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NEWTON MUNICIPAL SCHOOL DISTRICT

Audited Financial Statements
For the Year Ended June 30, 2018

NEWTON MUNICIPAL SCHOOL DISTRICT
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INDEPENDENT AUDITOR'S REPORT

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SUZANNE E. SMITH, CPA, PLLC
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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, 2018, 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, 2018, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and

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analysis, budgetary comparison information, the Schedule of the District's Proportionate Share of the Net Pension Liability, the Schedule of District Contributions (PERS), the Schedule of the District's Proportionate Share of the Net OPEB Liability, and the Schedule of District Contributions (OPEB) on pages 7-14, 53-57, 59-61, and 63-65, 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

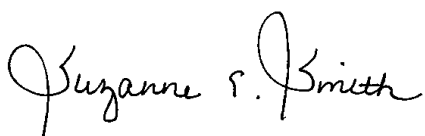
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Newton Municipal School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations Part 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 September 4, 2019, 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.



Suzanne E. Smith, CPA, PLLC
Brandon, Mississippi
September 4, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

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NEWTON MUNICIPAL SCHOOL DISTRICT

Management's Discussion and Analysis For the Year Ended June 30, 2018

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, 2018. 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 2018 decreased \$1,485,195, including a prior period adjustment of (\$927,658), which represents a 24% decrease from fiscal year 2017. 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.
- General revenues amounted to \$8,239,962 and \$7,473,845, or 79% and 78% of all revenues for fiscal years 2018 and 2017, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$2,226,144, or 21% of total revenues for 2018, and \$2,064,119, or 22% of total revenues for 2017.
- The District had \$11,023,643 and \$10,845,301 in expenses for fiscal years 2018 and 2017; only \$2,226,144 for 2018 and \$2,064,119 for 2017 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$8,239,962 for 2018 and \$7,473,845 for 2017 were not adequate to provide for these programs.
- Among major funds, the General Fund had \$7,946,410 in revenues and \$7,959,587 in expenditures for 2018, and \$7,148,959 in revenues and \$7,352,079 in expenditures in 2017. The General Fund's fund balance decreased by \$216,143, including a prior period adjustment of (\$24,529), from 2017 to 2018, and decreased by \$391,178, including a prior period adjustment of (\$47,820), from 2016 to 2017.
- Capital assets, net of accumulated depreciation, increased by \$304,543 for 2018 and decreased by \$66,686 for 2017. The increase for 2018 was due primarily to the purchase of capital assets and construction in progress.
- Long-term debt, including compensated absences payable, decreased by \$256,409 for 2018 and decreased by \$247,544 for 2017. This decrease for 2018 was due primarily to principal payments on outstanding long-term debt. The liability for compensated absences increased by \$8,591 for 2018 and decreased by \$2,544 for 2017.

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, 2018

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, OPEB 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, 2018

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 and net OPEB liability result in liabilities on the government-wide financial statements but are 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, Schedule of District Contributions (PERS), Schedule of the District's Proportionate Share of the Net OPEB Liability, and Schedule of District Contributions (OPEB) 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 \$7,697,106 as of June 30, 2018.

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, 2018

Table 1 presents a summary of the District's net position at June 30, 2018 and June 30, 2017.

Table 1
Condensed Statement of Net Position

	June 30, 2018	June 30, 2017	Percentage Change
Current assets	\$ 1,770,365	\$ 1,861,293	-4.89 %
Restricted assets	222,543	122,936	81.02 %
Capital assets, net	5,709,642	5,405,099	5.63 %
Total assets	7,702,550	7,389,328	4.24 %
Deferred outflows of resources	2,037,240	4,391,931	-53.61 %
Current liabilities	181,909	60,655	199.91 %
Long-term debt outstanding	802,054	1,056,905	-24.11 %
Net pension liability	14,961,055	16,076,247	-6.94 %
Net OPEB liability	936,386	-	N/A
Total liabilities	16,881,404	17,193,807	-1.82 %
Deferred inflows of resources	555,492	799,363	-30.51 %
Net position:			
Net investment in capital assets	4,976,198	4,408,213	12.88 %
Restricted	886,502	789,446	12.29 %
Unrestricted	(13,559,806)	(11,409,570)	-18.85 %
Total net position	\$ (7,697,106)	\$ (6,211,911)	-23.91 %

Additional information on unrestricted net position:

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

Total unrestricted net position (deficit)	\$ (13,559,806)
Less unrestricted deficit in net position resulting from recognition of the net pension liability and net OPEB liability including the related deferred outflows and deferred inflows	14,415,693
Unrestricted net position, exclusive of the net pension liability and net OPEB liability effect	<u>\$ 855,887</u>

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

- Increase in net capital assets in the amount of \$304,543.
- The principal retirement of \$265,000 of long-term debt.
- Implementation of GASB 75 which resulted in the recognition of a net OPEB liability in the amount of \$936,386.

NEWTON MUNICIPAL SCHOOL DISTRICT

Management's Discussion and Analysis For the Year Ended June 30, 2018

Changes in net position

The District's total revenues for the fiscal years ended June 30, 2018 and June 30, 2017 were \$10,466,106 and \$9,537,964, respectively. The total cost of all programs and services was \$11,023,643 for 2018 and \$10,845,301 for 2017.

Table 2 presents a summary of the changes in net position for the fiscal years ended June 30, 2018 and June 30, 2017.

Table 2
Changes in Net Position

	Year Ended June 30, 2018	Year Ended June 30, 2017	Percentage Change
Revenues:			
Program revenues:			
Charges for services	\$ 126,646	\$ 131,945	(4.02) %
Operating grants and contributions	2,054,768	1,927,054	6.63 %
Capital grants and contributions	44,730	5,120	773.63 %
General revenues:			
Property taxes	3,175,514	2,422,837	31.07 %
Grants and contributions not restricted	4,999,546	5,005,369	(0.12) %
Investment earnings	4,281	1,662	157.58 %
Sixteenth section sources	23,207	18,433	25.90 %
Other	37,414	25,544	46.47 %
Total revenues	10,466,106	9,537,964	9.73 %
Expenses:			
Instruction	4,502,044	4,321,805	4.17 %
Support services	3,941,238	3,838,692	2.67 %
Non-instructional	659,116	631,280	4.41 %
Sixteenth section	9,036	45,355	(80.08) %
Pension expense	1,835,933	1,975,792	(7.08) %
OPEB expense	51,140	-	N/A
Interest on long-term liabilities	25,136	32,377	(22.36) %
Total expenses	11,023,643	10,845,301	1.64 %
Increase (Decrease) in net position	(557,537)	(1,307,337)	57.35 %
Net Position, July 1, as previously reported	(6,211,911)	(4,947,739)	(25.55) %
Prior Period Adjustment	(927,658)	43,165	-2249.10 %
Net Position, July 1, as restated	(7,139,569)	(4,904,574)	-45.57 %
Net Position, June 30	\$ (7,697,106)	\$ (6,211,911)	-23.91 %

Governmental activities

The following table presents the cost of seven major District functional activities: instruction, support services, non-instructional, sixteenth section, pension expense, OPEB 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, 2018

Table 3
Net Cost of Governmental Activities

	Total Expenses		Percentage Change
	2018	2017	
Instruction	\$ 4,502,044	\$ 4,321,805	4.17 %
Support services	3,941,238	3,838,692	2.67 %
Non-instructional	659,116	631,280	4.41 %
Sixteenth section	9,036	45,355	(80.08) %
Pension Expense	1,835,933	1,975,792	(7.08) %
OPEB Expense	51,140	-	N/A
Interest on long-term liabilities	25,136	32,377	(22.36) %
Total expenses	\$ 11,023,643	\$ 10,845,301	1.64 %

	Net (Expense) Revenue		Percentage Change
	2018	2017	
Instruction	\$ (3,837,673)	\$ (3,688,537)	(4.04) %
Support services	(3,163,576)	(3,094,548)	(2.23) %
Non-instructional	124,995	55,427	125.51 %
Sixteenth section	(9,036)	(45,355)	80.08 %
Pension Expense	(1,835,933)	(1,975,792)	7.08 %
OPEB Expense	(51,140)	-	N/A
Interest on long-term liabilities	(25,136)	(32,377)	22.36 %
Total net (expense) revenue	\$ (8,797,499)	\$ (8,781,182)	(0.19) %

- Net cost of governmental activities [(\$8,797,499) for 2018 and (\$8,781,182) for 2017] was financed by general revenue, which is primarily made up of property taxes (\$3,175,514 for 2018 and \$2,422,837 for 2017) and state and federal revenues (\$4,999,546 for 2018 and \$5,005,369 for 2017). In addition there was \$23,207 and \$18,433 in Sixteenth section sources for 2018 and 2017, respectively.
- Investment earnings amounted to \$4,281 for 2018 and \$1,662 for 2017.

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 \$1,828,439, a decrease of \$117,068, which includes a prior period adjustment of (\$24,499) and an increase in inventory of \$1,402. \$864,748 or 47% 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 \$963,691 or 53% 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, 2018

General Fund for the fiscal year was \$216,143, which included a prior period adjustment of (\$24,529). The fund balance of Other Governmental Funds showed an increase in the amount of \$4,343. 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	\$ 89,685
Title I-A Fund	No change
MAEP Debt Retirement Fund	5,047

BUDGETARY HIGHLIGHTS

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

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2018, the District's total capital assets were \$11,235,484, including land, construction in progress, school buildings, building improvements, improvements other than buildings, buses, other school vehicles, and furniture and equipment. This amount represents an increase of \$593,694 from 2017. Total accumulated depreciation as of June 30, 2018, was \$5,525,842, and total depreciation expense for the year was \$292,339, resulting in total net capital assets of \$5,709,642.

Table 4
Capital Assets, Net of Accumulated Depreciation

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>Percentage Change</u>
Land	\$ 42,306	\$ 42,306	0.00 %
Construction in progress	435,590	-	N/A %
Buildings	4,604,053	4,742,055	(2.91) %
Building improvements	79,052	79,052	0.00 %
Improvements other than buildings	69,448	72,191	(3.80) %
Mobile equipment	372,778	355,333	4.91 %
Furniture and equipment	106,415	114,162	(6.79) %
Total	\$ 5,709,642	\$ 5,405,099	5.63 %

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

Debt Administration. At June 30, 2018, the District had \$803,610 in outstanding long-term debt, of which \$265,000 is due within one year. The liability for compensated absences increased \$8,591 from the prior year.

NEWTON MUNICIPAL SCHOOL DISTRICT

Management's Discussion and Analysis
For the Year Ended June 30, 2018

Table 5
Outstanding Long-Term Debt

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>Percentage Change</u>
Limited obligation refunding bonds payable	\$ 175,000	\$ 350,000	(50.00) %
Three mill notes payable	560,000	650,000	(13.85) %
Compensated absences payable	68,610	60,019	14.31 %
Total	<u>\$ 803,610</u>	<u>\$ 1,060,019</u>	<u>(24.19) %</u>

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

CURRENT ISSUES

The District is proud of its community support of the public schools. The general fund's total fund balance has declined in two (2) of the last three (3) years. The district has started budgeting changes to stabilize its fund balance as the district moves into the future.

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, 2018

Exhibit A

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 1,511,665
Due from other governments	197,508
Other receivables, net	50,138
Inventories	11,054
Restricted assets	222,543
Capital assets, net of accumulated depreciation	5,709,642
Total Assets	7,702,550
Deferred Outflows of Resources	
Deferred outflows - pensions	1,970,741
Deferred outflows - OPEB	66,499
Total deferred outflows of resources	2,037,240
Liabilities	
Accounts payable and accrued liabilities	141,532
Interest payable on long-term liabilities	17,440
Unearned revenue	22,937
Long-term liabilities, due within one year:	
Capital related liabilities	265,000
Net OPEB liability	39,920
Long-term liabilities, due beyond one year:	
Capital related liabilities	470,000
Non-capital related liabilities	68,610
Bond Discount	(1,556)
Net Pension liability	14,961,055
Net OPEB liability	896,466
Total Liabilities	16,881,404
Deferred Inflows of Resources	
Deferred inflows - pensions	507,812
Deferred inflows - OPEB	47,680
Total deferred inflows of resources	555,492
Net Position	
Net investment in capital assets	4,976,198
Restricted for:	
Expendable:	
School-based activities	387,184
Debt service	349,209
Forest improvement	132,511
Unemployment	8,700
Nonexpendable:	
Sixteenth section	8,898
Unrestricted	(13,559,806)
	\$ (7,697,106)

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

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NEWTON MUNICIPAL SCHOOL DISTRICT

Statement of Activities

For the Year Ended June 30, 2018

Exhibit B

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction	\$ 4,502,044	66,046	598,325		(3,837,673)
Support services	3,941,238	450	769,217	7,995	(3,163,576)
Non-instructional	659,116	60,150	687,226	36,735	124,995
Sixteenth section	9,036				(9,036)
Pension expense	1,835,933				(1,835,933)
OPEB expense	51,140				(51,140)
Interest on long-term liabilities	25,136				(25,136)
Total Governmental Activities	<u>\$ 11,023,643</u>	<u>126,646</u>	<u>2,054,768</u>	<u>44,730</u>	<u>\$ (8,797,499)</u>
General Revenues:					
Taxes:					
General purpose levies					
					3,058,015
Debt purpose levies					
					117,499
Unrestricted grants and contributions:					
State					
					4,994,154
Federal					
					5,392
Unrestricted investment earnings					
					4,281
Sixteenth section sources					
					23,207
Other					
					37,414
Total General Revenues					<u>8,239,962</u>
Change in Net Position					<u>(557,537)</u>
Net Position - Beginning, as previously reported					(6,211,911)
Prior Period Adjustments					<u>(927,658)</u>
Net Position - Beginning, as restated					<u>(7,139,569)</u>
Net Position - Ending					<u>\$ (7,697,106)</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

June 30, 2018

Exhibit C

	Major Funds				Other	Total
	General	School Food	Title I-A	MAEP Debt	Governmental	Governmental
	Fund	Service Fund	Fund	Retirement Fund	Funds	Funds
Assets						
Cash and cash equivalents	\$ 802,429	344,704		20,259	373,430	1,540,822
Investments				193,386		193,386
Due from other governments	107,121	474	26,759		63,154	197,508
Due from other funds	151,830	1,385	360		1,297	154,872
Inventories		11,054				11,054
Total assets	1,061,380	357,617	27,119	213,645	437,881	2,097,642
Liabilities and Fund Balances						
Liabilities:						
Accounts payable and accrued liabilities	140,238	255	914		125	141,532
Due to other funds	17,445	1,988	26,205		59,096	104,734
Unearned revenue					22,937	22,937
Total Liabilities	157,683	2,243	27,119	0	82,158	269,203
Fund Balances:						
Nonspendable:						
Permanent fund					8,898	8,898
Inventory		11,054				11,054
Restricted:						
Debt service				213,645	153,004	366,649
Grant activities		344,320			31,810	376,130
Forestry improvements					132,511	132,511
Unemployment benefits					8,700	8,700
Assigned:						
Student activities	38,949					38,949
Special projects					1,700	1,700
Vocational education					800	800
Unemployment benefits					18,300	18,300
Unassigned	864,748					864,748
Total Fund Balances	903,697	355,374	0	213,645	355,723	1,828,439
Total Liabilities and Fund Balances	\$ 1,061,380	357,617	27,119	213,645	437,881	2,097,642

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
June 30, 2018**

Exhibit C-1

Total fund balances for governmental funds \$ 1,828,439

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	
Construction in Progress	435,590	
Buildings	8,356,020	
Building improvements	395,273	
Improvements other than buildings	141,480	
Mobile equipment	1,222,237	
Furniture and equipment	642,578	
Accumulated depreciation	<u>(5,525,842)</u>	5,709,642

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

Net pension liability (14,961,055)

Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:

Deferred outflows of resources related to pensions	1,970,741	
Deferred inflows of resources related to pensions	<u>(507,812)</u>	(13,498,126)

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

Net OPEB liability (936,386)

Deferred outflows and inflows of resources related to OPEB are applicable to future periods and, therefore, are not reported in the funds:

Deferred outflows of resources related to OPEB	66,499	
Deferred inflows of resources related to OPEB	<u>(47,680)</u>	(917,567)

4. 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 payable	(175,000)	
Three mill notes payable	(560,000)	
Compensated absences payable	(68,610)	
Discount on bonds	1,556	
Accrued interest payable	<u>(17,440)</u>	(819,494)

Net Position of governmental activities \$ (7,697,106)

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
For the Year Ended June 30, 2018**

Exhibit D

	Major Funds				Other Governmental Funds	Total Governmental Funds
	General Fund	School Food Service Fund	Title I-A Fund	MAEP Debt Retirement Fund		
Revenues:						
Local sources	\$ 3,156,484	61,266		962	125,143	3,343,855
State sources	4,672,638	7,097		188,616	451,972	5,320,323
Federal sources	94,483	829,414	471,050		383,775	1,778,722
Sixteenth section sources	22,805				401	23,206
Total Revenues	7,946,410	897,777	471,050	189,578	961,291	10,466,106
Expenditures:						
Instruction	4,297,280		190,991		609,866	5,098,137
Support services	3,205,905	119,699	275,754		407,794	4,009,152
Noninstructional services	12,026	694,028	305		7,382	713,741
Sixteenth section	8,786				250	9,036
Facilities acquisition and construction	435,590					435,590
Debt service:						
Principal				175,000	90,000	265,000
Interest				8,181	19,890	28,071
Other				1,350		1,350
Total Expenditures	7,959,587	813,727	467,050	184,531	1,135,182	10,560,077
Excess (Deficiency) of Revenues over (under) Expenditures	(13,177)	84,050	4,000	5,047	(173,891)	(93,971)
Other Financing Sources (Uses):						
Operating transfers in	39,821	8,958			223,013	271,792
Operating transfers out	(218,258)	(4,755)	(4,000)		(44,779)	(271,792)
Total Other Financing Sources (Uses)	(178,437)	4,203	(4,000)	0	178,234	0
Net Change in Fund Balances	(191,614)	88,253	0	5,047	4,343	(93,971)
Fund Balances:						
July 1, 2017, as previously reported	1,119,840	265,689	0	208,598	351,380	1,945,507
Prior period adjustments	(24,529)	30				(24,499)
July 1, 2017, as restated	1,095,311	265,719	0	208,598	351,380	1,921,008
Increase in reserve for inventory		1,402			0	1,402
June 30, 2018	\$ 903,697	355,374	0	213,645	355,723	1,828,439

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, 2018**

Exhibit D-1

Net change in fund balances - total governmental funds \$ (93,971)

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	\$ 593,694	
Depreciation expense	<u>(292,339)</u>	301,355

2. 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	265,000	
Accrued interest payable	<u>4,493</u>	269,493

3. 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	(1,835,933)	
Contributions subsequent to the measurement date	<u>821,486</u>	(1,014,447)

4. Some items relating to OPEB 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:

OPEB expense	(51,140)	
Contributions subsequent to the measurement date	<u>39,920</u>	(11,220)

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	(8,591)	
Amortization of discount	(1,558)	
Change in inventory reserve	<u>1,402</u>	(8,747)

Change in Net Position of governmental activities	\$	<u>(557,537)</u>
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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, 2018

Exhibit E

	Agency Funds
Assets	
Cash and cash equivalents	\$ 475,006
Due from other funds	27,494
Total Assets	<u>502,500</u>
Liabilities	
Accounts payable and accrued liabilities	396,614
Due to other funds	77,632
Due to student clubs	28,254
Total Liabilities	<u>\$ 502,500</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, 2018

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

NEWTON MUNICIPAL SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2018

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 special revenue fund is used to account for and report all financial resources associated with the federal child nutrition cluster of grant awards.

Title I-A Fund – This special revenue fund is used to account for and report all financial resources associated with the federal Title I grants to local educational agencies.

MAEP Debt Retirement Fund – This debt service fund accounts for and reports all financial resources associated with servicing the district's Series 2011 State aid capital improvement refunding bonds (limited obligation bonds payable).

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 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 the 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 the 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.

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

NEWTON MUNICIPAL SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2018

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.

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

NEWTON MUNICIPAL SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2018

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.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and governmental fund financial statements.

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.

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

NEWTON MUNICIPAL SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2018

maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the thresholds in the table below.

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

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

The following schedule details the capitalization thresholds:

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

Deferred outflows - Postemployment Benefits Other Than Pensions (OPEB)

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

Deferred inflows - Postemployment Benefits Other Than Pensions (OPEB)

See Note 8, Note 9, and Note 15 for further information concerning deferred outflows and inflows of resources and liabilities relating to pensions and OPEB.

8. Compensated Absences

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

NEWTON MUNICIPAL SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2018

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. Postemployment Benefits Other than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the State and School Employees' Life and Health Plan (OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis as they are reported by the OPEB Plan. For this purpose, the OPEB Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Fiduciary net position was zero as of the measurement date of June 30, 2017.

12. 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 commitment by the school board. Currently there is no committed fund balance for this school district.

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

NEWTON MUNICIPAL SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2018

is the residual amount within the fund that is not restricted or committed. Assignments of fund balance are created by the school district's business manager pursuant to authorization established by 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 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 Investments

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

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

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

Cash and Cash Equivalents

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$1,540,822 and \$475,006, 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.

NEWTON MUNICIPAL SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2018

As of June 30, 2018, the district had the following investments.

Investment Type	Rating	Maturities (in years)	Fair Value
Federated U.S. Treasury Cash Reserves	AAAm	Less than 1 Year	\$ 193,386
Total			<u>\$ 193,386</u>

The district categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The district has the following recurring fair value measurements as of June 30, 2018:

- All investments are valued using quoted market prices (Level 1 inputs)

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

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

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

Concentration of Credit Risk. Disclosure of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds and external investment pools, and other pooled investments. As of June 30, 2018, the district had no investments for which this disclosure applies.

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	\$ 26,205
	Other governmental funds	51,035
	Fiduciary funds	74,590
School Food Service Fund	Fiduciary funds	1,385
Title I-A Fund	Fiduciary funds	360
Other governmental funds	Fiduciary funds	1,297
Fiduciary funds	General Fund	17,445
	School Food Service Fund	1,988
	Other governmental funds	8,061
Total		<u>\$ 182,366</u>

NEWTON MUNICIPAL SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2018

The amounts 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. Amounts also included are amounts due to and from the governmental funds to and from clearing funds at June 30, 2018.

B. Inter-fund Transfers

Transfers Out	Transfers In	Amount
General Fund	Other governmental funds	\$ 218,258
School Food Service Fund	Other governmental funds	4,755
Title I-A Fund	General Fund	4,000
Other governmental funds	General Fund	35,821
	School Food Service Fund	8,958
		<u>\$ 271,792</u>

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

Note 4 – Restricted Assets

The restricted assets represent the cash balance, totaling \$8,898, 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.

Also included in restricted assets are the cash balance and the investment balance, totaling \$20,259 and \$193,386, respectively, of the MAEP Debt Retirement Fund (Debt Service Fund).

Total restricted assets shown on the Statement of Net Position is \$222,543.

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, 2018**

	Balance 7/1/2017	Increases	Decreases	Adjustments	Balance 6/30/2018
Governmental Activities:					
<u>Non-depreciable capital assets:</u>					
Land	\$ 42,306				42,306
Construction in progress	-	435,590			435,590
Total non-depreciable capital assets	42,306	435,590	-	-	477,896
<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	1,141,502	80,735			1,222,237
Furniture and equipment	565,209	77,369			642,578
Total depreciable capital assets	10,599,484	158,104	-	-	10,757,588
<u>Less accumulated depreciation for:</u>					
Buildings	3,613,965	138,002			3,751,967
Building improvements	316,221				316,221
Improvements other than buildings	69,289	2,743			72,032
Mobile equipment	786,169	66,478		(3,188)	849,459
Furniture and equipment	451,047	85,116			536,163
Total accumulated depreciation	5,236,691	292,339	-	(3,188)	5,525,842
Total depreciable capital assets, net	5,362,793	(134,235)	-	3,188	5,231,746
Governmental activities capital assets, net	\$ 5,405,099	301,355	-	3,188	5,709,642

Depreciation expense was charged to the following governmental functions:

	<u>Amount</u>
Governmental activities:	
Instruction	\$ 877
Support services	265,739
Non-instructional	25,723
Total depreciation expense - Governmental activities	\$ 292,339

The details of construction-in-progress are as follows:

	<u>Spent to June 30, 2018</u>	<u>Remaining Commitment</u>
Governmental Activities:		
2018 Roofing Project	\$ 435,590	\$ 3,815
Total governmental activities	435,590	3,815

Construction projects included in governmental activities are funded with unassigned fund balance in the general fund.

Note 6 – Long-term Liabilities

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

NEWTON MUNICIPAL SCHOOL DISTRICT

**Notes to the Financial Statements
For Year Ended June 30, 2018**

	Balance 7/1/2017	Additions	Reductions	Balance 6/30/2018	Amounts due within one year
A. Limited obligation refunding bonds payable	\$ 350,000		175,000	175,000	175,000
B. Three mill notes payable	650,000		90,000	560,000	90,000
C. Compensated absences payable	60,019	8,591		68,610	
	<u>\$ 1,060,019</u>	<u>8,591</u>	<u>265,000</u>	<u>803,610</u>	<u>265,000</u>
Bond discount	(3,114)		(1,558)	(1,556)	
	<u>1,056,905</u>	<u>8,591</u>	<u>263,442</u>	<u>802,054</u>	

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	\$ 175,000
				<u>\$ 1,245,000</u>	<u>\$ 175,000</u>

The following are schedules by years of the total payments due on this debt:

General obligation bonds issued April 1, 2011:

Year Ending June 30	Principal	Interest	Total
2019	\$ 175,000	2,844	177,844
Total	<u>\$ 175,000</u>	<u>2,844</u>	<u>177,844</u>

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%	9/15/2013	9/15/2023	\$ 900,000	\$ 560,000
Total				<u>\$ 900,000</u>	<u>\$ 560,000</u>

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

NEWTON MUNICIPAL SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2018

Year Ending June 30	Principal	Interest	Total
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	95,000	5,814	100,814
2024 – 2026	95,000	2,907	97,907
Total	<u>\$ 560,000</u>	<u>60,588</u>	<u>620,588</u>

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
3. One (1) Toshiba e-studio 6508 Copier System

Lease expenditures for the year ended June 30, 2018, amounted to \$9,932.

Future lease payments for these leases are as follows:

Year Ending June 30	Amount
2019	\$ 10,462
2020	6,417
2021	2,122
2022	531
Total	<u>\$ 19,532</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)

NEWTON MUNICIPAL SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2018

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 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.

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, 2018 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, 2018, 2017 and 2016 were \$821,486, \$933,323 and \$859,333, 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, 2018, the school district reported a liability of \$14,961,055 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2018 net pension liability was 0.09 percent, which was based on a measurement date of June 30, 2017. This was neither an increase nor decrease in percent from its proportionate share used to calculate the June 30, 2017 net pension liability, which was based on a measurement date of June 30, 2016.

For the year ended June 30, 2018, the District recognized pension expense of \$1,835,933. At June 30, 2018 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	\$ 208,645	\$ 109,167
Net difference between projected and actual earnings on pension plan investments		56,418
Changes of assumptions	297,277	25,493

NEWTON MUNICIPAL SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2018

Changes in proportion and differences between District contributions and proportionate share of contributions	643,333	316,734
District contributions subsequent to the measurement date	821,486	
Total	\$ <u>1,970,741</u>	\$ <u>507,812</u>

\$821,486 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, 2019. 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:	
2019	\$ 401,586
2020	513,141
2021	15,709
2022	(288,993)

Actuarial assumptions. The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00 percent
Salary increases	3.25-18.50 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 2022, with males rates set forward one year.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2012 to June 30, 2016. The experience report is dated April 18, 2017.

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	27.00	%	4.60	%
International Equity	18.00		4.50	
Emerging Markets Equity	4.00		4.75	
Global	12.00		4.75	
Fixed Income	18.00		0.75	
Real Estate	10.00		3.50	
Private Equity	8.00		5.10	
Emerging Debt	2.00		2.25	
Cash	1.00		0.00	
Total	<u>100</u>	<u>%</u>		

NEWTON MUNICIPAL SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2018

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 table presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.75%, 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%) or 1-percentage-point higher (8.75%) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$ 19,622,422	\$ 14,961,055	\$ 11,091,107

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

Note 9 – Other Postemployment Benefits (OPEB)

General Information about the OPEB Plan.

Plan description. State law mandates that all state, public education, library, junior and community college and retiring employees be offered health and life benefit coverage through the State and School Employees' Life and Health Insurance Plan (the Plan). The Plan was established by Section 25-15-3 et seq., Mississippi Code Ann. (1972), which may be amended only by the State Legislature. The State and School Employees' Health Insurance Management Board (the Board) administers the Plan. The Board has the sole legal authority to promulgate rules and regulations governing the operations of the Plan within the confines of the law governing the Plan. The Plan is self-insured and is financed through premiums collected from employers, employees, retirees and COBRA participants. The Plan provides for Other Postemployment Benefits (OPEB) as a multiple-employer defined benefit OPEB plan. A trust was created June 28, 2018 for the OPEB Plan and, while no trust was in place for the June 30, 2017 plan year-end, for purposes of comparability for future periods, terminology used herein is based on the plan being a cost-sharing multiple-employer defined benefit OPEB plan. The plan does not issue a stand-alone financial report.

Benefits provided.

The Plan was formed by the State Legislature to provide group health and life benefits to full-time active and retired employees of the State, agencies, universities, community/junior colleges, public school districts and public libraries. In addition, the spouse and/or children of covered employees and retirees, as well as surviving spouses and COBRA participants, may be eligible for health insurance coverage under the Plan. Benefits of the OPEB Plan consist of an implicit rate subsidy, which is essentially the difference between the average cost of providing health care benefits to retirees under age 65 and the average cost of providing health care benefits to all participants when premiums paid by retirees are not age adjusted. Employees' premiums are funded primarily by their employers. Retirees must pay their own premiums, as do active employees for spouse and dependent medical coverage. The Board has the sole authority for setting life and health insurance premiums for the Plan. Per Section 12-15-15 (10) Mississippi Code Ann. (1972), a retired employee electing to purchase retiree life and health insurance must pay the full cost of such insurance premium. If the Board determined actuarially that the premium paid by the participating retirees adversely affects the overall cost of the Plan to the State, then the Board may impose a premium surcharge, not to exceed 15%, upon such participating retired employees who are under the age for Medicare eligibility and who are initially employed before January 1, 2006. For participating retired employees who are under the age for Medicare eligibility and who are initially employed on or after January 1, 2006, the Board may impose a premium surcharge in an amount the Board determined actuarially to cover the full cost of insurance. The Plan offers a Base option and a Select option for health benefits for non-Medicare participants. The Plan includes a separate coverage level for Medicare eligible retirees, Medicare Eligible surviving spouses, and Medicare eligible dependents of retirees and surviving spouses.

NEWTON MUNICIPAL SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2018

Contributions.

The Board has the sole authority for setting life and health insurance premiums for the Plan. The required premiums vary based on the plan selected and the type of participant. Employers pay no premiums for retirees while employees' premiums are funded primarily by their employer. Contributions to the OPEB plan from the District were \$39,920 for the year ended June 30, 2018.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources related to OPEB

At June 30, 2018, the District reported a liability of \$936,386 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The basis for the District's proportion is determined by comparing the employer's average monthly employees participating in the Plan with the total average employees participating in the Plan in the fiscal year of all employers. The allocation was utilized because the level of premiums contributed by each employer is the same for any employee regardless of plan participation elections made by the employee. At the measurement date of June 30, 2017, the District's proportion was 0.11934431 percent. This was an increase of 0.00382638 percent from the proportionate share as of the measurement date of June 30, 2016.

For the year ended June 30, 2018, the District recognized OPEB expense of \$51,140. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual Experience	\$	\$
		47,680
Changes of assumptions		
Net difference between projected and actual earnings on OPEB plan investments		
Changes in proportion and differences between District contributions and proportionate share of contributions	26,579	
District contributions subsequent to the measurement date	39,920	
Total	\$ <u>66,499</u>	\$ <u>47,680</u>

\$39,920 reported as deferred outflows of resources related to OPEB resulting from school district contributions subsequent to the measurement date will be recognized as a reduction to the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30:

2019	\$ (3,702)
2020	(3,702)
2021	(3,702)
2022	(3,702)
2023	(3,702)
Thereafter	(2,591)

Actuarial assumptions. The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

NEWTON MUNICIPAL SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2018

Inflation	3.00 percent
Salary increases	3.25-18.50 percent, including wage inflation
Long-term Investment Rate of Return, net of OPEB plan investment expense, including inflation	N/A
Municipal Bond Index Rate	
Measurement Date	3.56 percent
Prior Measurement Date	3.01 percent
Year FNP is projected to be depleted	
Measurement Date	2017
Prior Measurement Date	2016
Single Equivalent Interest Rate, net of OPEB plan investment expense, including inflation	
Measurement Date	3.56 percent
Prior Measurement Date	3.01 percent
Health Care Cost Trends	
Medicare Supplement Claims	7.75 percent for 2017 decreasing to an
Pre-Medicare	ultimate rate of 5.00 percent by 2023

Both pre-retirement and post-retirement mortality rates were based on the RP 2014 Healthy Annuitant Blue Collar Table projected with Scale BB to 2022, male rates set forward 1 year and adjusted by 106% for males at all ages, and females adjusted to 90% for ages less than 76, 95% for age 76, 105% for age 78 and 110% for ages 79 and greater. Post-disability

mortality rates were based on the RP 2014 Disabled Retiree Mortality Table set forward 4 years for males and 3 years for females.

The demographic actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study dated April 18, 2017.

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2017 valuation were based on a review of recent plan experience done concurrently with the June 30, 2017 valuation.

The plan had no assets as of the measurement date of 2017.

Discount rate. The discount rate used to measure the total OPEB liability at June 30, 2017 was 3.56 percent. Since the Prior Measurement Date, the Discount Rate has changed from 3.01% to 3.56%.

Since no trust was set up as of June 30, 2017, there was no projection of cash flows for the Plan and the Plan was projected to be depleted in 2017.

The discount rate determination will use a municipal bond rate to the extent the trust is projected to run out of money before all benefits are paid. The rate used, if necessary, for this purpose is the average of the Bond Buyer General Obligation 20-year Municipal Bond Index Rates during the month of June published at the end of each week by the Bond Buyer.

Sensitivity of the District's proportionate share of the net OPEB liability to changes in the discount rate. The following presents the District's proportionate share of the net OPEB liability, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.56 percent) or 1-percentage-point higher (4.56 percent) than the current discount rate:

NEWTON MUNICIPAL SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2018

	1% Decrease (2.56%)	Discount Rate (3.56%)	1% Increase (4.56%)
Net OPEB liability	\$ 961,116	\$ 936,386	\$ 917,970

Sensitivity of the District's proportionate share of the net OPEB liability to changes in the healthcare cost trend rates. The following presents the District's proportionate share of the net OPEB liability, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Healthcare Cost Trend Rates Current	1% Increase
Net OPEB liability	\$ 864,815	\$ 936,386	\$ 1,018,092

OPEB plan fiduciary net position. The fiduciary net position for the OPEB plan was zero as of June 30, 2017, the measurement date. Therefore, no separately issued financials were prepared. Detailed information about the OPEB plan's fiduciary net position for June 30, 2018 and going forward will be available in separately issued financial reports available on the Mississippi Department of Finance and Administration's website.

Note 10 – 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
2019	\$ 16,635
2020	16,635
2021	16,635
2022	13,869
2023	10,058
2024 – 2028	30,925
2029 – 2033	24,766
Thereafter	39,295
Total	<u>\$ 168,818</u>

Note 11 – Prior Period Adjustments

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

NEWTON MUNICIPAL SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2018

Exhibit B - Statement of Activities

Explanation	Amount
1. Error in recording a prior period asset or liability	(24,499)
2. Adjustment to capital assets	3,188
3. Adjustment to reflect the implementation of GASB Statement No. 75	(906,347)
Total	<u>\$ (927,658)</u>

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

Fund	Explanation	Amount
General Fund	Error in recording a prior period asset or liability	\$ (24,529)
School Food Service Fund	Error in recording a prior period asset or liability	30
Total		<u>\$ (24,499)</u>

Note 12 – 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.

Note 13 – 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.

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

The school district is a member of the Mississippi School Boards Association Property Trust (MSBAPT). The Trust is a risk sharing pool; such a pool is frequently referred to as a self-insurance pool. The Trust consists of approximately 39 school districts and covers losses associated with property damage to the physical assets owned by the member districts. An indemnity agreement is executed by each member in the Trust for the purposes of jointly and severally binding the pool and each of the members/districts to meet the financial obligations of each member. Each member of the Trust contributes quarterly to a fund held in trust by Amegy Bank of Texas in Houston, Texas. The funds in the trust account are used to pay any claim up to \$150,000 per occurrence. For a claim/occurrence exceeding \$150,000 the Trust has secured excess insurance. If total claims during a year were to deplete the trust account, then the member school districts would be required

NEWTON MUNICIPAL SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2018

to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the Trust.

The school district is a member of the Mississippi School Boards Association Casualty Trust (MSBACT). The Trust is a risk sharing pool; such a pool is frequently referred to as a self-insurance pool. The Trust consists of approximately 39 school districts and covers liability related losses the member may be responsible for through General Liability, Automobile Liability and School Board Legal Liability. An indemnity agreement is executed by each member in the Trust for the purposes of jointly and severally binding the pool and each of the members/districts to meet the financial obligations of each member. Each member of the Trust contributes quarterly to a fund held in trust by Amegy Bank of Texas in Houston, Texas. The funds in the trust account are used to pay any claim up to \$150,000 per occurrence. For a claim/occurrence exceeding \$150,000 the Trust has secured excess insurance. 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 Trust.

Note 14 – Fund Balance Assignments

The amount assigned for unemployment (\$18,300) shown on Exhibit C represents the amount held in the Unemployment Compensation Fund at June 30, 2018, above the statutory requirement necessary to fill that fund.

Note 15 – Effect of Deferred Amounts on Net Position

The unrestricted net position (deficit) amount of (\$13,559,806) includes the effect of deferred inflows/outflows of resources related to pensions. A portion of the deferred outflow of resources related to pensions in the amount of \$821,486 resulting from the District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. The \$1,149,255 balance of the deferred outflow of resources related to pensions at June 30, 2018 will be recognized as pension expense and will decrease the unrestricted net position amount over the next 3 years. The \$507,812 balance of the deferred inflow of resources related to pensions at June 30, 2018 will be recognized as a reduction of pension expense and will increase the unrestricted net position amount over the next 4 years.

The unrestricted net position (deficit) amount of (\$13,559,806) includes the effect of deferred inflows/outflows of resources related to OPEB. The deferred outflow of resources related to OPEB in the amount of \$39,920 resulting from the District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. The remaining balance of \$26,579 of deferred outflow of resources related to OPEB at June 30, 2018 will be recognized in OPEB expense and will decrease the unrestricted net position over the next 6 years. Other amounts reported as deferred inflows of resources totaling \$47,680 related to OPEB at June 30, 2018, will be recognized in OPEB expense over the next 6 years.

Note 16 - Subsequent Events

Events that occur after the Statement of Net Position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Management of the Newton Municipal School District evaluated the activity of the district through September 4, 2019 and determined that the following subsequent event has occurred requiring disclosure in the notes to the financial statements. The school district experienced an ad valorem revenue shortfall during the year ended June 30, 2019. The district has calculated the amount of the shortfall to be \$200,052. The school board passed a resolution of intent to issue a shortfall note borrowing on August 12, 2019, for revenue shortfalls occurring in the year ended June 30, 2019. Lending proposals and bids are due September 12, 2019. A lender will be named at the September 16, 2019, board meeting.

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, 2018

			Actual (GAAP Basis)	Variances	
	Budgeted Amounts			Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 3,182,200	3,156,671	3,156,484	(25,529)	(187)
State sources	4,630,662	4,672,417	4,672,638	41,755	221
Federal sources	217,607	89,331	94,483	(128,276)	5,152
Sixteenth section sources	131,600	23,055	22,805	(108,545)	(250)
Total Revenues	8,162,069	7,941,474	7,946,410	(220,595)	4,936
Expenditures:					
Instruction	4,500,279	4,283,175	4,297,280	217,104	(14,105)
Support services	3,274,830	3,197,762	3,205,905	77,068	(8,143)
Noninstructional services	15,625	10,914	12,026	4,711	(1,112)
Sixteenth section	12,777	8,786	8,786	3,991	0
Facilities acquisition construction	0	368,654	435,590	(368,654)	(66,936)
Total Expenditures	7,803,511	7,869,291	7,959,587	(65,780)	(90,296)
Excess (Deficiency) of Revenues					
over (under) Expenditures	358,558	72,183	(13,177)	(286,375)	(85,360)
Other Financing Sources (Uses):					
Insurance loss recoveries	6,500	0	0	(6,500)	0
Operating transfers in	279,836	537,779	39,821	257,943	(497,958)
Operating transfers out	(502,386)	(716,216)	(218,258)	(213,830)	497,958
Total Other Financing Sources (Uses)	(216,050)	(178,437)	(178,437)	37,613	0
Net Change in Fund Balances					
	142,508	(106,254)	(191,614)	(248,762)	(85,360)
Fund Balances:					
July 1, 2017, as previously reported	1,194,723	1,102,440	1,119,840	(92,283)	17,400
Prior period adjustments	0	692	(24,529)	692	(25,221)
July 1, 2017, as restated	1,194,723	1,103,132	1,095,311	(91,591)	(7,821)
June 30, 2018	\$ 1,337,231	996,878	903,697	(340,353)	(93,181)

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, 2018

				Variances	
	Budgeted Amounts		Actual (GAAP Basis)	Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 46,727	97,502	61,266	50,775	(36,236)
State sources	5,000	7,097	7,097	2,097	0
Federal sources	700,000	708,170	829,414	8,170	121,244
Total Revenues	751,727	812,769	897,777	61,042	85,008
Expenditures:					
Support services	112,199	119,699	119,699	(7,500)	0
Noninstructional services	635,353	692,626	694,028	(57,273)	(1,402)
Total Expenditures	747,552	812,325	813,727	(64,773)	(1,402)
Excess (Deficiency) of Revenues over (under) Expenditures	4,175	444	84,050	(3,731)	83,606
Other Financing Sources (Uses):					
Operating transfers in	0	9,324	8,958	9,324	(366)
Operating transfers out	0	(2)	(4,755)	(2)	(4,753)
Total Other Financing Sources (Uses)	0	9,322	4,203	9,322	(5,119)
Net Change in Fund Balances	4,175	9,766	88,253	5,591	78,487
Fund Balances:					
July 1, 2017, as originally reported	190,000	265,689	265,689	75,689	0
Prior period adjustments	0	0	30	0	30
July 1, 2017, as restated	190,000	265,689	265,719	75,689	30
Increase in reserve for inventory	0	0	1,402	0	1,402
June 30, 2018	\$ 194,175	275,455	355,374	81,280	79,919

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, 2018

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$ 380,028	491,593	471,050	111,565	(20,543)
Total Revenues	380,028	491,593	471,050	111,565	(20,543)
Expenditures:					
Instruction	12,491	233,859	190,991	(221,368)	42,868
Support services	358,953	355,047	275,754	3,906	79,293
Noninstructional services	584	5,843	305	(5,259)	5,538
Total Expenditures	372,028	594,749	467,050	(222,721)	127,699
Excess (Deficiency) of Revenues over (under) Expenditures					
	8,000	(103,156)	4,000	(111,156)	107,156
Other Financing Sources (Uses):					
Operating transfers out	(8,000)	(4,000)	(4,000)	4,000	0
Total Other Financing Sources (Uses)	(8,000)	(4,000)	(4,000)	4,000	0
Net Change in Fund Balances					
	0	(107,156)	0	(107,156)	107,156
Fund Balances:					
July 1, 2017	0	0	0	0	0
June 30, 2018	\$ 0	(107,156)	0	(107,156)	107,156

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>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
District's proportion of the net pension liability	0.09%	0.09%	0.08%	0.09%
District's proportionate share of the net pension liability	\$ 14,961,055	16,076,247	12,366,422	10,924,352
District's covered payroll	\$ 5,925,860	5,456,083	5,249,307	5,452,184
District's proportionate share of the net pension liability as a percentage of its covered payroll	252.47%	294.65%	235.58%	200.37%
Plan fiduciary net position as a percentage of the total pension liability	61%	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

	2018	2017	2016	2015
Contractually required contribution	\$ 821,486	933,323	859,333	826,766
Contributions in relation to the contractually required contribution	821,486	933,323	859,333	826,766
Contribution deficiency (excess)	\$ -	-	-	-
District's covered payroll	5,215,784	5,925,860	5,456,083	5,249,308
Contributions as a percentage of covered payroll	15.75%	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

Required Supplementary Information

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

OPEB

Last 10 Fiscal Years*

	2018
District's proportion of the net OPEB liability	% 0.11934431
District's proportionate share of the net OPEB liability	\$ 936,386
District's covered-employee payroll	\$ 5,925,860
District's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	16%
Plan fiduciary net position as a percentage of the total OPEB liability	0%

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, 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

OPEB

Last 10 Fiscal Years

	2018
Contractually required contribution	\$ 39,920
Contributions in relation to the contractually required contribution	39,920
Contribution deficiency (excess)	\$ 0
District's covered-employee payroll	\$ 5,215,784
Contributions as a percentage of covered-employee payroll	0.77%

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.75 was implemented in FYE 6/30/2018, 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 the Year Ended June 30, 2018

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%.

2017:

The expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Mortality Table projected with Scale BB to 2022. Small adjustments were also made to the Mortality Table for disabled lives.

The wage inflation assumption was reduced from 3.75% to 3.25%.

Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to more closely reflect actual experience.

The percentage of active member disabilities assumed to be in the line of duty was increased from 6% to 7%.

NEWTON MUNICIPAL SCHOOL DISTRICT

Notes to the Required Supplementary Information For the Year Ended June 30, 2018

(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.

(3) *Method and assumptions used in calculations of actuarially determined contributions.*

The actuarially determined contribution rates in the schedule of employer contributions are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported (June 30, 2015 valuation for the June 30, 2017 fiscal year end). The following actuarial methods and assumptions were used to determine the most recent contribution rate reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, open
Remaining amortization period	33.9 years
Asset valuation method	5-year smoothed market
Price Inflation	3.00 percent
Salary increase	3.75 percent to 19.00 percent, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

OPEB Schedules

(1) *Changes of assumptions*

2017: The discount rate was changed from 3.01% for the prior Measurement Date to 3.56% for the current Measurement Date.

(2) *Changes in benefit provisions*

2017: None

(3) *Methods and assumptions used in calculations of Actuarially Determined Contributions.* The Actuarially Determined Contributions rates, as a percentage of payroll, used to determine the Actuarially Determined Contribution amounts in the Schedule of Employer Contributions are calculated as of the most recent Valuation Date. The following actuarial methods and assumptions (from the June 30, 2016 actuarial valuation) were used to determine contribution rates reported in that schedule for the year ending June 30, 2017:

Actuarial cost method	Entry age
Amortization method	Level dollar
Amortization period	30 years, open
Asset valuation method	Market Value of Assets
Price inflation	3 percent
Salary increases, including wage inflation	3.25 percent to 18.50 percent

NEWTON MUNICIPAL SCHOOL DISTRICT

Notes to the Required Supplementary Information
For the Year Ended June 30, 2018

Initial health care cost trend rates	
Medicare Supplement Claims	7.75 percent
Pre-Medicare	
Ultimate health care cost trend rates	
Medicare Supplement Claims	5.00 percent
Pre-Medicare	
Year of ultimate trend rates	
Medicare Supplement Claims	2022
Pre-Medicare	
Long-term investment rate of return, net of pension plan investment expense, including price inflation	3.56 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, 2018

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance No.	Pass-thru Grantor No.	Federal Expenditures
<u>U.S. Department of Agriculture</u>			
Passed-through Mississippi Department of Education:			
Child nutrition cluster:			
School breakfast program	10.553	185MS326N1099	\$ 213,126
National school lunch program	10.555	185MS326N1099	547,183
National school lunch program - commodities	10.555	185MS326N1099	59,408
Summer feeding	10.559	185MS326N1099	8,930
Total child nutrition cluster			828,647
Total passed-through Mississippi Department of Education			828,647
Total U.S. Department of Agriculture			828,647
<u>U. S. Department of Defense</u>			
Direct funding:			
Reserve Officers' Training Corps	12.XXX	N/A	59,738
Total U.S. Department of Defense			59,738
<u>U.S. Department of Education</u>			
Passed-through Mississippi Department of Education:			
Title I grants to local educational agencies	84.010	ES010A160024 ES010A170024 ES010A170024	511,532
Career and technical education - basic grants to states	84.048	VO48A170024	1,759
Supporting Effective Instruction State Grants	84.367	ES367A160023 ES367A170023	86,255
Student support and academic enrichment program grants	84.424	ES424A170025	8,600
Rural education	84.358	ES358B170024 ES358B180024	25,613
Subtotal			633,759
Special education cluster:			
Special education - grants to states	84.027	H027A160108 H027A170108	209,290
Special education - preschool grants	84.173	H173A160113 H173A170113	7,102
Total special education cluster			216,392
Total passed-through Mississippi Department of Education			850,151
Total U.S. Department of Education			850,151
<u>U.S. Department of Health and Human Services</u>			
Passed-through Mississippi Department of Education:			
Medical assistance program	93.778	1705MS5ADM 1805MS5ADM	29,352
Total passed-through Mississippi Department of Education			29,352
Total U.S. Department of Health and Human Services			29,352
Total for All Federal Awards			\$ 1,767,888

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

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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, 2018

<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	\$ 7,572,927	5,255,745	715,555	688,025	913,602
Other	2,987,150	831,136	152,761	10,903	1,992,350
Total	<u>\$ 10,560,077</u>	<u>6,086,881</u>	<u>868,316</u>	<u>698,928</u>	<u>2,905,952</u>
Total number of students *	<u>975</u>				
Cost per student	<u>\$ 10,831</u>	<u>6,243</u>	<u>891</u>	<u>717</u>	<u>2,980</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 the Year Ended June 30, 2018

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, 2018. 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 Newton Municipal School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Newton Municipal School District.

(2) Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. 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.

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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

	2018	2017*	2016*	2015*
Revenues:				
Local sources	\$ 3,156,484	2,406,646	2,378,459	2,258,503
State sources	4,672,638	4,638,696	4,731,503	4,875,128
Federal sources	94,483	86,476	169,363	95,557
Sixteenth section sources	22,805	17,141	157,125	220,679
Total Revenues	7,946,410	7,148,959	7,436,450	7,449,867
Expenditures:				
Instruction	4,297,280	4,334,916	4,016,099	4,043,363
Support services	3,205,905	2,983,875	2,870,136	2,626,771
Noninstructional services	12,026	16,017	9,672	17,259
Sixteenth section	8,786	17,271	4,142	2,051
Facilities acquisition and construction	435,590			
Total Expenditures	7,959,587	7,352,079	6,900,049	6,689,444
Excess (Deficiency) of Revenues over (under) Expenditures	(13,177)	(203,120)	536,401	760,423
Other Financing Sources (Uses):				
Insurance loss recoveries			6,145	
Operating transfers in	39,821	22,260	4,474	163,361
Other financing sources			18,689	
Operating transfers out	(218,258)	(162,498)	(368,618)	(346,665)
Total Other Financing Sources (Uses)	(178,437)	(140,238)	(339,310)	(183,304)
Net Change in Fund Balances	(191,614)	(343,358)	197,091	577,119
Fund Balances:				
Beginning of period, as previously reported	1,119,840	1,511,018	1,329,585	752,466
Prior period adjustments	(24,529)	(47,820)	(15,658)	
Beginning of period, as restated	1,095,311	1,463,198	1,313,927	752,466
End of Period	\$ 903,697	1,119,840	1,511,018	1,329,585

*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

	2018	2017*	2016*	2015*
Revenues:				
Local sources	\$ 3,343,855	2,581,988	2,538,278	2,428,071
State sources	5,320,323	5,309,495	5,181,428	5,343,960
Federal sources	1,778,722	1,628,048	1,848,713	1,830,924
Sixteenth section sources	23,206	18,433	188,276	262,073
Total Revenues	10,466,106	9,537,964	9,756,695	9,865,028
Expenditures:				
Instruction	5,098,137	4,916,909	4,640,138	4,796,425
Support services	4,009,152	4,005,096	4,002,659	3,910,571
Noninstructional services	713,741	632,960	593,119	583,932
Sixteenth section	9,036	45,355	4,142	24,983
Facilities acquisition and construction	435,590			
Debt service:				
Principal	265,000	245,000	245,000	240,000
Interest	28,071	35,166	41,567	47,215
Other	1,350	1,350	1,350	7,891
Total Expenditures	10,560,077	9,881,836	9,527,975	9,611,017
Excess (Deficiency) of Revenues over (under) Expenditures	(93,971)	(343,872)	228,720	254,011
Other Financing Sources (Uses):				
Insurance loss recoveries			6,145	
Operating transfers in	271,792	229,908	373,092	568,655
Other financing sources			18,689	
Operating transfers out	(271,792)	(229,908)	(373,092)	(568,655)
Total Other Financing Sources (Uses)	0	0	24,834	0
Net Change in Fund Balances	(93,971)	(343,872)	253,554	254,011
Fund Balances:				
Beginning of period, as previously reported	1,945,507	2,350,857	2,097,325	1,835,845
Prior period adjustments	(24,499)	(50,312)	385	
Beginning of period, as restated	1,921,008	2,300,545	2,097,710	1,835,845
Increase (Decrease) in inventory	1,402	(11,166)	(407)	7,469
End of Period	\$ 1,828,439	1,945,507	2,350,857	2,097,325

*SOURCE - PRIOR YEAR AUDIT REPORTS

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REPORTS ON INTERNAL CONTROL AND COMPLIANCE

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SUZANNE E. SMITH, CPA, PLLC
AUDITING AND ACCOUNTING SERVICES
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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, 2018, 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 September 4, 2019.

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 deficiencies described in the accompanying Schedule of Findings and Questioned Costs as **Finding 2018-001, Finding 2018-002, and Finding 2018-003** to be material weaknesses.

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 2018-004, Finding 2018-005, Finding 2018-006, and Finding 2018-007**).

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*.

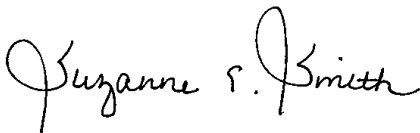
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District's Response to Findings

The district's responses to the findings identified in our audit are described in the accompanying auditee's corrective action plan. Newton Municipal 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, flowing style.

Suzanne E. Smith, CPA, PLLC
Brandon, Mississippi
September 4, 2019

SUZANNE E. SMITH, CPA, PLLC
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**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, 2018. 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, 2018.

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 2018-008, Finding 2018-009, Finding 2018-010, Finding 2018-011, Finding 2018-012 and Finding 2018-013**. Our opinion on each major federal program is not modified with respect to these matters. The Newton Municipal School District's responses to the auditor's findings identified in our audit are described in the Auditee's Corrective Action Plan. Newton Municipal 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.

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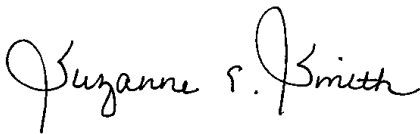
Report on Internal Control Over Compliance

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 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of Findings and Questioned Costs as **Finding 2018-008**, **Finding 2018-009**, and **Finding 2018-010**, **Finding 2018-011**, **Finding 2018-012**, and **Finding 2018-013** that we consider to be significant deficiencies. The Newton Municipal School District's responses to the auditor's findings identified in our audit is described in the Auditee's Corrective Action Plan. Newton Municipal 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
September 4, 2019

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, 2018, which collectively comprise Newton Municipal School District's basic financial statements and have issued our report thereon dated September 4, 2019. 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 the following instance of noncompliance.

Finding SL2018-A: EEF Procurement Cards. Code Section 37-61-33(3)(a)(iii) governs the granting and use of educational enhancement fund (EEF) procurement cards for teachers to be used for the purchase of instructional supplies and equipment. The State Board of Education is charged with developing and promulgating rules and regulations for the administration of the cards. As such, the State Board of Education requires that annual teacher cardholder agreements be completed and maintained on file in the district. The teacher agreements set forth the terms of the cardholder agreement, a listing of unauthorized expenses, recourse for violations, and laws, policies, and procedures governing the use of the cards. The district was unable to provide us with teacher cardholder agreements for the distribution of cards during the 2017-2018 year. While the district maintains that agreements were signed by teachers at the time cards were distributed, the agreements could not be located at the time of audit.

Recommendation: We recommend that the district secure teacher cardholder agreements on all EEF procurement cards each year and that the agreements be maintained on file as evidence of compliance with state law in this area.

District Response: The Newton Municipal School District will comply with Section 37-61-33(3)(a)(iii) by maintaining proper documentation of all signed teacher agreements.

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.

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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 SL2018-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 not presented to the board in a timely manner for the 2017-2018 year. Reports were late for nine (9) of the twelve (12) months during the fiscal year. Bank statements were not reconciled in a timely manner during the year for all accounts, meaning the board was being provided with unreconciled information. The district had not prepared a set of financial statements at the time its financial information was transmitted to the Mississippi Department of Education in October 2018. This is a violation of Code Section 37-61-21(2), Miss. Code Ann. (1972). A complete set of financial statements was not available until August 2019.

Recommendation: We recommend that the administration provide accurate, timely reports to the school board at each regular meeting. We further recommend that all bank statements be reconciled monthly and that all adjustments and other general ledger closing entries be completed prior to the time that financial information is submitted to the Mississippi Department of Education or by October 15 following the June 30 fiscal year end. Financial statements should be ready for audit at this same date.

District Response: The Newton Municipal School District will comply with Section 37-9-18 by issuing monthly financial reports to the Board in a timely fashion.

Repeat Finding SL2018-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-eight (28) leases identified, we found two (2) instances where the leases were not paid during the 60-day period and where such leases were not presented to the school board for consideration of termination.

Recommendation: We recommend that the district identify all delinquent leases and start termination proceedings on those leases. When lease payments are collected by the district, a timely notification of the collection amounts should be made to the outside consultant who is currently assisting in the management of leases for the district. We recommend that a monthly accounting for all leases received during each month be made at the end of the month to this outside consultant. This will assist in identifying late rental payments in a timely manner. A copy of official board action on all sixteenth section matters should also be provided to the outside consultant for each month. Board approved leases should be filed at the Office of the Chancery clerk immediately after board approval.

District Response: The Newton Municipal School District will comply with Section 29-3-57 by ensuring that all late lease payments are identified promptly and reported to the outside consultant. The Board will take action to cancel any lease that remains unpaid after 60 days.

Finding SL2018-D: Shared 16th Section Revenues. Code Section 29-3-119, Miss. Code Ann. (1972), governs the method used by school districts who share 16th Section expendable revenues in cases where a township is occupied by students from two or more school districts. The Newton Municipal School District shares certain revenues with the Newton County School District. A computational error made when determining the amount to be shared for the 2017-2018 year resulted in the Newton County School District portion share being \$547.95 short of the actual amount owed.

Recommendation: We recommend that the district strengthen controls in the area of the computation of shared revenues owed to other school districts to ensure that all shared revenues are promptly remitted at the end of the fiscal year.

District Response: The Newton Municipal School District will comply with Section 29-3-119 by implementing a tighter control system in computing the shared revenue amount.

Finding SL2018-E: 16th Section Interest Transfers to Governmental Funds. Code Section 29-3-117, Miss. Code Ann. (1972), governs the transfer of expendable sixteenth section revenues to governmental funds. All expendable sixteenth section revenues to which a school district shall become entitled, as provided in Sections 29-3-115 through 29-3-123, from

annual rents, interest and other sources may be transferred to governmental funds upon an order of the school board. The school district transferred \$159,994.85 from the 16th Section Interest Fund to the general fund without formal approval of the school board. The total amount was transferred in three transactions as follows: \$38,404.70 was transferred on February 1, 2018; \$53,000.00 was transferred on February 26, 2018; and \$68,590.15 was transferred on June 25, 2018. These transfers constitute a violation of Code Section 29-3-117.

Recommendation: We recommend that all transfers of expendable sixteenth section revenues be made only after formal school board approval for the transfers.

District Response: The Newton Municipal School District will comply with Section 29-3-117 by obtaining Board approval on all transfers.

Finding SL2018-F: Investment of 16th Section Principal Funds. Code Section 29-3-113, Miss. Code Ann. (1972), requires that the principal fund shall be a permanent fund which shall be invested and, except as otherwise provided in the section, only the interest income derived from such funds shall be expendable by the school district. During the 2017-2018 year, this fund was maintained in a pooled bank account, which was credited with interest at an annual rate of 0.25%. However, the district failed to credit the interest income to the 16th Section Principal Fund for eleven (11) of the twelve (12) months during the fiscal year. The interest was credited instead to the general fund. It is estimated that an additional \$20.72 should have been credited to the 16th Section Principal Fund during the year.

Recommendation: We recommend that monthly interest attributable to the fund be credited to the 16th Section Principal Fund each month. Interest income can then be transferred to the general fund upon a formal order of the school board.

District Response: The Newton Municipal School District will comply with Section 29-3-113 by crediting all interest earned on Principal Funds into the 16th Section Principal account promptly.

Repeat Finding SL2018-G: Amended Budget Late Approval Date. Code Section 37-61-9, 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 the amended budget for the 2017-2018 year on November 15, 2018, which was one month 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: The Newton Municipal School District will comply with Section 37-61-9 by approving the final amended budget on or before October 15 of each year.

Finding SL2018-H: Budgeting. Code Section 37-61-9, Mississippi Code Ann. (1972), states that it shall be unlawful for the school district to budget expenditures from a fund in excess of the resources available in that fund. On November 15, 2018, the board approved an amended 2017-2018 budget that included five (5) funds reflecting a projected negative fund balance at year end. None of the actual fund balances were negative at June 30, 2018; however, the approval of fund budgets with ending deficit fund balances is in violation of state law. The presentation of negative fund balances on the budget presented to the board was likely a lack of attention to appropriate budgeting practices.

Recommendation: We recommend that school district administration implement sound budgeting practices that will prevent projected negative fund balances from being presented to the school board for approval. A thorough review of such budgets should be made prior to presentation to the board.

District Response: The Newton Municipal School District will comply with Section 37-61-9 by approving a budget that incorporates sound budgeting practices.

Repeat Finding SL2018-I: Budgeting Administrative Limitation. The school district budgeted \$141,441.52 more in administrative salaries and benefits than outlined in formula in Code Section 37-61-9(4), Miss. Code Ann. (1972), as the administrative cost limitation. The district expended \$137,673.48 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: The Newton Municipal School District will staff to meet the needs of the district within the realm that will hold the administrative expenditures within compliance as much as possible.

Finding SL2018-J: Allocation of Interest Income in Pooled Account. The school district maintains certain funds in a pooled bank account with the general fund. The funds are maintained in an interest bearing checking account, and Code Section 37-59-43, Mississippi Code (1972), governs how interest income is to be credited to the funds within the pooled account. The code section states that all earnings from funds other than bond funds or bond sinking funds in excess of one hundred dollars (\$100.00) in any fiscal year shall be deposited in the district fund from which the investment was made. Earnings from such school district funds which are less than one hundred dollars (\$100.00) in any fiscal year may be deposited in the school district maintenance fund, or in the district fund from which the investment was made, in the discretion of the school board. Earnings from funds invested out of bond funds or bond sinking funds, together with the principal thereof, shall be deposited in the fund from which the investment was made. We found that the district did not allocate interest earned in excess of one hundred dollars (\$100) to the 16th Section Interest Fund or the Forestry Escrow Fund. The district instead credited the interest income for these two funds directly to the general fund (District Maintenance Fund) for all months except the month of July 2017. The district also failed to credit the interest due to the Three Mill Note Tax Levy Debt Service Fund directly to that fund for all months except July 2017, instead crediting the interest to the general fund (District Maintenance Fund).

Recommendation: We recommend that the district follow the methods outlined in Code Section 37-59-43, Miss. Code (1972), when allocating interest to funds in a pooled bank account.

District Response: The Newton Municipal School District will allocate interest earned to all applicable funds to comply with Section 37-59-43.

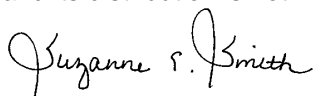
Repeat Finding SL2018-K: Compliance with State Purchasing Laws. Code Section 31-7-13, Miss. Code Ann. (1972), sets forth requirements for obtaining competitive quotes or bids for commodities when the amount encumbered by a single purchase order exceeds \$5,000. During our testing of non-payroll expenditures, we noted three instances where quotes were either outdated and no longer a valid quote at the time of the purchase, quotes were obtained for the same equipment but for varying quantities and therefore were not identical quotes, and instances where the purchase was awarded to the higher quote without detailed explanation outlined in the official board minutes stating why the higher quote was the best quote.

Recommendation: We recommend that the district carefully review all expenditures for commodities and ensure that competitive quotes or bids are obtained when the amount of the purchase falls above the threshold for quotes and/or bids. Quotes should be secured that are identical in nature and should be valid through the issuance of a purchase order. When the low quote is not chosen, a detailed explanation as to why, including computations that show why the low quote is not the best quote, should be spread across the official board minutes.

District Response: The Newton Municipal School District will comply with Section 31-7-13 by obtaining competitive quotes for all required purchases. The district will ensure that quotes are timely and consistent with state purchasing law. Any purchase awarded for other than the lowest bid will be documented through board minutes.

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.



Suzanne E. Smith, CPA, PLLC

Brandon, Mississippi
September 4, 2019

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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NEWTON MUNICIPAL SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

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>
84.010	Title I grants to local educational agencies
84.027/84.173	Special Education 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 |
| 10. | Prior fiscal year audit findings(s) and questioned costs relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings in accordance with 2CFR 200.511(b). (Yes/No) | Yes |

Section II: Financial Statement Findings

Significant Deficiencies considered to be Material Weaknesses

Finding 2018-001. Lack of Segregation of Duties.

CONDITION: For the first half of the 2017-2018 fiscal year, the business manager functioned both as the

NEWTON MUNICIPAL SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

business manager and the payroll clerk. During this time the review and reconciliation of bank statements to the general ledger were included in her duties as business manager. Her duties included preparing personnel contracts, issuing payrolls, maintaining the general ledger, moving monies to imprest clearing accounts, and reconciling the payroll clearing account to the general ledger. The business manager was also responsible for recording receipts and reconciling bank statements for the pooled bank account and preparing and posting journal entries. There was no person assigned who could review the adjusting journal entries for correctness or reasonableness.

CRITERIA: The district is charged with developing a system of accounting controls that will ensure the correctness and completeness of financial information and that will protect district assets. At the center of a well designed control system is the concept of segregation of duties. When duties are segregated, no single person is responsible for asset handling, recording of transactions, and reconciliation of transactions to asset balances within a given control cycle.

CAUSE: The cause is a lack of understanding of control systems and the need for sound control systems.

EFFECT: The effect is a control deficiency that would allow errors or irregularities in the payroll expenditure and related payables control cycle and the cash receipts, revenues, and related receivables control cycle to occur and not be detected. The month end and year end closing routines are also exposed to a greater risk when there is no review or other controls over the formulating and posting of adjusting journal entries.

QUESTIONED COSTS: None

RECOMMENDATION: We recommend that the district review its current control structure and segregate duties to the fullest extent possible.

Repeat Finding 2018-002. Bank Statement Reconciliations not timely.

CONDITION: All bank statements for all months of the 2017-2018 fiscal year were not fully reconciled at June 30, 2018. For the payroll clearing bank account, the accounts payable bank account, and the pooled account, complete bank reconciliations were not performed until after June 30, 2019, a complete fiscal year later. An outside consultant was hired to bring reconciliations up to date in order to prepare the district's accounting records for audit.

CRITERIA: A well-designed control system includes controls to make sure that all bank statements are reconciled to general ledger cash balance accounts on a regular basis. This process should be assigned to an individual who does not have transaction authority for or physical access to the assets in the bank account being reconciled if possible.

CAUSE: The cause is likely an inability on the part of business office staff to organize and prepare bank statement reconciliations on a timely basis.

EFFECT: The effect is a control deficiency that will allow errors or irregularities to occur and go undetected. General ledger cash accounts may be misstated because of incomplete entries or erroneous entries made to the general ledger. Missing or incomplete deposits have less of a chance of being discovered.

QUESTIONED COSTS: None

RECOMMENDATION: We recommend that the district review the process of providing complete, accurate bank statement reconciliations on a timely basis. Duties should be segregated among staff members to achieve the greatest segregation of duties possible.

Finding 2018-003. Recording of payables at year end.

CONDITION: The district failed to accrue \$66,345.23 in construction contracts payable and \$16,791.25 in retainage payable related to a roofing contract at June 30, 2018. The district accepted and posted the audit

NEWTON MUNICIPAL SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

adjustment to correctly accrue the construction contracts payable and retainage payable at June 30, 2019.

CRITERIA: As accounting records are converted to modified accrual basis in governmental funds, all expenditures meeting recognition criteria for a fiscal year should be recorded as expenditures in that fiscal year, regardless of when actual payment is made.

CAUSE: The cause is likely an oversight or failure to fully understand the concept of modified accrual basis accounting as it relates to the recording of expenditures in governmental funds.

EFFECT: The effect is an understatement of expenditures by \$83,136.48, an understatement of payables in this same amount, and an overstatement of unassigned fund balance in the general fund of \$83,136.48.

QUESTIONED COSTS: None

RECOMMENDATION: We recommend that the district refine the process through which payables are identified at year end to include a review of any construction contracts for retainage and other payables.

Significant Deficiencies Not considered to be Material Weaknesses

Repeat Finding 2018-004. Deficiencies in controls surrounding payroll expenditures and related payables.

CONDITION: We chose a non-statistical sample of 40 employees out of a total population of 168 employees for testing. In our review of the controls surrounding payroll expenditures, we noted that the school board did not approve fourteen (14) supplemental amounts paid to district employees, including supplements for extra duties assigned and supplements associated with the School Recognition award. We noted ten (10) instances where hourly time records were not available to support compliance with wage and hour laws for non-exempt employees. We noted two (2) instances where new employees were recommended to the board for one position, while contracts were prepared to reflect different positions. At the same time, the employees' schedules in the Mississippi Student Information System (MSIS) data base reflected yet another assignment. Neither of these two (2) employees were paid on any board-adopted salary schedule. It appears that their salaries were negotiated.

CRITERIA: The school district is charged with developing controls surrounding the payroll expenditure cycle that will provide for authorization of pay transactions through school board approval and the existence of time and attendance records. Controls should also include policies and procedures that will ensure compliance with the record-keeping requirements of federal wage and hour law. Finally, assignments for new employees should align to board approved duties and contracted descriptions.

CAUSE: The cause is not fully understood.

EFFECT: The effect is a breakdown in the controls surrounding the payroll expenditure cycle and exposure to risk of noncompliance with federal wage and hour law. Further, employees who are approved for one position are actually serving in a different capacity.

QUESTIONED COSTS: None

RECOMMENDATION: We recommend that the school district comply with the recordkeeping requirements of the federal wage and hour law. We further recommend that all supplemental pay amounts be approved by the school board and that all employees be approved for the position/title that corresponds to their actual work assignments.

NEWTON MUNICIPAL SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

Repeat Finding 2018-005. 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. For two (2) of the eight (8) events tested, the principal or game administrator did not sign the ticket reconciliation form to show that the form was reviewed. Three (3) of the eight (8) event reconciliation forms were either incomplete or completed incorrectly. Six (6) of the eight (8) gate deposits were late, meaning the deposits were made more than two (2) working days after the event. The deposits are dropped in the night deposit box at the bank after sporting events, and central office personnel are to pick up the bags the following work day to recount the receipts, verify the amounts listed on the ticket reconciliation forms, and make the deposits. There was a delay in completing this process by as many as five days.

CRITERIA: Athletic event ticket reconciliation forms are an important part of the controls surrounding the cash deposits flowing from ticket sales at athletic events. The proper use of these 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.

QUESTIONED COSTS: None

RECOMMENDATION: We recommend that the district refine control procedures and follow such procedures to ensure that athletic event ticket reconciliation forms are completed properly for each athletic event, signed by a game administrator or principal, and reviewed by central office personnel and that deposits are made timely. Any deviations from control procedures should be identified promptly and rectified.

Repeat Finding 2018-006. Deficiencies in controls surrounding non-payroll expenditures and related payables.

CONDITION: We chose a non-statistical sample of 168 items out of a total population of 1,829 non-payroll expenditures. We noted fifty-eight (58) instances where adequate receiving documentation was not present in the form of a signature on the invoice, packing slip, or other receiving documentation for claims that were paid. We also noted one (1) instance where a claim was dated before a purchase order was issued. One (1) paid claim packet was unavailable for audit and was believed to be misfiled or inadvertently lost.

CRITERIA: Sound controls surrounding purchasing and accounts payable processes should include authorization for each purchase, documentation to substantiate the purchase, 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 recommended procedures.

EFFECT: The effect is a breakdown in the controls surrounding non-payroll expenditures that increases the opportunity for unauthorized purchases to be made, for claims to be paid before goods or services are received, or for claims to be paid when received goods or commodities are damaged or services rendered unacceptable or incomplete.

QUESTIONED COSTS: None

NEWTON MUNICIPAL SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

RECOMMENDATION: We recommend that all purchases not exempt from purchase order by district board policy be supported by properly authorized purchase orders issued prior to goods being ordered or services being rendered. 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.

Repeat Finding 2018-007. Deficiencies in controls surrounding student activity fund transmittal process.

CONDITION: We performed a general review of activity fund transmittal reports for the following months: August 2017, January 2018, and May 2018. Copies of receipt warrants and deposit slips were not always turned in to match deposits listed on the monthly transmittals. Transmittal reports were not always signed by the school principal. In months that a school produced no transmittal report, there was no indication that schools were questioned as to why no deposits were made for the month or why only one deposit was made at the end of the month.

CRITERIA: Monthly activity fund transmittal reports play an important role in the controls surrounding activity fund receipts in a de-centralized system. 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 the timeliness of the deposits flowing through 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 safeguarding of assets and accuracy in reporting for student activity funds.

QUESTIONED COSTS: None

RECOMMENDATION: We recommend that the district review procedures in this area and strengthen controls to ensure that all schools submit a monthly activity 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.

Section III: Federal Award Findings and Questioned Costs

Significant Deficiencies not considered to be Material Weaknesses nor Material Non-compliance

Finding 2018-008. CFDA 84.010 – Title I grants to local educational agencies. Procurement and Suspension and Debarment.

CONDITION: Numerous control deficiencies existed in the procurement process for this grant award. We noted ten (10) instances where the district obtained competitive pricing quotes but failed to document why the higher quote was chosen. We noted four (4) instances where competitive pricing quotes were obtained but were either for different quantities or where one of the quotes obtained was no longer valid at the time a purchase order was issued for the goods/services. We noted five (5) instances totaling \$21,551.21 where the district failed to show that any competition was entered into the purchasing process or where a second pricing quote was quoted for different commodities entirely. The federal programs director, who was not bonded as a purchasing agent, often signed contracts for professional services with no board approval for the contracts. We noted nine (9) instances where contracts for professional services did not contain the contract provisions required by the Uniform Guidance.

NEWTON MUNICIPAL SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

CRITERIA: The district is charged with developing a system of controls that will ensure compliance with the procurement standards outlined in the Uniform Guidance.

CAUSE: The cause is a failure to follow procurement standards for federal grant awards adopted by the school board.

EFFECT: The effect is a control deficiency in the area of procurement practices that would allow purchases to be made or contracts to be entered into without appropriate competition and/or contract provisions.

QUESTIONED COSTS: \$21,551.21

RECOMMENDATION: We recommend that the district follow the procurement standards for federal grant awards when procuring goods and/or services for this grant. The district should review the requirements for contractual provisions in its board approved standards and make revisions, if necessary, to conform to Uniform Guidance.

Finding 2018-009. CFDA 84.027 Special Education – grants to states. Allowable and Unallowable Costs.

CONDITION: The district did not align its Special Education – grants to states budgeted expenditures in its financial accounting software to the project application approved by the Mississippi Department of Education. The district's actual grant expenditures exceeded approved application amounts in two areas. Total excess grant expenditures in these two areas were \$852.36.

CRITERIA: The school district is charged with developing a system of internal controls that will ensure all expenditures made from a federal award program are budgeted. An accounting system that aligns program/fund expenditures with project applications approved by the oversight agency helps to ensure that all expenditures are held to the amounts approved in the project application.

CAUSE: The cause is not fully known.

EFFECT: The effect is a control deficiency in the area of allowable and unallowable costs that would allow certain expenditures to be made in excess of the amounts allowable in the approved project application.

QUESTIONED COSTS: None

RECOMMENDATION: We recommend that the district review the procedures used to align fund expenditure budgets with the latest approved project applications approved by the Mississippi Department of Education for this federal award.

Finding 2018-010. CFDA 84.027 Special Education – grants to states and 84.173 Preschool grant. Cash Management.

CONDITION: The district had positive cash flow in the Special Education – grants to states fund for one (1) of the twelve (12) months during the fiscal year. The district earned an estimated \$0.81 on these excess funds. The district had positive cash flow in the Preschool grant for all twelve (12) months of the fiscal year. An estimated \$2.23 was earned on these excess funds.

CRITERIA: The school district is charged with developing a system of internal controls that will minimize the lapse of time between drawdowns of federal reimbursement amounts and the actual outlay of cash associated with the draw downs.

CAUSE: The cause is likely the district's failure to consider beginning cash balances in the funds or to consider refunds or reclassifications of expenditures in the grants.

NEWTON MUNICIPAL SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

EFFECT: The effect is non-compliance in the area of cash management.

QUESTIONED COSTS: None

RECOMMENDATION: We recommend that the district review the procedures used to make cash draw downs and evaluate the changes necessary to help ensure that drawdowns will not exceed cash needs for program expenditures.

Repeat Finding 2018-011. Title I grants to local educational agencies. 84.010 Cost Principles.

CONDITION: Personnel activity report forms available for the program director, who was working 76% under the federal program administrative cost objective and 24% under a non-federal administrative cost objective, failed to support the 76% proration paid from the federal grant. The grant funded \$1,579.96 in the director's salary over and above supported percentages worked on the grant. There was no quarterly reconciliation made of actual percentages worked in the grant to budgeted or estimated percentages charged to the grant for her salary and benefits.

CRITERIA: Standards for documentation of personnel expenses under the Title 2 *U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) require that charges to federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must, in addition to other requirements, reasonably reflect the total activity for which the employee is compensated, encompass both federally assisted and all non-federal activities compensated by the district, comply with the established accounting policies and practices of the district, and support the distribution of the employee's salary or wages among specific activities or cost objects if the employee works on a federal award and in a non-federal area. Budget estimates alone do not qualify as support for charges to federal awards. The school district may, in lieu of using the guidance spelled out above, develop its own system of substantiating time and compensation charged to a federal award as long as all the cost substantiation objectives are met.

CAUSE: The cause is likely a failure to monitor and perform a reconciliation of time charged to the grant with actual percentages worked.

EFFECT: The effect is noncompliance with the standards for documentation of personnel expenses under the Uniform Guidance.

QUESTIONED COSTS: None

RECOMMENDATION: We recommend that the district maintain records that meet the standards for documentation of personnel expenses under the Uniform Guidance. Current district fiscal policies should be reviewed for alignment with the Uniform Guidance.

Finding 2018-012. CFDA 84.010 Title I grants to local educational agencies. Allowable and Unallowable Costs.

CONDITION: The district did not align its Title I grants to local educational agencies budgeted expenditures in its financial accounting software to the project application approved by the Mississippi Department of Education. The district's actual grant expenditures exceeded approved application amounts in one (1) area. Total excess grant expenditures in this area were \$5,822.48.

NEWTON MUNICIPAL SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

CRITERIA: The school district is charged with developing a system of internal controls that will ensure all expenditures made from a program are budgeted. An accounting system that aligns program/fund expenditures with project applications approved by the oversight agency helps to ensure that all expenditures are held to budgeted amounts approved in the project application.

CAUSE: The cause is not fully known.

EFFECT: The effect is a control deficiency in the area of allowable and unallowable costs that would allow certain expenditures to be made in excess of budgeted amounts allowable in the approved project application.

QUESTIONED COSTS: None

RECOMMENDATION: We recommend that the district review the procedures used to align fund expenditure budgets with the latest approved project applications approved by the Mississippi Department of Education for this federal award.

Finding 2018-013. CFDA 84.010 Title I grants to local educational agencies. Other Tests and Provisions. Highly qualified teachers and paraprofessionals.

CONDITION: The district was unable to show that four (4) teacher assistants selected in our payroll testing of payroll expenditures were highly qualified.

CRITERIA: The district is charged with developing a system of controls that will ensure that all teachers and teacher assistants have the qualifications to be considered highly qualified when the district expends Title I grants to local educational agencies monies. All teachers and teacher assistants hired by and working in the district are subject to these requirements of being highly qualified.

CAUSE: The cause is not fully known but may be a deficiency in recordkeeping.

EFFECT: The effect is a control deficiency in the area of special tests and provisions that would allow certain instructional personnel to be hired that are not highly qualified as defined in the special tests and provisions of the grant.

QUESTIONED COSTS: None

RECOMMENDATION: We recommend that the district immediately identify all teacher assistants who are not highly qualified or who are highly qualified but do not have documentation to support this status and take necessary steps to correct any deficiencies/non-compliance noted.

Newton Municipal School District

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

FOLLOW UP ON PRIOR YEAR FEDERAL AUDIT FINDINGS

Finding 2016-007 – CFDA 84.010 – Title I grants to local educational agencies - Activities Allowed or Unallowed/Cost Principles	Corrected
Finding 2017-006. CFDA 10.553/10.555/10.559 Child Nutrition Cluster – Cost Principals	Corrected
Finding 2017-007. CFDA 10.553/10.555/10.559 Child Nutrition Cluster – Suspension and Debarment	Corrected
Finding 2017-008. CFDA 10.553/10.555/10.559 Child Nutrition Cluster – Reporting	Corrected
Finding 2017-009. CFDA 84.027 Special Education Cluster – Special Education – Grants to States - Procurement and Suspension and Debarment	Corrected
Finding 2017-010. CFDA 84.367 Improving Teacher Quality – State Grants – Procurement and Suspension and Debarment	Corrected
Finding 2017-011. CFDA 84.2017 Special Education Cluster – Special Education – Grants to States – Types of Activities Allowed or Unallowed	Corrected
Finding 2017-012. CFDA 84.367 Improving Teacher Quality – State Grants – Types of Activities Allowed or Unallowed	Corrected
Finding 2017-013. CFDA 84.010 – Title I grants to local educational agencies – Activities Allowed or Unallowed/Cost Principles.	Corrected
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	Corrected for 84.367; Corrected for 84.358; Repeat Finding at 2018-011 for 84.010

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AUDITEE'S CORRECTIVE ACTION PLAN

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Newton Municipal School District

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Newton, Mississippi 39345
Phone 601-683-2451 / Fax 601-683-7131*

AUDITEE'S CORRECTIVE ACTION PLAN

Finding 2018-001. Lack of Segregation of Duties

Corrective Action: The district has hired additional staff and will review responsibilities and segregate duties for better internal controls.
Responsible Party: Angela Hicks, Business Manager
Corrective Action Start Date: July 1, 2019

Finding 2018-002. Bank Statement Reconciliations

Corrective Action: The district has hired additional consultants to help get the bank reconciliations current.
Responsible Party: Angela Hicks, Business Manager
Corrective Action Start Date: May 1, 2019

Finding 2018-003. Recording of Payables at Year-End

Corrective Action: The district will record all payables properly at year-end.
Responsible Party: Angela Hicks, Business Manager
Corrective Action Start Date: June 30, 2019

Finding 2018-004. Deficiencies in controls surrounding payroll expenditures and related payables

Corrective Action: The district has implemented a new process for approving staff, salaries, and supplements for board approval. The district will implement time clocks to ensure that time records are current and accurate.
Responsible Party: Angela Hicks, Business Manager
Corrective Action Start Date: June 30, 2019

Finding 2018-005. Deficiencies in controls surrounding athletic gate receipts in student activity funds

Corrective Action: The district has implemented a new process for depositing gate receipts in a timely manner.
Responsible Party: Veronica Phillips, Accounts Payable Clerk
Corrective Action Start Date: January 2018

Finding 2018-006. Deficiencies in controls surrounding non-payroll expenditures and related payables

Corrective Action: The district has implemented a new process to ensure proper documentation on receipt of goods and services is obtained and is included in the payment packet.
Responsible Party: Veronica Phillips, Accounts Payable Clerk
Corrective Action Start Date: June 30, 2019

Finding 2018-007. Deficiencies in controls surrounding student activity fund transmittal process.

Corrective Action: The district will implement a new process to ensure proper documentation is obtained on activity funds. The business manager and the accounts payable clerk will communicate monthly to notify schools of any deficiencies in the reports.
Responsible Party: Angela Hicks, Business Manager
Veronica Phillips, Accounts Payable Clerk
Corrective Action Start Date: July 1, 2019

Finding 2018-008. CFDA 84.010 Title I Grants to LEA-Procurement, Suspension, and Debarment

Corrective Action: The district has implemented a new process to ensure proper quotes are obtained prior to the purchase of goods and services. Only the Superintendent is now authorized to signed contracts on behalf of the district.

Responsible Party: Cola Shelby, Federal Programs Director
Angela Hicks, Business Manager

Corrective Action Start Date: July 1, 2019

Finding 2018-009. CFDA 84.027 Special Education – Grants to states. Allowable and Unallowable Costs

Corrective Action: The SPED Director will ensure that all grant expenditures match with the approved MCAPS budget and will balance the funds on a monthly basis. The SPED Director will provide the Business Manager with all proper budget information from MCAPS. The business manager will support the SPED Director with improved communication prior to draw down requests.

Responsible Party: Natasha Porter, Sped Director
Angela Hicks, Business Manager

Correction Action Start Date: July 1, 2019

Finding 2018-010. CFDA 84.027 Special Education – Grants to states and 84.173 Preschool Grant – Cash Management

Corrective Action: The Business Manager will communicate with the SPED Director monthly to ensure that excess cash is not accumulated in the funds.

Responsible Party: Natasha Porter, Sped Director
Angela Hicks, Business Manager

Correction Action Start Date: July 1, 2019

Finding 2018-011. CFDA 84.010 Title I grants to LEAs – Cost Principals

Corrective Action: The Federal Programs Director will maintain proper PAR reports to document time spent in service to students. The Business Manager will communicate with the Federal Programs Director quarterly to reconcile time served to the payroll allocation.

Responsible Party: Cola Shelby, Federal Programs Director
Angela Hicks, Business Manager

Corrective Action Start Date: July 1, 2019

Finding 2018-012. CFDA 84.010 Title I grants to LEAs – Allowable and Unallowable Costs

Corrective Action: The Federal Programs Director will ensure that all grant expenditures match the approved MCAPS budget and will balance the funds on a monthly basis. The Director will provide the Business Manager with all proper budget information from MCAPS. The Business Manager will support the Director with financial information prior to draw down requests.

Responsible Party: Cola Shelby, Federal Programs Director
Angela Hicks, Business Manager

Corrective Action Start Date: July 1, 2019

Finding 2018-013. CFDA 84.010 Title I grants to LEAs – Other tests and provisions

Corrective Action: The district will implement a new employment process to ensure that all staff meet eligibility requirements.

Responsible Party: Angela Hicks, Business Manager

Corrective Action Start Date: July 1, 2019