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NEWTON MUNICIPAL SCHOOL DISTRICT

Audited Financial Statements
For the Year Ended June 30, 2017

NEWTON MUNICIPAL SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

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SUZANNE E. SMITH, CPA, PLLC
AUDITING AND ACCOUNTING SERVICES
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INDEPENDENT AUDITOR'S REPORT

Superintendent and School Board
Newton Municipal School District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Newton Municipal School District as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Newton Municipal School District'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 of 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, each major fund, and the aggregate remaining fund information of the Newton Municipal School District, as of June 30, 2017, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

POST OFFICE BOX 102
BRANDON, MISSISSIPPI 39043
PHONE: 601-938-5717

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, the Schedule of the District's Proportionate Share of the Net Pension Liability, and the Schedule of District Contributions on pages 9-16, 51-57, 59, and 61, respectively, 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Newton Municipal School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, the Schedule of Instructional, Administrative and Other Expenditures for Governmental Funds, and the other information section, which includes the Statement of Revenues, Expenditures and Changes in Fund Balances—General Fund, Last Four Years and the Statement of Revenues, Expenditures and Changes in Fund Balances—All Governmental Funds, Last Four Years are presented for purposes of additional analysis and are not a required part of the basic financial statements.

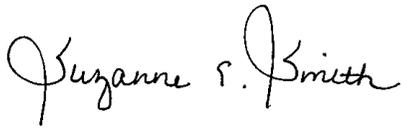
The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and the Schedule of Instructional, Administrative and Other Expenditures for Governmental Funds are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information mentioned above is fairly stated in all material respects in relation to the basic financial statements as a whole.

The other information section, which includes the Statement of Revenues, Expenditures and Changes in Fund Balances—General Fund, Last Four Years and the Statement of Revenues, Expenditures and Changes in Fund Balances—All Governmental Funds, Last Four Years 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 January 18, 2018 on our consideration of the Newton Municipal School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Newton Municipal School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with

Government Auditing Standards in considering Newton Municipal School District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Suzanne E. Smith". The signature is written in a cursive style with a large, looped initial 'S'.

Suzanne E. Smith, CPA, PLLC
Brandon, Mississippi
January 18, 2018

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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NEWTON MUNICIPAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2017

The following discussion and analysis of Newton Municipal School District's financial performance provides an overview of the School District's financial activities for the year ended June 30, 2017. The intent of this discussion and analysis is to look at the School District's performance as a whole. Readers are encouraged to review the financial statements and the notes to the financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

- Total net position for 2017 decreased \$1,264,172, including a prior period adjustment of \$43,165, which represents a 26% decrease from fiscal year 2016. Total net position for 2016 increased \$371,428, including a prior period adjustment of \$22,890, which represents a 7% increase from fiscal year 2015.
- General revenues amounted to \$7,473,845 and \$7,595,841, or 78% and 78% of all revenues for fiscal years 2017 and 2016, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$2,064,119, or 22% of total revenues for 2017, and \$2,185,688, or 22% of total revenues for 2016.
- The District had \$10,845,301 and 9,432,991 in expenses for fiscal years 2017 and 2016; only \$2,064,119 for 2017 and \$2,185,688 for 2016 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$7,473,845 for 2017 were not adequate to provide for these programs, while general revenues of \$7,595,841 for 2016 were adequate to provide for these programs.
- Among major funds, the General Fund had \$7,148,959 in revenues and \$7,352,079 in expenditures for 2017, and \$7,436,450 in revenues and \$6,900,049 in expenditures in 2016. The General Fund's fund balance decreased by \$391,178, including a prior period adjustment of (\$47,820), from 2016 to 2017, and increased by \$181,433, including a prior period adjustment of (\$15,658), from 2015 to 2016.
- Capital assets, net of accumulated depreciation, decreased by \$66,686 for 2017 and decreased by \$199,808 for 2016. The decrease for 2017 was due primarily to the current year depreciation expense.
- Long-term debt, including compensated absences payable, decreased by \$247,544 for 2017 and decreased by \$245,069 for 2016. This decrease for 2017 was due primarily to principal payments on outstanding long-term debt. The liability for compensated absences decreased by \$2,544 for 2017 and decreased by \$1,625 for 2016.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements

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

The Statement of Net Position presents information on all the District's nonfiduciary assets, deferred outflows, liabilities, and deferred inflows, with the differences between them reported as "net position." Over

NEWTON MUNICIPAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2017

time increases or decreases in the District's net position may serve as a useful indicator of whether its financial position is improving or deteriorating.

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

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

Fund Financial Statements

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

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

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

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

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

Reconciliation of Government-wide and Fund Financial Statements

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

NEWTON MUNICIPAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2017

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

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

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

A net pension liability results in a liability on the government-wide financial statements but is not reported on governmental funds financial statements.

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

Notes to the financial statements

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

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents budgetary comparison schedules, Schedule of the District's Proportionate Share of the Net Pension Liability, and Schedule of District Contributions as required supplementary information. The District adopts an annual operating budget for all governmental funds. A budgetary comparison schedule has been provided for the General Fund and each major special revenue fund as required by the Governmental Accounting Standards Board.

Supplementary Information

Additionally, a Schedule of Expenditures of Federal Awards as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and a Schedule of Instructional, Administrative and Other Expenditures for governmental funds can be found in this report.

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position

Net position may serve over time as a useful indicator of the District's financial position. Liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$6,211,911 as of June 30, 2017.

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

NEWTON MUNICIPAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2017

Table 1 presents a summary of the District's net position at June 30, 2017 and June 30, 2016.

Table 1
Condensed Statement of Net Position

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>Percentage Change</u>
Current assets	\$ 1,861,293	\$ 2,743,350	(32.15) %
Restricted assets	122,936	108,262	13.55 %
Capital assets, net	5,405,099	5,471,785	(1.22) %
Total assets	<u>7,389,328</u>	<u>8,323,397</u>	(11.22) %
Deferred outflows of resources	<u>4,391,931</u>	<u>3,309,439</u>	32.71 %
Current liabilities	60,655	527,033	(88.49) %
Long-term debt outstanding	1,056,905	1,302,893	(18.88) %
Net pension liability	16,076,247	12,366,422	30.00 %
Total liabilities	<u>17,193,807</u>	<u>14,196,348</u>	21.11 %
Deferred inflows of resources	<u>799,363</u>	<u>2,384,227</u>	(66.47) %
Net position:			
Net investment in capital assets	4,408,213	4,231,455	4.18 %
Restricted	789,446	803,983	(1.81) %
Unrestricted	(11,409,570)	(9,983,177)	(14.29) %
Total net position	<u>\$ (6,211,911)</u>	<u>\$ (4,947,739)</u>	(25.55) %

Additional information on unrestricted net position:

In connection with the application of standards on accounting and financial reporting for pensions, management presents the following additional information:

Total unrestricted net position (deficit)	\$ (11,409,570)
Less unrestricted deficit in net position resulting from recognition of the net pension liability, including the deferred outflows and deferred inflows related to pensions	12,483,679
Unrestricted net position, exclusive of the net pension liability effect	<u>\$ 1,074,109</u>

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

- Decrease in net capital assets in the amount of \$66,686.
- The principal retirement of \$245,000 of long-term debt.
- Increase in net pension liability in the amount of \$3,709,825.

Changes in net position

The District's total revenues for the fiscal years ended June 30, 2017 and June 30, 2016 were \$9,537,964 and \$9,781,529, respectively. The total cost of all programs and services was \$10,845,301 for 2017 and \$9,432,991 for 2016.

NEWTON MUNICIPAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2017

Table 2 presents a summary of the changes in net position for the fiscal years ended June 30, 2017 and June 30, 2016.

Table 2
Changes in Net Position

	<u>Year Ended</u> <u>June 30, 2017</u>	<u>Year Ended</u> <u>June 30, 2016</u>	<u>Percentage</u> <u>Change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 131,945	\$ 163,732	(19.41) %
Operating grants and contributions	1,927,054	2,021,956	(4.69) %
Capital Grants and Contributions	5,120	-	N/A %
General revenues:			
Property taxes	2,422,837	2,311,357	4.82 %
Grants and contributions not restricted	5,005,369	5,008,185	(0.06) %
Investment earnings	1,662	1,590	4.53 %
Sixteenth section sources	18,433	163,502	(88.73) %
Other	25,544	111,207	(77.03) %
Total revenues	9,537,964	9,781,529	(2.49) %
Expenses:			
Instruction	4,321,805	4,128,041	4.69 %
Support services	3,838,692	3,881,757	(1.11) %
Non-instructional	631,280	589,230	7.14 %
Sixteenth section	45,355	4,142	995.00 %
Pension expense	1,975,792	789,810	150.16 %
Interest on long-term liabilities	32,377	40,011	(19.08) %
Total expenses	10,845,301	9,432,991	14.97 %
Increase (Decrease) in net position	(1,307,337)	348,538	(475.09) %
Net Position, July 1, as previously reported	(4,947,739)	(5,319,167)	6.98 %
Prior Period Adjustment	43,165	22,890	88.58 %
Net Position, July 1, as restated	(4,904,574)	(5,296,277)	7.40 %
Net Position, June 30	\$ (6,211,911)	\$ (4,947,739)	(25.55) %

Governmental activities

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

NEWTON MUNICIPAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2017

Table 3
Net Cost of Governmental Activities

	<u>Total Expenses</u>		Percentage Change
	<u>2017</u>	<u>2016</u>	
Instruction	\$ 4,321,805	\$ 4,128,041	4.69 %
Support services	3,838,692	3,881,757	(1.11) %
Non-instructional	631,280	589,230	7.14 %
Sixteenth section	45,355	4,142	995.00 %
Pension Expense	1,975,792	789,810	150.16 %
Interest on long-term liabilities	32,377	40,011	(19.08) %
Total expenses	<u>\$ 10,845,301</u>	<u>\$ 9,432,991</u>	14.97 %
	<u>Net (Expense) Revenue</u>		Percentage Change
	<u>2017</u>	<u>2016</u>	
Instruction	\$ (3,688,537)	\$ (3,583,977)	(2.92) %
Support services	(3,094,548)	(2,887,925)	(7.15) %
Non-instructional	55,427	33,787	64.05 %
Sixteenth section	(45,355)	20,633	(319.82) %
Pension Expense	(1,975,792)	(789,810)	(150.16) %
Interest on long-term liabilities	(32,377)	(40,011)	19.08 %
Total net (expense) revenue	<u>\$ (8,781,182)</u>	<u>\$ (7,247,303)</u>	(21.16) %

- Net cost of governmental activities [(\$8,781,182) for 2017 and (\$7,247,303) for 2016] was financed by general revenue, which is primarily made up of property taxes (\$2,422,837 for 2017 and \$2,311,357 for 2016) and state and federal revenues (\$5,005,369 for 2017 and \$5,008,185 for 2016). In addition, there was \$18,433 and \$163,502 in Sixteenth Section sources for 2017 and 2016, respectively.
- Investment earnings amounted to \$1,662 for 2017 and \$1,590 for 2016.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$1,945,507, a decrease of \$405,350, which includes a prior period adjustment of (\$50,312) and a decrease in inventory of \$11,166. \$1,067,186 or 55% of the fund balance is unassigned, which represents the residual classification for the General Fund's fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The remaining fund balance of \$878,321 or 45% is either nonspendable, restricted, committed or assigned to indicate that it is not available for spending except only for the purposes to which it is restricted, committed or assigned.

The General Fund is the principal operating fund of the District. The decrease in fund balance in the

NEWTON MUNICIPAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2017

General Fund for the fiscal year was \$391,178, which includes a prior period adjustment of (\$47,820). The fund balance of other governmental funds showed a decrease in the amount of \$105,509, which includes a prior period adjustment of (\$12,167). This decrease in fund balance of other governmental funds was due primarily to the purchase of buses from the EEF Building/Bus Fund and forestry improvements paid from the Forestry Escrow Fund. The increase (decrease) in the fund balances for the other major funds were as follows:

<u>Major Fund</u>	<u>Increase (Decrease)</u>
School Food Service Fund	\$ 76,663
Title I-A Fund	No change
EHA Part B Fund	No change
MAEP Debt Retirement Fund	14,674

BUDGETARY HIGHLIGHTS

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

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2017, the District's total capital assets were \$10,641,790, including land, school buildings, building improvements, buses, other school vehicles, and furniture and equipment. This amount represents an increase of \$255,679 from 2016. Total accumulated depreciation as of June 30, 2017, was \$5,236,691, and total depreciation expense for the year was \$282,026, resulting in total net capital assets of \$5,405,099.

Table 4
Capital Assets, Net of Accumulated Depreciation

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>Percentage</u> <u>Change</u>
Land	\$ 42,306	42,306	0.00 %
Buildings	4,742,055	4,880,057	(2.83) %
Building improvements	79,052	79,052	0.00 %
Improvements other than buildings	72,191	74,934	(3.66) %
Mobile equipment	355,333	320,191	10.98 %
Furniture and equipment	114,162	75,245	51.72 %
Total	\$ 5,405,099	\$ 5,471,785	(1.22) %

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

NEWTON MUNICIPAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2017

Debt Administration. At June 30, 2017, the District had \$1,060,019 in outstanding long-term debt, including compensated absences payable, of which \$265,000 is due within one year. The liability for compensated absences decreased \$2,544 from the prior year. The district made principal payments totaling \$245,000 for the year.

**Table 5
Outstanding Long-Term Debt**

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>Percentage Change</u>
Limited obligation refunding bonds payable	\$ 350,000	\$ 510,000	(31.37) %
Three mill notes payable	650,000	735,000	(11.56) %
Compensated absences payable	60,019	62,563	(4.07) %
Total	<u>\$ 1,060,019</u>	<u>\$ 1,307,563</u>	(18.93) %

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

CURRENT ISSUES

The school district continues to levy 55 operational mills for ad valorem effort, which is the maximum number of mills that can be levied without a referendum. While the general fund's fund balance decreased \$391,178 for the current year, the district expects the fund balance to stabilize in future years.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have any questions about this report or need additional financial information, contact the Superintendent's Office of the Newton Municipal School District, 205 School Street, Newton, Mississippi 39345.

FINANCIAL STATEMENTS

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NEWTON MUNICIPAL SCHOOL DISTRICT

**Statement of Net Position
June 30, 2017**

Exhibit A

	Governmental Activities
	<u> </u>
Assets	
Cash and cash equivalents	\$ 1,549,530
Due from other governments	300,953
Other receivables, net	1,158
Inventories	9,652
Restricted assets	122,936
Capital assets, net of accumulated depreciation	<u>5,405,099</u>
Total Assets	<u>7,389,328</u>
 Deferred Outflows of Resources	
Deferred outflows - pensions	<u>4,391,931</u>
Total deferred inflows of resources	<u>4,391,931</u>
 Liabilities	
Accounts payable and accrued liabilities	37,672
Interest payable on long-term liabilities	21,933
Unearned revenue	1,050
Long-term liabilities, due within one year:	
Capital related liabilities	265,000
Capital related liabilities	
Capital related liabilities	735,000
Non-capital related liabilities	60,019
Bond discount	(3,114)
Net pension liability	<u>16,076,247</u>
Total Liabilities	<u>17,193,807</u>
 Deferred Inflows of Resources	
Deferred inflows - pensions	<u>799,363</u>
Total deferred inflows of resources	<u>799,363</u>
 Net Position	
Net investment in capital assets	4,408,213
Restricted for:	
Expendable:	
School-based activities	297,652
Debt service	332,037
Forestry improvements	132,339
Unemployment benefits	9,120
Non-expendable:	
Sixteenth section	8,646
Other	9,652
Unrestricted	<u>(11,409,570)</u>
Total Net Position	<u>\$ (6,211,911)</u>

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

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NEWTON MUNICIPAL SCHOOL DISTRICT

Statement of Activities

Exhibit B

For the Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues			Changes in
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net Position
					Governmental Activities
Governmental Activities:					
Instruction	\$ 4,321,805	77,202	556,066		(3,688,537)
Support services	3,838,692	400	743,744		(3,094,548)
Non-instructional	631,280	54,343	627,244	5,120	55,427
Sixteenth section	45,355				(45,355)
Pension expense	1,975,792				(1,975,792)
Interest on long-term liabilities	32,377				(32,377)
Total Governmental Activities	\$ 10,845,301	131,945	1,927,054	5,120	(8,781,182)
General Revenues:					
Taxes:					
					2,303,178
					119,659
Unrestricted grants and contributions:					
					4,999,680
					5,689
					1,662
					18,433
					25,544
					<u>7,473,845</u>
					<u>(1,307,337)</u>
					(4,947,739)
					<u>43,165</u>
					<u>(4,904,574)</u>
					<u>(6,211,911)</u>

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

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NEWTON MUNICIPAL SCHOOL DISTRICT

Governmental Funds

Balance Sheet

Exhibit C

June 30, 2017

	Major Funds					Other Governmental Funds	Total Governmental Funds
	General Fund	School Food Service Fund	Title I-A Fund	EHA Part B Fund	MAEP Debt Retirement Fund		
Assets							
Cash and cash equivalents	\$ 970,567	254,104			20,241	333,505	1,578,417
Cash with fiscal agents					94,049		94,049
Due from other governments	99,368		40,856	29,801	94,308	36,620	300,953
Other receivables, net	1,158						1,158
Due from other funds	75,748	2,995					78,743
Inventories		9,652					9,652
Total assets	1,146,841	266,751	40,856	29,801	208,598	370,125	2,062,972
Liabilities and Fund Balances							
Liabilities:							
Accounts payable and accrued liabilities	27,001	1,062	130	832		8,647	37,672
Due to other funds			40,726	28,969		9,048	78,743
Unearned revenue						1,050	1,050
Total Liabilities	27,001	1,062	40,856	29,801	0	18,745	117,465
Fund Balances:							
Nonspendable:							
Inventory		9,652					9,652
Permanent fund principal						8,646	8,646
Restricted:							
Debt service					208,598	145,372	353,970
Forestry improvement purposes						132,339	132,339
Grant activities		256,037				41,615	297,652
Unemployment benefits						9,120	9,120
Assigned:							
Student activities	52,654						52,654
Unemployment benefits						12,880	12,880
Special projects						1,408	1,408
Unassigned	1,067,186						1,067,186
Total Fund Balances	1,119,840	265,689	0	0	208,598	351,380	1,945,507
Total Liabilities and Fund Balances	\$ 1,146,841	266,751	40,856	29,801	208,598	370,125	2,062,972

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

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NEWTON MUNICIPAL SCHOOL DISTRICT

Governmental Funds

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position **Exhibit C-1**
June 30, 2017

Total fund balances for governmental funds **\$ 1,945,507**

Amounts reported for governmental activities in the statement of Net Position are different because:

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

Land	\$ 42,306	
Buildings	8,356,020	
Building improvements	395,273	
Improvements other than buildings	141,480	
Mobile equipment	1,141,502	
Furniture and equipment	565,209	
Accumulated depreciation	<u>(5,236,691)</u>	5,405,099

2. Some liabilities, including net position obligations, are not due and payable in the current period and, therefore, are not reported in the funds:

Net pension liability	(16,076,247)	
-----------------------	--------------	--

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	4,391,931	
Deferred inflows of resources related to pensions	<u>(799,363)</u>	(12,483,679)

3. Long-term liabilities and related accrued interest are not due and payable in the current period and therefore are not reported in the funds:

Limited obligation refunding bonds	(350,000)	
Three mill notes payable	(650,000)	
Compensated absences payable	(60,019)	
Unamortized discounts	3,114	
Accrued interest payable	<u>(21,933)</u>	(1,078,838)

Net Position of governmental activities **\$ (6,211,911)**

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

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NEWTON MUNICIPAL SCHOOL DISTRICT

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances

Exhibit D

For the Year Ended June 30, 2017

	Major Funds					Other Governmental Funds	Total Governmental Funds
	General Fund	School Food Service Fund	Title I-A Fund	EHA Part B Fund	MAEP Debt Retirement Fund		
Revenues:							
Local sources	\$ 2,406,646	54,988			83	120,271	2,581,988
State sources	4,638,696	6,800			188,616	475,383	5,309,495
Federal sources	86,476	717,600	365,652	229,807		228,513	1,628,048
Sixteenth section sources	17,141					1,292	18,433
Total Revenues	7,148,959	779,388	365,652	229,807	188,699	825,459	9,537,964
Expenditures:							
Instruction	4,334,916		26,174	89,245		466,574	4,916,909
Support services	2,983,875	98,610	384,398	130,302		407,911	4,005,096
Noninstructional services	16,017	603,950	230			12,763	632,960
Sixteenth section	17,271					28,084	45,355
Debt service:							
Principal					160,000	85,000	245,000
Interest					12,675	22,491	35,166
Other					1,350		1,350
Total Expenditures	7,352,079	702,560	410,802	219,547	174,025	1,022,823	9,881,836
Excess (Deficiency) of Revenues over (under) Expenditures	(203,120)	76,828	(45,150)	10,260	14,674	(197,364)	(343,872)
Other Financing Sources (Uses):							
Operating transfers in	22,260	1,326	45,150			161,172	229,908
Operating transfers out	(162,498)			(10,260)		(57,150)	(229,908)
Total Other Financing Sources (Uses)	(140,238)	1,326	45,150	(10,260)	0	104,022	0
Net Change in Fund Balances	(343,358)	78,154	0	0	14,674	(93,342)	(343,872)
Fund Balances:							
July 1, 2016, as previously reported	1,511,018	189,026	0	0	193,924	456,889	2,350,857
Prior period adjustments	(47,820)	9,675				(12,167)	(50,312)
July 1, 2016, as restated	1,463,198	198,701	0	0	193,924	444,722	2,300,545
Increase (Decrease) in reserve for inventory		(11,166)					(11,166)
June 30, 2017	\$ 1,119,840	265,689	0	0	208,598	351,380	1,945,507

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

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NEWTON MUNICIPAL SCHOOL DISTRICT

Governmental Funds

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

Exhibit D-1

Net change in fund balances - total governmental funds \$ (343,872)

Amounts reported for governmental activities in the statement of activities are different because:

1. Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 122,497	
Depreciation expense	<u>(282,026)</u>	(159,529)

2. In the statement of activities, only the gain/loss on the sale of assets is reported, while in the governmental funds, the proceeds from the sale increases financial resources. Thus, the change in Net Position differs from the change in fund balance by the cost of the assets sold. (634)

3. The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on Net Position. Also, governmental funds report the effect of premiums, discounts and the difference between the carrying value of refunded debt and the acquisition cost of refunded debt when debt is first issued. These amounts are deferred and amortized in the statement of activities:

Payments of debt principal	245,000	
Accrued interest payable	<u>4,345</u>	249,345

4. Some items relating to pensions and reported in the statement of activities do not provide or require the use of current financial resources and therefore are not reported as revenues/expenditures in the governmental funds. The activities include:

Pension expense	(1,975,792)	
Contributions subsequent to the measurement date	<u>933,323</u>	(1,042,469)

5. Some items reported in the statement of activities do not provide or require the use of current financial resources and therefore are not reported as revenues/expenditures in governmental funds. These activities include:

Change in compensated absences	2,544	
Change in inventory reserve	(11,166)	
Amortization of deferred charges, premiums and discounts	<u>(1,556)</u>	(10,178)

Change in Net Position of governmental activities \$ (1,307,337)

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

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NEWTON MUNICIPAL SCHOOL DISTRICT

Fiduciary Funds

Statement of Fiduciary Assets and Liabilities
June 30, 2017

Exhibit E

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 352,425
Total Assets	<u>352,425</u>
Liabilities	
Accounts payable and accrued liabilities	338,788
Due to student clubs	<u>13,637</u>
Total Liabilities	<u>\$ 352,425</u>

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

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NEWTON MUNICIPAL SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2017

Note 1 – Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

As defined by accounting principles generally accepted in the United States of America, the school district is considered an "other stand-alone government." The school district is a related organization of, but not a component unit of, the city of Newton, Mississippi, since the governing authority of the city selects a majority of the school district's board but does not have financial accountability for the school district.

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

B. Government-wide and Fund Financial Statements

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

The Statement of Net Position presents the District's non-fiduciary assets, deferred outflows, liabilities, and deferred inflows with the difference reported as net position. Net position is reported in three categories:

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

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

Fund Financial Statements - Separate financial statements are provided for governmental and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds

NEWTON MUNICIPAL SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2017

are reported in separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other governmental funds.

The school district reports the following major governmental funds:

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

School Food Service Fund – This is a special revenue fund that accounts for various federal awards from the United States Department of Agriculture for school breakfasts, lunches, and after school snacks for the district's students.

Title I-A Fund – This fund accounts for the federal award Title I grants to local educational agencies. This special revenue fund captures all expenditures and revenues of the grant award.

EHA Part B Fund – This fund accounts for the expenditures and related revenues of the Special Education – grants to states award. This federal award is a part of the Special Education cluster of awards.

MAEP Debt Retirement Fund – This debt service fund accounts for the revenues pledged to retire limited obligation bonds and the debt service expenditures and interest income related to those limited obligation bonds and the assets being held to retire the bonds.

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

The District's fiduciary funds include the following:

Student Club Funds – These various funds account for the monies raised through student club activities.

Payroll Clearing Fund – This fund is used to report the payroll resources held by the district in a purely custodial capacity (assets and liabilities) and does not involve the measurement of results of operations.

Accounts Payable Clearing Fund – This fund is used to report the resources of paid claims held by the district in a purely custodial capacity (assets and liabilities) and does not involve the measurement of results of operations.

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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

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

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

FIDUCIARY FUNDS

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

NEWTON MUNICIPAL SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2017

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

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

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

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

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

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

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

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

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

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

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing, and Financial Reporting*, issued in 2012 by the Government Finance Officers Association and are consistent with the broad classifications recommended in *Financial Accounting for Local and State School Systems, 2014*, issued by the U.S. Department of Education.

D. Encumbrances

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

NEWTON MUNICIPAL SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2017

E. Assets, liabilities, deferred outflows/inflows, and net position/fund balances

1. Cash, Cash equivalents and Investments

Cash and cash equivalents

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

Investments

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

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

Investments for the district are reported at fair market value.

2. Receivables and payables

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

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

3. Due from Other Governments

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

4. Inventories and Prepaid Items

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

5. Restricted Assets

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

NEWTON MUNICIPAL SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2017

6. Capital Assets

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

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

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

The following schedule details the capitalization thresholds:

	<u>Capitalization Policy</u>	<u>Estimated Useful Life</u>
Land	\$ 0	0
Buildings	50,000	40 years
Building improvements	25,000	20 years
Improvements other than buildings	25,000	20 years
Mobile equipment	5,000	5-10 years
Furniture and equipment	5,000	3-7 years
Leased property under capital leases	*	*

(*) The threshold amount will correspond with the amounts for the asset classifications, as listed. See Note 5 for details.

7. 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 – Pensions

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.

Deferred inflows – Pensions

See Note 8 and Note 13 for further details on deferred amounts relating to pensions.

8. Compensated Absences

Employees of the school district accumulate sick leave at a minimum amount as required by state law. A

NEWTON MUNICIPAL SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2017

greater amount may be provided by school district policy provided that it does not exceed the provisions for leave as provided in Sections 25-3-93 and 25-3-95. Some employees are allowed personal leave and/or vacation leave in accordance with school district policy. The district pays for unused leave for employees as required by Section 37-7-307(5), Miss. Code Ann. (1972).

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

9. Long-term Liabilities and Bond Discounts/Premiums

In the government-wide financial statements, outstanding debt is reported as liabilities. Bond discounts or premiums and the difference between reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method. The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures. See Note 6 for details.

10. 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, the benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

11. Fund Balances

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

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

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

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

Committed fund balance includes amounts that can be used only for the specific purposes pursuant to constraints imposed by a formal action of the school board, the district's highest level of decision-making authority. This formal action is the approval of the type and amount of the commitment through a formal order of the school board. Currently the district has no committed fund balances.

Assigned fund balance includes amounts that are constrained by the district's intent to be used for a specific purpose, but are neither restricted nor committed. For governmental funds, other than the general fund, this is the residual amount within the fund that is not restricted or committed. Assignments of fund balance are created by the business manager pursuant to authorization established by formal school board policy.

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

NEWTON MUNICIPAL SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2017

unassigned fund balance amount. In other governmental funds, it may be necessary to report a negative unassigned fund balance.

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

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

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

Deposits. The school board must advertise and accept bids for depositories no less than once every three years as required by Section 37-7-333, Miss. Code Ann. (1972). The collateral pledged for the school district's deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation.

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

Cash and Cash Equivalents

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$1,578,417 and \$352,425, respectively.

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

Cash with Fiscal Agents

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$94,049.

NEWTON MUNICIPAL SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2017

Note 3 – Inter-fund Receivables, Payables and Transfers

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

A. Due From/To Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Title I-A Fund	\$ 40,726
	EHA Part B Fund	28,969
	Other governmental funds	6,053
School Food Service Fund	Other governmental funds	<u>2,995</u>
Total		<u>\$ 78,743</u>

The amounts primarily represent inter-fund balances created by loans from the General Fund to special revenue funds to provide adequate cash flow for those funds operating on an expenditure reimbursement basis. Cash is loaned to the funds for operational purposes, and the loans are repaid after reimbursement for grant expenditures is received. Also included are operational transfers due to the School Food Service Fund from a fund used to account for the summer feeding program.

B. Inter-fund Transfers

Transfers Out	Transfers In	Amount
General Fund	School Food Service Fund	\$ 1,326
	Other governmental funds	161,172
EHA Part B Fund	General Fund	10,260
Other governmental funds	General Fund	12,000
	Title I-A Fund	<u>45,150</u>
Total		<u>\$ 229,908</u>

Transfers represent indirect costs from special revenue funds transferred to the General Fund and operational transfers.

Note 4 – Restricted Assets

The restricted assets represent the cash balance, totaling \$8,646, of the Sixteenth Section Principal Fund (Permanent Fund), which is legally restricted and may not be used for purposes that support the district's programs.

In addition, the restricted assets represent the cash and cash equivalents balance, totaling \$20,241, and the cash with fiscal agents balance, \$94,049, of the MAEP Debt Retirement Fund.

Restricted Assets total \$122,936.

Note 5 – Capital Assets

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

NEWTON MUNICIPAL SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2017

	Balance 7/1/2016	Increases	Decreases	Adjustments	Balance 6/30/2017
Governmental Activities:					
<u>Non-depreciable capital assets:</u>					
Land	\$ 42,306				42,306
Total non-depreciable capital assets	42,306	-	-	-	42,306
<u>Depreciable capital assets:</u>					
Buildings	8,356,020				8,356,020
Building improvements	395,273				395,273
Improvements other than buildings	141,480				141,480
Mobile equipment	1,046,020	101,818	6,336		1,141,502
Furniture and equipment	405,012	20,679		139,518	565,209
Total depreciable capital assets	10,343,805	122,497	6,336	139,518	10,599,484
<u>Less accumulated depreciation for:</u>					
Buildings	3,475,963	138,002			3,613,965
Building improvements	316,221				316,221
Improvements other than buildings	66,546	2,743			69,289
Mobile equipment	725,829	66,042	5,702		786,169
Furniture and equipment	329,767	75,239		46,041	451,047
Total accumulated depreciation	4,914,326	282,026	5,702	46,041	5,236,691
Total depreciable capital assets, net	5,429,479	(159,529)	634	93,477	5,362,793
Governmental activities capital assets, net	\$ 5,471,785	(159,529)	634	93,477	5,405,099

Depreciation expense was charged to the following governmental functions:

	Amount
Governmental activities:	
Instruction	\$ 878
Support services	260,620
Non-instructional	20,528
Total depreciation expense - Governmental activities	\$ 282,026

Note 6 – Long-term Liabilities

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

	Balance 7/1/2016	Additions	Reductions	Balance 6/30/2017	Amounts due within one year
A. Limited obligation refunding bonds payable	\$ 510,000		160,000	350,000	175,000
B. Three mill notes payable	735,000		85,000	650,000	90,000
C. Compensated absences payable	62,563		2,544	60,019	
Subtotal	\$ 1,307,563	-	247,544	1,060,019	265,000
Bond discounts	\$ (4,670)	-	1,556	(3,114)	-

NEWTON MUNICIPAL SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2017

A. Limited obligation refunding bonds payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State aid capital improvement refunding bonds, series 2011	3.25%	1-Aug-11	1-Aug-18	\$ 1,245,000	\$ 350,000
Total				\$ 1,245,000	\$ 350,000

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

Year Ending June 30	Principal	Interest	Total
2018	\$ 175,000	8,181	183,181
2019	175,000	2,844	177,844
Total	\$ 350,000	11,025	361,025

This debt will be retired from the MAEP Debt Retirement Fund (debt service fund).

The debt state aid capital improvement refunding bonds are secured by an irrevocable pledge of certain revenues the district receives from the State of Mississippi pursuant to the Mississippi Accountability and Adequate Education Program Act, Sections 37-151-1 through 37-151-7, Miss. Code Ann. (1972). The state aid capital improvement refunding bonds are not included in the computation of the district's debt limit percentage.

B. Three mill notes payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Three mill notes, series 2013	3.06%	15-Sep-13	15-Sep-23	\$ 900,000	\$ 650,000
Total				\$ 900,000	\$ 650,000

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

Year Ending June 30	Principal	Interest	Total
2018	\$ 90,000	19,890	109,890
2019	90,000	17,136	107,136
2020	90,000	14,382	104,382
2021	95,000	11,628	106,628
2022	95,000	8,721	103,721
2023-2024	190,000	8,721	198,721
Total	\$ 650,000	80,478	730,478

NEWTON MUNICIPAL SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2017

This debt will be retired from the Three Mill Note Retirement Fund (debt service fund).

C. Compensated absences payable

As more fully explained in Note 1(E)(8), compensated absences payable is adjusted on an annual basis as required by Section 37-7-307(5), Miss. Code Ann. (1972). Compensated absences will be paid from the fund from which the employees' salaries were paid.

Note 7 – Other Commitments

The school district has several operating leases for the following:

1. One (1) Toshiba e-studio 557 Copier System
2. Three (3) Ricoh MP7001 Copiers

Lease expenditures for the year ended June 30, 2017, amounted to \$8,340.

Future lease payments for these leases are as follows:

Year Ending June 30	Amount
2018	\$ 8,340
2019	8,340
2020	4,295
Total	<u>\$ 20,975</u>

Note 8 – Defined Benefit Pension Plan

General Information about the Pension Plan

Plan Description. The school district contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Plan provisions and the Board of Trustees' authority to determine contribution rates are established by Miss. Code Ann. Section 25-11-1 et seq., (1972, as amended) and may be amended only by the Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Public Employees' Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, MS 39201 or by calling (601) 359-3589 or 1-800-444-PERS.

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

NEWTON MUNICIPAL SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2017

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. PERS members are required to contribute 9.00% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The employer's rate as of June 30, 2017 was 15.75% of annual covered payroll. Plan provisions and the Board of Trustees' authority to determine contribution rates are established by Section 25-11-1 of the Mississippi Code of 1972, as amended, and may be amended only by the Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2017, 2016 and 2015 were \$933,323, \$859,333 and \$826,766, respectively, which equaled the required contributions for each year.

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

At June 30, 2017, the school district reported a liability of \$16,076,247 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 District's proportion of the net pension liability was based on a projection of the school district's long-term share of contribution to the pension plan relative to projected contributions of all participating entities, actuarially determined. The school district's proportionate share used to calculate the June 30, 2017 net pension liability was 0.09 percent, which was based on a measurement date of June 30, 2016. This is a 0.01% increase from the proportionate share used to calculate the June 30, 2016 net pension liability, which was based on a measurement date of June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of \$1,975,792. At June 30, 2017 the District 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	\$ 433,366	\$
Net difference between projected and actual earnings on pension plan investments	1,292,590	
Changes of assumptions	673,663	42,719
Changes in proportion and differences between District contributions and proportionate share of contributions	1,058,989	756,644
District contributions subsequent to the measurement date	933,323	
Total	\$ 4,391,931	\$ 799,363

\$933,323 reported as deferred outflows of resources related to pensions resulting from school district contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30:	
2018	\$ 779,298
2019	725,401
2020	836,956
2021	317,590

NEWTON MUNICIPAL SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2017

Actuarial assumptions. The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included 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. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	%	<u>Long-Term Expected Real Rate of Return</u>	%
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	<u>100</u>	<u>%</u>		

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 and that Employer contributions will be made at the current employer contribution rate. 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 District's proportionate share of the net pension liability to changes in the discount rate. The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the District'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:

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
District's proportionate share of the net pension liability	\$ 18,337,587	\$ 16,076,247	\$ 10,240,002

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

NEWTON MUNICIPAL SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2017

Note 9 – Sixteenth Section Lands

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

Year Ending June 30	Amount
2018	\$ 14,038
2019	12,479
2020	12,479
2021	12,479
2022	8,513
2023 – 2027	29,525
2028 – 2032	26,196
Thereafter	43,248
Total	\$ 158,957

Note 10– Prior Period Adjustments

A summary of significant Net Position/Fund Balance adjustments is as follows:

Exhibit B - Statement of Activities

Explanation	Amount
1. Adjustments to correct a prior period error in recording assets and liabilities	\$ (50,312)
2. Adjustments to correct recording of capital assets in a prior period	93,477
Total	\$ 43,165

Exhibit D - Statement of Revenues, Expenditures and Changes in Fund Balances

Fund	Explanation	Amount
General Fund	Error in recording a prior period liability	\$ (47,820)
School Food Service Fund	Error in recording a prior period liability	9,675
Other governmental funds	Error in recording a prior period asset or liability	(12,167)
		\$ (50,312)

Note 11 – Contingencies

Federal Grants – The school district has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowances resulting from the grantor audit may become a liability of the school district.

Litigation – The school district 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 the outcome or liability, if any, of the school district with respect to the various proceedings.

NEWTON MUNICIPAL SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2017

Note 12 – Risk Management

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

Participation in Public Entity Risk Pools

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 71 school districts and covers risks of loss arising from injuries to the members' employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by Wells Fargo in Portland, Oregon. The funds in the trust account are used to pay any claim up to \$750,000. For a claim exceeding \$750,000, MSBAWCT has insurance which will pay the excess to the statutory amount required by the Mississippi Workers' Compensation Commission Act. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

Note 13 – Effect of Deferred Amounts on Net Position

The unrestricted net position amount of (\$11,409,570) includes the effect of deferring the recognition of expenses resulting from a deferred outflow from pensions. \$3,458,608 of deferred outflow of resources balance at June 30, 2017, will be recognized as expense and will decrease the unrestricted net position over the next four (4) years.

The unrestricted net position amount of (\$11,409,570) includes the effect of deferring the recognition of revenues resulting from a deferred inflow from pensions. The \$799,363 balance of deferred inflow of resources at June 30, 2017, will be recognized as revenue and will increase the unrestricted net position over the next three (3) years.

Note 14 - 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 Newton Municipal School District evaluated the activity of the district through January 18, 2018, (the date the financial statements were available to be issued), and determined that no events have occurred requiring disclosure in the notes to the financial statements.

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REQUIRED SUPPLEMENTARY INFORMATION

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NEWTON MUNICIPAL SCHOOL DISTRICT

Required Supplementary Information

Budgetary Comparison Schedule

General Fund

For the Year Ended June 30, 2017

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 2,482,274	2,405,887	2,406,646	(76,387)	759
State sources	4,678,587	4,857,325	4,638,696	178,738	(218,629)
Federal sources	168,199	79,770	86,476	(88,429)	6,706
Sixteenth section sources	115,600	17,142	17,141	(98,458)	(1)
Total Revenues	7,444,660	7,360,124	7,148,959	(84,536)	(211,165)
Expenditures:					
Instruction	4,388,691	4,343,144	4,334,916	45,547	8,228
Support services	2,799,870	2,972,436	2,983,875	(172,566)	(11,439)
Noninstructional services	10,816	16,014	16,017	(5,198)	(3)
Sixteenth section	11,577	8,862	17,271	2,715	(8,409)
Facilities acquisition and construction	0	20,000	0	(20,000)	20,000
Total Expenditures	7,210,954	7,360,456	7,352,079	(149,502)	8,377
Excess (Deficiency) of Revenues over (under) Expenditures	233,706	(332)	(203,120)	(234,038)	(202,788)
Other Financing Sources (Uses):					
Operating transfers in	460,124	1,127,765	22,260	667,641	(1,105,505)
Operating transfers out	(639,338)	(1,506,635)	(162,498)	(867,297)	1,344,137
Total Other Financing Sources (Uses)	(179,214)	(378,870)	(140,238)	(199,656)	238,632
Net Change in Fund Balances	54,492	(379,202)	(343,358)	(433,694)	35,844
Fund Balances:					
July 1, 2016, as previously reported	1,420,958	1,509,067	1,511,018	88,109	1,951
Prior period adjustments		(45,760)	(47,820)	(45,760)	(2,060)
July 1, 2016, as restated	1,420,958	1,463,307	1,463,198	42,349	(109)
June 30, 2017	\$ 1,475,450	1,084,105	1,119,840	(391,345)	35,735

The notes to the required supplementary information are an integral part of this schedule.

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NEWTON MUNICIPAL SCHOOL DISTRICT
Required Supplementary Information

Budgetary Comparison Schedule
School Food Service Fund
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
				Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 48,877	54,988	54,988	6,111	0
State sources	5,000	6,800	6,800	1,800	0
Federal sources	630,000	717,600	717,600	87,600	0
Total Revenues	683,877	779,388	779,388	95,511	0
Expenditures:					
Support services	100,355	99,918	98,610	437	1,308
Noninstructional services	534,830	613,816	603,950	(78,986)	9,866
Total Expenditures	635,185	713,734	702,560	(78,549)	11,174
Excess (Deficiency) of Revenues over (under) Expenditures	48,692	65,654	76,828	16,962	11,174
Other Financing Sources (Uses):					
Operating transfers in	0	1,326	1,326	1,326	0
Total Other Financing Sources (Uses)	0	1,326	1,326	1,326	0
Net Change in Fund Balances	48,692	66,980	78,154	18,288	11,174
Fund Balances:					
July 1, 2016, as previously reported	199,050	189,026	189,026	(10,024)	0
Prior period adjustments		9,648	9,675	9,648	27
July 1, 2016, as restated	199,050	198,674	198,701	(376)	27
Increase (Decrease) in reserve for inventory			(11,166)	0	(11,166)
June 30, 2017	\$ 247,742	265,654	265,689	17,912	35

The notes to the required supplementary information are an integral part of this schedule.

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NEWTON MUNICIPAL SCHOOL DISTRICT

Required Supplementary Information

Budgetary Comparison Schedule

Title I-A Fund

For the Year Ended June 30, 2017

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$ 376,974	376,974	365,652	0	(11,322)
Total Revenues	376,974	376,974	365,652	0	(11,322)
Expenditures:					
Instruction	111,790	39,225	26,174	72,565	13,051
Support services	263,765	404,743	384,398	(140,978)	20,345
Noninstructional services	584	584	230	0	354
Total Expenditures	376,139	444,552	410,802	(68,413)	33,750
Excess (Deficiency) of Revenues over (under) Expenditures	835	(67,578)	(45,150)	(68,413)	22,428
Other Financing Sources (Uses):					
Operating transfers in	0	0	45,150	0	45,150
Operating transfers out	(835)	0	0	835	0
Total Other Financing Sources (Uses)	(835)	0	45,150	835	45,150
Net Change in Fund Balances	0	(67,578)	0	(67,578)	67,578
Fund Balances					
July 1, 2016	0	0	0	0	0
June 30, 2017	\$ 0	(67,578)	0	(67,578)	67,578

The notes to the required supplementary information are an integral part of this schedule.

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NEWTON MUNICIPAL SCHOOL DISTRICT

Required Supplementary Information

Budgetary Comparison Schedule

EHA Part B Fund

For the Year Ended June 30, 2017

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$ 250,654	250,654	229,807	0	(20,847)
Total Revenues	250,654	250,654	229,807	0	(20,847)
Expenditures:					
Instruction	111,602	103,091	89,245	8,511	13,846
Support services	139,052	138,714	130,302	338	8,412
Noninstructional services	0	361	0	(361)	361
Total Expenditures	250,654	242,166	219,547	8,488	22,619
Excess (Deficiency) of Revenues over (under) Expenditures	0	8,488	10,260	8,488	1,772
Other Financing Sources (Uses):					
Operating transfers out	0	(10,260)	(10,260)	(10,260)	0
Total Other Financing Sources (Uses)	0	(10,260)	(10,260)	(10,260)	0
Net Change in Fund Balances	0	(1,772)	0	(1,772)	1,772
Fund Balances					
July 1, 2016	0	0	0	0	0
June 30, 2017	\$ 0	(1,772)	0	(1,772)	1,772

The notes to the required supplementary information are an integral part of this schedule.

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NEWTON MUNICIPAL SCHOOL DISTRICT
Required Supplementary Information

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

PERS

Last 10 Fiscal Years*

	<u>2017</u>	<u>2016</u>	<u>2015</u>
District's proportion of the net pension liability (asset)	0.09%	0.08%	0.09%
District's proportionate share of the net pension liability (asset)	\$ 16,076,247	12,366,422	10,924,352
District's covered payroll	5,456,083	5,249,307	5,452,184
District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	294.65%	235.58%	200.37%
Plan fiduciary net position as a percentage of the total pension liability	57%	62%	67%

The notes to the required supplementary information are an integral part of this schedule.

* The amounts presented for each fiscal year were determined as of the measurement date of 6/30 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 in FYE 6/30/15, and, until a full 10-year trend is compiled, the District has only presented information for the years in which information is available.

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NEWTON MUNICIPAL SCHOOL DISTRICT

Required Supplementary Information

SCHEDULE OF DISTRICT CONTRIBUTIONS

PERS

Last 10 Fiscal Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 933,323	859,333	826,766
Contributions in relation to the contractually required contribution	933,323	859,333	826,766
Contribution deficiency (excess)	<u>\$ 0</u>	<u>0</u>	<u>0</u>
District's covered payroll	5,925,860	5,456,083	5,249,307
Contributions as a percentage of covered payroll	15.75%	15.75%	15.75%

The notes to the required supplementary information are an integral part of this schedule.

This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB Statement No. 68 was implemented in FYE 6/30/2015, and, until a full 10-year trend is compiled, the District has only presented information for the years in which information is available.

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NEWTON MUNICIPAL SCHOOL DISTRICT
Notes to the Required Supplementary Information
For Year Ended June 30, 2017

Budgetary Comparison Schedule

(1) Basis of Presentation

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

(2) Budget Amendments and Revisions

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

Pension Schedules

(1) 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%.

(2) Changes in benefit provisions

2016:

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

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SUPPLEMENTARY INFORMATION

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NEWTON MUNICIPAL SCHOOL DISTRICT

Supplementary Information

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017**

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance No.	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Child nutrition cluster:		
School breakfast program	10.553	\$ 186,125
National school lunch program	10.555	531,475
Summer food service program for children	10.559	14,399
Total child nutrition cluster		<u>731,999</u>
Fresh fruits and vegetables grant	10.582	692
Total passed-through Mississippi Department of Education		<u>732,691</u>
Total U.S. Department of Agriculture		<u>732,691</u>
<u>U.S. Department of Defense</u>		
Direct Program:		
Reserve Officers' Training Corps	12.xxx	47,065
Total U.S. Department of Defense		<u>47,065</u>
<u>U.S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Title I grants to local educational agencies	84.010	365,652
TRIO-Talent search	84.044	66,420
Career and technical education - basic grants to states	84.048	13,710
Rural education	84.358	29,813
Improving teacher quality - state grants	84.367	95,930
Subtotal		<u>571,525</u>
Special education cluster:		
Special education - grants to states	84.027	229,807
Special education - preschool grants	84.173	7,549
Total special education cluster		<u>237,356</u>
Total passed-through Mississippi Department of Education		<u>808,881</u>
Total U.S. Department of Education		<u>808,881</u>
<u>U.S. Department of Health and Human Services</u>		
Passed-through Mississippi Department of Education:		
Medical assistance program	93.778	27,814
Passed-through the Mississippi Department of Education:		<u>27,814</u>
Total U.S. Department of Health and Human Services		<u>27,814</u>
Total for All Federal Awards		<u><u>\$ 1,616,451</u></u>

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NEWTON MUNICIPAL SCHOOL DISTRICT

Supplementary Information

Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds

For the Year Ended June 30, 2017

<u>Expenditures</u>	<u>Total</u>	<u>Instruction and Other Student Instructional Expenditures</u>	<u>General Administration</u>	<u>School Administration</u>	<u>Other</u>
Salaries and fringe benefits	\$ 7,628,853	5,423,202	757,818	581,847	865,986
Other	2,252,983	546,920	219,788	13,153	1,473,122
 Total	 <u>\$ 9,881,836</u>	 <u>5,970,122</u>	 <u>977,606</u>	 <u>595,000</u>	 <u>2,339,108</u>
 Total number of students *	 <u>937</u>				
 Cost per student	 <u>\$ 10,546</u>	 <u>6,372</u>	 <u>1,043</u>	 <u>635</u>	 <u>2,496</u>

For purposes of this schedule, the following columnar descriptions are applicable:

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

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

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

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

* includes the number of students reported on the ADA report submission for month 9, which is the final submission for the fiscal year

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NEWTON MUNICIPAL SCHOOL DISTRICT
Notes to the Supplementary Information
For Year Ended June 30, 2017

Schedule of Expenditures of Federal Awards

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the Newton Municipal School District under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the West Jasper School District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Newton Municipal School District.

(2) Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the same basis of accounting and the same significant accounting policies, as applicable, as those used for the governmental funds financial statements (modified accrual basis of accounting); however, expenditures reported on the Schedule include operating transfers out. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

(3) Indirect Cost Rate

The Newton Municipal School District has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

(4) The pass-through entities did not assign identifying numbers to the school district.

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OTHER INFORMATION

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NEWTON MUNICIPAL SCHOOL DISTRICT

Other Information

Statement of Revenues, Expenditures and Changes in Fund Balances

General Fund

Last Four Years

UNAUDITED

	2017	2016*	2015*	2014*
Revenues:				
Local sources	\$ 2,406,646	2,378,459	2,258,503	2,228,862
State sources	4,638,696	4,731,503	4,875,128	4,378,108
Federal sources	86,476	169,363	95,557	99,723
Sixteenth section sources	17,141	157,125	220,679	
Total Revenues	7,148,959	7,436,450	7,449,867	6,706,693
Expenditures:				
Instruction	4,334,916	4,016,099	4,043,363	3,924,870
Support services	2,983,875	2,870,136	2,626,771	3,038,031
Noninstructional services	16,017	9,672	17,259	15,992
Sixteenth section	17,271	4,142	2,051	
Total Expenditures	7,352,079	6,900,049	6,689,444	6,978,893
Excess (Deficiency) of Revenues over (under) Expenditures	(203,120)	536,401	760,423	(272,200)
Other Financing Sources (Uses):				
Insurance loss recoveries		6,145		
Operating transfers in	22,260	4,474	163,361	376,399
Other financing sources		18,689		
Operating transfers out	(162,498)	(368,618)	(346,665)	(216,066)
Total Other Financing Sources (Uses)	(140,238)	(339,310)	(183,304)	160,333
Net Change in Fund Balances	(343,358)	197,091	577,119	(111,867)
Fund Balances:				
Beginning of period, as previously reported	1,511,018	1,329,585	752,466	861,275
Prior period adjustments	(47,820)	(15,658)		3,058
Beginning of period, as restated	1,463,198	1,313,927	752,466	864,333
End of Period	\$ 1,119,840	1,511,018	1,329,585	752,466

*SOURCE - PRIOR YEAR AUDIT REPORTS

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NEWTON MUNICIPAL SCHOOL DISTRICT

Other Information

Statement of Revenues, Expenditures and Changes in Fund Balances

All Governmental Funds

Last Four Years

UNAUDITED

	2017	2016*	2015*	2014*
Revenues:				
Local sources	\$ 2,581,988	2,538,278	2,428,071	2,403,957
State sources	5,309,495	5,181,428	5,343,960	5,050,457
Federal sources	1,628,048	1,848,713	1,830,924	1,949,328
Sixteenth section sources	18,433	188,276	262,073	31,441
Total Revenues	9,537,964	9,756,695	9,865,028	9,435,183
Expenditures:				
Instruction	4,916,909	4,640,138	4,796,425	4,733,853
Support services	4,005,096	4,002,659	3,910,571	4,727,765
Noninstructional services	632,960	593,119	583,932	595,364
Sixteenth section	45,355	4,142	24,983	14,574
Debt service:				
Principal	245,000	245,000	240,000	194,721
Interest	35,166	41,567	47,215	23,359
Other	1,350	1,350	7,891	1,000
Total Expenditures	9,881,836	9,527,975	9,611,017	10,290,636
Excess (Deficiency) of Revenues over (under) Expenditures	(343,872)	228,720	254,011	(855,453)
Other Financing Sources (Uses):				
Proceeds of loans				900,000
Insurance loss recoveries		6,145		
Operating transfers in	229,908	373,092	568,655	592,465
Other financing sources		18,689		
Operating transfers out	(229,908)	(373,092)	(568,655)	(592,465)
Other financing uses				
Total Other Financing Sources (Uses)	0	24,834	0	900,000
Net Change in Fund Balances	(343,872)	253,554	254,011	44,547
Fund Balances:				
Beginning of period, as previously reported	2,350,857	2,097,325	1,835,845	1,791,447
Prior period adjustments	(50,312)	385		3,058
Beginning of period, as restated	2,300,545	2,097,710	1,835,845	1,794,505
Increase (Decrease) in reserve for inventory	(11,166)	(407)	7,469	(3,207)
End of Period	\$ 1,945,507	2,350,857	2,097,325	1,835,845

*SOURCE - PRIOR YEAR AUDIT REPORTS

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REPORTS ON INTERNAL CONTROL AND COMPLIANCE

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SUZANNE E. SMITH, CPA, PLLC
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**Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards**

Superintendent and School Board
Newton Municipal School District

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, each major fund, and the aggregate remaining fund information of Newton Municipal School District as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Newton Municipal School District's basic financial statements, and have issued our report thereon dated January 18, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Newton Municipal School District'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 Newton Municipal School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Newton Municipal School District's internal control.

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

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

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 Questioned Costs to be significant deficiencies. (**Finding 2017-002, Finding 2017-003, Finding 2017-004, and Finding 2017-005**).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Newton Municipal School District'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*.

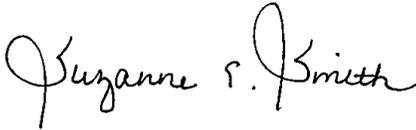
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BRANDON, MISSISSIPPI 39043
PHONE: 601-938-5717

School District's Responses to Findings

Newton Municipal School District's responses to the findings identified in our audit are described in the accompanying Auditee's Corrective Action Plan. The school district's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

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.

A handwritten signature in black ink that reads "Suzanne E. Smith". The signature is written in a cursive style with a large initial 'S'.

Suzanne E. Smith, CPA, PLLC
Brandon, Mississippi
January 18, 2018

SUZANNE E. SMITH, CPA, PLLC
AUDITING AND ACCOUNTING SERVICES
sesmithcpa@msn.com

**Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control
Over Compliance Required by the Uniform Guidance**

Superintendent and School Board
Newton Municipal School District

Report on Compliance for Each Major Federal Program

We have audited Newton Municipal School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the district's major federal programs for the year ended June 30, 2017. Newton Municipal School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Newton Municipal School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Newton Municipal School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Newton Municipal School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Newton Municipal School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as **Finding 2017-006, Finding 2017-007, Finding 2017-008, Finding 2017-009, Finding 2017-010, Finding 2017-011, Finding 2017-012, Finding 2017-013, and Finding 2017-014**. Our opinion on each major federal program is not modified with respect to these matters. Newton Municipal School District's responses to the noncompliance findings identified in our audit are described in the accompanying Auditee's Corrective Action Plan. The school district's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of Newton Municipal School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Newton Municipal School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing

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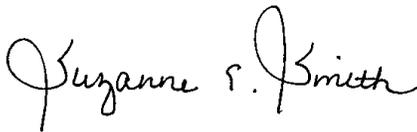
procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Newton Municipal School District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as **Finding 2017-006, Finding 2017-007, Finding 2017-008, Finding 2017-009, Finding 2017-010, Finding 2017-011, Finding 2017-012, Finding 2017-013, and Finding 2017-014** that we consider to be significant deficiencies.

Newton Municipal School District's responses to the internal control over compliance findings identified in our audit are described in the accompanying Auditee's Corrective Action Plan. The school district's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Suzanne E. Smith, CPA, PLLC
Brandon, Mississippi
January 18, 2018

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

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SUZANNE E. SMITH, CPA, PLLC
AUDITING AND ACCOUNTING SERVICES
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INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Superintendent and School Board
Newton Municipal School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Newton Municipal School District as of and for the year ended June 30, 2017, which collectively comprise Newton Municipal School District's basic financial statements and have issued our report thereon dated January 18, 2018. 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.

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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance.

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

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

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

The results of procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements disclosed the following instances of noncompliance with other state laws and regulations.

Repeat Finding SL2017-A. Compliance with State Purchasing Laws. Code Section 31-7-13, Miss. Code Ann. (1972), sets forth requirements for obtaining competitive quotes or bids for commodities when the amount encumbered by a single purchase order exceeds \$5,000. During our testing of non-payroll expenditures we noted two (2) instances where purchases exceeded the \$5,000 threshold but were not supported by competitive quotes or bids or otherwise exempted from the purchasing requirement through applicable state statutes.

Recommendation: We recommend that the district carefully review all expenditures for commodities and ensure that competitive quotes or bids are obtained when the purchase amount exceeds \$5,000.

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PHONE: 601-938-571

District Response: We will make sure that quotes or bids are secured for all commodities purchased when the purchase order exceeds \$5,000.

Repeat Finding SL2017-B. Financial Statements Furnished to the School Board. Monthly financials are required by Code Section 37-9-18, Mississippi Code Ann. (1972), to be presented to the School Board at each regular meeting for the financial activity that occurred during the previous month. The Mississippi Department of Education is charged with promulgating the types of reports and reporting requirements, including a requirement that the reports be listed as an agenda item for discussion, a requirement that the minutes of the board meeting reflect that the reports were discussed, a requirement that each board member be presented with a copy of all required reports, and a requirement that a copy of all required reports be included in the official minutes of the board meeting at which the reports were discussed. Our review of the reports presented to the school board disclosed that reports were submitted late to the board for five (5) months: July 2016, August 2016, September 2016, October 2016, and November 2016. Some of these reports were up to four (4) months late. Our testing of the details of bank reconciliations completed for the month ended June 30, 2017, revealed unexplained reconciling differences in eight (8) of the district's eight (8) bank reconciliations. This means that the June 30, 2017, bank statement cash reconciliations to the general ledger accounts were not complete at the time the reports were submitted to the board.

Recommendation: We recommend that the district administration ensure that all reports to the board are timely and accurate.

District Response: We will immediately bring all bank reconciliations up to date and begin submitting the board reports on a timely basis.

Repeat Finding SL2017-C. Late 16th Section Rental Collections. Code Section 29-3-57, Mississippi Code Ann. (1972), states it shall be the duty of the superintendent of education to collect promptly all rentals due and all principal and interest due upon loans and investments of sixteenth section funds. Upon a sixty (60) day default in payment of any rentals according to the terms of such lease, the lease shall be declared terminated unless the board of education finds extenuating circumstances were present, and the board shall inaugurate the proper legal proceedings to terminate such lease. During our testing of ten (10) of the twenty-four (24) leases identified, we found five (5) instances where the leases were not paid during the 60-day period and where such leases were not presented to the school board for termination.

Recommendation: We recommend that the district identify all delinquent leases and start termination proceedings on those leases.

District Response: We have contracted with an outside consultant to assist us in identifying all delinquent lease collections and in developing a system for lease management. We feel that much progress has been made in this area.

Finding SL2017-D. Amended Budget Late Approval Date. Code Section 37-61-19, Miss. Code Ann. (1972), authorizes the school board to prepare budget amendments for the previous fiscal year up until and on October 15 of each year for the previous fiscal year's activity. The school board approved its amended budget for the 2016-2017 year on October 25, 2017, which was ten days late.

Recommendation: We recommend that all budget revisions be formally approved on or before October 15 each fiscal year for the previous fiscal year's activity.

District Response: In the future final amended budgets will be approved before the October 15 deadline.

Repeat Finding SL2018-E. Budgeting Administrative Limitation. The school district budgeted \$221,679.55 more in administrative salaries and benefits than outlined in Code Section 37-61-9(4), Miss. Code Ann. (1972). The district expended less than budgeted for these salaries and benefits but still expended more than the amount outlined in the referenced code section. However, there is no penalty associated with this violation.

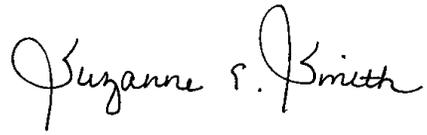
Recommendation: We recommend that the district begin a review of salaries and benefits paid from the functional categories defined in Code Section 37-61-9(4), Miss. Code Ann. (1972), as administrative expenditures and begin the process of bringing budgeted expenditures in line with the limitation outlined in the statute.

District Response: We will continue to review all salaries and benefits paid from the functional expenditures outlined in this code section and, to the extent possible, limit budgeted expenditures to the limitation outlined in the statute.

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

The School District's responses to the findings included in this report were not audited and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the school board and management, entities with accreditation overview, and federal awarding agencies, the Office of the State Auditor and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink that reads "Suzanne E. Smith". The signature is written in a cursive style with a large, prominent initial 'S'.

Suzanne E. Smith, CPA, PLLC

Brandon, Mississippi
January 18, 2018

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NEWTON MUNICIPAL SCHOOL DISTRICT
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2017

Section I: Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

- | | | |
|----|---|------------|
| 4. | Internal control over major programs: | |
| | a. Material weakness(es) identified? (Yes/No) | No |
| | b. Significant deficiency(ies) identified? (Yes/None reported) | Yes |
| 5. | Type of auditor's report issued on compliance for major programs: | Unmodified |
| 6. | Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? (Yes/No) | Yes |

7. Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
10.553/10.555/10.559	Child Nutrition Cluster

- | | | |
|----|--|-----------|
| 8. | Dollar threshold used to distinguish between type A and type B programs: | \$750,000 |
| 9. | Auditee qualified as low-risk auditee? (yes/no) | No |

NEWTON MUNICIPAL SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017

Section II: Financial Statement Findings

Finding that is considered a material weakness:

Finding 2017-001. Unreconciled Differences in Bank Statement Reconciliations at June 30, 2017.

CONDITION: There were unreconciled differences on the June 30, 2017, bank statement reconciliations that had not been resolved. Many of the differences had existed for several months. Cash in governmental funds was overstated by \$23,663.85 when compared to reconciled bank balances. Cash in fiduciary funds was \$13,550.86 understated when compared to reconciled bank balances. The net effect for all funds and all accounts is that cash in the general ledger was \$10,112.99 higher than reconciled bank account amounts at June 30, 2017.

CRITERIA: The school district is charged with developing a system of internal controls surrounding cash and the reconciliation of general ledger amounts to bank account balances. Such a reconciliation should be performed monthly, and all differences should be promptly investigated and resolved.

CAUSE: This cause of this condition is unknown

EFFECT: The effect is a breakdown in the controls surrounding the safekeeping and accurate reporting of cash.

RECOMMENDATION: We recommend that the district complete timely, accurate reconciliations for all bank accounts on a monthly basis.

Findings that are considered significant deficiencies:

Repeat Finding 2017-002. Deficiencies in Controls Surrounding Athletic Gate Receipts in Student Activity Funds.

CONDITION: We randomly selected and tested eight (8) athletic events. Our sample was a non-statistical sample. Three (3) of the eight (8) events were not supported by a ticket reconciliation form. Six (6) deposits of the eight (8) deposits were not made timely. Two (2) forms out of the five (5) forms tested were not completed correctly.

CRITERIA: Athletic event ticket reconciliation forms are an important part of the controls surrounding the cash deposits flowing to the schools from ticket sales at athletic events. The proper use of the reconciliation forms serves to provide assurance that cash deposits from ticket sales are complete and that deposits are made on a timely basis. The forms also act as documentation of the chain of custody of change cash and ticket sales proceeds throughout the process of athletic event ticket sales transactions.

CAUSE: The likely cause of this condition is a failure to follow recommended procedures.

EFFECT: The effect is a breakdown in the controls surrounding the safekeeping and accurate reporting of athletic event gate sales.

RECOMMENDATION: We recommend that the district begin to follow procedures outlined to ensure that athletic event ticket reconciliation forms are completed properly for each athletic event and that deposits are made timely. Any deviations from control procedures should be identified promptly and rectified.

NEWTON MUNICIPAL SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017

Finding 2017-003. Deficiencies in Controls Surrounding Student Activity Fund Transmittal Process.

CONDITION: We reviewed activity fund transmittal reports for the following months: August 2016, December 2016, and March 2017. We noted that Newton High School did not submit copies of receipt warrants or deposit slips that matched the transmittal in either of the three months tested. The transmittal forms were not signed by the principal of the reporting school location in several instances. We noted instances where schools did not prepare and turn in a monthly transmittal form even though the general ledger reflected deposits for the month.

CRITERIA: Monthly Activity Fund Transmittal Reports play an important role in the controls surrounding activity fund receipts. The transmittal reports serve as a verification of amounts deposited, providing information about each deposit and the timeliness of the deposit. When used as a reporting tool, the transmittal form can be used by personnel at central office to verify the accuracy of reporting and timeliness of the deposits flowing through the student activity funds.

CAUSE: The likely cause of this condition is a failure to follow recommended procedures.

EFFECT: The effect is a breakdown in the controls surrounding the safekeeping and accurate reporting of student activity funds.

RECOMMENDATION: We recommend that the district begin to follow procedures outlined to ensure that all schools submit a monthly activity fund transmittal report that is complete and signed by the school principal. The schools should also submit copies of all receipt warrants and deposit slips to substantiate each deposit made. Central office personnel should review each transmittal carefully to check for accuracy in reporting and timeliness of deposits. Any deviations from control procedures should be identified promptly and rectified.

Repeat Finding 2017-004. Deficiencies in Controls Surrounding Non-payroll Expenditures and Related Payables.

CONDITON: We chose a non-statistical sample of 100 non-payroll transactions for testing. We noted eleven (11) instances where a purchase order was not prepared or approved to substantiate authorization for the purchase. We noted one (1) instance where a claim was paid without an invoice attached to the payment packet. We also noted thirty-four (34) instances where adequate receiving documentation was not present in the form of a signature, packing slip, or other receiving documentation for claims that were paid.

CRITERIA: Sound controls surrounding the purchasing and accounts payable processes should include authorization for each purchase, documentation to substantiate the purchase in the form of an invoice, and documentation to show that goods and/or services are received in good form prior to the invoice being paid.

CAUSE: The likely cause of this condition is a failure to follow the recommended procedures.

EFFECT: The effect is a breakdown in the controls surrounding non-payroll expenditures.

RECOMMENDATION: We recommend that all purchases that are not exempt from purchase order by district policy be supported by properly authorized purchase orders. We further recommend that no claim be paid without an attached invoice and appropriate documentation to show that the goods and/or services were received in good form.

Finding 2017-005. Deficiencies in Controls Surrounding Payroll Expenditures and Related Liabilities.

CONDITION: In our review of the controls surrounding payroll expenditures, we noted that the school board did not approve the pay scale for teacher assistants used during the 2016-2017 year. Our non-statistical sample of 35 employees' pay records included both employees exempt from Federal wage and hour

NEWTON MUNICIPAL SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017

standards and those not exempt from the standards. We noted fourteen (14) instances where time records for the month of April 2017 were not available or located for non-exempt employees.

CRITERIA: The school district administration is charged with developing controls surrounding the Payroll Expenditure process that will provide for authorization in the form of board approval for all personnel and pay rates. Controls should also provide procedures that will ensure compliance with Federal wage and hour recordkeeping requirements, which require detailed daily and weekly time records for all non-exempt employees.

CAUSE: The likely cause of this condition is oversight in the approval process for all salary and wage schedules and the failure of the district to properly document all hours worked by non-exempt employees on a daily and weekly basis.

EFFECT: The effect is a breakdown in the controls surrounding the payroll expenditure process and exposure to the risk of noncompliance with the recordkeeping requirements of the Federal wage and hour laws.

RECOMMENDATION: We recommend that the school board approve all personnel and all salary/wage rate tables each year. For those employees not placed on a scale, the school board should approve salary/wage amounts on an employee by employee basis. Such approvals should become a permanent part of the official board minutes. We further recommend that the district review its recordkeeping system to make sure that it meets all requirements of the Federal wage and hour law.

Section III: Federal Award Findings and Questioned Costs

Findings that are considered significant deficiencies:

Finding 2017-006. CFDA 10.553/10.555/10.559 Child Nutrition Cluster. Cost Principles.

CONDITION: We chose a non-statistical sample of twenty-five (25) non-payroll expenditures. The program director is responsible for placing all food orders through the state procurement system. The orders are not approved by the district purchasing agent, and the program director is not bonded as a purchasing agent. The program director (and/or her designee) reviews all invoices and receiving documentation and accumulates and tallies a monthly claim amount for each vendor used in the state procurement system. We noted eleven (11) instances where the amount of the monthly claim paid differed from the total amount of the individual invoices attached to support the claim. In the majority of these instances, the amount paid was being matched to the statement total without also matching the total to the invoices. We noted nineteen (19) instances where claims were forwarded to central office for inclusion on the monthly claims docket to the board with no authorizing signature from the program director. While it was inferred that the director was approving the claims, there was no signature to substantiate the approval process.

CRITERIA: The school district is charged with developing a system of internal controls surrounding all non-payroll expenditures, which includes the purchasing function. Federal award expenditures must be accorded consistent treatment as other expenditures. Such a system of internal controls should include approval of all purchases by a person knowledgeable of grant requirements and allowable grant costs. Claims submitted for payment should be supported by detailed invoices and documented receipt of goods and services. All claims submitted for inclusion in the monthly claims docket to the board should be approved by the program director, and this approval should be evidenced through a signature or other means.

CAUSE: The cause of this condition is likely a deviation from prescribed procedures.

EFFECT: The effect is a breakdown in the controls surrounding such program purchases. Such a breakdown in controls means that there is a higher control risk surrounding program purchases with the effect being a greater possibility of un-allowable expenditures being made from the cluster of award programs.

RECOMMENDATION: We recommend that the program director be bonded as a district purchasing agent,

NEWTON MUNICIPAL SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017

with purchasing authority being limited to Child Nutrition Program Cluster food purchases. We further recommend that all claims submitted for inclusion on the monthly claims docket to the board be supported by vendor invoices that total the amount of the claim being submitted for payment. Each accumulated monthly vendor claim submitted for payment should be approved by the program director, with a signature or other documentation available to support the approval process.

Finding 2017-007. CFDA 10.553/10.555/10.559 Child Nutrition Cluster. Procurement and Suspension and Debarment.

CONDITION: During our testing of program expenditures we noted one instance where a single quote was obtained for the purchase of a piece of equipment costing \$5,120. There was no evidence that competition was introduced into the purchasing of this piece of equipment.

CRITERIA: The purchase of equipment in this instance exceeds the micro-purchase threshold. Therefore, more than a single price quote was needed to show that competition was introduced into the process.

CAUSE: The cause is not known.

EFFECT: The effect is a breakdown in controls surrounding the procurement process. This breakdown increases the likelihood that Federal procurement requirements are not met.

RECOMMENDATION: We recommend that an adequate number of price quotes be obtained and documented for all program purchases that exceed the micro purchase threshold.

Finding 2017-008. CFDA 10.553/10.555/10.559 Child Nutrition Cluster. Reporting.

CONDITION: A clerical processing error was found in the April 2017 claim for reimbursement, resulting in an over claim of \$4,540.14.

CRITERIA: The claim reports submitted for reimbursement must tie to underlying data to support the number of meals served in the various categories. Such reports should be accurate and complete.

CAUSE: The cause is likely a clerical error.

EFFECT: The effect is a \$4,540.14 over-claim of School Breakfast reimbursement for the month of April 2017.

RECOMMENDATION: We recommend that the district develop a system for reviewing all claim reports submitted for reimbursement for accuracy and completeness and verifying that the data is supported by underlying records.

Finding 2017-009. CFDA 84.027 Special Education Cluster. Special Education – Grants to States. Procurement and Suspension and Debarment.

CONDITION: We noted one (1) instance where equipment was purchased that exceeded the micro purchase threshold of \$3,500.00 but was not supported by quotes or other evidence to show that competition was introduced into the procurement process. The total amount of the purchase was \$3,822.00.

CRITERIA: Purchases from the Special Education Cluster of federal awards that exceed the micro purchase threshold must be supported by evidence to show that competition was introduced into the purchasing process.

CAUSE: The cause is not known.

EFFECT: The effect is noncompliance with this requirement.

NEWTON MUNICIPAL SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017

RECOMMENDATION: We recommend that the district obtain adequate price quotes when Special Education Cluster award purchases exceed the micro purchase threshold.

Finding 2017-010. CFDA 84.367 Improving Teacher Quality – State Grants. Procurement and Suspension and Debarment.

CONDITION: We noted one (1) instance where a purchase order for professional services in the form of job-embedded professional development was issued for Pilate Middle School. The amount of the purchase order (\$6,750.00) exceeded the micro purchase threshold. However, there were no quotes or other evidence attached to show that competition was introduced into the procurement process.

CRITERIA: Purchases from the Improving Teacher Quality – State Grants award that exceed the micro purchase threshold must be supported by evidence to show that competition was introduced into the purchasing process.

CAUSE: The cause is not known.

EFFECT: The effect is noncompliance with this requirement.

RECOMMENDATION: We recommend that the district obtain an adequate number of price quotes or other documentation to show that competition is introduced into the process when award purchases exceed the micro purchase threshold.

Finding 2017-011. CFDA 84.207 Special Education Cluster. Special Education – Grants to States. Types of Activities Allowed or Unallowed.

CONDITION: Paid Claim #137466 included services for the district's gifted education program in the amount of \$1,544.00. The claim was paid in full from the Special Education – Grants to States award. Services for the district's gifted program are not allowable per the grant guidelines.

CRITERIA: Purchases from the Special Education Cluster of award should conform to grant guidelines for allowable costs.

CAUSE: The cause is likely a coding error. Controls are not functioning to reduce the risks that unallowable costs will be charged to the Federal award program.

EFFECT: The effect is an unallowable cost being charged to the program.

RECOMMENDATION: We recommend that the grant administrator review all purchases for program guidelines and make a determination as to whether or not a cost being charged to the grant is allowable.

Finding 2017-012. CFDA 84.367 Improving Teacher Quality – State Grants. Types of Activities Allowed or Unallowed.

CONDITION: Claim #138859 was paid in the amount of \$800 for a Saturday Boot Camp to assist students with test taking skills. Claim #138838 in the amount of \$562.50 was paid for services to assist students at Newton Elementary School in the area of mathematics. Both claims were paid from Improving Teacher Quality – State Grants award dollars. These types of services are not allowable per the grant guidelines.

CRITERIA: Purchases from the Improving Teacher Quality – State Grants award should conform to grant guidelines for allowable costs.

CAUSE: The cause is not fully known. Controls are not functioning to reduce the risks that unallowable costs will be charged to the Federal award program.

EFFECT: The effect is an unallowable cost being charged to the program.

NEWTON MUNICIPAL SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017

RECOMMENDATION: We recommend that the grant administrator review all purchases for program guidelines and make a determination as to whether or not a cost being charged to the grant is allowable.

Repeat Finding 2017-013. CFDA 84.010 Title I Grants to Local Educational Agencies. Types of Activities Allowed or Unallowed.

CONDITION: Claim #138375 was paid in the amount of \$1,135.55 for instructional supplies for Newton High School. The purchase was coded to an instructional services category. This purchase is unallowable from the category from which it was paid.

CRITERIA: Purchases from the Title I Grants to Local Educational Agencies award should conform to grant guidelines for allowable costs.

CAUSE: The cause is not fully known. Controls are not functioning to reduce the risks that unallowable costs will be charged to the Federal award program.

EFFECT: The effect is an unallowable cost being charged to the program.

RECOMMENDATION: We recommend that the grant administrator review all purchases for program guidelines and make a determination as to whether or not a cost being charged to a grant is allowable and is being charged to the correct category.

Finding 2017-014. CFDA 84.010 Title I Grants to Local Educational Agencies; CFDA 84.367 Improving Teacher Quality – State Grants; CFDA 84.358 Rural Education. Cost Principles.

CONDITON: Our testing of payroll expenditures found one employee who was paid from both Federal and non-Federal funds and whose duties spanned more than one cost objective who did not prepare monthly time records that showed the time spent on each cost objective. Instead this employee completed a semi-annual certification form. A second employee who was paid from both Federal and non-Federal awards and whose duties spanned more than one cost objective did prepare monthly time records. However, the percentages of time spent on each cost objective did not match the percentage of payroll allocated to the employee's total salary for the year. Those percentages seemed to coincide with budget estimates.

CRITERIA: Payroll records should support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award or works for both a Federal award and non-Federal award. Budget estimates (i.e., estimates determined before the services are performed) alone do not qualify as support for charges to Federal awards, but may be used for interim accounting purposes, provided that the system for establishing the estimates produces reasonable approximations of the activity actually performed.

CAUSE: The cause is not fully known.

EFFECT: The effect is noncompliance with cost principles outlining payroll costs charged to the federal awards.

RECOMMENDATION: We recommend that in case where an employee works on more than one Federal award or works for both a Federal award and a non-Federal award payroll records should be prepared monthly that support the distribution of the employee's salary or wages among specific activities or cost objectives.

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AUDITEE'S CORRECTIVE ACTION PLAN

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Newton Municipal School District

*P.O. Box 150
205 School Street
Newton, Mississippi 39345
Phone 601-683-2451 / Fax 601-683-7131*

AUDITEE'S CORRECTIVE ACTION PLAN

Finding 2017-001

Planned Corrective Action: We will take immediate steps to fully reconcile all bank accounts.

Who is responsible: Dianne Duke, Business Manager

When corrective action will begin: Immediately as of February 1, 2018

Finding 2017-002

Planned corrective Action: We will hold training sessions to instruct all coaches and game administrators on the proper and timely completion of athletic event forms. Central Office will review the forms as they are turned in on a monthly basis.

Who is responsible: Athletic Director, Coach Gray and the Business Manager, Dianne Duke

When corrective action will begin: Corrective action had started before audit date and it will continue.

Finding 2017-003

Planned Corrective Action: There will be more training planned for school bookkeepers. Central Office personnel will thoroughly review all transmittals each month to make sure all elements are present.

Who is responsible: School principals, and Dianne Duke, Business manager

When corrective action will begin: Corrective action had started prior to audit date and it will continue.

Finding 2017-004

Planned Corrective Action: We will ensure that all purchases are supported by a properly authorized purchase order. All claims will be supported by an invoice and receiving documentation prior to being paid.

Who is responsible: Accounts Payable, Veronica Phillips, and Dianne Duke, Business Manager

When correction action will begin: Corrective action had started prior to audit date and it will continue.

Finding 2017-2005

Planned Corrective Action: The board will approve all salary scales in the future. If the employee is not assigned to a scale, the board will approve a set salary for that employee. Due to mechanical issues the electronic time keeping system has been supplemented by written time records. All nonexempt employees now have time records to support all hours worked.

Who is responsible: Payroll Clerk, Shante Watts, and Dianne Duke, Business Manager

When corrective action will begin: Corrective action had started prior to audit date and it will continue.

Finding 2017-006

Planned Corrective Action: We will bond the Food Service Director as a purchasing agent. All claims submitted to the school board for payment will tie directly to the invoices for any particular vendor providing services or supplies to the program.

Who is responsible: Food Service Director, Pam Cox
When corrective action will begin: Immediately as of February 1, 2018

Finding 2017-007

Planned Corrective Action: We will not process any requisitions for purchases without proper documentation to show compliance with state and federal purchasing laws.

Who is responsible: Accounts Payable, Veronica Phillips, and Food Service Director, Pam Cox
When corrective action will begin: It will begin immediately, as of February 1, 2018

Finding 2017-008

Planned Corrective Action: We will check all reported figures before submitting them for reimbursement.

Who is responsible: Food Service director, Pam Cox
When corrective action will begin: Immediately as of February 1, 2018

Finding 2017-009

Planned Corrective Action: We will not process any purchase orders for program purchases that exceed the micro purchase threshold without supporting quotes to show that federal procurement rules are followed.

Who is responsible: Accounts Payable, Veronica Phillips, and SPED director, Natasha Page Porter.

When Corrective action will begin: It will begin immediately as of February 1, 2018

Finding 2017-010

Planned Corrective Action: We will not process any purchase orders for program purchases that exceed the micro purchase threshold without supporting quotes to show that federal procurement rules are followed.

Who is responsible: Accounts Payable, Veronica Phillips, and Federal Programs Director, Cola Shelby

When corrective action will begin: It will begin immediately as of February 1, 2018

Finding 2017—011

Planned Corrective action: All claims will be reviewed to check for coding errors before the claim is paid.

Who is responsible: Accounts payable, Veronica Phillips
When corrective action will begin: It will begin immediately as of February 1, 2018

Finding 2017-012

Planned Corrective Action: - The Federal programs director, prior to approving the purchase, will make sure it is an allowable purchase from the program.

Who is responsible: The Federal Programs, Director, Cola Shelby

When corrective action will begin: It will begin immediately as of February 1, 2018

Finding 2017-013

Planned Corrective Action: - The Federal programs director, prior to approving the purchase, will make sure it is an allowable purchase from the program.

Who is responsible: The Federal Programs, Director, Cola Shelby

When corrective action will begin: It will begin immediately as of February 1, 2018

Finding 2017-014

Planned Corrective Action: All employees paid from federal funds will complete semiannual certifications or monthly time records that support the hours worked on each cost objective.

Who is responsible: Federal Programs Director, Cola Shelby

When corrective will begin: It will begin immediately as of February 1, 2018

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SCHEDULE OF PRIOR YEAR FEDERAL AUDIT FINDINGS

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Newton Municipal School District

*P.O. Box 150
205 School Street
Newton, Mississippi 39345
Phone 601-683-2451 / Fax 601-683-7131*

FOLLOW UP ON PRIOR YEAR FEDERAL AUDIT FINDINGS

Section III: Federal Award Findings and Questioned Costs

Finding 2016-004 – CFDA 84.044 TRIO-Talent Search – Eligibility	District no longer has this Grant – Corrective action is no longer necessary
Finding 2016-005 – CFDA 84.044 TRIO- Talent Search – Activities Allowed or Unallowed/Cost Principles	District no longer has this Grant – Corrective action is no longer necessary
Finding 2016-006 – CFDA 84.044 TRIO- Talent Search – Equipment And Inventory Management	District no longer has this Grant – Corrective action is no longer necessary
Finding 2016-007 – CFDA 84.010 – Title I Grants to Local Educational Agencies – Activities Allowed or Unallowed/Cost Principles	Repeat Finding at 2017-013
Finding 2016-008 – CFDA 84.010 – Title I Grants to Local Educational Agencies – Equipment and Inventory Management	Corrected
Finding 2016-009 – CFDA 84.010 – Title I Grants to Local Educational Agencies – Earmarking	Corrected
Finding 2016-010 – CFDA 84.010 – Title I Grants to Local Educational Agencies – Special Tests and Provisions – Schoolwide schools	Corrected
Finding 2016-011 – CFDA 84.010 – Title I Grants to Local Educational Agencies – Special Tests and Provisions - Comparability	Corrected

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