1 through § 57-3-33 of the Mississippi Code of 1972. Industrial Revenue Bonds are issued to provide funds for direct financing leases to aid industries which manufacture, process or assemble agricultural or manufactured products or any industry engaged in storing or warehousing products of agriculture, mining, or industry. These leases are administered by trustees with terms, which provide for transfer of title of the property after all bonds are paid in full.

NOTE 6 – RISK MANAGEMENT

The City has purchased commercial insurance policies for various risks of loss related to torts; theft, damage or destruction of assets; errors or omissions; injuries to employees; or acts of God. Payments of premiums for these policies are recorded as expenditures/expenses. Insurance settlements have not exceeded insurance coverage in any of the past three years. There were no significant reductions in coverage compared to the prior year.

NOTE 7 – PROPERTY TAXES

Property taxes on real and personal property, exclusive of automobiles, become an enforceable lien on January 1, for the preceding year. Taxes are levied before September 15, and are due before February 1. The City bills and collects its own property taxes, except for automobile ad valorem. The City's levy on automobile taxes is collected by Newton County and remitted to the City monthly. Newton County also remits to the City a pro-rata share of road and bridge taxes collected by them. The City levies taxes based on 15% of fair value of property. The City may levy taxes as necessary to meet bonded debt retirement. Tax millage levies for the current fiscal year were as follows:

<u>Fund</u>	<u>Millage</u>	<u>Purpose</u>
General Fund	27	General
Debt Service Fund	5	Debt Service
	<u>32</u>	

CITY OF NEWTON, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 8 – DEFINED BENEFIT PENSION PLAN

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

Funding Policy. PERS members are required to contribute 9% of their annual covered salary, and the City is required to contribute at an actuarially determined rate. The rate at September 30, 2010 was 12% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The City's contributions (employer share only) to PERS for the years ending September 30, 2010, 2009 and 2008 were \$164,096, \$162,184, and \$165,531 respectively, equal to the required contributions for each year.

NOTE 9 – INTERFUND TRANSACTIONS

Interfund transfers for the year ended September 30, 2010 consisted of the following:

Transfers To	Transfers From	Total
General Fund	Water & Sewer	7,880
Water & Sewer	Debt Service	9,130
Debt Service	Water & Sewer	4,583
		<u>\$21,593</u>

This transfer was made for general operating purposes.

Interfund loans for the year ended September 30, 2010 consisted of the following:

Due to (Payable) Other Funds	Due from (Receivable) Other Funds	Total
General Fund	Water & Sewer	144,678
		<u>\$ 144,678</u>

This interfund loan was set up to offset cash flow problems.

NOTE 10 – Subsequent Events

Subsequent to September 30, 2010, the following debt obligations were authorized:

On October 19, 2010 a loan agreement for construction of a pollution control facility was accepted. The amount of \$1,221,680 will be paid by 240 monthly payments of \$6,100 @ 1.75% made to the Water Pollution Control Revolving Loan Fund.

On January 4, 2011, lease purchase financing was approved for a tractor and boom with Bancorp South. The amount of \$82,000 will be paid by 72 monthly payments of \$1,255.81 @ 3.27%.

REQUIRED SUPPLEMENTARY INFORMATION

City of Newton
Budgetary Comparison Schedule -
Budget and Actual (Non-GAAP Basis)
General Fund (and each major special revenue fund)
For the Year Ended September 30, 2010

	General Fund				Special Revenue Fund			
	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES								
Property taxes	\$ 605,000	\$ 605,000	\$ 592,570	\$ (12,430)				\$ -
Licenses, commissions and other revenue	337,500	337,500	317,629	(19,871)				-
Fines and forfeitures	84,000	84,000	54,769	(29,231)				-
Intergovernmental revenues	1,224,500	1,224,500	1,269,261	44,761	31,000	31,000	935,922	904,922
Charges for services	276,000	276,000	269,684	(6,316)				-
Miscellaneous revenues	152,000	152,000	138,300	(13,700)			173	173
Total Revenues	2,679,000	2,679,000	2,642,213	(36,787)	31,000	31,000	936,095	905,095
EXPENDITURES								
Current:								
General government	496,000	496,000	496,296	(296)				-
Public safety	1,353,146	1,353,146	1,166,538	186,608	3,066	3,066	838,519	3,066
Public works	1,043,800	1,043,800	715,358	328,442			56,144	(838,519)
Health and Welfare			4,345	(4,345)			1,305	(56,144)
Culture and recreation	364,650	364,650	314,753	49,897	15,000	15,000		13,695
Economic development and assistance				-				
Debt service principal, interest, and fees					37,200	37,200	31,401	5,799
Total Expenditures	3,257,596	3,257,596	2,836,139	421,457	55,266	55,266	927,369	(872,103)
Excess of Revenues over (under) Expenditures	(578,596)	(578,596)	(193,926)	384,670	(24,266)	(24,266)	8,726	32,992
OTHER FINANCING SOURCES (USES)								
Other financing sources	30,000	30,000		(30,000)				-
Other financing uses								-
Total Other Financing Sources and	30,000	30,000	-	(30,000)	-	-	-	-
Net Change in Fund Balance	(548,596)	(548,596)	(193,926)	354,670	(24,266)	(24,266)	8,726	32,992
Fund Balances - Beginning	550,000	550,000	383,017	(166,983)	40,000	40,000	99,672	59,672
Fund Balances - Ending	\$ 1,404	\$ 1,404	\$ 189,091	\$ 187,687	\$ 15,734	\$ 15,734	\$ 108,398	\$ 92,664

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

City of Newton, Mississippi
Notes to the Required Supplementary Information
For the Year Ended September 30, 2010

A. Budgetary Information.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

Prior to September 1, the Mayor submits to the Board of Aldermen a proposed operating budget for the fiscal year commencing the following October. The operating budget includes proposed expenditures and the means of financing them. A public hearing is conducted at the City Hall to obtain taxpayer comments. Prior to October 1, the budget is legally enacted through passage of an ordinance. All budget amendments are approved by the board and are in compliance with the municipal law as determined by the Mississippi Code.

The Board of Aldermen has not taken any official action to authorize anyone to transfer budgeted amounts between departments within any fund. Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Fund. Formal budgetary control is not employed for Debt Service Funds because effective budgetary control is alternatively achieved through general obligation bond indenture provisions.

Mississippi law requires that municipalities budget governmental funds on a modified-cash basis. Claims that have been incurred prior to the end of the year and that are paid within 30 days are recorded under the accrual basis. Prior year claims that are paid after 30 days revert to the cash basis. All revenue is accounted for under the cash basis. Capital project funds, however, are budgeted per-project and do not lapse at year-end. The required budgetary basis is therefore not considered a generally accepted accounting principle.

B. Basis of Presentation.

The Budgetary Comparison Schedule - Budget and Actual (Non-GAAP Basis) presents the original legally adopted budget, the final legally adopted budget, actual amounts on a budgetary (non GAAP) basis and variances between the final budget and the actual amounts. The schedule is presented for the General Fund and each major special revenue fund.

C. Budget/GAAP Reconciliation.

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

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

The following schedule reconciles the budgetary basis schedules to the GAAP basis financial statements for the General Fund and each major special revenue fund:

	Governmental Fund Types	
	General Fund	Special Revenue Fund
Budget (Cash Basis)	\$ (193,926)	8,726
Increase (Decrease)		
Net adjustments for revenue accruals	(42,004)	(64)
Net adjustments for expenditure accruals	29,640	
GAAP Basis	\$ (206,290)	8,662

SUPPLEMENTAL INFORMATION

CITY ON NEWTON, MISSISSIPPI
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2010

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
<u>U.S. Department of Housing and Urban Development</u>			
Passed-through the Mississippi Development Authority			
Home Investment Partnerships Program	14.239	M07-SG-280-928	<u>55,700</u>
<u>U.S. Department of Justice</u>			
Passed-through the Mississippi Department of Public Safety			
Crime Victim Assistance	16.575	O9XA3151102	28,930
Passed-through the Mississippi Department of Public Safety			
Project Safe Neighborhood PSN	16.609	PSN-O7PS3151	18,671
Passed-through the Mississippi Department of Public Safety			
Enforcing Underage Drinking Laws Program	16.727	IOUA3151101	<u>10,077</u>
Total U.S. Department of Justice			<u>57,678</u>
<u>U.S. Department of Transportation</u>			
Federal Aviation Administration			
Airport Improvement Program*	20.106	AIP 28-0054-008-2009	704,936
Airport Improvement Program*	20.106	AIP 28-0054-009-2009	<u>109,517</u>
Total U.S. Department of Transportation			<u>814,453</u>
<u>Environmental Protection Agency</u>			
Passed-through the Mississippi State Department of Health			
Capitalization Grants for Drinking Water State Revolving Fund	66.648	280140-01-2/L51000-01-2	<u>285,529</u>
Total Expenditures of Federal Awards			<u>1,213,360</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note A – Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards is prepared on the modified accrual basis of accounting

* Denotes major federal award program.

SPECIAL REPORTS

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

Honorable Mayor, Members of the
Board of Aldermen, and City Clerk
Newton, Mississippi

I have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Newton, Mississippi, as of and for the year ended September 30, 2010, and have issued my report thereon dated May 16, 2011. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing my audit, I considered the City of Newton, Mississippi'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 City's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City's internal control over financial reporting.

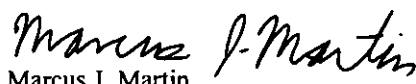
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination 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 the 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 as 10-1, 10-2, 10-3, and 10-4 that I consider to be significant 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 a part of obtaining reasonable assurance about whether the City of Newton, Mississippi'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*.

This report is intended solely for the information and use of management 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. However, this report is a matter of public record and its distribution is not limited.


Marcus J. Martin
Certified Public Accountant
May 16, 2011

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

Honorable Mayor, Members of the
Board of Aldermen, and City Clerk
Newton, Mississippi

Compliance

I have audited the compliance of the City of Newton, Mississippi 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 direct and material effect on its major federal program for the year ended September 30, 2010. The City of Newton, Mississippi's major federal program is 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 its major federal program is the responsibility of the City of Newton, Mississippi's management. My responsibility is to express an opinion on the City of Newton, Mississippi's compliance based on my audit.

I conducted my audit 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 the major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Newton, Mississippi's compliance with those requirements and 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 of the City of Newton, Mississippi's compliance with those requirements.

In my opinion the City of Newton, Mississippi, complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2010.

Internal Control Over Compliance

The management of the City of Newton, Mississippi, 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 City of Newton, Mississippi's internal control over compliance with the requirements that could have a direct and material effect on its 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 city's internal control over compliance.

A deficiency in a city's 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 the material noncompliance requirement of a federal program will not be prevented, or detected, 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 management of the City of Newton, Mississippi, and 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. However, this report is a matter of public record and its distribution is not limited.



Marcus J. Martin
Certified Public Accountant
May 16, 2011

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

Honorable Mayor, Members of the Board of
Aldermen, and City Clerk
City of Newton, Mississippi


I have audited the basic financial statements of the City of Newton, Mississippi, as of and for the year ended September 30, 2010, and have issued my reported dated May 16, 2011. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 state laws and regulations. However, providing an opinion on compliance with state laws and regulations was not an objective of my audit and, accordingly, I do not express such an opinion.

The procedures cannot and do not provide absolute assurance that all state legal requirements have been complied with. Also, my consideration of internal control would not necessarily disclose all matters within the internal control that might be weaknesses. In accordance with Section 7-7-211, Miss. Code Ann. (1972), the Office of the State Auditor, when deemed necessary, may conduct additional procedures and tests of transactions for this or other fiscal years to ensure compliance with legal requirements.

The results of those procedures and my audit of the general purpose financial statements disclosed no material instances of noncompliance with state laws and regulations.

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


Marcus J. Martin
Certified Public Accountant
May 16, 2011

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CITY OF NEWTON
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2010

Section 1: Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

- | | |
|--|-------------|
| 4. Internal control over major programs: | |
| a. Material weakness identified? | No |
| b. Significant deficiency identified that is not considered to be a material weakness? | No |
| 5. Type of auditor's report issued on compliance for major federal programs: | Unqualified |
| 6. Any audit findings(s) reported as required by Section __.510(a) of Circular A-133 | No |
| 7. Federal programs identified as major programs: | |
| a. Airport Improvement Program, CFDA # 20.106 | |
| 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 2: Financial Statement Findings

Significant Deficiencies Not Considered to be Material Weaknesses

10-1 Finding

Controls were not in use to ensure that all transactions are recorded in the accounting records. Various types of transactions including purchase of fixed assets, incurrence of debt, and interfund loan activity were not always recorded in the accounting records. Appropriate journal entries to reflect some of these transactions were not made by the City requiring numerous audit adjustments. This could result in misstatements in the accounting records and subsequently the financial statements.

Recommendation

The City should establish control procedures to ensure that all transactions are properly recorded in the accounting records, by making appropriate journal entries.

CITY OF NEWTON
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2010

10-2 Finding

Controls were not in use to ensure that all revenues received through the State of Mississippi were placed into the appropriate fund. Large amounts of revenues were wired by the State to the City of Newton's special revenue fund for subsequent transfer to the appropriate fund. These revenues were not always recorded properly as revenue items necessitating numerous adjusting entries. This weakness could result in misstatements in the accounting records and subsequently the financial statements.

Recommendation

The City should establish control procedures to ensure that all revenues wired from the State to the special revenue fund are properly recorded in the accounting records and are timely transferred to the appropriate fund.

10-3 Finding

Controls were not in use requiring accounting personnel to maintain various subsidiary records to establish necessary controls over all transactions. There were no subsidiary records in the following areas:

- a. Investments – The City does not maintain a list of investments that allows them to identify amounts invested at any point in time. To determine investment amounts, statements have to be reviewed and/or calls to entity holding investment have to be made.
- b. Fixed assets – The City does not maintain a current list of fixed assets that allows them to identify fixed asset totals at any point in time. Each City department head maintains their individual asset listing, but no overall record is maintained to allow proper oversight of assets.
- c. Debts – The City does not maintain a list of outstanding debt obligations, including bonds, notes, leases or any other type of debt obligation the City incurs. City personnel are not able to determine exactly what the amount of debt is at any point in time. Calls to debt holders are sometimes necessary to determine what is owed. Without such debt records there is a possibility that some debt holders could be overpaid.
- d. Interfund loans - The City does not maintain a record of loans between City funds allowing appropriate control over said interfund loans. This could cause loans to be forgotten or not be repaid in a timely manner.

Recommendation

The City should establish control procedures by developing and maintaining the subsidiary records mentioned above

10-4 Finding

Controls were not in use to ensure that all transactions were recorded correctly in the accounting records. During the course of audit procedures numerous classification errors were noted requiring many audit adjustments. This weakness could result in misstatements in the accounting records and subsequently the financial statements.

Recommendation

The City should establish control procedures to ensure that all transactions are recorded with the proper classification in the accounting records.

Section 3: Federal Award Findings and Questioned Costs

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