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EDDIE FULTON, MAYOR
LISA HARRIS, CITY CLERK

Office of the State Auditor
P O Box 956
Jackson Ms 39205

May 5, 2017

Re: Annual Municipal Audit

Accompanying this letter is a copy of the annual audit compilation of the City of Quitman, Mississippi, for the fiscal year ended September 30, 2016. A separate management letter was not written to the City of Quitman in connection with this audit.

Sincerely,

Eddie Fulton
Mayor



Visit Our Website: www.ci.quitman.ms.us
POST OFFICE BOX 16 • 101 E. CHURCH STREET • QUITMAN, MISSISSIPPI 39355-0016
PHONE: 601.776.3728 • FAX: 601.776.4016
EMAIL: info@ci.quitman.ms.us

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CITY OF QUITMAN, MISSISSIPPI
AUDITED FINANCIAL STATEMENTS
AND SPECIAL REPORTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016



CITY OF QUITMAN, MISSISSIPPI

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Stephen D. Myrick C.P.A., L.L.C.

103 North Archusa Avenue
P. O. Box 540
Quitman, MS 39355

Telephone and Fax: (601) 776-4547
E-Mail: stephenmyrickcpa@bellsouth.net

Member
American Institute of
Certified Public Accountants

Member
Mississippi Society of
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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Aldermen
and Honorable Mayor
City of Quitman, 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 Quitman, Mississippi, (the City) 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 as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Quitman, 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 Management's Discussion and Analysis, the Budgetary Comparison Schedule and corresponding notes, the Schedule of the City's Proportionate Share of the Net Pension Liability, and the Schedule of City Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Omission of Required Supplementary Information

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

Other Information

The Schedule of Surety Bonds for City 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 February 10, 2017, on our consideration of the City of Quitman, 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 Quitman, Mississippi's internal control over financial reporting and compliance.



Stephen D. Myrick
Certified Public Accountant

Quitman, Mississippi
February 10, 2017

FINANCIAL STATEMENTS



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City of Quitman, Mississippi
Statement of Net Position
September 30, 2016

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash	\$ 684,919	\$ 912,536	\$ 1,597,455
Property tax receivable	540,000	-	540,000
Franchise fees receivable	44,649	-	44,649
Accounts receivable (net of allowance for uncollectibles of \$95,000)	-	67,472	67,472
Fines receivable (net of allowance for uncollectibles of \$618,495)	240,898	-	240,898
Intergovernmental receivables	54,150	-	54,150
Restricted assets	-	83,429	83,429
Capital assets:			
Land and construction in progress	779,203	18,591	797,794
Other capital assets, net	601,921	1,305,187	1,907,108
Total Assets	<u>2,945,740</u>	<u>2,387,215</u>	<u>5,332,955</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	1,575,278	693,922	2,269,200
Total Deferred Outflows of Resources	<u>1,575,278</u>	<u>693,922</u>	<u>2,269,200</u>
LIABILITIES			
Claims payable	22,626	41,432	64,058
Liabilities payable from restricted assets	-	83,429	83,429
Long-term liabilities			
Net pension liability	1,890,720	809,377	2,700,097
Due within one year:			
Capital debt	50,640	43,084	93,724
Due in more than one year:			
Capital debt	88,800	-	88,800
Total Liabilities	<u>2,052,786</u>	<u>977,322</u>	<u>3,030,108</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	1,357,508	597,992	1,955,500
Deferred revenues - property taxes	540,000	-	540,000
Total Deferred Inflows of Resources	<u>1,897,508</u>	<u>597,992</u>	<u>2,495,500</u>
NET POSITION			
Net investment in capital assets	1,241,684	1,280,694	2,522,378
Restricted for:			
Expendable:			
Public safety	30,059	-	30,059
Public works	-	225,129	225,129
Unemployment compensation	25,712	-	25,712
Debt service	15,258	-	15,258
Unrestricted	(741,989)	-	(741,989)
Total Net Position	<u>\$ 570,724</u>	<u>\$ 1,505,823</u>	<u>\$ 2,076,547</u>

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

City of Quitman, Mississippi
Statement of Activities
For the Year Ended September 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Governmental Activities:							
General government	\$ 308,489	\$ 6,265	\$ -	\$ 402,404	\$ 100,180	\$ -	\$ 100,180
Public safety	594,533	41,845	14,954	9,321	(528,413)	-	(528,413)
Public works	533,387	-	-	4,065	(529,322)	-	(529,322)
Culture and recreation	188,428	-	-	-	(188,428)	-	(188,428)
Interest on long-term debt	6,488	-	-	-	(6,488)	-	(6,488)
Pension expense	350,918	-	-	-	(350,918)	-	(350,918)
Total Governmental Activities	1,982,243	48,110	14,954	415,790	(1,503,389)	-	(1,503,389)
Business-type Activities:							
Water and sewer	621,889	542,762	-	-	-	(79,127)	(79,127)
Garbage collection	286,664	182,958	-	-	-	(103,706)	(103,706)
Total Business-type Activities	908,553	725,720	-	-	-	(182,833)	(182,833)
Total Government	\$ 2,890,796	\$ 773,830	\$ 14,954	\$ 415,790	(1,503,389)	(182,833)	(1,686,222)
General revenues:							
Property taxes					695,352	-	695,352
Sales tax					538,253	-	538,253
Licenses and permits					181,394	-	181,394
Grants and contributions not restricted to specific programs					61,079	-	61,079
Unrestricted gifts and donations					182	-	182
Unrestricted interest income					3,146	4,103	7,249
Miscellaneous					51,030	-	51,030
Total General Revenues					1,530,436	4,103	1,534,539
Changes in Net Position					27,047	(178,730)	(151,683)
Net Position - Beginning, as previously reported					508,682	1,690,105	2,198,787
Prior period adjustments					34,995	(5,552)	29,443
Net Position - Beginning, as restated					543,677	1,684,553	2,228,230
Net Position - Ending					\$ 570,724	\$ 1,505,823	\$ 2,076,547

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

City of Quitman, Mississippi
Balance Sheet - Governmental Funds
September 30, 2016

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash	\$ 613,890	\$ 71,029	\$ 684,919
Property tax receivable	540,000	-	540,000
Franchise fees receivable	44,649	-	44,649
Fines receivable (net of allowance for uncollectibles of \$618,495)	240,898	-	240,898
Intergovernmental receivables	54,150	-	54,150
Total Assets	<u>\$ 1,493,587</u>	<u>\$ 71,029</u>	<u>\$ 1,564,616</u>
LIABILITIES			
Claims payable	\$ 22,627	\$ -	\$ 22,627
Total Liabilities	<u>22,627</u>	<u>-</u>	<u>22,627</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	540,000	-	540,000
Unavailable revenue - fines	240,898	-	240,898
Total Deferred Inflows of Resources	<u>780,898</u>	<u>-</u>	<u>780,898</u>
Fund balances			
Restricted for:			
Public safety	-	30,059	30,059
Debt service	-	15,258	15,258
Unemployment compensation	-	25,712	25,712
Unassigned	690,062	-	690,062
Total Fund Balances	<u>690,062</u>	<u>71,029</u>	<u>761,091</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 1,493,587</u>	<u>\$ 71,029</u>	<u>\$ 1,564,616</u>

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

City of Quitman, Mississippi
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
September 30, 2016

	Amount
Total Fund Balance - Governmental Funds	\$ 761,091
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets are used in governmental activities and are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of \$1,390,821.	1,381,124
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	240,898
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(139,440)
Net pension obligations are not due and payable in the current period and, therefore, are not reported in the funds.	(1,890,720)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.	
Deferred outflows of resources related to pensions	1,575,278
Deferred inflows of resources related to pensions	(1,357,508)
Rounding	1
Total Net Position - Governmental Activities	\$ 570,724

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

City of Quitman, Mississippi
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
September 30, 2016

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
Property taxes	\$ 695,352	\$ -	\$ 695,352
Sales tax	538,253	-	538,253
Licenses, commissions and other revenue	181,394	-	181,394
Fines and forfeitures	36,769	-	36,769
Intergovernmental revenues	468,869	25,905	494,774
Interest income	2,892	254	3,146
Miscellaneous revenues	46,961	7,512	54,473
Total Revenues	<u>1,970,490</u>	<u>33,671</u>	<u>2,004,161</u>
EXPENDITURES			
Current:			
General government	656,192	-	656,192
Public safety	582,718	14,076	596,794
Public works	536,639	-	536,639
Culture and recreation	183,672	-	183,672
Debt service:			
Principal	37,555	11,100	48,655
Interest	1,834	4,654	6,488
Total Expenditures	<u>1,998,610</u>	<u>29,830</u>	<u>2,028,440</u>
Excess of Revenues over (under) Expenditures	<u>(28,120)</u>	<u>3,841</u>	<u>(24,279)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	9,960	9,960
Transfers out	(9,960)	-	(9,960)
Total Other Financing Sources and Uses	<u>(9,960)</u>	<u>9,960</u>	<u>-</u>
Net Changes in Fund Balances	<u>(38,080)</u>	<u>13,801</u>	<u>(24,279)</u>
Fund Balances - Beginning, as previously reported	728,142	47,236	775,378
Prior period adjustments	-	9,992	9,992
Fund Balances - Beginning, as restated	728,142	57,228	785,370
Fund Balances - Ending	<u>\$ 690,062</u>	<u>\$ 71,029</u>	<u>\$ 761,091</u>

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

City of Quitman, 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

	<u>Amount</u>
Net Changes in Fund Balances - Governmental Funds	\$ (24,279)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Thus, the change in net position differs from the change in fund balances by the amount that capital outlays of \$379,195 exceeded depreciation of \$57,271 in the current period.	321,924
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.	5,075
Debt proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of debt principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Position. Thus, the change in net position differs from the change in fund balances by the amount that debt repayments of \$48,655 exceeded debt proceeds of \$0.	48,655
Some items reported in the Statement of Activities relating to the implementation of GASB 68 are not reported in the governmental funds. These activities include:	
Recording of pension expense for the current period	(350,918)
Recording of contributions made subsequent to the measurement date	26,589
Rounding	1
Change in Net Position of Governmental Activities	<u>\$ 27,047</u>

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

City of Quitman, Mississippi
Statement of Net Position - Proprietary Funds
September 30, 2016

	Business-type Activities - Enterprise Funds		
	Water and Sewer Fund	Garbage Collection Fund	Total
ASSETS			
Current assets:			
Cash	\$ 810,276	\$ 102,260	\$ 912,536
Accounts receivable (net of allowance for uncollectibles of \$69,350 and \$25,650, respectively)	48,957	18,515	67,472
Total Current Assets	859,233	120,775	980,008
Noncurrent assets:			
Restricted assets	83,429	-	83,429
Capital assets:			
Land	18,591	-	18,591
Other capital assets, net	1,195,082	110,105	1,305,187
Total Noncurrent Assets	1,297,102	110,105	1,407,207
Total Assets	\$ 2,156,335	\$ 230,880	\$ 2,387,215
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	474,490	219,432	693,922
Total Deferred Outflows of Resources	474,490	219,432	693,922
LIABILITIES			
Current liabilities:			
Claims payable	\$ 24,666	\$ 16,766	\$ 41,432
Capital debt:			
Equipment notes payable	-	43,084	43,084
Total Current Liabilities	24,666	59,850	84,516
Noncurrent liabilities:			
Liabilities payable from restricted assets	83,429	-	83,429
Net pension liability	553,459	255,918	809,377
Total Noncurrent Liabilities	636,888	255,918	892,806
Total Liabilities	661,554	315,768	977,322
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	408,895	189,097	597,992
Total Deferred Inflows of Resources	408,895	189,097	597,992
NET POSITION			
Net investment in capital assets	1,213,673	67,021	1,280,694
Restricted for:			
Public works	346,703	(121,574)	225,129
Total Net Position	\$ 1,560,376	\$ (54,553)	\$ 1,505,823

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

City of Quitman, Mississippi
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds
For the Year Ended September 30, 2016

	Business-type Activities - Enterprise Funds		
	Water and Sewer Fund	Garbage Collection Fund	Total
Operating Revenues			
Water sales	\$ 283,128	\$ -	\$ 283,128
Sewer charges	238,507	-	238,507
Garbage fees	-	175,710	175,710
Other services	21,127	7,248	28,375
Total Operating Revenues	<u>542,762</u>	<u>182,958</u>	<u>725,720</u>
Operating Expenses			
Personal services	226,896	143,288	370,184
Pension expense	130,226	24,357	154,583
Contractual services	72,258	11,203	83,461
Materials and supplies	100,729	45,802	146,531
Depreciation expense	35,169	29,020	64,189
Insurance premiums	56,613	30,994	87,607
Total Operating Expenses	<u>621,891</u>	<u>284,664</u>	<u>906,555</u>
Operating Income (Loss)	<u>(79,129)</u>	<u>(101,706)</u>	<u>(180,835)</u>
Nonoperating Revenues (Expenses)			
Interest income	3,630	473	4,103
Interest expense	-	(1,998)	(1,998)
Net Nonoperating Revenue (Expenses)	<u>3,630</u>	<u>(1,525)</u>	<u>2,105</u>
Changes in Net Position	<u>(75,499)</u>	<u>(103,231)</u>	<u>(178,730)</u>
Net Position - Beginning, as previously reported	1,641,427	48,678	1,690,105
Prior period adjustments	(5,552)	-	(5,552)
Net Position - Beginning, as restated	<u>1,635,875</u>	<u>48,678</u>	<u>1,684,553</u>
Net Position - Ending	<u>\$ 1,560,376</u>	<u>\$ (54,553)</u>	<u>\$ 1,505,823</u>

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

City of Quitman, Mississippi
Statement of Cash Flows - Proprietary Funds
For the Year Ended September 30, 2016

	Business-type Activities-Enterprise Funds		
	Water and Sewer Fund	Garbage Collection Fund	Total
Cash Flows From Operating Activities			
Receipts from customers	\$ 544,264	\$ 180,635	\$ 724,899
Payments to suppliers	(177,127)	(59,109)	(236,236)
Payments to employees	(265,656)	(123,164)	(388,820)
Payments for insurance premiums	(56,613)	(30,994)	(87,607)
Net Cash Provided (Used) by Operating Activities	44,868	(32,632)	12,236
Cash Flows From Capital and Related Financing Activities			
Acquisition and construction of capital assets	(6,559)	-	(6,559)
Principal paid on long-term debt	-	(40,921)	(40,921)
Interest paid on debt	-	(1,998)	(1,998)
Net Cash Provided (Used) by Capital and Related Financing Activities	(6,559)	(42,919)	(49,478)
Cash Flows From Investing Activities			
Interest on deposits	3,630	471	4,101
Net Cash Provided (Used) by Investing Activities	3,630	471	4,101
Net Increase (Decrease) in Cash and Cash Equivalents	41,939	(75,080)	(33,141)
Cash and Cash Equivalents at Beginning of Year (includes \$77,859 of restricted cash in Water and Sewer Fund)	851,766	177,340	1,029,106
Cash and Cash Equivalents at End of Year (includes \$83,429 of restricted cash in Water and Sewer Fund)	\$ 893,705	\$ 102,260	\$ 995,965
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Operating income (loss)	\$ (79,129)	\$ (101,706)	\$ (180,835)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	35,169	29,021	64,190
Provision for uncollectible accounts	4,700	1,738	6,438
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	(4,073)	(2,324)	(6,397)
Increase (decrease) in customer deposits payable	5,570	-	5,570
Increase (decrease) in claims payable	2,167	3,420	5,587
Increase (decrease) in net pension liability	80,464	37,219	117,683
Total Adjustments	123,997	69,074	193,071
Net Cash Provided (Used) by Operating Activities	\$ 44,868	\$ (32,632)	\$ 12,236

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MAY 08 2017

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

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CITY OF QUITMAN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2016

Note 1: Summary of Significant Accounting Policies

A. Financial Reporting Entity.

The City of Quitman, Mississippi ("City") is a municipal corporation which was incorporated on February 6, 1901. The City is governed by an elected mayor and five-member Board of Aldermen. Accounting principles generally accepted in the United States of America require the City to present these financial statements on the primary government and its component units, if applicable which have significant operational or financial relationships with the City. There are no outside organizations that should be included as component units of the City's reporting entity.

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, fund financial statements and accompanying note disclosures which provide a detailed level of financial information.

Government-wide Financial Statements:

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

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 and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. 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. Funds are organized into governmental, proprietary and fiduciary. Major individual Governmental Funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column as Other Governmental Funds.

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

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

CITY OF QUITMAN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2016

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 Fund:

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

The City reports the following major Enterprise Funds:

Water and Sewer Fund – This fund is used to account for the activities associated with the City's water distribution and sewage collection systems.

Garbage Collection Fund – This fund is used to account for the activities associated with the City's garbage collection system.

Additionally, the City reports the following funds:

GOVERNMENTAL FUNDS

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

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

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

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

PROPRIETARY FUNDS

Enterprise Funds – These funds 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.

FIDUCIARY FUNDS

Agency Funds – These funds account for various taxes, deposits and other monies collected or held by the City, in a purely custodial capacity, until distributed to other governmental units or designated beneficiaries.

CITY OF QUITMAN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2016

D. Account Classifications.

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

E. Deposits and Investments.

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

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

F. Receivables.

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

G. Interfund Transactions and Balances.

Transactions between funds that are representative of short-term lending/borrowing arrangements and transactions that have not resulted in the actual transfer of cash at the end of the fiscal year are referred to as "due to/from other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Position. Any outstanding balances between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

H. Restricted Assets.

The City requires new users of its water and sewer system to pay a meter deposit up front in order to use the City's water and sewer systems. The City is required to maintain these deposits in a separate bank account and return this deposit to the customer upon discontinuation of service. When both restricted and non-restricted assets are available for use, the policy is to use restricted assets first.

I. Capital Assets.

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

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

CITY OF QUITMAN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2016

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

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

	Capitalization Thresholds	Estimated Useful Life
Land	\$ -	N/A
Infrastructure	-	20-50 years
Buildings	50,000	40 years
Improvements other than buildings	25,000	20 years
Mobile equipment	5,000	5-10 years
Furniture and equipment	5,000	3-7 years
Leased assets under capital leases	*	*

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

J. Deferred Outflows/Inflows of Resources.

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

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

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

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

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

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

K. Pensions.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employees' Retirement System (PERS) and additions to/deductions from PERS' fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee

CITY OF QUITMAN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2016

contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

L. Long-term Liabilities.

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

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

M. Equity Classifications.

Government-wide Financial Statements:

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

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

Restricted net position – Consists of net position with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or law through constitutional provision 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:

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

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

Fund Balance Flow Assumption:

When an expenditure is incurred for purposes in which all classifications of spendable fund balance are available, it is the City’s general policy to use restricted resources first.

N. Property Tax Revenues.

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



CITY OF QUITMAN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2016

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

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

The total millage rate of the City for January through December 2016 is 33.27 mills; 32.27 mills for general government operations, and 1.0 mill for library operations.

O. Intergovernmental Revenues in Governmental Funds.

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

P. Compensated Absences.

The City does not allow employees to accumulate unused vacation pay. The City does allow employees to accumulate sick leave up to a maximum of sixty days. However, these benefits do not vest; therefore, no liability for compensated absences has been accrued.

CITY OF QUITMAN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2016

Note 2: Prior Period Adjustments.

The significant Net Position/Fund Balance adjustments are as follows:

Exhibit 2 - Statement of Activities - Governmental Activities.

<u>Explanation</u>	<u>Amount</u>
Entry to reverse prior year relocation of funds related to TIF loan	\$ (9,992)
Entry to move the accumulated depreciation related to TIF to correct fund	4,440
Entry to record construction in progress not recorded in prior year	(29,443)
Total Prior Period Adjustments - Governmental Activities	<u>\$ (34,995)</u>

Exhibit 2 - Statement of Activities - Business-type Activities.

<u>Explanation</u>	<u>Amount</u>
Entry to reverse prior year relocation of funds related to TIF loan	\$ 9,992
Entry to move the accumulated depreciation related to TIF to correct fund	(4,440)
	<u>\$ 5,552</u>

Exhibit 4 - Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.

<u>Explanation</u>	<u>Amount</u>
Entry to reverse prior year relocation of funds related to TIF loan	\$ (9,992)
	<u>\$ (9,992)</u>

Exhibit 6 - Statement of Revenues, Expenditures and Changes in Net Position - Proprietary Funds.

<u>Explanation</u>	<u>Amount</u>
Entry to reverse prior year relocation of funds related to TIF loan	\$ 9,992
Entry to move the accumulated depreciation related to TIF to correct fund	(4,440)
	<u>\$ 5,552</u>

Note 3: Deposits.

The carrying amount of the City's total deposits with financial institutions at September 30, 2016, was \$1,680,884 and the bank balance was \$1,726,268. The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Mississippi Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities

CITY OF QUITMAN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2016

pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Companies (FDIC).

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of the failure of a financial institution, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. The City does not have a formal policy for custodial credit risk. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC). Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the City.

Note 4: Interfund Transactions and Balances.

Transfers In/Out:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Other Governmental Funds	General Fund	\$ 9,960
		<u>\$ 9,960</u>

The principal purpose of the above interfund transfer was to reclassify funds to their correct location.

Note 5: Intergovernmental Receivables.

Intergovernmental receivables at September 30, 2016, consisted of the following:

<u>Description</u>	<u>Amount</u>
Governmental Activities:	
Sales Tax	\$ 42,171
Motor Vehicle License Tax	10,222
County Road Tax	1,757
Total Governmental Activities	<u>\$ 54,150</u>

Note 6: Accounts and Fines Receivable.

At September 30, 2016, accounts and fines receivable consisted of:

Governmental Activities:

	<u>Amount</u>
Fines receivable	\$ 859,393
Allowance for uncollectibles	(618,495)
Fines receivable, net	<u>\$ 240,898</u>

Business Activities:

	<u>Water and Sewer Fund</u>	<u>Garbage Collection Fund</u>	<u>Total</u>
Accounts receivable	\$ 118,307	\$ 44,165	\$ 162,472
Allowance for uncollectibles	(69,350)	(25,650)	(95,000)
Accounts receivable, net	<u>\$ 48,957</u>	<u>18,515</u>	<u>67,472</u>

CITY OF QUITMAN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2016

Note 7: Restricted Assets.

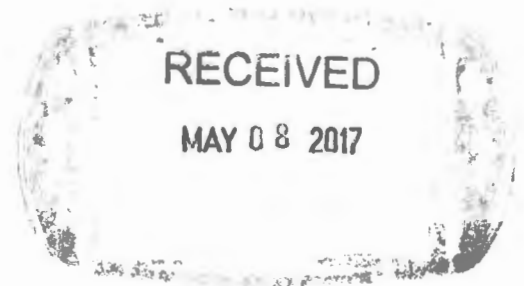
The balance of the restricted asset account in the City's Water and Sewer fund represents customer meter deposits in the amount of \$83,429.

Note 8: Capital Assets.

Capital assets activity for the year ended September 30, 2016, was as follows:

Governmental Activities:					
	Balance October 1, 2015	Additions	Deletions	Adjustments	Balance September 30, 2016
Non-depreciable capital assets:					
Land	\$ 402,881	\$ -	\$ -	\$ -	\$ 402,881
Construction in progress	-	346,879	-	29,443	376,322
Total non-depreciable capital assets	402,881	346,879	-	29,443	779,203
Depreciable capital assets:					
Buildings	409,892	-	-	-	409,892
Improvements other than buildings	219,371	-	-	111,000	330,371
Mobile equipment	862,501	22,510	-	-	885,011
Furniture and equipment	357,662	9,806	-	-	367,468
Total depreciable capital assets	1,849,426	32,316	-	111,000	1,992,742
Less: accumulated depreciation:					
Buildings	(174,677)	(8,198)	-	-	(182,875)
Improvements other than buildings	(175,497)	(4,440)	-	(4,440)	(184,377)
Mobile equipment	(662,649)	(41,466)	-	-	(704,115)
Furniture and equipment	(316,287)	(3,167)	-	-	(319,454)
Total accumulated depreciation	(1,329,110)	(57,271)	-	(4,440)	(1,390,821)
Total depreciable capital assets, net	520,316	(57,271)	-	106,560	601,921
Governmental activities capital assets, net	\$ 923,197	\$ 321,924	\$ -	\$ 136,003	\$ 1,381,124

The adjustment for construction in progress was to account for an addition to construction in progress that was not recorded in prior year. The adjustments to "Improvements other than buildings" and accumulated depreciation for "Improvements other than buildings" are to record the reclassification of a capital asset addition that was originally recorded in the Water and Sewer Fund but was transferred to Other Governmental Funds for the current year.



CITY OF QUITMAN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2016

Business-type Activities:

	Balance October 1, 2015	Additions	Deletions	Adjustments	Balance September 30, 2016
Non-depreciable capital assets:					
Land	\$ 18,591	\$ -	\$ -	\$ -	\$ 18,591
Total non-depreciable capital assets	18,591	-	-	-	18,591
Depreciable capital assets:					
Machinery and equipment	4,409,706	6,560	-	(111,000)	4,305,266
Mobile equipment	386,889	-	-	-	386,889
Total depreciable capital assets	4,796,595	6,560	-	(111,000)	4,692,155
Less: accumulated depreciation:					
Machinery and equipment	(3,056,503)	(38,362)	-	4,440	(3,090,425)
Mobile equipment	(270,713)	(25,830)	-	-	(296,543)
Total accumulated depreciation	(3,327,216)	(64,192)	-	4,440	(3,386,968)
Total depreciable capital assets, net	1,469,379	(57,632)	-	(106,560)	1,305,187
Business-type activities capital assets, net	\$ 1,487,970	\$ (57,632)	\$ -	\$ (106,560)	\$ 1,323,778

The adjustments to "Machinery and equipment" and accumulated depreciation for "Machinery and equipment" are to record the reclassification of a capital asset addition that was originally recorded in the Water and Sewer Fund but was transferred to Other Governmental Funds for the current year.

Depreciation expense was charged to the following functions:

	Amount
Governmental Activities:	
General government	\$ 3,385
Public safety	41,825
Highways and streets	5,846
Culture and recreation	6,215
Total governmental activities depreciation expense	<u>\$ 57,271</u>
Business-type Activities:	
Water and sewer	\$ 35,169
Garbage collection	29,023
Total business-type activities depreciation expense	<u>\$ 64,192</u>

Commitments with respect to unfinished capital projects at September 30, 2016, consisted of the following:

Description of Commitment	Remaining Financial Commitment	Expected Date of Completion
Highway 145 Turn Lane	\$ 47,127	February 2017

CITY OF QUITMAN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2016

Note 9: Defined Benefit Pension Plan.

General Information about the Pension Plan

Plan Description. The City of Quitman, 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.

Benefits Provided. Membership in PERS is a condition of employment granted upon hiring for qualifying employees and officials of the State of Mississippi, state universities, community and junior colleges, and teachers and employees of the public school districts. For those persons employed by political subdivisions and instrumentalities of the State of Mississippi, membership is contingent upon approval of the entity's participation in PERS by the PERS' Board of Trustees. If approved, membership for the entity's employees is a condition of employment and eligibility is granted to those who qualify upon hiring. Participating members who are vested and retire at or after age 60 or those who retire regardless of age with at least 30 years of creditable service (25 years of creditable service for employees who became members of PERS before July 1, 2011) are entitled, upon application, to an annual retirement allowance payable monthly for life in an amount equal to 2.0 percent of their average compensation for each year of creditable service up to and including 30 years (25 years for those who became members of PERS before July 1, 2011), plus 2.5 percent for each additional year of creditable service with an actuarial reduction in the benefit for each year of creditable service below 30 years or the number of years in age that the member is below 65, whichever is less. Average compensation is the average of the employee's earnings during the four highest compensated years of creditable service. Benefits vest upon completion of eight years of membership service (four years of membership service for those who became members of PERS before July 1, 2007). PERS also provides certain death and disability benefits. A Cost-of-Living Adjustment (COLA) payment is made to eligible retirees and beneficiaries. The COLA is equal to 3.0 percent of the annual retirement allowance for each full fiscal year of retirement up to the year in which the retired member reaches age 60 (55 for those who became members of PERS before July 1, 2011), with 3.0 percent compounded for each fiscal year thereafter. Plan provisions are established and may be amended only by the State of Mississippi Legislature.

Contributions. At September 30, 2016, PERS members were required to contribute 9% of their annual covered salary, and the City is required to contribute at an actuarially determined rate. The employer's rate at September 30, 2016 was 15.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The City's contributions (employer share only) to PERS for the years ending September 30, 2016, 2015 and 2014 were \$155,584, \$148,772, and \$144,985, 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 reported a liability of \$2,700,097 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 that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to projected contributions of all participating entities, actuarially determined. At June 30, 2016, the City's proportion was .015116 percent, which was an increase of .000065 percent from its proportion measured as of June 30, 2015.

CITY OF QUITMAN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2016

For the year ended September 30, 2016, the City recognized pension expense of \$505,501. At September 30, 2016 the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 77,709	
Net difference between projected and actual earnings on pension plan investments		\$ 1,961,286
Changes of assumptions	93,071	(5,786)
Changes in proportion and differences between District contributions and proportionate share of contributions	2,060,118	
District contributions subsequent to the measurement date	38,302	
Total	\$ 2,269,200	\$ 1,955,500

\$2,269,200 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30:

2017	173,189
2018	169,503
2019	(67,295)

Actuarial Assumption. The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods in the measurement:

Inflation	3.00 percent
Salary increases	3.75 – 19.00 percent, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

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

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 to 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.

CITY OF QUITMAN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2016

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Broad	34 %	5.20 %
International Equity	19	5.00
Emerging Markets Equity	8	5.45
Fixed Income	20	0.25
Real Assets	10	4.00
Private Equity	8	6.15
Cash	1	(0.50)
Total	100 %	

Discount Rate. The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate (9.00%) and that employer contributions will be made at the current employer contribution rate (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. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

	1% Decrease (6.75%)	Discount Rate (7.75%)	1% Increase (8.75%)
City's proportionate share of the net pension liability	3,462,127	2,700,097	2,067,855

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

Note 10: Risk Management.

Workers' Compensation Benefits

The City finances its exposure to risk of loss related to workers' compensation for injuries to its employees through the Mississippi Public Entity Workers' Compensation Trust, a public entity risk pool. The City pays premiums to the pool for its workers' compensation insurance coverage, and the participation agreement provides that the pool will be self-sustaining through member premiums. The retention for the pool is \$1,000,000 for each accident with a one-time \$750,000 deductible, which completely covers statutory limits set by the Workers' Compensation Commission. Risk of loss is remote for claims exceeding the pool's retention liability. However, the pool also has catastrophic reinsurance coverage for statutory limits above the pool's retention, provided by Safety National Casualty Corporation, effective from January 1, 2016 to January 1, 2017. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

CITY OF QUITMAN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2016

Note 11: Long-term Debt.

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

Description	Amount Outstanding	Interest Rate	Final Maturity Date
Governmental Activities:			
A. Limited Obligation Bond	\$ 99,900	4.59%	3/1/2025
Total Limited Obligation Bond	\$ 99,900		
B. Other Loan	\$ 39,540	2.70%	4/15/2017
Total Other Loan	\$ 39,540		
Business-type Activities:			
A. Other Loan	\$ 43,084	2.70%	4/15/2017
Total Other Loan	\$ 43,084		

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

Governmental Activities:

Year Ending September 30	Limited Obligation Bonds		Other Loan	
	Principal	Interest	Principal	Interest
2017	11,100	4,583	39,540	795
2018	11,100	4,074		
2019	11,100	3,564		
2020	11,100	3,055		
2021	11,100	2,546		
2022-2026	44,400	5,093		
	\$ 99,900	\$ 22,915	\$ 39,540	\$ 795

Business-type Activities:

Year Ending September 30	Other Loan	
	Principal	Interest
2017	\$ 43,084	\$ 866
	\$ 43,084	\$ 866

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% if the 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 subject to the limit was less than one percent of the most recent assessment.

CITY OF QUITMAN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2016

The following is a summary of changes in long-term liabilities and obligations for the year ended September 30, 2016:

	Balance October 1, 2015	Additions	Reductions	Adjustments	Balance September 30, 2016	Amount Due within One Year
Governmental Activities:						
Limited Obligation Bond	\$ -	\$ -	\$ 11,100	\$ 111,000	\$ 99,900	\$ 11,100
Other Loan	77,095	-	37,555	-	39,540	39,540
	<u>\$ 77,095</u>	<u>\$ -</u>	<u>\$ 48,655</u>	<u>\$ 111,000</u>	<u>\$ 139,440</u>	<u>\$ 50,640</u>

	Balance October 1, 2015	Additions	Reductions	Adjustments	Balance September 30, 2016	Amount Due within One Year
Business-type Activities:						
Limited Obligation Bond	\$ 111,000	\$ -	\$ -	\$ (111,000)	\$ -	\$ -
Other Loan	84,005	-	40,921	-	43,084	43,084
	<u>\$ 195,005</u>	<u>\$ -</u>	<u>\$ 40,921</u>	<u>\$ (111,000)</u>	<u>\$ 43,084</u>	<u>\$ 43,084</u>

The adjustments recorded in long-term debt are to relocate debt to the correct fund. The debt was added in the prior fiscal year, and it was recorded in the Water and Sewer Fund. This adjustment transferred it to a special revenue fund created specifically for it.

Note 12: 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 an agency 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. It is not possible at the present time to estimate ultimate outcome or liability, if any, of the City with respect to the various proceedings. However, the City's legal counsel believes that ultimate liability resulting from these lawsuits will not have a material adverse effect on the financial condition of the City.

Note 13: Related Organization.

The City's Mayor and Board of Aldermen are responsible for appointing three members to the board of trustees of the Quitman Public Library, but the City's accountability for this organization does not extend beyond making the appointments. The City appropriated \$44,523 for an operating grant to the Quitman Public Library for the fiscal year 2016. This appropriation is funded by a 1 mill ad valorem millage rate on the citizens and businesses of the City.

Note 14: Joint Venture.

The City is a participant with the City of Waynesboro and the City of Shubuta in a joint venture to operate Chickasawhay Natural Gas District ("The District"), a special governmental unit established by state statute to provide gas service to the residences of the three cities' citizens and vicinity. The District is governed by a seven-member board of trustees composed of the mayor of each of the three participating cities, two members elected by the customers, one each from Clarke and Wayne counties, one member appointed by the governor of Mississippi and one member appointed by the Mississippi State Legislature. Each of the three cities is not presently obligated by contract to supplement the District's operating revenues. The District's board minutes are silent to a specific formula outlining each participant's claim to joint venture assets, and there is no written joint venture agreement.

CITY OF QUITMAN, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2016

among the participants. Therefore, no explicit and measurable equity interest is deemed to exist. Complete financial statements for the District can be obtained from the District's administrative office at 306 S. Archusa Avenue, Quitman, MS 39355 or call (601) 776-8887.

Note 15: Jointly Governed Organization.

The City, in conjunction with Clarke County, Mississippi has created the Criminal Investigation Division. The board of trustees for this division is composed of the participating governments' police chief and sheriff. The City is in control of the funds associated with this division.

Note 16: 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 Quitman evaluated the activity through February 10, 2017 (the date the financial statements were available to be issued), and determined that the following subsequent events have occurred requiring disclosure in the notes to the financial statements.

Subsequent to September 30, 2016, the City issued the following debt obligation:

<u>Issue Date</u>	<u>Interest Rate</u>	<u>Issue Amount</u>	<u>Type of Financing</u>	<u>Source of Financing</u>
October 6, 2016	0.00%	\$ 22,500	Other Loan	Mississippi Development Authority

REQUIRED SUPPLEMENTARY INFORMATION

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City of Quitman, Mississippi
Budgetary Comparison Schedule - Budget and Actual (Non-GAAP Basis)
General Fund
For the Year Ended September 30, 2016

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 713,000	\$ 688,497	\$ 688,497	\$ -
Licenses, commissions and other revenue	22,000	6,523	6,523	-
Fines and forfeitures	72,000	36,769	36,769	-
Intergovernmental revenues	1,079,821	864,934	864,934	-
Miscellaneous revenues	273,000	236,352	236,352	-
Total Revenues	<u>2,159,821</u>	<u>1,833,075</u>	<u>1,833,075</u>	<u>-</u>
EXPENDITURES				
Current:				
General government	722,083	514,072	514,072	\$ -
Public safety	648,064	622,162	622,162	-
Public works	728,251	667,220	667,220	-
Culture and recreation	60,923	53,091	53,091	-
Total Expenditures	<u>2,159,321</u>	<u>1,856,545</u>	<u>1,856,545</u>	<u>-</u>
Net Change in Fund Balances	500	(23,470)	(23,470)	-
Fund Balances - Beginning	471,342	637,110	779,338	142,228
Fund Balances - Ending	<u>\$ 471,842</u>	<u>\$ 613,640</u>	<u>\$ 755,868</u>	<u>\$ 142,228</u>

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

City of Quitman, Mississippi
Schedule of the City's Proportionate Share of the Net Pension Liability
Last 10 Fiscal Years *

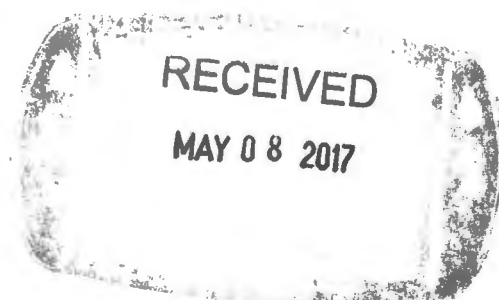
	<u>2016</u>	<u>2015</u>	<u>2014</u>
City's proportion of the net pension liability (asset)	0.015116%	0.015051%	0.015065%
City's proportionate share of the net pension liability (asset)	\$ 2,700,097	\$ 2,326,587	\$ 1,828,616
City's covered - employee payroll	\$ 987,835	\$ 944,584	\$ 920,540
City's proportionate share of the net pension liability (asset) as a percentage of its covered - employee payroll	273.334818%	246.308110%	198.646012%
Plan fiduciary net position as a percentage of the total pension liability	57.470000%	61.700000%	67.210000%

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

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

City of Quitman, Mississippi
Schedule of City Contributions
Last 10 Fiscal Years *

	2016	2015	2014
Contractually required contribution	\$ 155,584	\$ 148,772	\$ 144,985
Contributions in relation to the contractually required contribution	155,584	148,772	144,985
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered - employee payroll	\$ 987,835	\$ 944,584	\$ 920,540
Contributions as a percentage of covered - employee payroll	15.75%	15.75%	15.75%



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

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

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CITY OF QUITMAN, MISSISSIPPI
Notes to the Required Supplementary Information
For the Year Ended September 30, 2016

A. Budgetary Information.

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

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

B. Basis of Presentation.

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

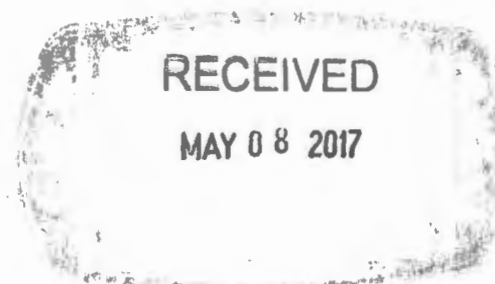
C. Budget/GAAP Reconciliation.

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

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

The following schedule reconciles the budgetary basis schedules to the GAAP basis financial statements for the General Fund.

	<u>General Fund</u>
Budget (Cash Basis)	\$ (23,470)
Increase (Decrease)	
Net adjustments for revenue accruals	(14,610)
GAAP Basis	<u>\$ (38,080)</u>



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SUPPLEMENTAL INFORMATION



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City of Quitman, Mississippi
Schedule of Surety Bonds for Municipal Officials
September 30, 2016

Name	Position	Company	Bond Amount
William Fulton	Mayor	Old Republic Surety Company	50,000
Lisa Harris	City Clerk	Old Republic Surety Company	50,000
Joe Kramer	Police Clerk	Old Republic Surety Company	50,000
Lynnita Bartee	Asst. City Clerk	Old Republic Surety Company	50,000
Dawn Hollingsworth/Dayona Mollett	Deputy Clerk	Old Republic Surety Company	50,000
Joe Kramer	Court Clerk	Old Republic Surety Company	50,000
Ronald Holloway	Alderman	Western Surety	50,000
Joe Brooks	Alderman	Old Republic Surety Company	50,000
James H. Buchanan	Alderman	Old Republic Surety Company	50,000
Bridgett Peters	Alderperson	Western Surety	50,000
Harry Wheat	Alderman	Western Surety	50,000

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SPECIAL REPORTS



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Stephen D. Myrick C.P.A., L.L.C.

103 North Archusa Avenue
P. O. Box 540
Quitman, MS 39355

Telephone and Fax: (601) 776-4547
E-Mail: stephenmyrickcpa@bellsouth.net

Member
American Institute of
Certified Public Accountants

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Mississippi Society of
Certified Public Accountants

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

Members of the Board of Aldermen
and Honorable Mayor
City of Quitman, Mississippi

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Quitman, 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 February 10, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Quitman, 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*.

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.



Stephen D. Myrick
Certified Public Accountant

February 10, 2017
Quitman, Mississippi

Stephen D. Myrick C.P.A., L.L.C.

103 North Archusa Avenue
P. O. Box 540
Quitman, MS 39355

Telephone and Fax: (601) 776-4547
E-Mail: stephenmyrickcpa@bellsouth.net

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

Members of the Board of Aldermen
and Honorable Mayor
City of Quitman, Mississippi

We have audited the basic financial statements of the City of Quitman, Mississippi as of and for the year ended September 30, 2016 and have issued our report dated February 10, 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 the following material instance of noncompliance with state laws and regulations. Our finding and recommendation and your response is as follows:

1. Finding

As stated in prior years, the City did not comply with the Mississippi Municipal Audit and Accounting Guide that requires municipalities to complete an annual inventory of all fixed assets owned by the municipality. Without adequate control procedures in place over inventory of capital assets, the risk increases that inaccurate information may be reported or loss or misappropriation of public assets could occur.

Recommendation

The City should comply with requirements of the Mississippi Municipal Audit and Accounting Guide that require municipalities to complete an annual inventory of all fixed assets of the City.

Response

We will begin to comply with requirements of the Mississippi Municipal Audit and Accounting Guide as it relates to the annual inventory of fixed assets.

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

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



This report is intended 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.

A handwritten signature in black ink, appearing to read "Stephen D. Myrick". The signature is fluid and cursive, with the first name "Stephen" and last name "Myrick" clearly distinguishable.

Stephen D. Myrick
Certified Public Accountant

Quitman, Mississippi
February 10, 2017

SCHEDULE OF FINDINGS AND RESPONSES



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CITY OF QUITMAN, MISSISSIPPI
Schedule of Findings and Responses
For the Year Ended September 30, 2016

Section 1: Summary of Auditor's Results

Financial Statements:

- | | |
|---|---------------|
| 1. Type of auditor's report issued on the financial statements: | Unmodified |
| 2. Internal control over financial reporting: | |
| a. Material weakness(es) identified? | No |
| b. Significant deficiency(ies) identified? | None Reported |
| 3. Noncompliance material to the financial statements noted? | No |

Section 2: Financial Statement Findings

The results of our tests did not disclose any findings related to the financial statements that are required to be reported by *Government Auditing Standards*.

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