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**NEWTON MUNICIPAL SCHOOL DISTRICT**

**Audited Financial Statements  
For the Year Ended June 30, 2014**



NEWTON MUNICIPAL SCHOOL DISTRICT  
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# INDEPENDENT AUDITOR'S REPORT

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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, 2014, 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, 2014, 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 analysis and budgetary comparison information on pages 11-17 and 51-59 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 the Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133), 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 the Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133) 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 March 20, 2015, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Newton Municipal School District's internal control over financial reporting and compliance.



Suzanne E. Smith, CPA, PLLC

Meridian, MS  
March 20, 2015

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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NEWTON MUNICIPAL SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2014

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, 2014. 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 2014 decreased \$847,506, including a prior period adjustment of (\$9,316), which represents a 13% decrease from fiscal year 2013. Total net position for 2013 decreased \$301,042, including a prior period adjustment of (\$45,404), which represents a 4% decrease from fiscal year 2012.
- General revenues amounted to \$7,025,848 and \$6,967,388, or 74% and 74% of all revenues for fiscal years 2014 and 2013, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$2,409,335, or 26% of total revenues for 2014, and \$2,461,335, or 26% of total revenues for 2013.
- The District had \$10,273,373 and \$9,684,361 in expenses for fiscal years 2014 and 2013; only \$2,409,335 for 2014 and \$2,461,335 for 2013 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$7,025,848 for 2014 were not adequate to provide for these programs, and general revenues of \$6,967,388 for 2013 were not adequate to provide for these programs.
- Among major funds, the General Fund had \$6,706,693 in revenues and \$6,978,893 in expenditures for 2014, and \$6,712,074 in revenues and \$7,041,493 in expenditures in 2013. The General Fund's fund balance decreased by \$108,809 from 2013 to 2014, including a prior period adjustment of \$3,058, and decreased by \$26,772, including a prior period adjustment of (\$45,404) from 2012 to 2013.
- Capital assets, net of accumulated depreciation, decreased by \$159,964 for 2014 and decreased by \$81,069 for 2013. The decrease for 2014 was due primarily to the annual depreciation.
- Long-term debt, including the liability for compensated absences, increased by \$695,631 for 2014 and decreased by \$190,706 for 2013. This increase for 2014 was due primarily to the issuance of limited liability bonds. The liability for compensated absences decreased by \$9,648 for 2014 and increased by \$3,044 for 2013.

### 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 and liabilities, with the differences between the two reported as "net position." Over 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 and interest on long-term liabilities.

NEWTON MUNICIPAL SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2014

**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:

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.

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.

NEWTON MUNICIPAL SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2014

**Required Supplementary Information**

In addition to the basic financial statements and accompanying notes, this report also presents budgetary comparison schedules 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 additional 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 OMB Circular A-133 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. Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$5,791,701 as of June 30, 2014.

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.

Table 1 presents a summary of the District's net position at June 30, 2014 and June 30, 2013.

**Table 1  
Condensed Statement of Net Position**

	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>Percentage Change</u>
Capital assets, net	\$ 1,647,654	\$ 1,631,485	0.99 %
Restricted assets	190,714	189,657	0.56 %
Capital assets, net	5,768,148	5,928,112	-2.70 %
<b>Total assets</b>	<b><u>7,606,516</u></b>	<b><u>7,749,254</u></b>	<b>-1.84 %</b>
Current liabilities	33,693	26,113	29.03 %
Long-term debt outstanding	1,781,122	1,083,934	64.32 %
<b>Total liabilities</b>	<b><u>1,814,815</u></b>	<b><u>1,110,047</u></b>	<b>63.49 %</b>
<b>Net position:</b>			
Net investment in capital assets	4,379,870	4,952,451	-11.56 %
Restricted	648,992	897,585	-27.70 %
Unrestricted	762,839	789,171	-3.34 %
<b>Total net position</b>	<b><u>\$ 5,791,701</u></b>	<b><u>\$ 6,639,207</u></b>	<b>-12.77 %</b>

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

NEWTON MUNICIPAL SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2014

- Decrease in net capital assets in the amount of \$159,964.
- The principal retirement of \$194,721 of long-term debt and a reduction in compensated absences of \$9,648.
- The issuance of \$900,000 in limited liability bonds.

**Changes in net position**

The District's total revenues for the fiscal years ended June 30, 2014 and June 30, 2013 were \$9,435,183 and \$9,428,723, respectively. The total cost of all programs and services was \$10,273,373 for 2014 and \$9,684,361 for 2013. Table 2 presents a summary of the changes in net position for the fiscal years ended June 30, 2014 and June 30, 2013.

**Table 2  
Changes in Net Position**

	<u>Year Ended June 30, 2014</u>	<u>Year Ended June 30, 2013</u>	<u>Percentage Change</u>
<b>Revenues:</b>			
Program revenues:			
Charges for services	\$ 158,084	\$ 161,103	(1.87) %
Operating grants and contributions	2,251,251	2,300,232	(2.13) %
General revenues:			
Property taxes	2,231,677	2,075,759	7.51 %
Grants and contributions not restricted	4,748,534	4,752,713	(0.09) %
Investment earnings	2,070	4,426	(53.23) %
Sixteenth section sources	28,641	125,680	(77.21) %
Other	14,926	8,810	69.42 %
<b>Total revenues</b>	<b><u>9,435,183</u></b>	<b><u>9,428,723</u></b>	<b>0.07 %</b>
<b>Expenses:</b>			
Instruction	4,920,687	4,865,866	1.13 %
Support services	4,707,962	4,160,749	13.15 %
Non-instructional	582,856	613,091	(4.93) %
Sixteenth section	14,574	18,204	(19.94) %
Interest on long-term liabilities	47,294	26,451	78.80 %
<b>Total expenses</b>	<b><u>10,273,373</u></b>	<b><u>9,684,361</u></b>	<b>6.08 %</b>
<b>Increase (Decrease) in net position</b>	<b><u>(838,190)</u></b>	<b><u>(255,638)</u></b>	<b>227.88 %</b>
<b>Net Position, July 1, as previously reported</b>	<b><u>6,639,207</u></b>	<b><u>6,940,249</u></b>	<b>(4.34) %</b>
<b>Prior Period Adjustment</b>	<b><u>(9,316)</u></b>	<b><u>(45,404)</u></b>	<b>79.48 %</b>
<b>Net Position, July 1, as restated</b>	<b><u>6,629,891</u></b>	<b><u>6,894,845</u></b>	<b>(3.84) %</b>
<b>Net Position, June 30</b>	<b><u>\$ 5,791,701</u></b>	<b><u>\$ 6,639,207</u></b>	<b>(12.77) %</b>

**Governmental activities**

The following table presents the cost of five major District functional activities: instruction, support services, non-instructional, sixteenth section, 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, 2014

**Table 3**  
**Net Cost of Governmental Activities**

	<b>Total Expenses</b>		<b>Percentage Change</b>
	<b>2014</b>	<b>2013</b>	
Instruction	\$ 4,920,687	\$ 4,865,866	1.13 %
Support services	4,707,962	4,160,749	13.15 %
Non-instructional	582,856	613,091	(4.93) %
Sixteenth section	14,574	18,204	(19.94) %
Interest on long-term liabilities	47,294	26,451	78.80 %
<b>Total expenses</b>	<b>\$ 10,273,373</b>	<b>\$ 9,684,361</b>	<b>6.08 %</b>
	<b>Net (Expense) Revenue</b>		
	<b>2014</b>	<b>2013</b>	<b>Percentage Change</b>
Instruction	\$ (4,289,221)	\$ (4,152,550)	3.29 %
Support services	(3,577,787)	(3,081,936)	16.09 %
Non-instructional	32,168	8,650	271.88 %
Sixteenth section	(12,223)	(906)	1,249.12 %
Interest on long-term liabilities	(16,975)	3,716	(556.81) %
<b>Total net (expense) revenue</b>	<b>\$ (7,864,038)</b>	<b>\$ (7,223,026)</b>	<b>8.87 %</b>

- Net cost of governmental activities [(\$7,864,038) for 2014 and (\$7,223,026) for 2013] was financed by general revenue, which is primarily made up of property taxes (\$2,231,677 for 2014 and \$2,075,759 for 2013) and state and federal revenues (\$4,748,534 for 2014 and \$4,752,713 for 2013). In addition, there was \$28,641 and \$125,680 in Sixteenth Section sources for 2014 and 2013, respectively.
- Investment earnings amounted to \$2,070 for 2014 and \$4,426 for 2013.

## 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 \$1,835,845, an increase of \$44,398, which includes a decrease in inventory of \$3,207 and a prior period adjustment of \$3,058. \$728,659, or 40% 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 \$1,107,186 or 60% 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.

NEWTON MUNICIPAL SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2014

The General Fund is the principal operating fund of the District. The decrease in fund balance in the General Fund for the fiscal year was \$108,809, which includes a prior period adjustment of \$3,058. The fund balance of Other Governmental Funds showed a decrease in the amount of \$181,779, which includes a decrease in reserve for inventory of \$3,207. The increase (decrease) in the fund balances for the other major funds was as follows:

<u>Major Fund</u>	<u>Increase (Decrease)</u>
Title I-A Fund	No change
EHA Part B Fund	No change
Special Projects Fund	\$ 333,940
MAEP Retirement Fund	1,046
Educational Talent Search 2014 Fund	No change

### 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 major special revenue funds is provided in this report as required supplementary information.

### CAPITAL ASSETS AND DEBT ADMINISTRATION

**Capital Assets.** As of June 30, 2014, the District's total capital assets were \$10,583,580 including land, school buildings, building improvements, buses, other school vehicles, furniture and equipment, and any intangible assets. This amount represents an increase of \$228,897 from 2013. Total accumulated depreciation as of June 30, 2014, was \$4,815,432, and total depreciation expense for the year was \$388,861, resulting in total net capital assets of \$5,768,148.

**Table 4**  
**Capital Assets, Net of Accumulated Depreciation**

	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>Percentage</u> <u>Change</u>
Land	\$ 42,306	42,306	0.00 %
Buildings	5,003,080	5,294,065	(5.50) %
Building improvements	79,052	79,052	0.00 %
Improvements other than buildings	80,420	14,580	451.58 %
Mobile equipment	465,911	410,729	13.44 %
Furniture and equipment	97,379	87,380	11.44 %
<b>Total</b>	<b>\$ 5,768,148</b>	<b>\$ 5,928,112</b>	<b>(2.70) %</b>

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

NEWTON MUNICIPAL SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2014

**Debt Administration.** At June 30, 2014, the District had \$1,788,904 in outstanding long-term debt, of which \$240,000 is due within one year. The liability for compensated absences decreased \$9,648 from the prior year.

**Table 5  
Outstanding Long-Term Debt**

	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>Percentage Change</u>
Limited obligation refunding bonds payable	\$ 830,000	\$ 985,000	(15.74) %
Limited obligation bonds payable	900,000	-	N/A %
Shortfall notes payables	-	39,721	(100.00) %
Compensated absences payable	58,904	68,552	(14.07) %
<b>Total</b>	<b>\$ 1,788,904</b>	<b>\$ 1,093,273</b>	<b>63.63 %</b>

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

**CURRENT ISSUES**

Newton Municipal School District is financially stable. The district is proud of its community support of the public schools. The district has committed itself to financial excellence. The district plans to continue its sound fiscal management to meet the challenges of the future.

The district actively pursues grant funding to supplement local, state, and federal revenues.

**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.

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## FINANCIAL STATEMENTS

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**NEWTON MUNICIPAL SCHOOL DISTRICT**

**Statement of Net Position**  
**June 30, 2014**

**Exhibit A**

	Governmental Activities
<b>Assets</b>	
Cash and cash equivalents	\$ 1,365,450
Due from other governments	268,448
Inventories	13,756
Restricted assets	190,714
Capital assets, net of accumulated depreciation	5,768,148
<b>Total Assets</b>	<b>7,606,516</b>
 <b>Liabilities</b>	
Accounts payable and accrued liabilities	2,180
Interest payable on long-term liabilities	31,170
Unearned revenue	310
Other payables	33
Long-term liabilities, due within one year:	
Capital related liabilities	240,000
Non-capital related liabilities	
Long-term liabilities, due beyond one year:	
Capital related liabilities	1,490,000
Unamortized bond discount	(7,782)
Non-capital related liabilities	58,904
<b>Total Liabilities</b>	<b>1,814,815</b>
 <b>Net Position</b>	
Net investment in capital assets	4,379,870
Restricted for:	
Expendable:	
School-based activities	240,546
Debt service	268,879
Forestry improvements	107,423
Unemployment benefits	23,509
Non-expendable:	
Sixteenth section	8,635
Unrestricted	762,839
<b>Total Net Position</b>	<b>\$ 5,791,701</b>

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

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**NEWTON MUNICIPAL SCHOOL DISTRICT**

**Exhibit B**

**Statement of Activities  
For the Year Ended June 30, 2014**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	
<b>Governmental Activities:</b>				
Instruction	\$ 4,920,687	80,675	550,791	(4,289,221)
Support services	4,707,962	2,943	1,127,232	(3,577,787)
Non-instructional	582,856	72,115	542,909	32,168
Sixteenth section	14,574	2,351		(12,223)
Interest on long-term liabilities	47,294		30,319	(16,975)
<b>Total Governmental Activities</b>	<b>\$ 10,273,373</b>	<b>158,084</b>	<b>2,251,251</b>	<b>(7,864,038)</b>

<b>General Revenues:</b>	
Taxes:	
General purpose levies	2,130,017
Debt purpose levies	101,660
Unrestricted grants and contributions:	
State	4,712,161
Federal	36,373
Unrestricted investment earnings	2,070
Sixteenth section sources	28,641
Other	14,926
<b>Total General Revenues</b>	<b>7,025,848</b>
<b>Change in Net Position</b>	<b>(838,190)</b>
<b>Net Position - Beginning, as previously reported</b>	<b>6,639,207</b>
<b>Prior Period Adjustments</b>	<b>(9,316)</b>
<b>Net Position - Beginning, as restated</b>	<b>6,629,891</b>
<b>Net Position - Ending</b>	<b>\$ 5,791,701</b>

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

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**NEWTON MUNICIPAL SCHOOL DISTRICT**  
Governmental Funds

Exhibit C

**Balance Sheet**  
**June 30, 2014**

	Major Funds							Total Governmental Funds
	General Fund	Title I-A Fund	EHA Part B Fund	Special Projects Fund	Educational Talent Search 2014 Fund	MAEP Retirement Fund	Other Governmental Funds	
<b>Assets</b>								
Cash and cash equivalents	\$ 489,913			333,940			550,232	1,374,085
Cash w with fiscal agents						87,771		87,771
Due from other governments	115,510	43,987	28,931		57,645	94,308	22,375	362,756
Due from other funds	147,076							147,076
Inventories							13,756	13,756
<b>Total assets</b>	<b>752,499</b>	<b>43,987</b>	<b>28,931</b>	<b>333,940</b>	<b>57,645</b>	<b>182,079</b>	<b>586,363</b>	<b>1,985,444</b>
<b>Liabilities and Fund Balances</b>								
<b>Liabilities:</b>								
Accounts payable and accrued liabilities							2,180	2,180
Due to other funds	33	43,987	28,931		57,645		16,513	147,109
Unearned revenue							310	310
<b>Total Liabilities</b>	<b>33</b>	<b>43,987</b>	<b>28,931</b>	<b>0</b>	<b>57,645</b>	<b>0</b>	<b>19,003</b>	<b>149,599</b>
<b>Fund Balances:</b>								
<b>Nonspendable:</b>								
Inventories							13,756	13,756
Permanent fund principal							8,635	8,635
<b>Restricted:</b>								
Debt service						182,079	117,970	300,049
Forestry improvement purposes							107,423	107,423
Grant activities							202,983	202,983
Unemployment benefits							23,509	23,509
Capital improvements				333,940				333,940
<b>Assigned:</b>								
Student activities	23,807							23,807
Instructional activities							93,084	93,084
<b>Unassigned</b>								
Total Fund Balances	728,659	0	0	333,940	0	182,079	567,360	1,835,845
<b>Total Liabilities and Fund</b>	<b>\$ 752,499</b>	<b>43,987</b>	<b>28,931</b>	<b>333,940</b>	<b>57,645</b>	<b>182,079</b>	<b>586,363</b>	<b>1,985,444</b>

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

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**NEWTON MUNICIPAL SCHOOL DISTRICT**

**Governmental Funds**

**Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position**

**Exhibit C-1**

**June 30, 2014**

**Total fund balances for governmental funds** \$ **1,835,845**

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

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

Land	\$ 42,306
Buildings	8,356,020
Building improvements	395,273
Improvements other than buildings	141,480
Mobile equipment	1,247,228
Furniture and equipment	401,273
Accumulated depreciation	<u>(4,815,432)</u>
	5,768,148

2. 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 bonds payable	(900,000)
Limited obligation refunding bonds payable	(830,000)
Unamortized bond discount	7,782
Compensated absences payable	(58,904)
Accrued interest payable	<u>(31,170)</u>
	(1,812,292)

**Net Position of governmental activities** \$ **5,791,701**

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

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**NEWTON MUNICIPAL SCHOOL DISTRICT**

**Governmental Funds**

**Exhibit D**

**Statement of Revenues, Expenditures and Changes in Fund Balances**

**For the Year Ended June 30, 2014**

	Major Funds							Total Governmental Funds
	General Fund	Title I-A Fund	EHA Part B Fund	Special Projects Fund	Educational Talent Search 2014 Fund	MAEP Retirement Fund	Other Governmental Funds	
<b>Revenues:</b>								
Local sources	\$ 2,228,862			800		4	174,291	2,403,957
State sources	4,378,108					188,616	483,733	5,050,457
Federal sources	99,723	405,454	245,865		316,831		881,455	1,949,328
Sixteenth section sources							31,441	31,441
<b>Total Revenues</b>	<b>6,706,693</b>	<b>405,454</b>	<b>245,865</b>	<b>800</b>	<b>316,831</b>	<b>188,620</b>	<b>1,570,920</b>	<b>9,435,183</b>
<b>Expenditures:</b>								
Instruction	3,924,870	125,579	94,313	69,680			519,411	4,733,853
Support services	3,038,031	279,164	145,401	497,180	309,499		458,490	4,727,765
Noninstructional services	15,992	711					578,661	595,364
Sixteenth section							14,574	14,574
Debt service:								
Principal						155,000	39,721	194,721
Interest						22,120	1,239	23,359
Other						1,000		1,000
<b>Total Expenditures</b>	<b>6,978,893</b>	<b>405,454</b>	<b>239,714</b>	<b>566,860</b>	<b>309,499</b>	<b>178,120</b>	<b>1,612,096</b>	<b>10,290,636</b>
Excess (Deficiency) of Revenues over (under) Expenditures	(272,200)	0	6,151	(566,060)	7,332	10,500	(41,176)	(855,453)
<b>Other Financing Sources (Uses):</b>								
Proceeds of bonds				900,000				900,000
Operating transfers in	376,399						216,066	592,465
Operating transfers out	(216,066)		(6,151)		(7,332)	(9,454)	(353,462)	(592,465)
<b>Total Other Financing Sources (Uses)</b>	<b>160,333</b>	<b>0</b>	<b>(6,151)</b>	<b>900,000</b>	<b>(7,332)</b>	<b>(9,454)</b>	<b>(137,396)</b>	<b>900,000</b>
<b>Net Change in Fund Balances</b>	<b>(111,867)</b>	<b>0</b>	<b>0</b>	<b>333,940</b>	<b>0</b>	<b>1,046</b>	<b>(178,572)</b>	<b>44,547</b>
<b>Fund Balances:</b>								
July 1, 2013, as originally presented	861,275	0	0	0	0	181,033	749,139	1,791,447
Adjustments	3,058							3,058
July 1, 2013, as adjusted	864,333	0	0	0	0	181,033	749,139	1,794,505
Increase (Decrease) in reserve for inventory							(3,207)	(3,207)
<b>June 30, 2014</b>	<b>\$ 752,466</b>	<b>0</b>	<b>0</b>	<b>333,940</b>	<b>0</b>	<b>182,079</b>	<b>567,360</b>	<b>1,835,845</b>

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

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**NEWTON MUNICIPAL SCHOOL DISTRICT**

**Governmental Funds**

**Exhibit D-1**

**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, 2014**

**Net change in fund balances - total governmental funds** \$ 44,547

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	\$ 228,897
Depreciation expense	(388,861)
	<u>(159,964)</u>

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:

Proceeds of bonds	(900,000)
Payments of debt principal	194,721
Amortization of bond discount	(1,557)
Accrued interest payable	<u>(729,214)</u>

3. 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	9,648
Change in inventory reserve	<u>(3,207)</u>
	6,441

**Change in Net Position of governmental activities** \$ (838,190)

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

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**NEWTON MUNICIPAL SCHOOL DISTRICT**

**Fiduciary Funds**

**Exhibit E**

**Statement of Fiduciary Assets and Liabilities**

**June 30, 2014**

	Agency Funds
<b>Assets</b>	
Cash and cash equivalents	\$ 326,091
Due from other funds	33
<b>Total Assets</b>	<b>\$ 326,124</b>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	\$ 305,066
Due to student clubs	21,058
<b>Total Liabilities</b>	<b>\$ 326,124</b>

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, 2014

### 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 and liabilities, with the difference reported as net position. Net position is reported in three categories:

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

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

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

## NEWTON MUNICIPAL SCHOOL DISTRICT

### Notes to the Financial Statements For Year Ended June 30, 2014

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

The school district reports the following major governmental funds:

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

Title I-A Fund - This is a special revenue fund that accounts for the revenues and expenditures associated with the Title I grants that the district receives.

EHA Part B Fund - This is a special revenue fund that accounts for the revenues and expenditures associated with the Special Education federal award grants the district receives.

Special Projects Fund - This is a special revenue fund that accounts for the proceeds of long-term debt used for school building repairs that do not meet the threshold for capitalization.

Educational Talent Search 2014 Fund - This is a special revenue fund that accounts for the revenues and expenditures associated with the TRIO Cluster - Talent Search federal award.

MAEP Retirement Fund - This is a debt service fund that accounts for the revenues associated with state revenues pledged for the repayment of school district debt.

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:

Payroll Clearing Fund - This is a fiduciary fund that accounts for the assets and liabilities associated with the imprest clearing activities of the payroll expenditure control cycle.

Accounts Payable Clearing Fund - This is a fiduciary fund that accounts for the assets and liabilities associated with the imprest clearing activities of the non-payroll expenditure control cycle.

Student Club Account Funds - These funds are fiduciary funds that account for the assets and liabilities associated with student club activities.

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.

# NEWTON MUNICIPAL SCHOOL DISTRICT

## Notes to the Financial Statements For Year Ended June 30, 2014

### 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 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, 2003*, issued by the U.S. Department of Education.

#### **D. Encumbrances**

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

NEWTON MUNICIPAL SCHOOL DISTRICT

Notes to the Financial Statements  
For Year Ended June 30, 2014

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

1. Cash and Cash equivalents and Investments

Cash and cash equivalents

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

Investments

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

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

Investments for the district are reported at fair market value.

2. Receivables and payables

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

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

3. Due from Other Governments

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

4. Inventories and Prepaid Items

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

Prepaid items, such as prepaid insurance, are not reported for governmental fund types since the costs of such items are accounted for as expenditures in the period of acquisition.

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 Zone Academy Bond sinking funds. Also, the nonexpendable portion of the Permanent Fund, if applicable, is classified as restricted assets because the 16<sup>th</sup> Section Principal fund is not available for use by the district except as provided for under state statute for loans from this fund.

NEWTON MUNICIPAL SCHOOL DISTRICT

Notes to the Financial Statements  
For Year Ended June 30, 2014

6. Capital Assets

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

Capital acquisition and construction are reflected as expenditures in the Governmental Fund statements and the related assets are reported as capital assets in the governmental activities column in the government-wide financial statements. Depreciation is calculated on the straight-line basis for all assets, except land. The following schedule details the capitalization thresholds:

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

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

7. Deferred outflows/inflows of resources

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

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.

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 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 retire

## NEWTON MUNICIPAL SCHOOL DISTRICT

### Notes to the Financial Statements For Year Ended June 30, 2014

#### 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.

#### 10. 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 formal order of the School Board to approve certain committed fund balances. There were no committed fund balance amounts at June 30, 2014.

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

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

**Deposits.** The school board must advertise and accept bids for depositories no less than once every three years as required by Section 37-7-333, Miss. Code Ann. (1972). The collateral pledged for the school district's deposits in financial institution

NEWTON MUNICIPAL SCHOOL DISTRICT

Notes to the Financial Statements  
For Year Ended June 30, 2014

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 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 \$1,374,085 and \$326,091, 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. However, the Mississippi State Treasurer manages that risk on behalf of the district. 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. As of June 30, 2014, none of the district's bank balance of \$2,090,057 was exposed to custodial credit risk.

Cash with Fiscal Agents

The carrying amount of the school district's cash with fiscal agents was \$87,771. This amount represents proceeds from the issuance of certificates of participation held by the banking institution awaiting draw-down to match construction expenditures. These amounts are shown as restricted assets on the Statement of Net Position.

**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	\$ 43,987
	EHA Part B Fund	28,931
	Educational Talent Search 2014 Fund	57,645
	Other governmental funds	16,513
Fiduciary Funds	General Fund	33
		<u>\$ 147,109</u>

The interfund balances represent loans created by negative individual fund cash balances in a pooled bank account caused by the time lag between expending federal funds and receiving reimbursement for those expenditures.

NEWTON MUNICIPAL SCHOOL DISTRICT

Notes to the Financial Statements  
For Year Ended June 30, 2014

Interfund balances also represent loan transactions between funds and amounts due to clearing funds from governmental funds.

**B. Inter-fund Transfers**

Transfers Out	Transfers In	Amount
General Fund	Other governmental funds	\$ 216,066
EHA Part B Fund	General Fund	6,151
Educational Talent Search 2014 Fund	General Fund	7,332
MAEP Retirement Fund	General Fund	9,454
Other governmental funds	General Fund	353,462
		<u>\$ 592,465</u>

The transfers constitute transfers of indirect costs from special revenue funds to the General Fund and operating transfers between governmental funds.

**Note 4 – Restricted Assets**

The restricted assets represent the cash balance, totaling \$8,635, of the Sixteenth Section Principal Fund (Permanent Fund), the cash with fiscal agents balance, totaling \$87,771, and amount due from other governments, totaling \$94,308, of the MAEP Debt Retirement Fund, which is legally restricted and may not be used for purposes that support the district's programs. Total restricted assets reported on the Statement of Net Position is \$190,714.

**Note 5 – Capital Assets**

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

	Balance 7/1/2013	Increases	Decreases	Balance 6/30/2014
<b>Governmental Activities:</b>				
<b><u>Non-depreciable capital assets:</u></b>				
Land	\$ 42,306			42,306
Total non-depreciable capital assets	42,306	-	-	42,306
<b><u>Depreciable capital assets:</u></b>				
Buildings	8,356,020			8,356,020
Building improvements	395,273			395,273
Improvements other than buildings	72,897	68,583		141,480
Mobile equipment	1,161,142	86,086		1,247,228
Furniture and equipment	327,045	74,228		401,273
Total depreciable capital assets	10,312,377	228,897	-	10,541,274
<b><u>Less accumulated depreciation for:</u></b>				
Buildings	3,061,955	290,985		3,352,940
Building improvements	316,221			316,221
Improvements other than buildings	58,317	2,743		61,060
Mobile equipment	750,413	30,904		781,317
Furniture and equipment	239,665	64,229		303,894
Total accumulated depreciation	4,426,571	388,861	-	4,815,432
Total depreciable capital assets, net	5,885,806	(159,964)	-	5,725,842
Governmental activities capital assets, net	\$ 5,928,112	(159,964)	-	5,768,148

**NEWTON MUNICIPAL SCHOOL DISTRICT**

**Notes to the Financial Statements  
For Year Ended June 30, 2014**

Depreciation expense was charged to the following governmental functions:

	Amount
<b>Governmental activities:</b>	
Instruction	\$ 193,587
Support services	176,896
Non-instructional	18,378
Total depreciation expense - Governmental activities	\$ 388,861

**Note 6 – Long-term Liabilities**

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

	Balance 7/1/2013	Additions	Reductions	Balance 6/30/2014	Amounts due within one year
A. Limited obligation refunding bonds payable	\$ 985,000		155,000	830,000	160,000
B. Limited obligation bonds payable	-	900,000	-	900,000	80,000
C. Shortfall notes payable	39,721		39,721	-	-
D. Compensated absences payable	68,552		9,648	58,904	-
Total	\$ 1,093,273	900,000	204,369	1,788,904	240,000

**A. Limited obligation refunding bonds payable**

Limited obligation refunding bonds payable debt outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State aid capital improvements refunding, Series 2011	3.25%	1-Aug-11	1-Aug-18	\$ 1,245,000	\$ 830,000

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

Limited obligation refunding issue of August 1, 2011:

Year Ending June 30	Principal	Interest	Total
2015	\$ 160,000	19,675	179,675
2016	160,000	16,475	176,475
2017	160,000	12,675	172,675
2018	175,000	8,181	183,181
2019	175,000	2,844	177,844
Total	\$ 830,000	59,850	889,850

**NEWTON MUNICIPAL SCHOOL DISTRICT**

Notes to the Financial Statements  
For Year Ended June 30, 2014

The debt will be retired from the MAEP Retirement Fund (Debt Service Fund).

The state aid capital improvement 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 bonds are not included in the computation of the debt limit percentage.

The school district has pledged a portion of future state Minimum Adequate Education Program revenues to repay \$1,245,000 in limited obligation refunding bonds payable issued. Proceeds from the bonds were used to finance capital improvements made to the District's buildings. The bonds are payable solely from future revenues of the state Minimum Adequate Education Program and are payable through August 1, 2018. Annual principal and interest payments on the bonds are expected to require approximately four (4) percent of such state revenues. The total principal and interest remaining to be paid on the bonds is \$889,850. Principal and interest paid for the current year and total state Minimum Adequate Education Program revenues were \$177,121 and \$4,616,933.

**B. Limited obligation bonds payable**

Limited obligation bonds are direct obligations and pledge the full faith and credit of the school district. Limited obligation bonds currently outstanding are as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Limited Tax Note, Series 2013	3.06%	15-Aug-13	15-Aug-23	\$ 900,000	\$ 900,000

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

Limited tax note of August 15, 2013

Year Ending June 30	Principal	Interest	Total
2015	\$ 80,000	27,540	107,540
2016	85,000	25,092	110,092
2017	85,000	22,491	107,491
2018	90,000	19,890	109,890
2019	90,000	17,136	107,136
2020-2024	470,000	43,452	513,452
<b>Total</b>	<b>\$ 900,000</b>	<b>155,601</b>	<b>1,055,601</b>

This debt will be retired from the Limited Obligation Tax Note Debt Service Fund.

**C. Shortfall notes payable**

NEWTON MUNICIPAL SCHOOL DISTRICT

Notes to the Financial Statements  
For Year Ended June 30, 2014

The shortfall notes were paid in full during the year ended June 30, 2014.

**D. 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 – Defined Benefit 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. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That 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.

**Funding Policy.** 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, 2014 was 15.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2014, 2013 and 2012 were \$858,719, \$792,906 and \$681,222, respectively, which equaled the required contributions for each year.

**Note 8 – 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
2015	\$ 19,511
2016	10,600
2017	8,520
2018	6,539
2019	6,539
2020 – 2024	32,695
2025 – 2029	30,707
2030 – 2034	30,707
Thereafter	29,173
Total	<u>\$ 174,991</u>

**Note 9 – Prior Period Adjustments**

NEWTON MUNICIPAL SCHOOL DISTRICT

Notes to the Financial Statements  
For Year Ended June 30, 2014

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

Exhibit B - Statement of Activities

Explanation	Amount
1. To correct a prior year liability	\$ 3,058
2. To write off deferred charges in the form of debt issuance costs	(12,374)
Total	<u>\$ (9,316)</u>

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

Fund	Explanation	Amount
General Fund	To correct a prior year liability	\$ 3,058
	Total	<u>\$ 3,058</u>

**Note 10 – 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.

**Note 11 – Risk Management**

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

Participation in Public Entity Risk Pool

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

**Note 12 – Alternative School Consortium**

The school district entered into an Alternative School Agreement dated March 2, 1996, creating the East Central Alternative School Consortium. The consortium was created pursuant to the provisions of Section 37-13-92(6), Miss. Code Ann. (1972), and approved by the Mississippi Department of Education and includes the Union Public School District, the Philadelphia Public School District, the Enterprise Municipal School District, the Neshoba County School District, the Newton Municipal School District, and the Newton County School District.

NEWTON MUNICIPAL SCHOOL DISTRICT

Notes to the Financial Statements  
For Year Ended June 30, 2014

Section 37-13-92(6), Miss. Code Ann. (1972), allows two or more adjacent school districts to enter into a contract to operate an alternative school program. The school board of the school district designated by the agreement as the lead district will serve as the governing board of the alternative school program. Transportation for students attending the alternative school program will be the responsibility of the individual school districts sending the students.

The Newton County School District has been designated as the lead school district for the East Central Alternative School Consortium, and the operations of the consortium are included in its financial statements.

**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 Newton Municipal School District evaluated the activity of the district through March 20, 2015, and determined that no events have occurred requiring disclosure in the notes to the financial statements.

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REQUIRED SUPPLEMENTARY INFORMATION

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**NEWTON MUNICIPAL SCHOOL DISTRICT**

**Required Supplementary Information**

**Budgetary Comparison Schedule  
General Fund  
For the Year Ended June 30, 2014**

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Local sources	\$ 2,124,085	2,228,472	2,228,862	104,387	390
State sources	4,430,376	4,378,109	4,378,108	(52,267)	(1)
Federal sources	97,850	99,723	99,723	1,873	0
<b>Total Revenues</b>	<b>6,652,311</b>	<b>6,706,304</b>	<b>6,706,693</b>	<b>53,993</b>	<b>389</b>
<b>Expenditures:</b>					
Instruction	3,978,483	3,981,132	3,924,870	(2,649)	56,262
Support services	2,798,106	2,986,770	3,038,031	(188,664)	(51,261)
Noninstructional services	31,450	15,992	15,992	15,458	0
<b>Total Expenditures</b>	<b>6,808,039</b>	<b>6,983,894</b>	<b>6,978,893</b>	<b>(175,855)</b>	<b>5,001</b>
<b>Excess (Deficiency) of Revenues over (under) Expenditures</b>	<b>(155,728)</b>	<b>(277,590)</b>	<b>(272,200)</b>	<b>(121,862)</b>	<b>5,390</b>
<b>Other Financing Sources (Uses):</b>					
Operating transfers in	741,184	726,250	376,399	(14,934)	(349,851)
Operating transfers out	(580,447)	(565,527)	(216,066)	14,920	349,461
<b>Total Other Financing Sources (Uses)</b>	<b>160,737</b>	<b>160,723</b>	<b>160,333</b>	<b>(14)</b>	<b>(390)</b>
<b>Net Change in Fund Balances</b>	<b>5,009</b>	<b>(116,867)</b>	<b>(111,867)</b>	<b>(121,876)</b>	<b>5,000</b>
<b>Fund Balances:</b>					
July 1, 2013, as originally presented			861,275		
Adjustments			3,058		
July 1, 2013, as adjusted			864,333		
June 30, 2014			\$ 752,466		

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, 2014**

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
	<b>Revenues:</b>				
Federal sources	\$ 376,918	405,454	405,454	28,536	0
<b>Total Revenues</b>	<b>376,918</b>	<b>405,454</b>	<b>405,454</b>	<b>28,536</b>	<b>0</b>
<b>Expenditures:</b>					
Instruction	87,215	154,297	125,579	(67,082)	28,718
Support services	289,204	250,446	279,164	38,758	(28,718)
Noninstructional services	499	711	711	(212)	0
<b>Total Expenditures</b>	<b>376,918</b>	<b>405,454</b>	<b>405,454</b>	<b>(28,536)</b>	<b>0</b>
<b>Excess (Deficiency) of Revenues over (under) Expenditures</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Other Financing Sources (Uses):</b>					
<b>Total Other Financing Sources (Uses)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net Change in Fund Balances</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Fund Balances:</b>					
July 1, 2013, as originally presented			0		
June 30, 2014			\$ 0		

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

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**NEWTON MUNICIPAL SCHOOL DISTRICT**

**Required Supplementary Information**

**Budgetary Comparison Schedule  
EHA Part B Fund  
For the Year Ended June 30, 2014**

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Federal sources	\$ 260,500	245,865	245,865	(14,635)	0
<b>Total Revenues</b>	<b>260,500</b>	<b>245,865</b>	<b>245,865</b>	<b>(14,635)</b>	<b>0</b>
<b>Expenditures:</b>					
Instruction	112,670	142,858	94,313	(30,188)	48,545
Support services	140,484	96,856	145,401	43,628	(48,545)
<b>Total Expenditures</b>	<b>253,154</b>	<b>239,714</b>	<b>239,714</b>	<b>13,440</b>	<b>0</b>
<b>Excess (Deficiency) of Revenues over (under) Expenditures</b>	<b>7,346</b>	<b>6,151</b>	<b>6,151</b>	<b>(1,195)</b>	<b>0</b>
<b>Other Financing Sources (Uses):</b>					
Operating transfers out	(7,346)	(6,151)	(6,151)	1,195	0
<b>Total Other Financing Sources (Uses)</b>	<b>(7,346)</b>	<b>(6,151)</b>	<b>(6,151)</b>	<b>1,195</b>	<b>0</b>
<b>Net Change in Fund Balances</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Fund Balances:</b>					
July 1, 2013, as originally presented			0		
June 30, 2014			<u>\$ 0</u>		

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  
Special Projects Fund  
For the Year Ended June 30, 2014**

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
	<b>Revenues:</b>				
Local sources	\$ 70	800	800	730	0
<b>Total Revenues</b>	<b>70</b>	<b>800</b>	<b>800</b>	<b>730</b>	<b>0</b>
<b>Expenditures:</b>					
Instruction	0	0	69,680	0	(69,680)
Support services	900,070	567,627	497,180	332,443	70,447
<b>Total Expenditures</b>	<b>900,070</b>	<b>567,627</b>	<b>566,860</b>	<b>332,443</b>	<b>767</b>
<b>Excess (Deficiency) of Revenues over (under) Expenditures</b>	<b>(900,000)</b>	<b>(566,827)</b>	<b>(566,060)</b>	<b>333,173</b>	<b>767</b>
<b>Other Financing Sources (Uses):</b>					
Proceeds of bonds	900,000	900,000	900,000	0	0
<b>Total Other Financing Sources (Uses)</b>	<b>900,000</b>	<b>900,000</b>	<b>900,000</b>	<b>0</b>	<b>0</b>
<b>Net Change in Fund Balances</b>	<b>0</b>	<b>333,173</b>	<b>333,940</b>	<b>333,173</b>	<b>767</b>
<b>Fund Balances:</b>					
July 1, 2013			0		
June 30, 2014			\$ 333,940		

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  
Educational Talent Search 2014 Fund  
For the Year Ended June 30, 2014**

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
	<b>Revenues:</b>				
Federal sources	\$ 364,122	316,831	316,831	(47,291)	0
Total Revenues	364,122	316,831	316,831	(47,291)	0
<b>Expenditures:</b>					
Support services	353,827	309,499	309,499	44,328	0
Total Expenditures	353,827	309,499	309,499	44,328	0
Excess (Deficiency) of Revenues over (under) Expenditures	10,295	7,332	7,332	(2,963)	0
<b>Other Financing Sources (Uses):</b>					
Operating transfers out	(10,295)	(7,332)	(7,332)	2,963	0
Total Other Financing Sources (Uses)	(10,295)	(7,332)	(7,332)	2,963	0
Net Change in Fund Balances	0	0	0	0	0
<b>Fund Balances:</b>					
July 1, 2013			0		
June 30, 2014			\$ 0		

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

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## NEWTON MUNICIPAL SCHOOL DISTRICT

### Notes to the Required Supplementary Information For the Year Ended June 30, 2014

#### Budgetary Comparison Schedule

(1) Basis of Presentation

The Budgetary Comparison Schedules present 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.

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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, 2014**

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance No.	Federal Expenditures
<b><u>U.S. Department of Agriculture</u></b>		
Passed-through Mississippi Department of Education:		
Child nutrition cluster:		
School breakfast program	10.553	\$ 159,693
National school lunch program	10.555	445,840
Summer food service program for children	10.559	1,700
Total child nutrition cluster		<u>607,233</u>
<b>Total U.S. Department of Agriculture</b>		<u>607,233</u>
<b><u>U.S. Department of Defense</u></b>		
Direct Program		
Reserve Officers' Training Corps	12.xxx	63,350
<b>Total U.S. Department Defense</b>		<u>63,350</u>
<b><u>Federal Communications Commission</u></b>		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the universal service fund	32.xxx	22,569
<b>Total Federal Communications Commission</b>		<u>22,569</u>
<b><u>U.S. Department of Education</u></b>		
Passed-through Mississippi Department of Education:		
Career and technical education - grants to states		
Title I grants to local educational agencies	84.048	14,479
Rural and low	84.010	405,454
Improving teacher quality-State Grants	84.358	23,747
Subtotal	84.367	<u>148,311</u>
Special education cluster:		
Special education - grants to states	84.027	245,865
Special education - preschool grants	84.173	10,378
Total special education cluster		<u>256,243</u>
TRIO Cluster:		
Talent Search	84.044	394,138
Total TRIO Cluster		<u>394,138</u>
<b>Total U.S. Department of Education</b>		<u>1,242,372</u>
Total for All Federal Awards		<u>\$ 1,935,524</u>

**NOTES TO SCHEDULE**

1. This schedule was prepared using the same basis of accounting and the same significant accounting policies, as applicable, used for the financial statements.
2. The expenditure amounts include transfers out.
3. The pass-through entities did not assign identifying numbers to the school district.

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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, 2014**

Expenditures	Total	Instruction and Other Student Expenditures		
		General Administration	School Administration	Other
Salaries and fringe benefits	\$ 7,480,285	5,525,841	613,309	817,793
Other	2,810,351	649,392	12,751	1,886,010
<b>Total</b>	<b>\$ 10,290,636</b>	<b>6,175,233</b>	<b>626,060</b>	<b>2,703,803</b>
Total number of students *	978			
Cost per student	\$ 10,522	6,315	803	640

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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## 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**

	2014	2013*	2012*	2011*
<b>Revenues:</b>				
Local sources	\$ 2,228,862	2,150,233	2,034,247	1,979,740
State sources	4,378,108	4,459,974	4,709,501	4,331,016
Federal sources	99,723	101,867	70,762	33,729
<b>Total Revenues</b>	<b>6,706,693</b>	<b>6,712,074</b>	<b>6,814,510</b>	<b>6,344,485</b>
<b>Expenditures:</b>				
Instruction	3,924,870	3,978,439	4,088,262	3,353,533
Support services	3,038,031	3,040,622	2,779,644	2,501,090
Noninstructional services	15,992	22,432	31,975	33,129
<b>Total Expenditures</b>	<b>6,978,893</b>	<b>7,041,493</b>	<b>6,899,881</b>	<b>5,887,752</b>
<b>Excess (Deficiency) of Revenues over (under) Expenditures</b>	<b>(272,200)</b>	<b>(329,419)</b>	<b>(85,371)</b>	<b>456,733</b>
<b>Other Financing Sources (Uses):</b>				
Proceeds of loans				116,221
Operating transfers in	376,399	572,023	338,567	15,099
Operating transfers out	(216,066)	(223,972)	(229,896)	(220,863)
<b>Total Other Financing Sources (Uses)</b>	<b>160,333</b>	<b>348,051</b>	<b>108,671</b>	<b>(89,543)</b>
<b>Net Change in Fund Balances</b>	<b>(111,867)</b>	<b>18,632</b>	<b>23,300</b>	<b>367,190</b>
<b>Fund Balances:</b>				
Beginning of period, as previously reported	861,275	888,047	864,747	497,557
Prior period adjustments	3,058	(45,404)		
Beginning of period, as restated	864,333	842,643	864,747	497,557
End of Period	\$ 752,466	861,275	888,047	864,747

\*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**

	2014	2013*	2012*	2011*
<b>Revenues:</b>				
Local sources	\$ 2,403,957	2,231,244	2,102,713	2,071,483
State sources	5,050,457	5,119,151	5,381,539	5,013,713
Federal sources	1,949,328	1,933,793	1,785,734	2,599,944
Sixteenth section sources	31,441	144,535	23,304	58,617
<b>Total Revenues</b>	<b>9,435,183</b>	<b>9,428,723</b>	<b>9,293,290</b>	<b>9,743,757</b>
<b>Expenditures:</b>				
Instruction	4,733,853	4,722,758	4,881,709	4,922,446
Support services	4,727,765	4,213,684	3,822,855	3,564,998
Noninstructional services	595,364	614,695	637,838	664,863
Sixteenth section	14,574	18,204	10,610	33,192
Debt service:				
Principal	194,721	193,750	142,750	1,245,000
Interest	23,359	26,585	51,003	59,730
Other	1,000			
<b>Total Expenditures</b>	<b>10,290,636</b>	<b>9,789,676</b>	<b>9,546,765</b>	<b>10,490,229</b>
<b>Excess (Deficiency) of Revenues over (under) Expenditures</b>	<b>(855,453)</b>	<b>(360,953)</b>	<b>(253,475)</b>	<b>(746,472)</b>
<b>Other Financing Sources (Uses):</b>				
Refunding bonds issued				1,216,050
Proceeds of loans and bonds	900,000			116,221
Operating transfers in	592,465	795,995	568,463	235,962
Operating transfers out	(592,465)	(795,995)	(568,463)	(235,962)
Other financing uses		(1,000)	(1,550)	(1,185,550)
<b>Total Other Financing Sources (Uses)</b>	<b>900,000</b>	<b>(1,000)</b>	<b>(1,550)</b>	<b>146,721</b>
<b>Net Change in Fund Balances</b>	<b>44,547</b>	<b>(361,953)</b>	<b>(255,025)</b>	<b>(599,751)</b>
<b>Fund Balances:</b>				
Beginning of period, as previously reported	1,791,447	2,200,197	2,442,859	3,040,323
Prior period adjustments	3,058	(45,404)	8,467	0
<b>Beginning of period, as restated</b>	<b>1,794,505</b>	<b>2,154,793</b>	<b>2,451,326</b>	<b>3,040,323</b>
<b>Increase (Decrease) in reserve for inventory</b>	<b>(3,207)</b>	<b>(1,393)</b>	<b>3,896</b>	<b>2,287</b>
<b>End of Period</b>	<b>\$ 1,835,845</b>	<b>1,791,447</b>	<b>2,200,197</b>	<b>2,442,859</b>

\*SOURCE - PRIOR YEAR AUDIT REPORTS

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## REPORTS ON INTERNAL CONTROL AND COMPLIANCE

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Member MSCPA

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*

To the School Board  
Newton Municipal School District

We have audited, in accordance with the auditing standards 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, 2014, 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 March 20, 2015.

**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 first paragraph of this section 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 were not 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 to be a material weakness. (Finding 2014-001)

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 a significant deficiency. (Finding 2014-002)

**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*.

## **School District's Response to Findings**

Newton Municipal School District's responses to the findings identified in our audit is 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 them.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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.



Suzanne E. Smith, CPA, PLLC  
Meridian, MS

March 20, 2015

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Independent Auditor's Report on Compliance for Each Major Federal Award Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

To the 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 Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Newton Municipal School District's major federal programs for the year ended June 30, 2014. 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 the requirements of laws, regulations, contracts, and grants 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2014.

**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 OMB Circular A-133, 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, material weaknesses may exist that have not been identified.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Suzanne E Smith, CPA, PLLC  
Meridian, MS

March 20, 2015

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

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Member MSCPA

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, 2014, which collectively comprise Newton Municipal School District's basic financial statements and have issued our report thereon dated March 20, 2015. 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."

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported no classroom supply funds carried over from previous years.

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 the following instances of noncompliance related to incorrect or inappropriate functional level expenditure coding. The noncompliance is reported in finding number SL2014-01 below.

Finding SL2014-01. Inappropriate functional level expenditure coding. Our testing of 135 non-payroll expenditures revealed twenty-one (21) instances where expenditures were coded using inappropriate codes at the functional level. Our testing of 35 employees' annual salaries/wages for appropriate functional level coding revealed four (4) instances where payroll expenditures were coded using inappropriate codes.

**Recommendation:** We recommend that the district review the control cycles surrounding expenditures and strengthen such controls to insure that appropriate accounting codes are used for all district expenditures in accordance with state law.

**District Response:** We will review the control cycles surrounding expenditures and strengthen the controls surrounding coding to insure that appropriate accounting codes are used for all district expenditures in accordance with state law.

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

The results of procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements disclosed the following instances of noncompliance with other state laws and regulations. Our findings and recommendations and your responses are as follows:

Finding SL2014-02. Lack of documentation to support compliance with state purchasing laws. Our testing of non-payroll expenditures revealed seven (7) instances where compliance with state purchasing requirements outlined in Code Section 31-7-13, Miss. Code Ann. (1972), was not adequately documented. The district used an outside consulting firm to obtain quotes and bids and to evaluate the quotes and bids and to recommend vendors for various contracts. While evidence existed to show that the process was competitive, the district failed to maintain the necessary records to show compliance with state purchasing laws.

Recommendation: We recommend that the district maintain records to substantiate compliance with state purchasing laws. This is especially important when using outside consultants to prepare specifications, to run ads on behalf of the district, and to evaluate bids/quotes and to make recommendations to management with regard to vendor choice and the awarding of bids and quotes.

District Response: We will make the needed changes to appropriately maintain records to show compliance with state purchasing laws. For all contracts awarded using the help of outside consultants, we will ensure that all records and bid/quote documents are maintained on file with the district.

Finding SL2014-03. Lack of approval for transfers from the 16<sup>th</sup> Section Interest Fund. The school board did not approve the transfer of \$115,000 from the 16<sup>th</sup> Section Interest Fund to the District Maintenance Fund. Such school board approval is required in Code Section 29-3-117, Miss. Code Ann. (1972).

Recommendation: We recommend that the school board approve all transfers of expendable revenues from the 16<sup>th</sup> Section Interest Fund to governmental funds in accordance with Code Section 29-3-117, Miss. Code Ann. (1972).

District Response: We will make certain that all transfers from the 16<sup>th</sup> Section Interest Fund to governmental funds have school board approval.

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

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

Meridian, MS  
March 20, 2015

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**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)                                                                     | None reported |
| 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 Section 510(a) of OMB Circular A-133? (Yes/No) | No            |

7. Identification of major programs:

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

- |                                                                             |           |
|-----------------------------------------------------------------------------|-----------|
| 8. Dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 9. Auditee qualified as low-risk auditee? (yes/no)                          | Yes       |

**Section II: Financial Statement Findings**

*Significant Deficiency considered a Material Weakness*

Finding 2014-001: Deficiencies in Internal Controls surrounding Non-payroll Expenditures.

Criteria: The school district is responsible for establishing a system of internal controls surrounding the expenditure of school district funds. A system of internal controls should be designed to protect district assets and to insure the integrity of financial records and information by providing for the proper authorization of expenditures, the proper coding of expenditures, and the proper payment of invoices only after receipt of the goods and/or services is evidenced.

Condition: Out of a sample of 135 non-payroll expenditures, we noted twenty-one (21) instances of inappropriate account coding. Audit adjustments of \$124,750 were made to correct the coding errors. We also noted thirty-two (32) instances where invoices were paid without documented receiving reports or other documentation substantiating the receipt of the goods and/or services.

Cause: The cause of the noted deficiencies is likely a failure by school personnel to follow established procedures.

Effect: The control risks surrounding non-payroll expenditures are increased as a result of these control deficiencies. District expenditures were misstated between functional categories by \$124,750 before audit adjustments were made to correct the coding errors.

Recommendation: We recommend that the controls and control procedures surrounding non-payroll expenditures be strengthened to insure that all expenditures are coded in accordance with the accounting manual prescribed by the Mississippi Department of Education. We further recommend that no invoices be paid without appropriate receiving documentation.

*Significant Deficiency not considered a material weakness*

Finding 2014-002. Deficiencies in Internal Controls surrounding Payroll Expenditures.

Criteria: The school district is responsible for establishing a system of internal controls surrounding the expenditure of district funds. A system of internal controls in the area of payroll expenditures should be designed to protect district assets and to insure the integrity of financial records and information by providing for the proper approval of district pay scales and the proper coding of payroll expenditures.

Condition: Out of a sample of 35 district employees, we noted four (4) instances where the salaries or wages of employees were inappropriately coded or classified in the payroll system. We also noted that not all salary and wage schedules were approved by the school board.

Cause: The cause of the noted deficiencies is likely a failure by school personnel to follow established procedures and a lack of understanding of the accounting codes prescribed by the Mississippi Department of Education. The failure of the school board to approve all salary and wages schedules was likely an oversight.

Effect: The controls risks surrounding payroll expenditures are increased as a result of these control deficiencies. District payroll expenditures were misstated between functional categories in the amount of \$113,471 before audit adjustments were made to correct the coding errors. Salary and wage schedules were not appropriately approved, adding to the risks surrounding these expenditures.

Recommendation: We recommend that the control and control procedures surrounding payroll expenditures be strengthened to insure that all salary and wage schedules are approved by the school board. We further recommend that all payroll transactions be coded in accordance with the accounting manual prescribed by the Mississippi Department of Education.

**Section III: Federal Award Findings and Questioned Costs**

The results of our tests did not disclose any findings and questioned costs related to the federal awards.

## AUDITEE'S CORRECTIVE ACTION PLAN

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Newton Municipal School District  
Central Administrative Offices  
205 School Street  
Newton, MS 39345

Phone: (601) 683-2451

Fax: (601) 683-7131

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AUDITEE'S CORRECTIVE ACTION PLAN

**Finding 2014-001. Deficiencies in Internal Controls surrounding Non-payroll Expenditures.**

Corrective Action: The district will make new efforts to align its expenditures in both accounts payable/purchasing to the appropriate codes as found in the *Accounting Manual for Mississippi Public School Districts*, as prescribed by the Mississippi Department of Education. We will begin the practice of requiring receiving documentation in the form of a receiving report or appropriate signatures for all invoices before such invoices are paid.

Who is Responsible for the Corrective Action: The Business Manager and Accounts Payable/Purchasing Clerk.

When the Corrective Action will begin: July 1, 2015

**Finding 2014-002. Deficiencies in Internal Controls surrounding Payroll Expenditures.**

Corrective Action: The district will make new efforts to align its expenditures in payroll to the appropriate codes as found in the *Accounting Manual for Mississippi Public School Districts*, as prescribed by the Mississippi Department of Education. We will make certain that all salary and wage schedules are approved by the school board each year.

Who is Responsible for the Corrective Action: The Business Manager

When the Corrective Action will begin: July 1, 2015

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