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TOWN OF RICHTON, MISSISSIPPI

AUDIT REPORT

SEPTEMBER 30, 2019

TOWN OF RICHTON, MISSISSIPPI
AUDITED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

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**TOWN OF RICHTON, MISSISSIPPI
AUDITED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

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HOLT & ASSOCIATES, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

W. David Dill, CPA
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H. I. Holt, CPA
Founder (1915-1997)

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor, Members of the
Board of Aldermen and Town Clerk
Town of Richton, Mississippi

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Richton, Mississippi as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the Town of Richton, Mississippi'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.

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the Town of Richton, Mississippi, as of September 30, 2019, 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

Management has not presented the Management's Discussion and Analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not 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 basis financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, Schedule of the Library's Proportionate Share of Net Pension Liability, Schedule of Library Contributions (PERS), Schedule of the Library's Proportionate Share of Net OPEB Liability, and the Schedule of Library Contributions (OPEB) on pages 36-38 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 Town of Richton, Mississippi's financial statements. The accompanying Schedule of Surety Bonds for Municipal Officials is presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2020, on our consideration of the Town of Richton, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Town of Richton, Mississippi'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 Town of Richton, Mississippi's internal control over financial reporting and compliance.

Holt & Associates, PLLC

Laurel, MS

January 14, 2020

TOWN OF RICHTON, MISSISSIPPI
GOVERNMENT-WIDE FINANCIAL STATEMENTS

TOWN OF RICHTON, MISSISSIPPI
STATEMENT OF NET POSITION
September 30, 2019

EXHIBIT A

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
ASSETS:			
Cash and other deposits	\$ 1,926,986	\$ 823,861	\$ 2,750,847
Due from Other Governments	61,222	-	61,222
Receivables, accounts	-	44,094	44,094
Receivables, other	23,766	-	23,766
Prepaid expenses	15,320	-	15,320
Capital assets, net	1,924,336	2,596,794	4,521,130
TOTAL ASSETS	3,951,630	3,464,750	7,416,380
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred outflows related to pensions	28,680	11,659	40,339
LIABILITIES:			
Accounts payable and accrued liabilities	15,197	15,940	31,137
Customer deposits	-	37,436	37,436
Estimated state police fees payable	6,892	-	6,892
Long-term liabilities, due within one year			
Capital Related Debt	-	23,273	23,273
Long-term liabilities, due beyond one year			
Capital Related Debt	-	342,136	342,136
Non-capital Related Debt	8,344	9,577	17,921
Net Pension Liability	650,625	271,721	922,346
TOTAL LIABILITIES	681,058	700,083	1,381,141
DEFERRED INFLOWS OF RESOURCES:			
Deferred inflows related to pensions	50,421	21,609	72,030
NET POSITION:			
Investment in capital assets (net of related debt)	1,924,336	2,231,385	4,155,721
Unrestricted	1,324,495	523,331	1,847,826
TOTAL NET POSITION	\$ 3,248,831	\$ 2,754,716	\$ 6,003,547

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

TOWN OF RICHTON, MISSISSIPPI
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2019

EXHIBIT B

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Operating		Capital	Primary Government		
Functions/Programs	Expenses	Charges for Services	Grants and Contributions	Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary Government:							
Governmental Activities:							
General government	\$ 339,524	\$ 72,484	\$ -	\$ -	\$ (267,040)	\$ -	\$ (267,040)
Public safety	323,619	11,361	-	-	(312,258)	-	(312,258)
Public works	46,539	-	-	-	(46,539)	-	(46,539)
Culture & recreation	139,837	-	-	-	(139,837)	-	(139,837)
Total governmental activities	849,519	83,845	-	-	(765,674)	-	(765,674)
Business -type activities:							
Water & sewer	448,802	339,250	-	-	-	(109,552)	(109,552)
Interest on long term debt	7,540	-	-	-	-	(7,540)	(7,540)
Total business-type activities	456,343	339,250	-	-	-	(117,092)	(117,092)
Total primary government	\$ 1,305,861	\$ 423,095	\$ -	\$ -	\$ (765,674)	\$ (117,092)	\$ (882,766)
Taxes:							
	Sales taxes				350,332	-	350,332
	General purpose levies				242,151	-	242,151
Unrestricted grants & contributions:							
	Intergovernmental				68,789	-	68,789
	Federal grants				70,000	-	70,000
	Unrestricted investment earnings				17,646	4,259	21,905
	Other				32,077	21,662	53,739
Total General Revenues					780,995	25,921	806,916
Change in Net Position					15,321	(91,171)	(75,850)
Net Position - Beginning					3,233,510	2,845,887	6,079,397
Net Position - Ending					\$ 3,248,831	\$ 2,754,716	\$ 6,003,547

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

TOWN OF RICHTON, MISSISSIPPI

FUND FINANCIAL STATEMENTS

TOWN OF RICHTON, MISSISSIPPI
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2019

EXHIBIT C

	<u>MAJOR FUNDS</u>		
	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS:			
Cash and other deposits	\$ 1,818,615	\$ 108,371	\$ 1,926,986
Investments	-	-	-
Due from other governments	61,222	-	61,222
Receivables, other	23,766	-	23,766
Prepaid expenses	15,320	-	15,320
TOTAL ASSETS	<u>\$ 1,918,923</u>	<u>\$ 108,371</u>	<u>\$ 2,027,294</u>
LIABILITIES & FUND BALANCES:			
Liabilities:			
Accounts payable and accrued liabilities	\$ 15,197	\$ -	\$ 15,197
Estimated state police fees payable	6,892	-	6,892
Total Liabilities	<u>22,089</u>	<u>-</u>	<u>22,089</u>
Fund Balances:			
Nonspendable:			
Prepaid expenses	15,320	-	15,320
Restricted:			
Capital Projects	-	108,371	108,371
Sunset Cemetery	1,523	-	1,523
State Aid Street	25,760	-	25,760
Special Fire Protection	33,393	-	33,393
Committed:			
Recreation	57,994	-	57,994
Library	9,188	-	9,188
Assigned:			
Fire Protection Capital Improvement	15,696	-	15,696
Unassigned:	<u>1,737,960</u>	<u>-</u>	<u>1,737,960</u>
Total Fund Balance	<u>1,896,834</u>	<u>108,371</u>	<u>2,005,205</u>
TOTAL LIABILITIES & FUND BALANCE	<u>\$ 1,918,923</u>	<u>\$ 108,371</u>	<u>\$ 2,027,294</u>

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

**TOWN OF RICHTON, MISSISSIPPI
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2019**

EXHIBIT C-1

Total Fund Balance - Governmental Funds	\$	2,005,205
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Amounts reported for net assets in the statement of net assets
are different because:

1. Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$922,579.		1,924,336
--	--	-----------

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

Net pension liability		(650,625)
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Deferred outflows and inflows related to pensions are applicable to future period and, therefore, are not reported in the funds:

Deferred outflows of resources related to pensions		28,680
Deferred inflows of resources related to pensions		(50,421)

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

Accrued Compensation		<u>(8,344)</u>
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Total Net Assets - Governmental Activities	\$	<u><u>3,248,831</u></u>
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The notes to the financial statements are an integral part of this statement.

TOWN OF RICHTON, MISSISSIPPI
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES -- GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

EXHIBIT D

	MAJOR FUNDS		
	General	Other	Total
	Fund	Governmental	Governmental
	Funds	Funds	Funds
REVENUES			
Property taxes	\$ 242,151	\$ -	\$ 242,151
License and permits	72,484	-	72,484
Intergovernmental revenue	419,121	-	419,121
Federal grants	70,000	-	70,000
Fines and forfeitures	11,361	-	11,361
Miscellaneous	44,607	594	45,201
TOTAL REVENUES	859,724	594	860,318
EXPENDITURES			
General government	316,277	-	316,277
Public safety	607,381	-	607,381
Public works	43,829	-	43,829
Culture & recreation	95,258	-	95,258
TOTAL EXPENDITURES	1,062,745	-	1,062,745
EXCESS (DEFICIENCY) OF REVENUES			
OVER EXPENDITURES	(203,021)	594	(202,427)
OTHER FINANCING SOURCES (USES)			
Insurance recovery	11,537	-	11,537
TOTAL OTHER FINANCING SOURCES (USES)	11,537	-	11,537
NET CHANGE IN FUND BALANCE	(191,484)	594	(190,890)
FUND BALANCE, OCTOBER 1, 2018	2,088,318	107,777	2,196,095
FUND BALANCE, SEPTEMBER, 2019	\$ 1,896,834	\$ 108,371	\$ 2,005,205

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

TOWN OF RICHTON, MISSISSIPPI
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2019

EXHIBIT D-1

Net Change in fund balances - governmental funds	\$ (190,890)
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Amounts reported for governmental activities in the statement of activities are different because:

- | | |
|--|--|
| 1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchases amounted to \$316,608 and the depreciation expense amounted to \$79,511. | 237,097 |
| 2. In the statement of activities, only the gain/loss on the sale of assets is reported, while in the governmental funds, the proceeds from the sale or disposal increases financial resources. Thus, the change in Net Position differs from the change in fund balance by the cost of assets sold. | (7,015) |
| 3. The statement of activities uses the economic resources measurement focus and accrual basis of accounting, and therefore requires that pension expense and deferred outflows/inflows of resources related to pensions be recognized. | (28,260) |
| 4. Increase in compensated absences not included in governmental funds, but payment is reported as expenditures in statement of activity. | <div style="border-top: 1px solid black;">4,389</div> |
| Change in net assets of governmental activities | <div style="border-top: 1px solid black; border-bottom: 3px double black;">\$ 15,321</div> |

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

**TOWN OF RICHTON, MISSISSIPPI
STATEMENT OF NET POSITION
PROPRIETARY FUND
SEPTEMBER 30, 2019**

EXHIBIT E

ASSETS	
CURRENT ASSETS	
Cash	\$ 823,861
Accounts receivable (net)	44,094
Total current assets	<u>867,955</u>
 NONCURRENT ASSETS	
Capital assets (net)	<u>2,596,794</u>
 TOTAL ASSETS	 <u><u>\$ 3,464,749</u></u>
 DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions	<u>\$ 11,659</u>
 LIABILITIES	
CURRENT LIABILITIES	
Long-term liabilities, due within one year	\$ 23,273
Accounts payable	15,940
Customer deposits	37,436
Total current liabilities	<u>76,649</u>
 LONG-TERM LIABILITIES	
Accrued compensation	9,577
Long-term liabilities, due beyond one year	342,136
Pension liability	<u>271,721</u>
Total long-term liabilities	<u>623,434</u>
 TOTAL LIABILITIES	 <u><u>\$ 700,083</u></u>
 DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	<u>\$ 21,609</u>
 NET ASSETS	
Invested in capital assets, net of related debt	\$ 2,231,385
Retained earnings: Unreserved	<u>523,331</u>
 TOTAL NET ASSETS	 <u><u>\$ 2,754,716</u></u>

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

**TOWN OF RICHTON, MISSISSIPPI
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUND
FOR YEARS ENDED SEPTEMBER 30, 2019**

EXHIBIT F

OPERATING REVENUES:

Charges for services	\$	<u>339,250</u>
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OPERATING EXPENSES:

Personal services		163,943
Supplies		104,865
Contractual services		13,027
Depreciation		<u>166,967</u>

Total operating expenses		<u>448,802</u>
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Operating income		<u>(109,552)</u>
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NON-OPERATING REVENUES (EXPENSES):

Other miscellaneous income		21,662
Interest income		4,259
Interest expense		(7,540)
Operating Transfers		<u>-</u>

Total non-operating revenues (expenses)		<u>18,380</u>
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NET INCOME		(91,171)
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Net position, October 1		<u>2,845,887</u>
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Net position, September 30	\$	<u><u>2,754,716</u></u>
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The notes to the financial statements are an integral part of this statement.

**TOWN OF RICHTON, MISSISSIPPI
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR YEAR ENDED SEPTEMBER 30, 2019**

EXHIBIT G

	<u>Enterprise Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 334,856
Payments to suppliers	(106,739)
Payments to employees	<u>(152,854)</u>
Net cash flows from operating activities	<u>75,263</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Interest income	4,259
Miscellaneous income	<u>21,662</u>
Net cash provided by noncapital financing activities	<u>25,921</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Principal paid on capital debt	(22,813)
Interest paid on capital debt	<u>(7,540)</u>
Net cash provided by noncapital financing activities	<u>(30,353)</u>
NET INCREASE (DECREASE) IN CASH	70,831
Cash, October 1	<u>753,030</u>
Cash, September 30	<u><u>\$ 823,861</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating Income	\$ (109,552)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	166,967
Change in assets and liabilities:	
Receivables, net of allowances	(4,730)
Deferred outflows related to pensions	(3,941)
Accounts payable	11,151
Customer deposits	338
Accrued compensation	637
Deferred inflows related to pensions	4,648
Pension liability	<u>9,745</u>
Net cash flows from operating activities	<u><u>\$ 75,263</u></u>

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

TOWN OF RICHTON, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town operates under a Mayor, Aldermen form of government and provides the following services as authorized by its charter: Public safety (police and fire), highways and streets, sanitation, culture-recreation, public improvements, planning and zoning and general administrative services.

The accompanying financial statements of the Town 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 Town's accounting policies are described below.

A. Financial Reporting Entity.

For financial reporting purposes, the reporting entity includes all funds that are covered by the oversight responsibility of the Town's Board of Aldermen.

As defined by accounting principles generally accepted in the United States of America, the Town is considered a "primary government." The Town is governed by a five member board which each member was elected by the citizens of each defined Town wards. The Town has no component units.

B. Basis of Presentation.

The Town's basic financial statement consists of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the Town as a whole. They include all funds of the reporting entity except for fiduciary funds, if applicable. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange revenues.

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

TOWN OF RICHTON, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (continued).

Fund Financial Statements: Fund financial statements of the Town are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental category.

C. Measurement Focus and Basis of Accounting.

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. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Program revenues on the Statement of Activities consist primarily of ad-valorem taxes, state revenues, and fees for services.

In the fund financial statements, governmental funds are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when “measurable and available”. Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Property taxes and state appropriations associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

The Town reports the following major governmental funds:

General Fund - This is the Town’s primary operating fund. It accounts for all financial resources of the Town, except those required to be accounted for in another fund.

TOWN OF RICHTON, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (continued).

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, general are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported and *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connections with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town enterprise fund are charges to customers for services. The Town also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use the restricted resources first, then unrestricted resources as they are needed.

D. Account Classifications.

The account classifications used in the financial statements conform to the classifications prescribed in the *Financial Accounting Manual for Mississippi Municipalities* issued by the Office of the State Auditor.

TOWN OF RICHTON, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Encumbrances.

An encumbrance system is not maintained to account for commitments resulting from approved purchase orders, work orders and contracts.

F. Cash and Cash Equivalents.

The Town deposits excess funds in the financial institutions selected by the Board of Aldermen. State statutes specify how these depositories are to be selected.

Cash and cash equivalents consists of amounts on deposit in demand accounts and certificates of deposit with maturities of three months or less from the end of the fiscal year. Cash and cash equivalents are valued at cost.

G. Investments.

The Town is allowed, by statute, to invest excess funds in any bonds or other direct obligations of the United States of America or the State of Mississippi, or of any county or municipality of this state, when such county or municipal bonds have been properly approved; or in interest-bearing time certificates of deposit or interest-bearing accounts with any financial institution approved for the deposit of state funds; or in any type of investment permitted by sections 27-105-33(d) and 27-105-33(e), Miss. Code Ann. (1972).

Investments are reported at fair value, which is determined using selected bases. All of the Town's Investments consist of Certificates of Deposits, which mature over three months from the end of the fiscal year and are not considered cash or cash equivalents. These investments are reported at cost, which is the fair value.

H. Receivables.

The allowance method for valuing accounts receivables is used by the Town. At the end of each fiscal year, an amount necessary to bring the balance to the estimated amount of allowance for doubtful accounts is credited to a valuation account. As a specific account is deemed to be uncollectible, the amount of the account is taken from both the receivable and the allowance accounts. At the end of the subsequent fiscal year, bad debt expense is charged with the amount necessary to bring the allowance account to the estimated total. An aging schedule with a variable scale of percentages is used to compute the allowance account for Enterprise Fund receivable valuation. The valuation allowance for the General Fund police fines is based on the Town's estimation of amounts that cannot be collected.

I. Prepaid Expenses.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in both governmental and fund financial statements.

TOWN OF RICHTON, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Capital Assets.

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed assets are reported at estimated fair value at the time received.

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets are reported in the government-wide statements. Depreciation is calculated on the straight-line basis for all assets, except land. The following schedule details those thresholds.

	<u>Capitalization Policy</u>	<u>Estimated Useful Life</u>
Buildings	\$ 50,000	40 years
Heavy equipment	5,000	10 years
Mobile equipment	5,000	5 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.

All proprietary fund capital assets continued to be carried on the books and depreciated at their actual cost. Depreciation is charged to expense against operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation has been provided over the estimated useful lives using straight-line method. The estimated useful lives are as follows:

Water & Sewer System	15 – 50 years
Equipment	5 – 10 years

K. Long-term Liabilities.

Long-term liabilities are the unmatured principal of bonds, warrants, notes, or other forms of non-current or long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments. Long-term liabilities should not be reported as liabilities in governmental funds, but should be reported in the governmental activities column in the government-wide statement of net position. See Note 6 for details.

TOWN OF RICHTON, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Inter-fund Transactions and Balances.

Inter-fund transactions and balances are the result of timing differences between the date expenses/expenditures occur and the date payments are made.

Short-term (due within one year) inter-fund loan receivables are reported as "due from other funds" and are considered available expendable resources. Noncurrent portions of long-term interfund loan receivables are reported as advances and are offset equally by a fund balance reserve account which indicates that they do not constitute expendable available financial resources and, therefore, are not available for appropriation.

Transfers are used to (a) move revenues from the fund that statute or budget requires to collect to the fund that statute or budget requires to expend them and to (b) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Inter-fund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Position.

M. 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 and 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.

N. Equity Classifications.

Government-wide Financial Statements:

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

- (1) Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, constructions or improvement of those assets.
- (2) Unrestricted net position - All other net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

TOWN OF RICHTON, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Equity Classifications (continued).

Fund Financial Statements:

The Town implemented GASB No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in fiscal year ending September 30, 2011. In the fund financial statements, governmental funds report the following classifications of fund balance:

- Non-spendable – includes amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact. All amounts reported as non-spendable at September 30, 2019, by the Town are non-spendable in form. The Town has not reported any amounts that are legally or contractually required to be maintained intact.
- Restricted – includes amounts restricted by external sources (creditors, laws of other governments, etc.) or by constitutional provision or enabling legislation.
- Committed – includes amounts that can only be used for specific purposes. Committed fund balance is reported pursuant to ordinances passed by the Town of Richton, Mississippi's Council, the Town's highest level of decision-making authority. Commitments may be modified or rescinded only through ordinances approved by the Town of Richton, Mississippi.

Committed for:

	General Fund	Total
Recreation	\$ 57,994	\$ 57,994
Library	<u>9,188</u>	<u>9,188</u>
Committed Fund		
Balance	<u><u>\$ 67,182</u></u>	<u><u>\$ 67,182</u></u>

- Assigned – includes amounts that the Town intends to use for a specific purpose, but do not meet the definition of restricted or committed fund balance.
- Unassigned – includes amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose within the General Fund. The Town of Richton, Mississippi reports all amounts that meet the unrestricted General Fund Balance Policy described below as unassigned.

TOWN OF RICHTON, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Equity Classifications (continued).

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Town considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Town considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Town's Council has provided otherwise in its commitment or assignment actions.

O. Property Taxes.

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied as of January 1 and payable on or before February 1. Automobile ad valorem taxes are collected by Perry County and remitted to the Town. The County retains a 5% collection fee. Lien dates for personal and real property are in August. Delinquent tax payments, received throughout the year, are recognized as revenue in the year received.

The millage rate for the Town for January through December was 35.50 mills broken down as follows:

General Fund	33.50
Recreation Fund	1.00
Library Fund	<u>1.00</u>
	<u>35.50</u>

Restrictions associated with property tax levies are established by State law which provides that the tax levy for general purposes shall produce no more than 110% of the amount which results from those levies' assessments of the previous year. Uncollected taxes were determined to be properly handled.

P. Budgets and Budgetary Accounting.

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

1. Prior to September 1, the Mayor submits to the Board of Aldermen a proposed operating budget for the fiscal year commencing the following October. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted at the Town Hall to obtain taxpayer comments.
3. Prior to October 1, the budget is legally enacted through passage of an ordinance.
4. The Board of Aldermen may take official action to authorize transfers of budgeted amounts between departments and fund as allowed by law.

TOWN OF RICHTON, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Budgets and Budgetary Accounting (continued).

5. Formal budgetary integration is employed as a management control device during the year for the General Fund and the Enterprise Fund.
6. Mississippi laws require that municipalities budget governmental fund types on a modified – cash basis. Claims that have been incurred prior to the end of the year and that are paid within 30 days are recorded under the accrual basis. Prior year claims that are paid after 30 days revert to the cash basis. All revenue is accounted for under the cash basis. The required budgetary basis is therefore not considered a generally accepted accounting principal.

Proprietary funds are budgeted on a modified accrual basis. Modifications to the accrual basis include budgeting for capital expenditures, debt principal payments and for depreciation.

During the year, amendments were made to the original budget.

Q. Deferred outflows/inflows of resources

In addition to assets, the statement of net 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 and so will not be recognized as an outflow of resources (expense/expenditure) until then.

Deferred outflows related to pensions	\$ 40,339
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In addition to liabilities, the statement of net 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 and so will be recognized as an inflow of resources (revenue) until that time.

Deferred inflows related to pensions	\$ 72,030
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R. Compensated Absences.

Employees of the Town accumulate sick leave at a minimum amount as required by state law or at a greater amount provided by Town policy. Some employees are allowed personal leave and/or vacation leave in accordance with Town policy.

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

TOWN OF RICHTON, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. Use of Estimates.

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

NOTE 2 – CASH AND CASH EQUIVALENTS AND INVESTMENTS.

The Town 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 Town must advertise and accept bids for depositories no less than once every two years as required by Section 27-105-1, Miss. Code Ann. (1972). The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, 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 Depository Insurance Corporation.

Investments: Except for nonparticipating investment contracts and for participating interest-earning investment contracts and money market investments that had a remaining maturity at the time of purchase of one year or less, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost. Participating interest-earning investment contracts and money market investments that had a remaining maturity at time of purchase of one year or less are reported at amortized cost.

Cash and Cash Equivalents.

The carrying amount of the Town's deposits with financial institutions was \$2,750,847 and the bank balance was \$2,796,622.

Custodial Credit Risk – Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the town will not be able to recover deposits or collateral securities that are in the possession of an outside party. The town does not have a deposit policy for custodial credit risk.

TOWN OF RICHTON, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

NOTE 2 – CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the town. As of September 30, 2019, the town's bank balance did not have any exposure to custodial credit risk.

NOTE 3 – ACCOUNTS RECEIVABLE AND ALLOWANCE ACCOUNT

The balance in accounts receivable is composed of the following items:

GENERAL FUND:

OTHER

Police fines – installment agreements	\$ 242,690
Less: Estimated amount uncollectible	<u>(218,924)</u>
	<u>\$ 23,766</u>

ENTERPRISE FUND

ACCOUNTS

Current	\$ 32,105
30-59 days	2,149
60-89 days	206
90 days & over	<u>9,634</u>
	<u>\$ 44,094</u>

NOTE 4 - DUE FROM OTHER GOVERNMENTS

Receivables from other governments are as follows:

GENERAL FUND:

Sales tax	\$ 59,417
Utility tax	132
Auto Ad valorem and Property Taxes	<u>1,673</u>
Total General Fund	<u>\$ 61,222</u>

TOWN OF RICHTON, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

NOTE 5 - CAPITAL ASSETS

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

	Begin Balance 10/1/2018	Additions	Deletions	End Balance 9/30/2019
<u>Non-depreciable capital assets:</u>				
Land	\$ 281,873	-	\$ -	\$ 281,873
Total non-depreciable capital assets	<u>281,873</u>	<u>-</u>	<u>-</u>	<u>281,873</u>
<u>Depreciable capital assets:</u>				
Building	791,763	-	-	791,763
Machinery & Equipment	549,859	316,608	70,151	796,316
Improvements other than Buildings	976,963	-	-	976,963
Total depreciable capital assets	<u>2,318,585</u>	<u>316,608</u>	<u>70,151</u>	<u>2,565,042</u>
<u>Less accumulated depreciation for:</u>				
Building	293,665	13,749	-	307,414
Machinery & Equipment	449,841	24,816	63,136	411,521
Improvements other than Buildings	162,698	40,946	-	203,644
Total accumulated depreciation	<u>906,204</u>	<u>79,511</u>	<u>63,136</u>	<u>922,579</u>
Governmental Activities, capital assets, net	<u>\$ 1,694,254</u>	<u>\$ 237,097</u>	<u>\$ 7,015</u>	<u>\$ 1,924,336</u>

Depreciation expense was charged to the following governmental functions:

	<u>Amount</u>
General Government	\$ 11,513
Public Safety	23,419
Culture & Recreation	<u>44,579</u>
Total depreciation expense	<u>\$ 79,511</u>

TOWN OF RICHTON, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

NOTE 5 - CAPITAL ASSETS (CONTINUED)

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

	Begin Balance 10/1/2018	Additions	Deletions	Contributed Capital	End Balance 9/30/2019
<u>Depreciable capital assets:</u>					
Plant & Buildings	\$ 5,127,850	\$ -			\$ 5,127,850
Machinery & Equipment	243,641	-	-	-	243,641
Vehicles	96,775	-	-	-	96,775
Sewer Line Improvements	1,845,468	-	-	-	1,845,468
Total	<u>5,443,437</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,313,734</u>
<u>Less accumulated depreciation for:</u>					
Plant & Buildings	4,040,349	104,886	-	-	4,145,235
Machinery & Equipment	194,422	12,973	-	-	207,395
Vehicles	67,631	6,598	-	-	74,229
Sewer Line Improvements	247,571	42,510	-	-	290,081
Total accumulated depreciation	<u>4,549,973</u>	<u>166,967</u>	<u>-</u>	<u>-</u>	<u>4,716,940</u>
Proprietary Activities, capital assets, net	<u>\$ 893,464</u>	<u>\$ 166,967</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,596,794</u>

Depreciation expense charged to the enterprise fund totaled \$166,967.

NOTE 6 - LONG - TERM DEBT

Changes in long-term debt for proprietary activities, for the year ended September 30, 2019, are as follows:

	Interest Rate	Maturity Date	Balance 9/30/2018	Increases	Decreases	Balance 9/30/2019	Due within One Year
Notes from Direct Borrowings and Direct Placement:							
CAP Loan	2.0%	6/1/2033	\$ 388,222	\$ -	\$ 22,813	\$ 365,409	\$ 23,273
Total:			<u>\$ 388,222</u>	<u>\$ -</u>	<u>\$ 22,813</u>	<u>\$ 365,409</u>	<u>\$ 23,273</u>

TOWN OF RICHTON, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

NOTE 6 - LONG - TERM LIABILITIES (CONTINUED)

Debt service requirements on long-term debt at September 30, 2019 are as follows:

<u>Year Ending September 30,</u>	<u>Notes from Direct Borrowings and Direct Placements</u>	
	<u>Principal</u>	<u>Interest</u>
2020	\$ 23,273	\$ 7,080
2021	23,743	6,610
2022	24,222	6,131
2023	24,711	5,642
2024	25,210	5,143
2025-2029	133,891	17,875
2030-2033	110,359	11,053
	<u>\$ 365,409</u>	<u>\$ 59,534</u>

Notes from direct borrowing are when a government enters into a loan agreement with any financial institution. Notes from direct placement are when governments issue a debt security directly to an investor. The Town's outstanding notes from direct borrowing and direct placement related to business-type activities at September 30, 2019 is \$365,409. This note contains a provision in the event of a default, the entire amount outstanding under this note may be declared due and payable as provided in the agreement.

NOTE 7 - OTHER LONG - TERM LIABILITIES

Changes in other long-term liabilities for governmental activities, as of September 30, 2019, are as follows:

	<u>Balance 10/1/2018</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 9/30/2019</u>
Governmental Activities:				
Compensated Absences Payable	<u>\$ 12,733</u>	<u>\$ -</u>	<u>\$ 4,389</u>	<u>\$ 8,344</u>
Proprietary Activities:				
Compensated Absences Payable	<u>\$ 8,940</u>	<u>\$ 637</u>	<u>\$ -</u>	<u>\$ 9,577</u>

NOTE 8 - DEFINED BENEFIT PENSION PLAN

Plan Description. The Town contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be

TOWN OF RICHTON, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

NOTE 8 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

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. Plan provisions are established and may be amended only by the State of Mississippi Legislature.

Contributions. PERS members are required to contribute 9.00% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The employer's rate as of September 30, 2019 was 17.40% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The town's contributions to PERS for the fiscal years ending September 30, 2019, 2018 and 2017 were \$55,081, \$53,163, and \$50,542 respectively, which equaled the required contributions for each year.

TOWN OF RICHTON, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

NOTE 8 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

At September 30, 2019, the Town reported a liability of \$922,346 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Town's proportion of the net pension liability was based on a projection of the town's long-term share of contribution to the pension plan relative to projected contributions of all participating entities, actuarially determined. At June 30, 2019, the town's proportion was .005243 percent. This was a increase of .000002 percent from the proportionate share as of the measurement date of June 30, 2018.

For the year ended September 30, 2019, the District recognized pension expense of \$53,471. At September 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Governmental-type Activities</u>	<u>Deferred outflows of Resources</u>	<u>Deferred inflows of Resources</u>
Differences between expected and actual experience	\$ 4,833	\$ 13,845
Net difference between projected and actual earnings on pension plan investments	11,614	22,413
Changes in assumptions	359	-
Changes in proportionate share	1,100	14,163
District contributions subsequent to the measurement date	<u>10,774</u>	<u>-</u>
Total	<u><u>\$ 28,680</u></u>	<u><u>\$ 50,421</u></u>

TOWN OF RICHTON, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

NOTE 8 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

<u>Business-type Activities</u>	<u>Deferred outflows of Resources</u>	<u>Deferred inflows of Resources</u>
Differences between expected and actual experience	\$ 2,071	\$ 5,934
Net difference between projected and actual earnings on pension plan investments	4,978	9,605
Changes in assumptions	154	-
Changes in proportionate share	471	6,070
District contributions subsequent to the measurement date	<u>3,985</u>	<u>-</u>
Total	<u>\$ 11,659</u>	<u>\$ 21,609</u>

\$14,759 reported as deferred outflows of resources related to pensions resulting from town contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended September 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 ended Sept 30:

2020	\$ (13,655)
2021	(25,844)
2022	(6,752)
2023	<u>(199)</u>
Total	<u>\$ (46,450)</u>

TOWN OF RICHTON, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

NOTE 8 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

Actuarial assumptions. The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Salary increases	3.00 – 18.25 percent, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the PubS.H-2010(B) Retiree Table projected with the following adjustments: For males, 112% of male rates from ages 18-75 scaled down to 105% for ages 80-119. For females, 85% of the female rates from ages 18-65 scaled up to 102% for ages 75-119. Mortality rates will be projected generationally using the MP-2018 projection scale to account for future improvements in life expectancy.

The actuarial assumptions are based on the experience investigation for the four-year period ending June 30, 2018.

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>
Domestic Equity	27.00%	4.90%
International Equity	22.00%	4.75%
Global Equity	12.00%	5.00%
Fixed Income	20.00%	1.50%
Real Estate	10.00%	4.00%
Private Equity	8.00%	6.25%
Cash	1.00%	0.25%
Total	100.00%	

TOWN OF RICHTON, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

NOTE 8 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

Discount rate. The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate (9.00%) and that employer contributions will be made at the current employer contribution rate (17.40%). Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$ 1,212,457	\$ 922,347	\$ 687,887

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 - RISK MANAGEMENT

The Town 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 Town carries commercial insurance for these risks. Settled claims resulting from these insured risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Participation in Public Entity Risk Pool:

The Town participates in the Mississippi Municipal Liability Plan (MMLD), an insurance-purchasing pool. The Town, along with other municipalities as a group, purchased insurance

TOWN OF RICHTON, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

NOTE 9 - RISK MANAGEMENT (CONTINUED)

to insure against losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. Settled claims resulting from these insured risks have not exceeded the Town's insurance coverage since it joined the pool.

The Town is a member of the Mississippi Municipal Workers Compensation Group (MMWCG). The group is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. MMWCG covers risks of loss arising from injuries to the Town's 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 the MMWCG contributes quarterly to a fund held in trust.

The funds in the trust account are used to pay any claim up to \$500,000. For a claim exceeding \$500,000, MMWCG has insurance, which will pay the excess up to the statutory limit. If total claims during a year were to deplete the trust account, then the pool members would be required to pay for the deficiencies. The Town has not had an additional assessment for excess losses incurred by the pool.

NOTE 10 - MISSISSIPPI MUNICIPAL COMPLIANCE QUESTIONNAIRE

The Mississippi Compliance Questionnaire was completed and entered into the minutes as prescribed by law. A review of the questionnaire revealed that all items were answered yes or not applicable.

NOTE 11 - RECONCILIATION OF BUDGETARY BASIS TO ACCRUAL

Mississippi law requires that municipalities' budget on a modified-cash basis. Claims that have been incurred prior to the end of the year and that are paid within 30 days are recorded under the accrual basis. Prior year claims that are paid after 30 days revert to the cash basis. All revenue is accounted for under the cash basis. All budgeted amounts lapse at year end.

The required budgetary basis is therefore not considered a generally accepted accounting principle.

TOWN OF RICHTON, MISSISSIPPI
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

NOTE 11 - RECONCILIATION OF BUDGETARY BASIS TO ACCRUAL (CONTINUED)

The following schedule reconciles the fund balances on the budgetary basis to the GAAP basis for the general fund:

General Fund:

Fund balance (budgetary basis)	\$ 1,903,170
Adjustment to GAAP basis:	
Accrued revenues	<u>(6,336)</u>
Fund balance (GAAP basis), Sept. 30	<u>\$ 1,896,834</u>

NOTE 12 - JOINT VENTURES

The Town of Richton, Mississippi is a participant with the Perry County Board of Supervisors in a joint venture to operate the Richton-Perry County Airport. The joint venture was created to operate the airport and is governed by a five-member board, two appointed by the Town of Richton, Mississippi's Council, two appointed by the Perry County Board of Supervisors, and one appointed by the mayor of the Town of Richton and the president of the Perry County Board of Supervisors. Financial statements can be obtained from the Chairman of the Airport Board, P.O. Box 1500, Richton, MS 39476.

NOTE 13 - 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 Town of Richton, Mississippi evaluated the activity of the district through January 14, 2020, (the date the financial statements were available to be issued), and determined that no subsequent events have occurred that require disclosure in the notes to the financial statements.

TOWN OF RICHTON, MISSISSIPPI
REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF RICHTON, MISSISSIPPI
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2019

SCHEDULE 1a

	Budgeted Amounts		Actual	Variances	
				Original	Final
	Original	Final		to Final	to Actual
REVENUES					
Property taxes	\$ 235,128	\$ 236,888	\$ 242,155	\$ (1,760)	\$ 5,267
License and permits	64,900	69,633	72,715	4,733	3,082
Intergovernmental revenues	456,621	458,583	421,398	1,962	(37,185)
Federal grants	-	-	70,000	-	70,000
Fines and forfeitures	14,000	14,000	15,185	-	1,185
Miscellaneous	28,700	71,350	44,607	42,650	(26,743)
TOTAL REVENUES	799,349	850,454	866,059	47,585	15,605
EXPENDITURES					
General government	284,994	467,644	316,277	(182,650)	151,367
Public safety	701,233	737,922	607,381	(36,689)	130,541
Public works	75,602	75,602	43,829	-	31,773
Culture & recreation	104,774	104,774	95,258	-	9,516
Capital outlay	12,000	12,000	-	-	12,000
TOTAL EXPENDITURES	1,178,603	1,397,942	1,062,745	(219,339)	335,197
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES					
	(379,254)	(547,488)	(196,686)	(171,754)	350,803
OTHER FINANCING SOURCES (USES)					
Insurance recovery	-	-	11,537	-	11,537
TOTAL OTHER FINANCING SOURCES (USES)	-	-	11,537	-	11,537
NET CHANGE IN FUND BALANCES					
	(379,254)	(547,488)	(185,149)	(171,754)	362,340
FUND BALANCE -BEGINNING					
	2,088,318	2,088,318	2,088,318	-	-
FUND BALANCE - ENDING					
	\$ 1,709,064	\$1,540,830	\$ 1,903,170	\$ (171,754)	\$ 362,340

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

TOWN OF RICHTON, MISSISSIPPI**Schedule of the Municipality's Proportionate Share of the Net Pension Liability****PERS****Last 10 Fiscal Years**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Town's proportion of the net pension liability (asset)	0.005243%	0.005241%	0.004862%	0.004702%	0.004878%
Town's proportionate share of the net pension liability (asset)	\$ 922,347	\$ 871,735	\$ 808,140	\$ 839,896	\$ 750,263
Town's covered-employee payroll	\$ 340,833	\$ 337,543	\$ 320,902	\$ 300,895	\$ 300,330
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	270.62%	258.26%	251.83%	279.13%	249.81%
Plan fiduciary net position as a percentage of the total pension liability	61.59%	62.54%	61.49%	57.47%	61.70%

The amounts presented for each fiscal year were determined as of the measurement date of 9/30 of the year prior to the fiscal year end.

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

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

TOWN OF RICHTON, MISSISSIPPI

Schedule of Town Contributions

PERS

Last 10 Fiscal Years

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 55,081	\$ 53,163	\$ 50,542	\$ 47,391	\$ 47,302
Contributions in relation to the contractually required contribution	<u>\$ 55,081</u>	<u>\$ 53,163</u>	<u>\$ 50,542</u>	<u>\$ 47,391</u>	<u>\$ 47,302</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 340,833	\$ 337,543	\$ 320,902	\$ 300,895	\$ 300,330
Contributions as a percentage of covered employee payroll	16.16%	15.75%	15.75%	15.75%	15.75%

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

TOWN OF RICHTON, MISSISSIPPI
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2019

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 Board of Aldermen. Amendments can be made on the approval of the board. A budgetary comparison is presented for the general 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 2017 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 Table projected using 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.

TOWN OF RICHTON, MISSISSIPPI
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2019

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

2019:

- The expectation of retired life mortality was changed to the PubS.H-2010(B)Retiree Table with the following adjustments:
 - For males, 112% of male rates from ages 18-75 scaled down to 105% for ages 80 to 119.
 - For females, 85% of the female rates from ages 18-65 scaled up to 102% for ages 75-119.
 - Projection scale MP-2018 will be used to project future improvements in life expectancy generationally.
- The expectation of disabled mortality was changed to PubT.H-2010 Disabled Retiree Table for disabled retirees with the following adjustments:
 - For males, 137% of male rates at all ages.
 - For females, 115% of female rates at all ages.
 - Projection scale MP-2018 will be used to project future improvements in life expectancy generationally.
- The price inflation assumption was reduced from 3.00% to 2.75%.
- The wage inflation assumption was reduced from 3.25% to 3.00%.
- Withdrawal rates, pre-retirement mortality 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 7% to 9%.

(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, 2017 valuation for the June 30, 2019 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	38.4 years
Asset valuation method	5-year smoothed market
Price inflation	3.00 percent
Salary increase	3.25 percent to 18.50 percent, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

TOWN OF RICHTON, MISSISSIPPI
OTHER SUPPLEMENTARY INFORMATION

**TOWN OF RICHTON, MISSISSIPPI
SCHEDULE OF SURETY BONDS FOR MUNICIPAL OFFICIALS
SEPTEMBER 30, 2019**

Coverage with Scott Municipal Insurance:

Mayor	\$25,000
Aldermen	25,000

Coverage with USF&G:

Town Clerk	50,000
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Coverage with St. Paul Travelers:

Deputy Clerk	50,000
Police Chief	50,000
Court Clerk	50,000
Deputy Court Clerk	50,000

TOWN OF RICHTON, MISSISSIPPI
REPORTS ON COMPLIANCE AND INTERNAL CONTROL



HOLT & ASSOCIATES, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

W. David Dill, CPA
Julie M. Uher, CPA
Kari M. Blackledge, CPA

H. I. Holt, CPA
Founder (1915-1997)

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

Honorable Mayor, Members of the
Board of Aldermen and Town Clerk
Town of Richton, Mississippi

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Town of Richton, Mississippi, as of and for the year ended September 30, 2019 and the related notes to the financial statements, which collectively comprise Town of Richton, Mississippi's basic financial statements, and have issued our report thereon dated January 14, 2020.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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. 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.

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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Finding 2019-1 that we consider to be a significant deficiency.

Compliance and Other Matters

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

Town of Richton, Mississippi's Response to Findings

Town of Richton, Mississippi's response to the findings identified in our audit is described in the accompanying schedule of findings. Town of Richton, Mississippi's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 results 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.

Holt & Associates, PLLC

Laurel, Mississippi
January 14, 2020



HOLT & ASSOCIATES, PLLC

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

Honorable Mayor, Members of the
Board of Aldermen and Town Clerk
Town of Richton, Mississippi

We have audited the financial statements of the governmental activities, business-type activities and each major fund and the aggregate remaining fund information of the Town of Richton, Mississippi as of and for the year ended September 30, 2019, and have issued our report thereon dated January 14, 2020. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*.

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

The results of those procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements disclosed no immaterial instances of noncompliance with other state laws and regulations.

This report is intended solely for the information and use of the management, town officials and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Holt & Associates, PLLC

Laurel, Mississippi
January 14, 2020

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TOWN OF RICHTON, MISSISSIPPI

**TOWN OF RICHTON, MISSISSIPPI
SCHEDULE OF FINDINGS AND RESPONSES
FOR YEAR ENDED SEPTEMBER 30, 2019**

FINDING 2019-1

Finding:

There is a limited accounting staff to properly segregate the duties normally required for an efficient internal control structure. However, due to the limited number of personnel, an adequate segregation of duties is not possible without additional costs.

Recommendation:

The cost of hiring additional personnel versus the benefit of a proper segregation of duties must be weighed.

Response:

Lack of segregation of duties has been a recurring deficiency. Since the cost to hire additional personnel is cost prohibited, this will continue to be a deficiency in future audits. Sufficient internal controls are present.