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**CITY OF NEWTON, MISSISSIPPI**  
**AUDITED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

**RECEIVED**  
**OCT 12 2017**

**CITY OF NEWTON, MISSISSIPPI  
AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

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# HERZOG CPA COMPANY, PLLC

Angela T. Herzog, CPA

12 98 Place Boulevard • P.O. Box 17986 • Hattiesburg, Mississippi 39404

Phone 601-271-8860 • Fax 601-271-8921

1020 Northpark Drive • Ridgeland, Mississippi 39157

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## **INDEPENDENT AUDITORS' REPORT**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Newton, Mississippi, as of and for the year ended September 30, 2016 and the related notes to the financial statements, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents.

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

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

### **Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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### Basis for Qualified Opinion on the Governmental and Business-type Activities

As discussed in Note 3 to the financial statements, management has not maintained adequate subsidiary records of capital assets. Accounting principles generally accepted in the United States of America require that assets be capitalized and depreciated, which would increase the assets, net position, and expenses of the governmental activities. The amount by which this departure would affect the assets, net position, and expenses of the governmental activities and business-type activities is not reasonably determinable.

### Qualified Opinion

In our opinion, because of the effects of the matter discussed in the previous section, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental and business-type activities of the City of Newton, Mississippi, as of September 30, 2016, and the changes in financial position thereof for the year then ended.

### Unmodified Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of the City of Newton, Mississippi, as of September 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Matters

#### *Required Supplementary Information*

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

### Omission of Required Supplementary Information

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

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Supplementary and Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2017, on our consideration of the City of Newton, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Newton, Mississippi's internal control over financial reporting and compliance.

*Herzog CPA Company, PLLC*

Herzog CPA Company, PLLC  
September 8, 2017

**CITY OF NEWTON, MISSISSIPPI  
STATEMENT OF NET POSITION  
SEPTEMBER 30, 2016**

**EXHIBIT 1**

<b>Assets</b>	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
Cash and cash equivalents	\$ 959,059	\$ 332,197	\$ 1,291,256
Receivables (net of uncollectibles):			
Property taxes	880,000	-	880,000
Accounts	135,343	116,970	252,313
Fines	38,131	-	38,131
Prepaid items	12,132	5,608	17,740
Internal balances	(1,089,111)	1,089,111	-
Inventory of supplies, at cost	-	25,188	25,188
Capital assets:			
Land	618,592	119,051	737,643
Construction in progress	-	164,184	164,184
Buildings	1,541,966	-	1,541,966
Improvements other than buildings	2,251,211	-	2,251,211
Mobile equipment	1,918,438	997,788	2,916,226
Other furniture and equipment	161,374	-	161,374
Water and sewer lines and facilities	-	8,185,026	8,185,026
Infrastructure	3,239,481	-	3,239,481
Less: accumulated depreciation	(3,735,462)	(5,123,875)	(8,859,337)
Net capital assets	5,995,600	4,342,174	10,337,774
<b>Total Assets</b>	<b>6,931,154</b>	<b>5,911,248</b>	<b>12,842,402</b>
<b>Deferred Outflows of Resources</b>			
Deferred outflows related to pension	430,732	49,802	480,534
<b>Total Deferred Outflows of Resources</b>	<b>430,732</b>	<b>49,802</b>	<b>480,534</b>
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 7,361,886</b>	<b>\$ 5,961,050</b>	<b>\$13,322,936</b>

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

**CITY OF NEWTON, MISSISSIPPI  
STATEMENT OF NET POSITION  
SEPTEMBER 30, 2016**

**EXHIBIT 1**

**Page 2**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Liabilities and Net Position</b>			
Accounts payable	\$ 111,072	\$ 80,704	\$ 191,776
Other accrued liabilities	53,271	-	53,271
Customer deposits	-	101,880	101,880
Long-term liabilities:			
Due within one year:			
Capital debt	231,838	258,953	490,791
Due in more than one year:			
Non-capital debt	37,691	5,562	43,253
Capital debt	1,631,380	2,158,727	3,790,107
Net Pension Liability	3,522,468	407,281	3,929,749
<b>Total Liabilities</b>	<b>5,587,720</b>	<b>3,013,107</b>	<b>8,600,827</b>
<b>Deferred Inflows of Resources</b>			
Deferred inflows related to pension	6,671	771	7,442
Property tax for future reporting period	880,000	-	880,000
<b>Total Deferred Inflows of Resources</b>	<b>886,671</b>	<b>771</b>	<b>887,442</b>
<b>Net Position:</b>			
Net investment in capital assets	4,132,382	1,924,494	6,056,876
Unrestricted	(3,244,887)	1,022,678	(2,222,209)
<b>Total Net Position</b>	<b>887,495</b>	<b>2,947,172</b>	<b>3,834,667</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Net Position</b>	<b>\$ 7,361,886</b>	<b>\$ 5,961,050</b>	<b>\$13,322,936</b>

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



**CITY OF NEWTON, MISSISSIPPI  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

**EXHIBIT 2**

Function/Programs:	Expenses	Program Revenues			Governmental Activities	Business-Type Activities	Total
		Charges for Services	Operating Grants	Capital Grants			
Governmental Activities:							
General government	\$ (628,838)	\$ -	\$ -	\$ 6,801	\$ (622,037)	\$ -	\$ (622,037)
Public safety	(1,579,465)	-	-	-	(1,579,465)	-	(1,579,465)
Public works	(1,150,672)	269,777	-	214,342	(666,553)	-	(666,553)
Culture and recreation	(440,324)	8,931	-	-	(431,393)	-	(431,393)
Interest and fiscal charges on long-term debt	(80,863)	-	-	-	(80,863)	-	(80,863)
Total Governmental Activities	(3,880,162)	278,708	-	221,143	(3,380,311)	-	(3,380,311)
Business-Type Activities:							
Water, sewer, and garbage	-	-	-	-	-	21,471	21,471
Total Functions/Programs	\$ -	\$ -	\$ -	\$ -	\$ (3,380,311)	\$ 21,471	\$ (3,358,840)
General Revenues:							
Property tax					\$ 859,007	\$ -	\$ 859,007
Licenses and permits					274,743	-	274,743
Intergovernmental, not restricted to specific functions/programs					1,252,064	-	1,252,064
Fines and forfeitures					123,446	-	123,446
Other revenue					474,741	-	474,741
Transfer in (out)					114,231	(114,231)	-
Total General Revenues and Transfers					3,098,232	(114,231)	2,984,001
Change in Net Position					(282,079)	(92,760)	(374,839)
Net Position- Beginning of Year					1,169,574	3,039,932	4,209,506
Net Position- End of Year					\$ 887,495	\$ 2,947,172	\$ 3,834,667

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

**CITY OF NEWTON, MISSISSIPPI  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2016**

**EXHIBIT 3**

	<b>General Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 648,163	\$ 310,896	\$ 959,059
Property tax receivable	800,000	80,000	880,000
Accounts receivable - net	135,343	-	135,343
Fines receivable	38,131	-	38,131
Due from other funds	373,633	278,443	652,076
Prepaid items	12,132	-	12,132
<b>Total Assets</b>	<b>\$ 2,007,402</b>	<b>\$ 669,339</b>	<b>\$ 2,676,741</b>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 107,572	\$ 3,500	\$ 111,072
Other accrued liabilities	53,271	-	53,271
Due to other funds	1,390,891	350,296	1,741,187
<b>Total Liabilities</b>	<b>1,551,734</b>	<b>353,796</b>	<b>1,905,530</b>
<b>Deferred Inflows of Resources:</b>			
Property tax for future reporting period	800,000	80,000	880,000
Unavailable revenue-fines	38,131	-	38,131
<b>Total Deferred Inflows of Resources</b>	<b>838,131</b>	<b>80,000</b>	<b>918,131</b>
<b>Fund Balances:</b>			
Nonspendable	12,132	-	12,132
Committed:			
Capital projects	-	94,481	94,481
Debt service	-	92,561	92,561
Unassigned	(394,595)	48,501	(346,094)
<b>Total Fund Balances (Deficits)</b>	<b>(382,463)</b>	<b>235,543</b>	<b>(146,920)</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 2,007,402</b>	<b>\$ 669,339</b>	<b>\$ 2,676,741</b>

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

**CITY OF NEWTON, MISSISSIPPI  
RECONCILIATION OF THE BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2016**

**EXHIBIT 3.1**

<b>Fund Balance ( Deficit) - Total Governmental Funds</b>	<b>\$ (146,920)</b>
---	---------------------

Amounts reported for governmental activities in the Statement of  
Net Position is different because:

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

Governmental Capital Assets	11,372,608	
Less: Accumulated Depreciation	<u>(5,377,008)</u>	5,995,600

Other long-term assets are not available to pay for current period expenditures, and therefore, are deferred in the funds.	38,131
---	--------

Deferred outflows related to pension liability are applicable to future periods, and therefore, are not reported in the funds.	430,732
---	---------

Deferred inflows related to pension liability are applicable to future periods, and therefore, are not reported in the funds.	(6,671)
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Net pension obligations are not due and payable in the current period, and therefore, are not reported in the funds.	(3,522,468)
---	-------------

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	(1,725,000)	
Notes Payable	(34,242)	
Capital Leases Payable	(103,976)	
Compensated Absences	<u>(37,691)</u>	<u>(1,900,909)</u>

<b>Net Position of Governmental Activities</b>	<b><u>\$ 887,495</u></b>
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The notes to the financial statements are an integral part of this statement.

**CITY OF NEWTON, MISSISSIPPI**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

**Exhibit 4**

	<b>General Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Revenues</b>			
Property taxes	\$ 779,162	\$ 79,845	\$ 859,007
Licenses and permits	274,743	-	274,743
Intergovernmental	1,146,485	326,722	1,473,207
Charges for services	278,708	-	278,708
Fines and forfeitures	85,315	-	85,315
Use of money and property	828	111	939
Miscellaneous	115,521	-	115,521
<b>Total Revenues</b>	<u>2,680,762</u>	<u>406,678</u>	<u>3,087,440</u>
<b>Expenditures</b>			
Current:			
General government	475,646	-	475,646
Public safety	1,273,933	-	1,273,933
Public works	845,212	234,030	1,079,242
Culture and recreation	315,174	-	315,174
Debt service:			
Principal	53,106	190,000	243,106
Interest and fiscal charges	4,519	76,344	80,863
<b>Total Expenditures</b>	<u>2,967,590</u>	<u>500,374</u>	<u>3,467,964</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>(286,828)</u>	<u>(93,696)</u>	<u>(380,524)</u>
<b>Other Financing Sources</b>			
Proceeds from sale of assets	358,281	-	358,281
Transfers in	114,231	-	114,231
<b>Total Other Financing Sources</b>	<u>472,512</u>	<u>-</u>	<u>472,512</u>
<b>Net Change In Fund Balances</b>	185,684	(93,696)	91,988
<b>Fund Balances - (Deficits) Beginning</b>	<u>(568,147)</u>	<u>329,239</u>	<u>(238,908)</u>
<b>Fund Balances - Ending</b>	<u>\$ (382,463)</u>	<u>\$ 235,543</u>	<u>\$ (146,920)</u>

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

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**CITY OF NEWTON, MISSISSIPPI**  
**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, 2016**

	<b>EXHIBIT 4.1</b>	
<b>Net Changes in Fund Balances - Total Governmental Funds</b>	<b>\$</b>	<b>91,988</b>
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 are depreciated over their estimated useful lives.		
Plus: Capital Outlays	96,115	
Less: Current Year Depreciation	<u>(298,540)</u>	(202,425)
Fine revenue recognized on the modified accrual basis in the funds during the current year is reduced because prior year recognition would have been required on the Statement of Activities using the full-accrual basis of accounting.		38,131
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 position differs from the change in fund balance by the following item:		
Deferred Compensation	<u>8,865</u>	8,865
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of debt principal is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.		
Principal Payments	<u>243,106</u>	243,106
Some items reported in the Statement of Activities relating to the implementation of GASB 68 are not reported in the governmental funds. These activities includes:		
Recording of pension expense for the current period		(554,535)
Recording of contributions made subsequent to the measurement date		46,140
Recording of reduction in pension expense for amounts included in net pension liability.		<u>46,651</u>
<b>Change in Net Position of Governmental Activities</b>	<b>\$</b>	<b><u>(282,079)</u></b>

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

**CITY OF NEWTON, MISSISSIPPI  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
SEPTEMBER 30, 2016**

**EXHIBIT 5**

	<b>Enterprise Funds</b>			<b>Total Enterprise Funds</b>
	<b>Water &amp; Sewer</b>	<b>ARRA</b>	<b>Wastewater Treatment Project</b>	
<b>ASSETS</b>				
Current Assets:				
Cash and cash equivalents	\$ 332,197	\$ -	\$ -	\$ 332,197
Accounts receivable, (net of allowance of \$137,032)	116,970	-	-	116,970
Inventories	25,188	-	-	25,188
Due from other funds	1,344,778	-	-	1,344,778
Prepaid Items	5,608	-	-	5,608
Total Current Assets	<u>1,824,741</u>	<u>-</u>	<u>-</u>	<u>1,824,741</u>
Noncurrent Assets:				
Capital Assets:				
Property, plant, and equipment	7,453,217	894,813	1,118,019	9,466,049
Less: Accumulated depreciation	<u>(4,721,308)</u>	<u>(178,963)</u>	<u>(223,604)</u>	<u>(5,123,875)</u>
Total Noncurrent Assets	<u>2,731,909</u>	<u>715,850</u>	<u>894,415</u>	<u>4,342,174</u>
Total Assets	<u>4,556,650</u>	<u>715,850</u>	<u>894,415</u>	<u>6,166,915</u>
Deferred Outflows of Resources				
Deferred outflows related to pension	49,802	-	-	49,802
Total Deferred Outflows of Resources	<u>49,802</u>	<u>-</u>	<u>-</u>	<u>49,802</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 4,606,452</u>	<u>\$ 715,850</u>	<u>\$ 894,415</u>	<u>\$ 6,216,717</u>

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

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**CITY OF NEWTON, MISSISSIPPI  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
SEPTEMBER 30, 2016**

**EXHIBIT 5  
Page 2**

	Enterprise Funds			
	Water & Sewer	ARRA	Wastewater Treatment Project	Total Enterprise Funds
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts payable	\$ 80,704	\$ -	\$ -	\$ 80,704
Other accrued liabilities	-	-	-	-
Customer deposits	101,880	-	-	101,880
Due to other funds	255,667	-	-	255,667
Revenue bonds payable - current portion	17,180	-	-	17,180
Other loans-current portion	-	36,842	50,969	87,811
Capital leases payable - current portion	153,962	-	-	153,962
Total Current Liabilities	609,393	36,842	50,969	697,204
Noncurrent Liabilities:				
Compensated absences payable	5,562	-	-	5,562
Long-term debt	762,787	558,398	837,542	2,158,727
Net pension liability	407,281	-	-	407,281
Total Noncurrent Liabilities	1,175,630	558,398	837,542	2,571,570
Total Liabilities	1,785,023	595,240	888,511	3,268,774
Deferred Inflows of Resources:				
Deferred inflows related to pension	771	-	-	771
Total Deferred Inflows of Resources	771	-	-	771
<b>NET POSITION</b>				
Net investment in capital assets	1,797,980	120,610	5,904	1,924,494
Unrestricted	1,022,678	-	-	1,022,678
Total Net Position	2,820,658	120,610	5,904	2,947,172
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 4,606,452	\$ 715,850	\$ 894,415	\$ 6,216,717

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

**CITY OF NEWTON, MISSISSIPPI**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

**EXHIBIT 6**

	Enterprise Funds			Total Enterprise Funds
	Water & Sewer	ARRA	Wastewater Treatment Project	
Operating Revenues:				
Charges for services	\$ 903,765	\$ -	\$ -	\$ 903,765
Intergovernmental	-	48,121	66,110	114,231
Total Operating Revenues	903,765	48,121	66,110	1,017,996
Operating Expenses:				
Personnel services	284,807	-	-	284,807
Contractual services, materials, and supplies	327,421	-	-	327,421
Depreciation	232,893	44,741	55,901	333,535
Total Operating Expenses	845,121	44,741	55,901	945,763
Operating Income	58,644	3,380	10,209	72,233
Nonoperating Revenues (Expenses):				
Interest income	170	-	-	170
Interest expense	(33,826)	(11,990)	(16,025)	(61,841)
Miscellaneous revenue	10,909	-	-	10,909
Total Nonoperating Revenues (Expenses)	(22,747)	(11,990)	(16,025)	(50,762)
Income (Loss) Before Transfers	35,897	(8,610)	(5,816)	21,471
Transfers out	(114,231)	-	-	(114,231)
Total Transfers	(114,231)	-	-	(114,231)
Change in Net Position	(78,334)	(8,610)	(5,816)	(92,760)
Total Net Position - Beginning	2,898,992	129,220	11,720	3,039,932
Total Net Position - Ending	\$ 2,820,658	\$ 120,610	\$ 5,904	\$ 2,947,172

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



**CITY OF NEWTON, MISSISSIPPI  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

**EXHIBIT 7**

	<b>Enterprise Fund</b>			<b>Total Enterprise Funds</b>
	<b>Water &amp; Sewer</b>	<b>ARRA</b>	<b>Wastewater Treatment Project</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Cash received from customers and users	\$ 905,996	\$ 48,121	\$ 66,110	\$1,020,227
Cash payments to suppliers	(218,485)	-	-	(218,485)
Cash payments to employees	(289,929)	-	-	(289,929)
Net cash provided by operating activities	<u>397,582</u>	<u>48,121</u>	<u>66,110</u>	<u>511,813</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>				
Transfers to other funds	(114,231)	-	-	(114,231)
Other receipts	10,909	-	-	10,909
Net cash (used) by noncapital financing activities	<u>(103,322)</u>	<u>-</u>	<u>-</u>	<u>(103,322)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Principal paid on long-term debt	(35,821)	(36,131)	(50,085)	(122,037)
Interest expense	(33,826)	(11,990)	(16,025)	(61,841)
Purchase of property, plant, and equipment	(164,184)	-	-	(164,184)
Net cash (used) by capital and related financing activities	<u>(233,831)</u>	<u>(48,121)</u>	<u>(66,110)</u>	<u>(348,062)</u>

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

**CITY OF NEWTON, MISSISSIPPI  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

**EXHIBIT 7  
Page 2**

	<b>Enterprise Fund</b>			<b>Total Enterprise Funds</b>
	<b>Water &amp; Sewer</b>	<b>ARRA</b>	<b>Wastewater Treatment Project</b>	
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Interest received on money market account	\$ 170	\$ -	\$ -	\$ 170
Net cash provided by investing activities	170	-	-	170
Net increase in cash and cash equivalents	60,599	-	-	60,599
Cash and cash equivalents, October 1, 2015	271,598	-	-	271,598
Cash and cash equivalents, September 30, 2016	<u>\$ 332,197</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 332,197</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 58,644	\$ 3,380	\$ 10,209	\$ 72,233
Adjustments:				
Depreciation expense	232,893	44,741	55,901	333,535
Changes in assets and liabilities:				
Decrease in accounts receivable	2,231	-	-	2,231
Decrease in prepaid items	4,856	-	-	4,856
(Increase) in due from other funds	(63,127)	-	-	(63,127)
Decrease in deferred outflows of resources	12,513	-	-	12,513
(Decrease) in accounts payable	(5,244)	-	-	(5,244)
Increase in customer deposits	9,740	-	-	9,740
(Decrease) in other accrued liabilities	(2,687)	-	-	(2,687)
Increase in due to other funds	94,671	-	-	94,671
(Decrease) in compensated absences payable	(2,435)	-	-	(2,435)
Increase in net pension liability	54,756	-	-	54,756
Increase in deferred inflows of resources	771	-	-	771
Total adjustments	338,938	44,741	55,901	439,580
Net cash provided by operating activities	<u>\$ 397,582</u>	<u>\$ 48,121</u>	<u>\$ 66,110</u>	<u>\$ 511,813</u>

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

**CITY OF NEWTON, MISSISSIPPI  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

**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 charter: 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 Position 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 Position and the 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 Position 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.

**CITY OF NEWTON, MISSISSIPPI  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

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

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

The City's Proprietary Fund applies 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.

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 fund financial statements are reported using the 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.

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.

Wastewater Treatment Project Fund - This fund accounts for a wastewater treatment project.

ARRA Fund - This fund accounts for a drinking water grant.

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**CITY OF NEWTON, MISSISSIPPI  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**C. Measurement Focus and Basis of Accounting-continued**

**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 other, certain federal grant programs, taxes and 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 cost.

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.

**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.

**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, which approximates those methods used under Generally Accepted Accounting Principles, 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

**CITY OF NEWTON, MISSISSIPPI  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**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 reserve method for uncollectible accounts.

**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, 2016 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.

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.

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**CITY OF NEWTON, MISSISSIPPI  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**L. Equity Classifications**

Government-wide Financial Statements:

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

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

Restricted net position - Consists of net position 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 position - All other net position not meeting the definition of "restricted" or "net investment in capital assets."

Fund Financial Statements:

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

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

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

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

*Committed fund balance* includes amounts that can be used only for specific purposes pursuant to constraints imposed by a formal action of the Board of Aldermen as approved in the board minutes.

*Assigned fund balance* includes amounts that are constrained by the city'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 classified as nonspendable and is neither restricted nor committed.

**CITY OF NEWTON, MISSISSIPPI  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**L. Equity Classifications-continued**

Assignments of fund balance are created by the Board of Aldermen pursuant to authorization established by the policy adopted by the City.

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

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

**M. Mississippi Municipal Compliance Questionnaire**

The Mississippi Municipal Compliance Questionnaire was completed and entered into the City's Minute Book as prescribed by law.

**N. Construction in Progress**

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

**O. Interfund Transactions and Balances**

Transactions between funds that are representative of short-term lending/borrowing arrangements and transactions that have not resulted in the actual transfer of cash at the end of the year are referred to as "due to/from other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Position.

**P. Deferred Outflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of future periods and so will not be recognized as outflows of resources (expense/expenditure) until then. The City has incurred deferred outflows that are related to pension reporting.



**CITY OF NEWTON, MISSISSIPPI  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Q. Deferred Inflows of Resources**

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. The separate financial statement element, deferred inflows of resources, represents as acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The deferred inflows are directly related to pension reporting, property tax for a future reporting period, and unavailable revenue for fines.

**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, 2016. The market value equals the carrying amount of these investments.

The collateral for public entities' deposits in financial institutions are 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 \$1,291,256 and a bank balance of \$1,373,378 at September 30, 2016, are covered by federal depository insurance and by deposits held in banks that are members of the State of Mississippi's Collateral Pool.

**CITY OF NEWTON, MISSISSIPPI  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

**NOTE 3 - CAPITAL ASSETS**

The following is a summary of changes in capital assets during the year ended September 30, 2016:

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Adjustments</b>	<b>Ending Balance</b>
<b>Governmental Activities:</b>					
<i><u>Capital assets not being depreciated:</u></i>					
Land	\$ 618,592	\$ -	\$ -	\$ -	\$ 618,592
Total capital assets not being depreciated	618,592	-	-	-	618,592
<i><u>Capital assets being depreciated:</u></i>					
Buildings	1,541,966	-	-	-	1,541,966
Improvements other than Buildings	2,246,211	5,000	-	-	2,251,211
Mobile Equipment	1,918,438	-	-	-	1,918,438
Other furniture and equipment	161,374	-	-	-	161,374
Infrastructure	3,148,366	91,115	-	-	3,239,481
Total capital assets being depreciated	9,016,355	96,115	-	-	9,112,470
Less: Accumulated depreciation	(3,436,922)	(298,540)	-	-	(3,735,462)
Total capital assets being depreciated, net	5,579,433	(202,425)	-	-	5,377,008
Governmental activities capital assets, net	\$ 6,198,025	\$(202,425)	\$ -	\$ -	\$ 5,995,600
<b>Business-type Activities:</b>					
<i><u>Capital assets not being depreciated:</u></i>					
Land	\$ 119,051	\$ -	\$ -	\$ -	\$ 119,051
Construction in progress	-	164,184	-	-	164,184
Total capital assets not being depreciated	119,051	164,184	-	-	283,235
<i><u>Capital assets being depreciated:</u></i>					
Water and sewer lines and facilities	8,185,026	-	-	-	8,185,026
Mobile equipment	997,788	-	-	-	997,788
Total capital assets being depreciated	9,182,814	-	-	-	9,182,814
Less: Accumulated depreciation	(4,790,340)	(333,535)	-	-	(5,123,875)
Total capital assets being depreciated, net	4,392,474	(333,535)	-	-	4,058,939
Business-type activities capital assets, net	\$ 4,511,525	\$(169,351)	\$ -	\$ -	\$ 4,342,174
Depreciation expense was charged to the following functions:					
Governmental Activities:					
General government			\$ 87,050		
Public safety			49,086		
Public works			93,467		
Culture and recreation			68,937		
Total Depreciation Expense			<u>\$ 298,540</u>		
Business-type Activities:					
Water & sewer			<u>\$ 333,535</u>		

During some of the previous years, the subsidiary records of capital assets and depreciation were not maintained.

**CITY OF NEWTON, MISSISSIPPI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

**NOTE 4 - LONG-TERM DEBT**

Debt outstanding as of September 30, 2016, consisted of the following:

**Governmental Activities:**

**A. General Obligation Bonds**

Description	Original Issue	Int. Rate	Balance Outstanding 10/01/15	Additions	Reductions	Balance Outstanding 9/30/16	Current Maturity
Series 2013	<u>\$2,100,000</u>	1.40-2.00	<u>\$1,915,000</u>	\$ -	<u>\$(190,000)</u>	<u>\$1,725,000</u>	<u>\$ 195,000</u>

**B. Capital Leases**

Description	Original Issue	Int. Rate	Balance Outstanding 10/01/15	Additions	Reductions	Balance Outstanding 9/30/16	Current Maturity
Fire Truck	\$ 200,000	3.29	\$ 4,206	\$ -	\$ (4,206)	\$ -	\$ -
John Deere Tractor	24,000	3.27	21,843	-	(14,442)	7,401	7,401
2 Dodge Chargers	34,031	2.07	17,280	-	(11,460)	5,820	5,820
2015 Dodge Charger	26,412	2.07	23,557	-	(8,682)	14,875	8,863
John Deere Tractor	88,691	2.24	84,468	-	(8,588)	75,880	8,781
	<u>\$ 373,134</u>		<u>\$ 151,354</u>	\$ -	<u>\$(47,378)</u>	<u>\$ 103,976</u>	<u>\$ 30,865</u>

**C. Other Loans**

Description	Original Issue	Int. Rate	Balance Outstanding 10/01/15	Additions	Reductions	Balance Outstanding 9/30/16	Current Maturity
NCB BLDG	<u>\$ 81,124</u>	4.10	<u>\$ 39,970</u>	\$ -	<u>\$(5,728)</u>	<u>\$ 34,242</u>	<u>\$ 5,971</u>
	<u>\$ 81,124</u>		<u>\$ 39,970</u>	\$ -	<u>\$(5,728)</u>	<u>\$ 34,242</u>	<u>\$ 5,971</u>

**D. Compensated Absences**

	Balance Outstanding 10/01/15	Additions	Reductions	Balance Outstanding 9/30/16	Current Maturity
Compensated Absences	<u>\$ 46,556</u>	\$ -	<u>\$(8,865)</u>	<u>\$ 37,691</u>	<u>\$ -</u>

**CITY OF NEWTON, MISSISSIPPI  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

**NOTE 4 - LONG-TERM DEBT - Continued**

**Business-type Activities:**

**A. General Obligation Bonds**

Description	Original Issue	Int. Rate	Balance Outstanding 10/01/15	Additions	Reductions	Balance Outstanding 9/30/16	Current Maturity
Series 2003 RUS Water & Sewer Revenue	<u>\$ 800,000</u>	4.00	<u>\$ 663,061</u>	<u>\$ -</u>	<u>\$ (16,466)</u>	<u>\$ 646,595</u>	<u>\$ 17,180</u>

**B. Capital Leases**

Description	Original Issue	Int. Rate	Balance Outstanding 10/01/15	Additions	Reductions	Balance Outstanding 9/30/16	Current Maturity
Caterpillar Tractor	56,329	1.85	\$ 56,012	\$ -	\$ (277)	\$ 55,735	\$ 55,735
Caterpillar Excavator	104,616	1.85	94,092	-	(7,596)	86,496	86,496
Caterpillar Wheel Loader	164,104	2.15	156,585	-	(11,482)	145,103	11,731
	<u>\$ 325,049</u>		<u>\$ 306,689</u>	<u>\$ -</u>	<u>\$ (19,355)</u>	<u>\$ 287,334</u>	<u>\$ 153,962</u>

**C. Other Loans**

Description	Original Issue	Int. Rate	Balance Outstanding 10/01/15	Additions	Reductions	Balance Outstanding 9/30/16	Current Maturity
Water System Improvement	\$ 785,527	1.95	\$ 631,371	\$ -	\$ (36,131)	\$ 595,240	\$ 36,842
Lagoon Improvement	1,095,454	1.75	938,596	-	(50,085)	888,511	50,969
	<u>\$ 1,880,981</u>		<u>\$ 1,569,967</u>	<u>\$ -</u>	<u>\$ (86,216)</u>	<u>\$ 1,483,751</u>	<u>\$ 87,811</u>

**D. Compensated Absences**

	Balance Outstanding 10/01/15	Additions	Reductions	Balance Outstanding 9/30/16	Current Maturity
Compensated Absences	\$ 7,997	\$ -	\$ (2,435)	\$ 5,562	\$ -

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**CITY OF NEWTON, MISSISSIPPI  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

**NOTE 4 - LONG-TERM DEBT - Continued**

The following is a schedule by years of the total capital lease payments due as of September 30, 2016:

Year	Governmental-type Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2017	\$ 30,865	\$ 1,940	\$ 153,962	\$ 4,753
2018	14,993	1,458	11,985	2,728
2019	9,185	1,208	12,246	2,468
2020	48,933	609	109,141	576
	<u>\$ 103,976</u>	<u>\$ 5,215</u>	<u>\$ 287,334</u>	<u>\$ 10,525</u>

Annual debt service requirements to maturity for all long-term debt are as follows:

Year	Governmental-type Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2017	\$ 200,971	\$ 29,623	\$ 104,991	\$ 53,569
2018	206,221	26,168	107,359	51,201
2019	211,481	22,870	109,790	48,769
2020	221,750	19,558	112,285	46,275
2021	227,033	15,900	114,847	43,713
2022-2026	691,786	20,931	615,135	177,662
2027-2031	-	-	650,042	102,653
2032-2036	-	-	198,962	44,714
2037-2039	-	-	116,935	7,312
	<u>\$ 1,759,242</u>	<u>\$ 135,050</u>	<u>\$ 2,130,346</u>	<u>\$ 575,868</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, 2016, 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.

**CITY OF NEWTON, MISSISSIPPI  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

**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 City and remitted to the City monthly. Newton City 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	32	General Government
Street Bond Fund	3	Street Paving

**NOTE 8 - BENEFIT PENSION PLAN OBLIGATIONS**

**General Information about the Pension Plan**

**Plan Description**

The City of Newton is a member of the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple employer defined benefit pension plan as defined in GASB Statement Number 68, Accounting and Financial Reporting for Pensions. Membership in PERS is a condition of employment and is granted upon hiring for qualifying employees of the City. Code Section 25-11-15, Mississippi Code Ann. (1972) grants the authority for general administration and proper operation of PERS to the PERS Board of Trustees (PERS Board). PERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at [www.pers.ms.gov](http://www.pers.ms.gov).

**CITY OF NEWTON, MISSISSIPPI  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

**NOTE 8 - BENEFIT PENSION PLAN OBLIGATIONS - continued**

**Benefits Provided**

For the cost-sharing plan, participating members who are vested and retire at or after age 60 or those who retire regardless of age with at least 30 years of creditable service (25 years of creditable service for employees who became members of PERS before July 1, 2011) are entitled upon application, to annual retirement allowance payable monthly for life in an amount equal to 2.00% of their average compensation for each year of creditable service up to and including 30 years (25 years for those who became members of PERS before July 1, 2011), plus 2.50% for each additional year of creditable service with an actuarial reduction in the benefit for each year of creditable service below 30 years or the number of years in age that the member is below 65, whichever is less. Average compensation is the average of the employee's earnings during the four highest compensated years of creditable service. A member may elect a reduced retirement allowance payable for life with the provision that, after death, a beneficiary receives benefits for life or for a specified number of years. Benefits vest upon completion of eight years of membership service (four years of membership service for those who became members of PERS before July 1, 2007). PERS also provides certain death and disability benefits. In the event of death prior to retirement of any member whose spouse and/or children are not entitled to a retirement allowance, the deceased member's accumulated contributions and interest are paid to the designated beneficiary. Benefits are established by Section 25-11-1 et seq., Mississippi Code Ann. (1972) and may be amended only by the State Legislature.

A Cost of Living Adjustment (COLA) payment is made to eligible retirees and beneficiaries. The COLA is equal to 3.00% of the annual retirement allowance for each full fiscal year of retirement up to the year in which the retired member reaches age 60 (55 for those who became members of PERS before July 1, 2011), with 3.00% compounded for each fiscal year thereafter.

**Contributions**

Per Chapter 11 of Title 25, Mississippi Code Ann. (1972), contribution requirements of plan members and their employers are established and may be amended only by the PERS Board. The adequacy of the rates is assessed annually by actuarial valuation. For the years ended September 30, 2016, member employees were required to contribute 9.00 percent of their annual pay, while the City's required contribution rate was 15.75 percent of annual payroll. The City of Newton, Mississippi's employer contributions to PERS for the years ending September 30, 2016, 2015, and 2014 were \$218,248, \$225,002, and \$222,374 respectively, equal to the required contributions for each year.

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

At September 30, 2016, the City of Newton reported a liability of \$3,929,749 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates, the City of Newton's proportion of the net pension liability was based on employer contributions to PERS for the plan's fiscal year ended June 30, 2016, relative to the total employer contributions of participating employers to PERS. At June 30, 2016, the City of Newton's proportion was .022% which was .001% less than its proportion measured as of June 30, 2015.

**CITY OF NEWTON, MISSISSIPPI  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

**NOTE 8 - BENEFIT PENSION PLAN OBLIGATIONS - continued**

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

For the year ended September 30, 2016, the City of Newton, recognized pension expense of \$618,624. At September 30, 2016, the City of Newton reported deferred outflows or resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 78,114	\$ -
Net difference between projected and actual earnings on pension plan investments	212,977	-
Changes in assumptions	132,022	7,442
Contributions subsequent to the measurement date	57,421	-
	<u>\$ 480,534</u>	<u>\$ 7,442</u>

At September 30, 2016, the City of Newton reported \$57,421 as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending September 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending September 30</u>	<u>Amount</u>
2017	\$ 134,976
2018	134,976
2019	92,475
2020	53,244
	<u>\$ 415,671</u>

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**CITY OF NEWTON, MISSISSIPPI  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

**NOTE 8 - BENEFIT PENSION PLAN OBLIGATIONS - continued**

**Actuarial Assumptions**

The total pension liability used in the September 30, 2016, actuarial valuation was determined using the following actuarial assumptions and other inputs:

Inflation	3.00%
Salary increases	3.75%-19.00%, average, including inflation
Investment rate of return	7.75%, net of position of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 Healthy Annuitant Blue Collar Table Projected with Scale BB to 2016, set forward one year for males.

The actuarial assumptions used in the June 30, 2016, valuation were based on the results of an actuarial experience study for the period July 1, 2010 through June 30, 2014. The experience report is dated May 4, 2015.

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

The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2016, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation Percentage</u>	<u>Long-term Expected Real Rate of Return</u>
U. S. Broad	34.00 %	5.20 %
International equity	19.00	5.00
Emerging markets equity	8.00	5.45
Fixed income	20.00	.25
Real assets	10.00	4.00
Private equity	8.00	6.15
Cash	1.00	(.50)
	<u>100.00 %</u>	

**CITY OF NEWTON, MISSISSIPPI  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

**NOTE 8 - BENEFIT PENSION PLAN OBLIGATIONS - continued**

**Discount Rate**

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate (9.00%) and that participating employer contributions will be made at the current employer contribution rate (15.75%). Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the City of Newton's Proportionate Share of the Net Pension Liability to changes in the Discount Rate**

The City of Newton's proportionate share of the net pension liability has been calculated using a discount rate of 7.75%. The following presents the City of Newton's proportionate share of the net pension liability calculated using a discount rate 1% higher and 1% lower than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Proportionate share of the net pension liability	\$ 5,038,820	\$ 3,929,749	\$ 3,009,580

**Pension Plan Fiduciary Net Position**

Detailed information about the pension plan's fiduciary net position is available in the separately issued comprehensive annual financial report which can be obtained at [www.pers.ms.gov](http://www.pers.ms.gov).

**Payable to the Pension Plan**

At September 30, 2016, the City of Newton has no amounts payable for outstanding contributions to the pension plan required for the year ended September 30, 2016.

**NOTE 9 - EFFECT OF DEFERRED AMOUNTS ON NET POSITION**

The total unrestricted net position amount of \$(2,222,209) includes the effect of deferred inflows/outflows of resources related to pensions. A portion of the deferred outflow of resources related to pension in the amount of \$57,421 resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2016. The \$423,113 balance of the deferred outflow of resources related to pensions at September 30, 2016, will be recognized in pension expense over the next four years. The \$7,442 balance of the deferred inflow of resources related to pension at September 30, 2016, will be recognized in pension expense over the next four years.

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**CITY OF NEWTON, MISSISSIPPI  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

**NOTE 10 - INTERFUND TRANSACTIONS**

Interfund transfers for the year ended September 30, 2016 consisted of the following:

Transfers To	Transfers From	Total
General Fund	Water and Sewer Fund	\$ 114,231
		<u>\$ 114,231</u>

This transfer was made for general operating purposes.

Interfund loans for the year ended September 30, 2016 consisted of the following:

Due from (Receivable) Other Funds	Due to (Payable) Other Funds	Total
General Fund	Other Governmental Funds	\$ 350,296
Other Governmental Funds	General Fund	46,113
Water and Sewer Fund	General Fund	1,344,778
Other Governmental Funds	Water and Sewer Fund	232,330
General Fund	Water and Sewer Fund	23,337
		<u>\$ 1,996,854</u>

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

**NOTE 11-CONTINGENCIES**

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

**Litigation** – The City is party to legal proceedings, many of which occur in the normal course of governmental operations. The City's legal counsel has determined that a liability from litigation is reasonably possible. The potential liability could be between approximately \$200,000 to \$750,000.

**CITY OF NEWTON, MISSISSIPPI  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

**NOTE 12-SUBSEQUENT EVENTS**

Events that occur after the Statement of Net Position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Management of the City of Newton, Mississippi evaluated the activity of the City through September 8, 2017, (the date the financial statements were available to be issued) and determined that the following subsequent events required disclosure in the notes to the financial statements:

- 1). On October 20, 2016, the City accepted SMLPC Grant in the amount of \$145,800.
- 2). On October 20, 2016, the City accepted CDBG Grant in the amount of \$450,000.
- 3). On October 20, 2016, the City signed and approved Capital Improvement Revolving Loan Program in the amount of \$267,655.
- 4). On December 14, 2016, the City approved the sale of 61 acres in the Industrial Park to Biewer Sawmill-Newton, LLC and BT Holdings, LLC in the amount of \$335,500.
- 5). On May 16 2017, accepted a 12 month purchase option for the sale of 8.83 acres of land in the Industrial Park.
- 6). On June 6, 2017, accepted bid for financing a dozer/excavator for 60 months at 2.39%.

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF NEWTON, MISSISSIPPI**  
**BUDGETARY COMPARISON SCHEDULE - BUDGET AND ACTUAL (NON-GAAP BASIS)**  
**GENERAL FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	General Fund			Variance with
	Original Budget	Final Budget	Actual (Budgetary Basis)	Final Budget Positive (Negative)
<b>REVENUES</b>				
Property taxes	\$ 800,000	\$ 800,000	\$ 779,162	\$ (20,838)
Licenses, commissions and other revenue	330,500	330,500	280,447	(50,053)
Fines and forfeitures	86,000	86,000	85,314	(686)
Intergovernmental revenues	1,044,000	1,044,000	1,052,500	8,500
Charges for services	265,000	265,000	276,007	11,007
Miscellaneous revenues	124,900	124,900	106,256	(18,644)
<b>Total Revenues</b>	<b>2,650,400</b>	<b>2,650,400</b>	<b>2,579,686</b>	<b>(70,714)</b>
<b>EXPENDITURES</b>				
Current:				
General government	526,250	526,250	467,142	59,108
Public safety	1,293,500	1,293,500	1,338,471	(44,971)
Public works	977,800	977,800	856,925	120,875
Culture and recreation	340,950	340,950	306,930	34,020
<b>Total Expenditures</b>	<b>3,138,500</b>	<b>3,138,500</b>	<b>2,969,468</b>	<b>169,032</b>
Excess of Revenues over (under) Expenditures	(488,100)	(488,100)	(389,782)	98,318
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer In	108,000	108,000	114,231	6,231
<b>Total Other Financing Sources</b>	<b>108,000</b>	<b>108,000</b>	<b>114,231</b>	<b>6,231</b>
<b>Net Change in Fund Balance</b>	<b>(380,100)</b>	<b>(380,100)</b>	<b>(275,551)</b>	<b>104,549</b>
Fund Balances - Beginning	(906,676)	(906,676)	(677,532)	229,144
Fund Balances - Ending	<u><u>\$(1,286,776)</u></u>	<u><u>\$ (1,286,776)</u></u>	<u><u>\$ (953,083)</u></u>	<u><u>\$ 333,693</u></u>

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

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**CITY OF NEWTON, MISSISSIPPI  
SCHEDULE OF THE EMPLOYER'S PROPORTIONATE SHARE  
OF THE NET PENSION LIABILITY  
FOR THE YEARS ENDED 30, 2016, 2015 AND 2014**

	2016	2015	2014
Employer's proportion of the net pension liability (asset)	.022%	.023%	.023%
Employer's proportionate share of the net pension liability (asset)	\$ 3,929,749	\$ 3,555,346	\$ 2,791,779
Employer's covered-employee payroll	\$ 1,385,702	\$ 1,428,584	\$ 1,411,898
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	283.59%	248.87%	197.73%
Plan fiduciary net position as a percentage of the total pension liability	57.47%	61.70%	67.21%

Information above is presented as of the measurement date of June 30 of the fiscal year presented.

Information is not currently available for prior years; additional years will be displayed as they become available.

This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB 68 was implemented in FYE 9/30/15, and, until a full 10-year trend is compiled, the City has only presented information for the years in which information is available.

See Notes to the Required Supplementary Information.

**CITY OF NEWTON, MISSISSIPPI  
SCHEDULE OF THE CITY'S CONTRIBUTIONS  
FOR THE YEARS ENDED 30, 2016, 2015 AND 2014**

	2016	2015	2014
Contractually required contribution	\$ 218,248	\$ 225,002	\$ 222,374
Contributions in relation to the contractually required	<u>(218,248)</u>	<u>(225,002)</u>	<u>(222,374)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Employer's covered-employee payroll	\$ 1,385,702	\$ 1,428,584	\$ 1,411,898
Contributions as a percentage of covered-employee payroll	15.75%	15.75%	15.75%

Information above is presented as of the Employer's fiscal year.

Information is not currently available for prior years; additional years will be displayed as they become available.

This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB 68 was implemented in FYE 9/30/15, and, until a full 10-year trend is compiled, the City has only presented information for the years in which information is available.

See Notes to the Required Supplementary Information.



**CITY OF NEWTON, MISSISSIPPI**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

**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:

<u>Governmental Fund Types</u>	
	<u>General Fund</u>
Budget (Cash Basis)	\$ (275,551)
Increase (Decrease)	
Net adjustments for revenue accruals	467,150
Net adjustments for expenditure accruals	<u>(5,915)</u>
GAAP Basis	<u>\$ 185,684</u>

**CITY OF NEWTON, MISSISSIPPI  
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

**D. Schedule of the Town's Proportionate Share of the Net Pension Liability and Schedule of the City's Contributions.**

**Changes in Benefit Provisions.**

2016

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

**Changes of Assumptions.**

2015

- The expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Table projected to 2016 using Scale BB rather than the RP-2000 Mortality Table, which was used prior to 2015.
- The expectation of disabled mortality was changed to the RP-2014 Disabled Retiree Table, rather than the RP-2000 Disabled Mortality Table, which was used prior to 2015.
- Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to more closely reflect actual experience.
- Assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience.
- The price inflation and investment rate of return assumptions were changed from 3.50% to 3.00% and 8.00% to 7.75%, respectively.

2016

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

## **OTHER INFORMATION**

**CITY OF NEWTON, MISSISSIPPI**  
**SCHEDULE OF THE SURETY BONDS OF MUNICIPAL OFFICIALS AND OTHERS-UNAUDITED**  
**FOR THE YEAR ENDED 30, 2016**

<u>Name</u>	<u>Position</u>	<u>Bond Amount</u>	<u>Bonding Company</u>
Michael Hillie	Alderman	\$ 50,000	Travelers
Murray Weems	Alderman	50,000	Travelers
Eva MacDonald	Alderman	50,000	Travelers
Don Vares	Alderman	50,000	Travelers
Ray Payne	Alderman	50,000	Travelers
David Carr	Mayor	50,000	Travelers
Charlene Evans	City Clerk	50,000	Travelers
Doris McMillan	Water Clerk	50,000	Travelers
Shelia Jackson	Court Clerk	50,000	Travelers
Barbara Ann Mapp	City Clerk	50,000	FCCI Insurance
Harvey Curry	Police Chief	50,000	Travelers
Savannah Martin	Deputy Clerk	50,000	Travelers
Jay Powell	Recreational Director	50,000	Travelers

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## **SPECIAL REPORTS**

# HERZOG CPA COMPANY, PLLC

Angela T. Herzog, CPA

12 98 Place Boulevard • P.O. Box 17986 • Hattiesburg, Mississippi 39404

Phone 601-271-8860 • Fax 601-271-8921

1020 Northpark Drive • Ridgeland, Mississippi 39157

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

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

We have audited, 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, 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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 8, 2017. The report is qualified on the governmental and business-type activities because the City did not maintain adequate subsidiary records documenting the existence, completeness and valuation of capital assets as required by accounting principles generally accepted in the United States of America.

### Internal Control over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Responses as 2016-002 to be a material weakness.

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A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as 2016-001, 2016-003, 2016-004, 2016-005, and 2016-006 to be significant deficiencies.

#### Compliance and Other Matters

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

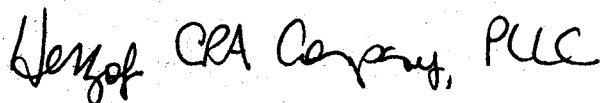
However, we noted certain matters that we reported to the management of the City of Newton, Mississippi, in the Limited Internal Control and Compliance Review Management Report dated September 8, 2017.

#### City of Newton's Responses to Findings

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

#### Purpose of this Report

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



Herzog CPA Company, PLLC  
September 8, 2017

# HERZOG CPA COMPANY, PLLC

Angela T. Herzog, CPA

12 98 Place Boulevard • P.O. Box 17986 • Hattiesburg, Mississippi 39404

Phone 601-271-8860 • Fax 601-271-8921

1020 Northpark Drive • Ridgeland, Mississippi 39157

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## INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

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

We have audited the basic financial statements of City of Newton, Mississippi for the year ended September 30, 2016 and have issued our report dated September 8, 2017. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*.

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

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

The Office of the State Auditor or a public accounting firm will review, on a subsequent year's audit engagement, the findings in this report to ensure that corrective action has been taken.

This report is intended solely for the information of the City's management 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.

*Herzog CPA Company, PLLC*

Herzog CPA Company, PLLC  
September 8, 2017

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Member of the American Institute of Certified Public Accountants and the Mississippi Society of Certified Public Accountants

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## **SCHEDULE OF FINDINGS AND RESPONSES**

**CITY OF NEWTON, MISSISSIPPI  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

**Section 1: Summary of Auditors' Results**

***Financial Statements:***

**1. Type of auditors' report issued on the financial statements:**

Governmental Activities	Qualified
Business-Type Activities	Qualified
General Fund	Unmodified
Water and Sewer Fund	Unmodified
ARRA Fund	Unmodified
Wastewater Treatment Project Fund	Unmodified
Aggregate Remaining Fund Information	Unmodified

**2. Internal Control over financial reporting:**

A. Material weakness identified?	Yes
B. Significant Deficiency identified that is not considered to be a material weakness?	Yes

<b>3. Noncompliance material to the financial statements?</b>	<b>No</b>
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**CITY OF NEWTON, MISSISSIPPI  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

**Section 2: Financial Statement Findings**

**2016-001. Finding**

**Significant Deficiency**

As reported in the prior year report, 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 investments have to be made.
- b. 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. Debt payments are not posted to correct general ledger accounts. 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.
- c. Adjusting journal entries - The City does not have a policy approval of adjusting journal entries prior to posting. Without a policy, the balances of general ledger accounts can be over or understated.
- d. Fines receivable - The City does not have proper internal control procedures in place for fines receivable for the police department. This creates an inability to monitor collections for fines.

**Recommendation**

The City should establish control procedures for collection of fines receivable.

**Response**

The City will address these issues.

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**CITY OF NEWTON, MISSISSIPPI  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

**2016-002. Finding**

**Significant Deficiency - Material Weakness**

As reported in the prior year report, controls were not in use requiring accounting personnel to maintain capital assets subsidiary records to establish necessary controls over all transactions.

**Recommendation**

The City should establish control procedures by developing and maintaining fixed asset subsidiary records.

**Response**

The City will address this issue.

**2016-003. Finding**

**Significant Deficiency**

As reported in the prior year report, the general fund had a deficit fund balance at September 30, 2016.

**Recommendation**

A transfer should be made before year end to prevent a negative general fund balance.

**Response**

The City will address this issue.

**2016-004. Finding**

**Significant Deficiency**

As reported in the prior year report, the public safety expenditures exceeded the budget for the year ended.

**Recommendation**

The budget should be amended to reflect actual results during the October board meetings each year.

**Response**

The City will address this issue.

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**CITY OF NEWTON, MISSISSIPPI  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

**2016-005. Finding**

**Significant Deficiency**

As reported in the prior year report, the recreation and depot bank accounts are not recorded on the general ledger. Therefore, cash, revenue, and expenditures are understated until audit adjustments are made. Proper board approvals are not obtained for expenditures from these accounts. These bank accounts are not reconciled.

**Recommendation**

All transactions should follow the City's policies for approval in accordance with state law. The bank statements should be reconciled monthly, and all transactions should be posted to the general ledger.

**Response**

The City will address this issue.

**2016-006. Finding**

**Significant Deficiency**

As reported in the prior year report, the Street Bond Fund was not included in the budget.

**Recommendation**

All major special revenue funds should be included in the budget.

**Response**

The City will address this issue.

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