

NEWTON COUNTY BOARD OF EDUCATION
COVINGTON, GEORGIA

ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2010
(Including Independent Auditor's Reports)

NEWTON COUNTY BOARD OF EDUCATION

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SECTION I

FINANCIAL

DEPARTMENT OF AUDITS AND ACCOUNTS

270 Washington Street, S.W., Suite 1-156
Atlanta, Georgia 30334-8400

Russell W. Hinton
STATE AUDITOR
(404) 656-2174

March 29, 2011

Honorable Nathan Deal, Governor
Members of the General Assembly
Members of the State Board of Education
and
Superintendent and Members of the
Newton County Board of Education

INDEPENDENT AUDITOR'S COMBINED REPORT ON BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION - SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Ladies and Gentlemen:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information (Exhibits A through I) of the Newton County Board of Education, as of and for the year ended June 30, 2010, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Newton County Board of Education's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Challenge Foundation, Inc., D/B/A Challenge Charter Academy, which represent 54.2 percent and 99.8 percent, respectively, of the assets and revenues of the aggregate remaining fund information. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Challenge Foundation, Inc., D/B/A Challenge Charter Academy is based on the report of other auditors.

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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to previously 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 County Board of Education, as of June 30, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Newton County Board of Education has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2011, on our consideration of the Newton County Board of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual, as presented on page 31, is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Newton County Board of Education's financial statements as a whole. The accompanying supplementary information consists of Schedules 2 through 5, which includes the Schedule of Federal Awards as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the financial statements, and in our opinion, based on our audit and the report of other auditors, is fairly stated, in all material respects, in relation to the financial statements as a whole.

A copy of this report has been filed as a permanent record in the office of the State Auditor and made available to the press of the State, as provided for by Official Code of Georgia Annotated section 50-6-24.

Respectfully submitted,

Russell W. Hinton

Russell W. Hinton, CPA, CGFM
State Auditor

RWH:as
2010ARL-12

NEWTON COUNTY BOARD OF EDUCATION

NEWTON COUNTY BOARD OF EDUCATION
STATEMENT OF NET ASSETS
JUNE 30, 2010

EXHIBIT "A"

	GOVERNMENTAL ACTIVITIES
ASSETS	
Cash and Cash Equivalents	$ 18,326,346.42
Investments	13,250,339.96
Accounts Receivable, Net	
Taxes	4,157,801.31
State Government	13,945,329.06
Federal Government	4,141,938.92
Other	89,394.31
Inventories	216,695.86
Capitalized Bond Issuance Costs	234,890.04
Capital Assets, Non-Depreciable	20,446,070.16
Capital Assets, Depreciable (Net of Accumulated Depreciation)	166,060,859.12
Total Assets	$ 240,869,665.16
LIABILITIES	
Accounts Payable	$ 594,171.21
Salaries and Benefits Payable	19,437,990.41
Claims Incurred but not Reported (IBNR)	542,678.00
Contracts Payable	124,951.00
Retainages Payable	1,132,173.00
Long-Term Liabilities	
Due Within One Year	8,850,755.64
Due in More Than One Year	48,319,504.20
Total Liabilities	$ 79,002,223.46
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	$ 139,664,467.70
Restricted for	
Bus Replacement	286,182.00
Continuation of Federal Programs	3,171,174.24
Debt Service	5,857,848.01
Capital Projects	6,458,953.11
Unrestricted	6,428,816.64
Total Net Assets	$ 161,867,441.70
Total Liabilities and Net Assets	$ 240,869,665.16

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

NEWTON COUNTY BOARD OF EDUCATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

	EXPENSES	CHARGES FOR SERVICES
GOVERNMENTAL ACTIVITIES		
Instruction	$ 116,533,713.48	$ 2,702,232.70
Support Services		
Pupil Services	4,532,501.67	31,486.73
Improvement of Instructional Services	5,317,534.56	
Educational Media Services	2,577,378.01	
General Administration	1,305,325.69	
School Administration	9,149,337.62	
Business Administration	813,604.74	
Maintenance and Operation of Plant	11,726,177.54	23,711.25
Student Transportation Services	9,790,083.19	
Central Support Services	1,413,957.19	
Other Support Services	2,953,600.24	388,342.06
Operations of Non-Instructional Services		
Food Services	10,225,398.04	2,565,160.90
Interest on Short-Term and Long-Term Debt	2,533,753.41	
Total Governmental Activities	$ 178,872,365.38	$ 5,710,933.64
General Revenues		
Taxes		
Property Taxes		
For Maintenance and Operations		
For Debt Services		
Other Taxes		
Sales Taxes		
Special Purpose Local Option Sales Tax		
For Debt Services		
Other Sales Tax		
Grants and Contributions not Restricted to Specific Programs		
Investment Earnings		
Miscellaneous		
Total General Revenues		
Change in Net Assets		
Net Assets - Beginning of Year		
Net Assets - End of Year		

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

PROGRAM REVENUES		NET (EXPENSES)
OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	REVENUES AND CHANGES IN NET ASSETS
$ 73,750,953.72	$ 233,005.06	$ -39,847,522.00
2,460,709.26	1,433.53	-2,038,872.15
2,368,637.80	1,270.94	-2,947,625.82
2,153,866.69	11,867.95	-411,643.37
2,559,133.67	1,814.04	1,255,622.02
4,368,576.06	6,168.67	-4,774,592.89
59,136.83	951.45	-753,516.46
5,810,819.52	5,140.85	-5,886,505.92
2,360,739.38		-7,429,343.81
106,770.66	5,769.71	-1,301,416.82
273,607.15		-2,291,651.03
7,490,917.41	24,629.80	-144,689.93
		-2,533,753.41
$ 103,763,868.15	$ 292,052.00	$ -69,105,511.59
		$ 47,746,283.35
		2,659,507.00
		22,693.97
		9,313,512.75
		551,079.60
		11,023,135.00
		112,039.02
		333,302.40
		$ 71,761,553.09
		$ 2,656,041.50
		159,211,400.20
		$ 161,867,441.70

NEWTON COUNTY BOARD OF EDUCATION
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010

	GENERAL FUND	DISTRICT-WIDE CAPITAL PROJECTS FUND
ASSETS		
Cash and Cash Equivalents	$ 18,303,630.30	
Investments	55,279.83	$ 8,927,049.70
Accounts Receivable, Net		
Taxes	3,163,933.47	
State Government	9,440,383.06	4,504,946.00
Federal Government	4,078,976.92	
Other	15,912.31	
Inventories	216,695.86	
Total Assets	$ 35,274,811.75	$ 13,431,995.70
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Cash Overdraft		$ 665,244.62
Accounts Payable	$ 472,561.21	56,350.00
Salaries and Benefits Payable	19,326,693.41	
Contracts Payable		124,951.00
Retainages Payable		1,132,173.00
Total Liabilities	$ 19,799,254.62	$ 1,978,718.62
FUND BALANCES		
Reserved for:		
Bus Replacement	$ 286,182.00	
Continuation of Federal Programs	3,171,174.24	
Debt Service		
Capital Projects		$ 11,453,277.08
Unreserved		
Designated for Cafeteria Equipment	750,000.00	
Designated for Student Activities	664,404.56	
Undesignated Reported in:		
General Fund	10,603,796.33	
Nonmajor Funds		
Total Fund Balances	$ 15,475,557.13	$ 11,453,277.08
Total Liabilities and Fund Balances	$ 35,274,811.75	$ 13,431,995.70

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

DEBT SERVICE FUND	NONMAJOR GOVERNMENTAL FUND	TOTAL
$ 595,969.74	$ 91,991.00	$ 18,991,591.04
4,268,010.43		13,250,339.96
993,867.84		4,157,801.31
		13,945,329.06
	62,962.00	4,141,938.92
	73,482.00	89,394.31
		216,695.86
$ 5,857,848.01	$ 228,435.00	$ 54,793,090.46
		$ 665,244.62
	$ 65,260.00	594,171.21
	111,297.00	19,437,990.41
		124,951.00
		1,132,173.00
	$ 176,557.00	$ 21,954,530.24
		$ 286,182.00
		3,171,174.24
$ 5,857,848.01		5,857,848.01
		11,453,277.08
		750,000.00
		664,404.56
		10,603,796.33
	$ 51,878.00	51,878.00
$ 5,857,848.01	$ 51,878.00	$ 32,838,560.22
$ 5,857,848.01	$ 228,435.00	$ 54,793,090.46

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NEWTON COUNTY BOARD OF EDUCATION
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2010

EXHIBIT "D"

Total Fund Balances - Governmental Funds (Exhibit "C")		$ 32,838,560.22
Amounts reported for Governmental Activities in the Statement of Net Assets are different because:		
Capital Assets used in Governmental Activities are not financial resources and therefore are not reported in the funds. These assets consist of:		
Land	$ 10,054,348.40	
Construction in Progress	10,391,721.76	
Land Improvements	8,556,704.36	
Buildings	194,892,993.78	
Equipment	17,795,141.15	
Accumulated Depreciation	-55,183,980.17	
Total Capital Assets		186,506,929.28
Unamortized bond issuance costs to be amortized over the life of the bonds.		234,890.04
Long-Term Liabilities, including Bonds Payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-Term Liabilities at year-end consist of:		
Bonds Payable	$ -52,600,000.00	
Capital Leases	-2,126,897.84	
Compensated Absences	-524,937.00	
Unamortized Bond Premiums	-1,918,425.00	
Claims and Judgments	-542,678.00	
Total Long-Term Liabilities		-57,712,937.84
Net Assets of Governmental Activities (Exhibit "A")		$ 161,867,441.70

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

NEWTON COUNTY BOARD OF EDUCATION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2010

	GENERAL FUND	DISTRICT-WIDE CAPITAL PROJECTS FUND
REVENUES		
Property Taxes	$ 47,400,911.79	
Sales Taxes	522,391.03	
State Funds	85,387,598.10	$ 292,052.00
Federal Funds	28,344,643.07	
Charges for Services	5,703,632.06	
Investment Earnings	37,866.63	57,301.69
Miscellaneous	203,271.96	
Total Revenues	$ 167,600,314.64	$ 349,353.69
EXPENDITURES		
Current		
Instruction	$ 109,607,416.34	$ 1,862,456.13
Support Services		
Pupil Services	4,511,781.93	
Improvement of Instructional Services	5,285,483.18	
Educational Media Services	2,304,388.29	101,454.99
General Administration	1,277,906.26	1,200.00
School Administration	8,679,104.85	14,400.00
Business Administration	722,933.94	
Maintenance and Operation of Plant	11,326,910.79	237,961.99
Student Transportation Services	8,512,145.83	
Central Support Services	1,330,564.05	
Other Support Services	2,634,569.80	
Food Services Operation	9,866,254.12	
Capital Outlay		7,321,338.85
Debt Services		
Principal	270,000.00	803,040.50
Dues and Fees		
Interest		124,822.58
Total Expenditures	$ 166,329,459.38	$ 10,466,675.04
Excess of Revenues over (under) Expenditures	$ 1,270,855.26	$ -10,117,321.35
OTHER FINANCING SOURCES (USES)		
Transfers In		$ 2,358,457.24
Transfers Out		
Total Other Financing Sources (Uses)		$ 2,358,457.24
Net Change in Fund Balances	$ 1,270,855.26	$ -7,758,864.11
Fund Balances - Beginning	14,204,701.87	19,212,141.19
Fund Balances - Ending	$ 15,475,557.13	$ 11,453,277.08

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

DEBT SERVICE FUND	NONMAJOR GOVERNMENTAL FUND	TOTAL
$ 2,684,510.53	$ 343,062.00	$ 50,428,484.32
9,603,032.46		10,125,423.49
	521,316.00	86,200,966.10
	533,445.98	28,878,089.05
	7,301.58	5,710,933.64
16,870.70		112,039.02
	130,030.44	333,302.40
$ 12,304,413.69	$ 1,535,156.00	$ 181,789,238.02
	$ 948,394.27	$ 112,418,266.74
		4,511,781.93
	13,681.66	5,299,164.84
		2,405,843.28
		1,279,106.26
	363,746.93	9,057,251.78
	24,721.07	747,655.01
	87,000.95	11,651,873.73
		8,512,145.83
		1,330,564.05
		2,634,569.80
	51,990.64	9,918,244.76
		7,321,338.85
$ 9,385,000.00		10,458,040.50
2,625.00		2,625.00
2,832,622.50		2,957,445.08
$ 12,220,247.50	$ 1,489,535.52	$ 190,505,917.44
$ 84,166.19	$ 45,620.48	$ -8,716,679.42
		$ 2,358,457.24
$ -2,358,457.24		-2,358,457.24
$ -2,358,457.24		$ 0.00
$ -2,274,291.05	$ 45,620.48	$ -8,716,679.42
8,132,139.06	6,257.52	41,555,239.64
$ 5,857,848.01	$ 51,878.00	$ 32,838,560.22

NEWTON COUNTY BOARD OF EDUCATION
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2010

EXHIBIT "F"

Total Net Change in Fund Balances - Governmental Funds (Exhibit "E")		$ -8,716,679.42
Amounts reported for Governmental Activities in the Statement of Activities are different because:		
Capital Outlays are reported as expenditures in Governmental Funds. 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	$ 7,370,174.98	
Depreciation Expense	-5,501,167.30	
Excess of Capital Outlay over Depreciation Expense		1,869,007.68
Taxes reported in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		-260,831.14
Repayment of Long-Term Debt is reported as an expenditure in Governmental Funds, but the repayment reduces Long-Term Liabilities in the Statement of Net Assets. In the current year, these amounts consist of:		
Bond Principal Retirements	$ 9,385,000.00	
Capital Lease Payments	1,073,040.50	
Total Long-Term Debt Repayments		10,458,040.50
Some items reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in Governmental Funds. These activities consist of:		
Amortization of Bond Issuance Costs	$ -52,197.79	
Amortization of Bond Premiums	426,316.67	
Increase in Worker's Compensation Claims (Incurred But not Reported)	-542,678.00	
Increase in Compensated Absences	-524,937.00	
Total Additional Expenditures		-693,496.12
Change in Net Assets of Governmental Activities (Exhibit "B")		$ 2,656,041.50

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

NEWTON COUNTY BOARD OF EDUCATION
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2010

EXHIBIT "G"

	PRIVATE PURPOSE TRUSTS	AGENCY FUNDS
ASSETS		
Cash and Cash Equivalents	$ 17,255.84	$ 175,831.77
LIABILITIES		
Funds Held for Others		$ 175,831.77
NET ASSETS		
Held in Trust for Private Purposes	$ 17,255.84	
Total Liabilities and Net Assets	$ 17,255.84	$ 175,831.77

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

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NEWTON COUNTY BOARD OF EDUCATION
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2010

EXHIBIT "H"

	PRIVATE PURPOSE TRUSTS
ADDITIONS	
Contributions	
Donors	$ 2,769.82
DEDUCTIONS	
Administrative Expenses	$ 2,583.85
Change in Net Assets	$ 185.97
Net Assets - Beginning	17,069.87
Net Assets - Ending	$ 17,255.84

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

Note 1: DESCRIPTION OF SCHOOL DISTRICT AND REPORTING ENTITY

REPORTING ENTITY

The Newton County Board of Education (School District) was established under the laws of the State of Georgia and operates under the guidance of a school board elected by the voters and a Superintendent appointed by the Board. The Board is organized as a separate legal entity and has the power to levy taxes and issue bonds. Its budget is not subject to approval by any other entity. Accordingly, the School District is a primary government and consists of all the organizations that compose its legal entity.

BLENDED COMPONENT UNIT

The non-profit organization, Challenge Foundation Inc., operates a charter school, Challenge Charter Academy. The Challenge Foundation, Inc., (Charter School) is a legally separate tax-exempt component unit of Newton County Board of Education (School District). The Charter School was created through a contract between the School District and the Charter School, whereby the School District provides funds to the Charter School to cover the costs of its operations.

Although the Charter School is legally separate from the School District, it is reported as a Special Revenue Fund of the School District because it is located in Newton County and almost exclusively provides benefits to the School District in that it is responsible for the public education of the students attending its school. Complete financial statements for the Charter School can be obtained from the Challenge Charter Academy, 701 Cabot Street, Beverly, Massachusetts 01915.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The School District's basic financial statements are collectively comprised of the District-wide financial statements, fund financial statements and notes to the basic financial statements of the Newton County Board of Education.

District-wide Statements:
The Statement of Net Assets and the Statement of Activities display information about the financial activities of the overall School District, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the School District's governmental activities.

- Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expenses (expenses of the School District related to the administration and support of the School District's programs, such as office and maintenance personnel and accounting) are not allocated to programs.

- Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements:

The fund financial statements provide information about the School District's funds, including fiduciary funds. Eliminations have been made to minimize the double counting of internal activities. Separate statements for each category (governmental and fiduciary) are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The School District reports the following major governmental funds:

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

- District-wide Capital Projects Fund accounts for financial resources including Special Purpose Local Option Sales Tax (SPLOST), Bond Proceeds and grants from Georgia State Financing and Investment Commission to be used for the acquisition, construction or renovation of major capital facilities.

- Debt Service Fund accounts for taxes (property and sales) legally restricted for the payment of general long-term principal, interest and paying agent's fees.

The School District reports the following fiduciary fund types:

- Private Purpose Trust fund reports trust arrangements under which principal and income benefit employees and may be expended for employee recognition awards.

- Agency funds account for assets held by the School District as an agent for various funds, governments or individuals.

BASIS OF ACCOUNTING

The basis of accounting determines when transactions are reported on the financial statements. The District-wide governmental and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the School District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, sales taxes, grants and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from sales taxes is recognized in the fiscal year in which the underlying transaction (sale) takes place. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The School District uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The School District considers all revenues reported in the governmental funds to be available if they are collected within sixty days after year-end. Property taxes, sales taxes and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term liabilities and acquisitions under capital leases are reported as other financing sources.

The School District funds certain programs by a combination of specific cost-reimbursement grants, categorical grants, and general revenues. Thus, when program costs are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the School District's policy to first apply grant resources to such programs, followed by cost-reimbursement grants, then general revenues.

The State of Georgia reimburses the School District for teachers' salaries and operating costs through the Quality Basic Education Formula Earnings program (QBE). Generally teachers are contracted for the school year (July 1 - June 30) and paid over a twelve month contract period, generally September 1 through August 31. In accordance with the respective rules and regulations of the QBE program, the State of Georgia reimburses the School District over the same twelve month period in which teachers are paid. At June 30, the amount of teachers' salaries incurred but not paid until July and August of the subsequent year are accrued. Since the State of Georgia recognizes its QBE liability for the July and August salaries at June 30, the School District recognizes the same QBE as a receivable and revenue, consistent with symmetrical recognition.

NEW ACCOUNTING PRONOUNCEMENTS

In fiscal year 2010, the School District adopted the Governmental Accounting and Standards Board (GASB) Statement No. 51, *Accounting and Reporting for Intangible Assets*. The provisions of this Statement generally require retroactive reporting for intangible assets acquired after June 30, 1980, with the exception of those intangible assets that have indefinite useful lives and those that are considered internally generated.

In addition, the School District adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The provisions of this Statement impacts disclosure regarding derivative instruments entered into by the state and local governments. Derivative disclosures, if any, will be identified in Note 3.

CASH AND CASH EQUIVALENTS

Composition of Deposits

Cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition in authorized financial institutions. Official Code of Georgia Annotated Section 45-8-14 authorizes the School District to deposit its funds in one or more solvent banks, insured Federal savings and loan associations or insured chartered building and loan associations.

INVESTMENTS

Composition of Investments

Investments made by the School District in nonparticipating interest-earning contracts (such as certificates of deposit) and repurchase agreements are reported at cost. Participating interest-earning contracts and money market investments with a maturity at purchase of one year or less are reported at amortized cost. Both participating interest-earning contracts and money market investments with a maturity at purchase greater than one year are reported at fair value. The Official Code of Georgia Annotated Section 36-83-4 authorizes the School District to invest its funds. In selecting among options for investment or among institutional bids for deposits, the highest rate of return shall be the objective, given equivalent conditions of safety and liquidity. Funds may be invested in the following:

(1) Obligations issued by the State of Georgia or by other states,

(2) Obligations issued by the United States government,

(3) Obligations fully insured or guaranteed by the United States government or a United States government agency,

(4) Obligations of any corporation of the United States government,

(5) Prime banker's acceptances,

(6) The Georgia Fund 1 administered by the State of Georgia, Office of Treasury and Fiscal Services,

(7) Repurchase agreements, and

(8) Obligations of other political subdivisions of the State of Georgia.

The School District does not have a formal policy regarding investment policies that address credit risks, custodial credit risks, concentration of credit risks, interest rate risks or foreign currency risks.

RECEIVABLES

Receivables consist of amounts due from property and sales taxes, grant reimbursements due on Federal, State or other grants for expenditures made but not reimbursed and other receivables disclosed from information available. Receivables are recorded when either the asset or revenue recognition criteria has been met. Receivables recorded on the basic financial statements do not include any amounts which would necessitate the need for an allowance for uncollectible receivables.

PROPERTY TAXES

The Newton County Board of Commissioners fixed the property tax levy for the 2009 tax digest year (calendar year) on June 26, 2009 (levy date). Taxes were due on December 21, 2009 (lien date) and could be paid in two installments on September 20, 2009 and December 20, 2009 (due dates). Taxes collected within the current fiscal year or within 60 days after year-end on the 2009 tax digest are reported as revenue in the governmental funds for fiscal year 2010. The Newton County Tax Commissioner bills and collects the property taxes for the School District, withholds 2.5% of taxes

collected as a fee for tax collection and remits the balance of taxes collected to the School District. Property tax revenues, at the fund reporting level, during the fiscal year ended June 30, 2010, for maintenance and operations amounted to $47,378,217.82 and for school bonds amounted to $2,684,510.53.

Tax millage rates levied for the 2009 tax year (calendar year) for the Newton County Board of Education were as follows (a mill equals $1 per thousand dollars of assessed value):

School Operations	18.21 mills
School Bonds	1.00 mills
	19.21 mills

SALES TAXES

Special Purpose Local Option Sales Tax, at the fund reporting level, during the year amounted to $9,574,343.89 and is to be used for capital outlay for educational purposes or debt service. This sales tax was authorized by local referendum and the sales tax must be re-authorized at least every five years.

INVENTORIES

Food Inventories

On the basic financial statements, inventories of donated food commodities used in the preparation of meals are reported at their Federally assigned value and purchased foods inventories are reported at cost (first-in, first-out). The School District uses the consumption method to account for inventories whereby donated food commodities are recorded as an asset and as revenue when received, and expenses/expenditures are recorded as the inventory items are used. Purchased foods are recorded as an asset when purchased and expenses/expenditures are recorded as the inventory items are used.

CAPITAL ASSETS

Capital assets purchased, including capital outlay costs, are recorded as expenditures in the fund financial statements at the time of purchase (including ancillary charges). On the District-wide financial statements, all purchased capital assets are valued at cost where historical records are available and at estimated historical cost based on appraisals or deflated current replacement cost where no historical records exist. Donated capital assets are recorded at estimated fair market value on the date donated. Disposals are deleted at depreciated recorded cost. The cost of normal maintenance and repairs that do not add to the value of assets or materially extend the useful lives of the assets is not capitalized. Depreciation is computed using the straight-line method. The School District does not capitalize book collections or works of art. During the fiscal year under review, no events or changes in circumstances affecting a capital asset that may indicate impairment were known to the School District.

Capitalization thresholds and estimated useful lives of capital assets reported in the District-wide statements are as follows:

	Capitalization Policy	Estimated Useful Life
Land	All	N/A
Land Improvements	$ 10,000.00	20 to 80 years
Buildings and Improvements	$ 10,000.00	20 to 80 years
Equipment	$ 10,000.00	4 to 20 years

Depreciation is used to allocate the actual or estimated historical cost of all capital assets over estimated useful lives.

COMPENSATED ABSENCES

Members of the Teachers Retirement System of Georgia (TRS) may apply unused sick leave toward early retirement. The liability for early retirement will be borne by TRS rather than by the individual school districts.

For those employees who qualify for retirement and are eligible to receive retirement pay according to policies and regulations of the Georgia Teacher Retirement System and who have been employed in the Newton County School System for at least five years prior to retirement, the Newton County School System will buy back, if the employee so chooses, sick leave at the current basic substitute teacher pay rate in effect for the school year in which the employee retires up to a maximum of 120 days.

	Beginning of Year Liability	Increase	Decrease	End of Year Liability
2010	$ 0.00	$ 524,937.00	$ 0.00	$ 524,937.00

GENERAL OBLIGATION BONDS

The School District issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. In the District-wide financial statements, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bond issuance costs are reported as deferred charges and amortized over the term of the debt.

In the fund financial statements, the School District recognizes bond premiums and discounts, as well as bond issuance costs during the fiscal year bonds are issued. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. General obligation bonds are direct obligations and pledge the full faith and credit of the government. The outstanding amount of these bonds is recorded in the Statement of Net Assets.

NET ASSETS

The School District's net assets in the District-wide Statements are classified as follows:

Invested in capital assets, net of related debt - This represents the School District's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted net assets - These represent resources for which the School District is legally or contractually obligated to spend resources for bus replacement, continuation of Federal programs, debt service and capital projects in accordance with restrictions imposed by external third parties.

Unrestricted net assets - Unrestricted net assets represent resources derived from property taxes, sales taxes, grants and contributions not restricted to specific programs, charges for services, and miscellaneous revenues. These resources are used for transactions relating to the educational and general operations of the School District, and may be used at the discretion of the Board to meet current expenses for those purposes.

FUND BALANCES

Unreserved - Designated
Designated fund balances represent tentative plans for future use of financial resources.

Unreserved - Designated for Cafeteria Equipment
These resources are used for transactions relating to the purchase of cafeteria equipment at Newton County High School.

Note 3: DEPOSITS AND INVESTMENTS

COLLATERALIZATION OF DEPOSITS

Official Code of Georgia Annotated (O.C.G.A.) Section 45-8-12 provides that there shall not be on deposit at any time in any depository for a time longer than ten days a sum of money which has not been secured by surety bond, by guarantee of insurance, or by collateral. The aggregate of the face value of such surety bond and the market value of securities pledged shall be equal to not less than 110 percent of the public funds being secured after the deduction of the amount of deposit insurance. If a depository elects the pooled method (O.C.G.A. Section 45-8-13.1) the aggregate of the market value of the securities pledged to secure a pool of public funds shall be not less than 110 percent of the daily pool balance.

Acceptable security for deposits consists of any one of or any combination of the following:

(1) Surety bond signed by a surety company duly qualified and authorized to transact business within the State of Georgia,

(2) Insurance on accounts provided by the Federal Deposit Insurance Corporation,

(3) Bonds, bills, notes, certificates of indebtedness or other direct obligations of the United States or of the State of Georgia,

(4) Bonds, bills, notes, certificates of indebtedness or other obligations of the counties or municipalities of the State of Georgia,

(5) Bonds of any public authority created by the laws of the State of Georgia, providing that the statute that created the authority authorized the use of the bonds for this purpose,

(6) Industrial revenue bonds and bonds of development authorities created by the laws of the State of Georgia, and

(7) Bonds, bills, notes, certificates of indebtedness, or other obligations of a subsidiary corporation of the United States government, which are fully guaranteed by the United States government both as to principal and interest or debt obligations issued by or securities guaranteed by the Federal Land Bank, the Federal Home Loan Bank, the Federal Intermediate Credit Bank, the Central Bank for Cooperatives, the Farm Credit Banks, the Federal Home Loan Mortgage Association, and the Federal National Mortgage Association.

CATEGORIZATION OF DEPOSITS

At June 30, 2010, the bank balances were $25,999,979.96. The amounts exposed to custodial credit risk are classified into three categories as follows:

Category 1 - Uncollateralized,
Category 2 - Cash collateralized with securities held by the pledging financial institution, or
Category 3 - Cash collateralized with securities held by the pledging financial institution's trust department or agent but not in the School District's name.

The School District's deposits by custodial credit risk category at June 30, 2010, are as follows:

Custodial Credit Risk Category	Bank Balance
1	$ 0.00
2	0.00
3	24,796,103.12
Total	$ 24,796,103.12

CATEGORIZATION OF INVESTMENTS

At June 30, 2010, the carrying value of the School District's total investments was $13,195,060.13, which is materially the same as fair value. This investment consisted entirely of funds invested in the Georgia Fund 1, formerly referred to as LGIP, administered by the State of Georgia, Office of Treasury and Fiscal Services which are not required to be categorized since the School District did not own any specific identifiable securities in the pool. The investment policy of the State of Georgia, Office of Treasury and Fiscal Services for the Georgia Fund 1 (Primary Liquidity Portfolio) does not provide for investment in derivatives or similar investments. Additional information on the Georgia Fund 1 is disclosed in the *State of Georgia* Comprehensive Annual Financial Report. This audit can be obtained from the Georgia Department of Audits and Accounts at http://www.audits.ga.gov/SGD/cafr.html.

The Primary Liquidity Portfolio consists of Georgia Fund 1 which is not registered with the SEC as an investment company but does operate in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940. The investment is valued at the pool's share price, $1.00 per share. The pool is an AAAm rated investment pool by Standard and Poor's. The weighted average maturity of Georgia Fund 1 may not exceed 60 days. The weighted average maturity for Georgia Fund 1 on June 30, 2010, was 46 days.

Note 4: NON-MONETARY TRANSACTIONS

The School District receives food commodities from the United States Department of Agriculture (USDA) for school breakfast and lunch programs. These commodities are recorded at their Federally assigned value. **See Note 2 - Inventories**

Note 5: CAPITAL ASSETS

The following is a summary of changes in the Capital Assets during the fiscal year:

	Balances July 1, 2009	Increases	Decreases	Balances June 30, 2010
Governmental Activities				
Capital Assets, Not Being Depreciated:				
Land	$ 8,860,559.40	$ 1,193,789.00		$ 10,054,348.40
Construction Work In Progress	36,062,787.75	4,317,977.76	$ 29,989,043.75	10,391,721.76
Total Capital Assets, Not Being Depreciated	$ 44,923,347.15	$ 5,511,766.76	$ 29,989,043.75	$ 20,446,070.16
Capital Assets, Being Depreciated:				
Buildings and Improvements	$ 163,432,881.78	$ 31,460,112.00	$ 0.00	$ 194,892,993.78
Equipment	17,431,932.25	363,208.90		17,795,141.15
Land Improvements	8,532,573.29	24,131.07		8,556,704.36
Less: Accumulated Depreciation:				
Buildings and Improvements	34,339,994.85	3,755,530.98		38,095,525.83
Equipment	10,683,346.00	1,425,455.23		12,108,801.23
Land Improvements	4,659,472.02	320,181.09		4,979,653.11
Total Capital Assets, Being Depreciated, Net	$ 139,714,574.45	$ 26,346,284.67	$ 0.00	$ 166,060,859.12
Governmental Activity Capital Assets - Net	$ 184,637,921.60	$ 31,858,051.43	$ 29,989,043.75	$ 186,506,929.28

Capital assets being acquired under capital leases as of June 30, 2010, are as follows:

	Governmental Funds
Equipment	$ 5,442,485.00
Less: Accumulated Depreciation	2,081,537.84
	$ 3,360,947.16

Current year depreciation expense by function is as follows:

Instruction		$ 3,367,763.18
Support Services		
Pupil Services	$ 20,719.74	
Improvement of Instructional Services	18,369.72	
Educational Media Services	171,534.73	
General Administration	26,219.43	
School Administration	89,159.48	
Business Administration	13,751.94	
Maintenance and Operation of Plant	74,303.81	
Student Transportation Services	1,279,962.72	
Central Support Services	83,393.14	1,777,414.71
Food Services		355,989.41
		$ 5,501,167.30

Note 6: INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2010, consisted of the following:

Transfer to	Transfers From Debt Service Fund
District-wide Capital Projects	$ 2,358,457.24

Transfers are used to move SPLOST funds to the Capital Projects Fund for capital construction projects.

Note 7: RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors or omissions; job related illness or injuries to employees; acts of God, unemployment compensation and employee dental/optical expenses.

The School District participates in the Georgia School Boards Association Risk and Insurance Management System, a public entity risk pool organized on July 1, 1994, to develop and administer a plan to reduce risk of loss on account of general liability, motor vehicle liability, or property damage, including safety engineering and other loss prevention and control techniques, and to administer one or more groups of self-insurance funds, including the processing and defense of claims brought against members of the system. The School District pays an annual premium to the system for its general insurance coverage. Additional coverage is provided through agreements by the system with other companies according to their specialty for property, boiler and machinery (including coverage for flood and earthquake), general liability (including coverage for sexual harassment, molestation and abuse), errors and omissions, crime and automobile risks. Payment of excess insurance for the system varies by line of coverage.

The School District has established a limited risk management program for Dental/Optical coverage of its employees. The School District accounts for claims within the General Fund. In connection with the program, a self-insurance reserve has been established within the General Fund by the School District. Estimated claims are budgeted by management based on known claims and prior experience.

Changes in the Dental/Optical claims liability during the last two fiscal years are as follows:

	Beginning of Year Liability	Claims and Changes in Estimates	Claims Paid	End of Year Liability
2009	$ 0.00	$ 425,136.00	$ 425,136.00	$ 0.00
2010	$ 0.00	$ 536,054.50	$ 536,054.50	$ 0.00

The School District has established a limited risk management program for workers' compensation claims. A premium is charged when needed by the General Fund to each user program on the basis of the percentage of that program's payroll to total payroll in order to cover estimated claims budgeted by management based on known claims and prior experience. The School District accounts for claims with expenses/expenditures and liability being reported when it is probable that a loss has occurred, and the amount of that loss can be reasonably estimated. An excess coverage insurance policy covers individual claims in excess of $350,000.00 loss per occurrence, up to the statutory limit.

Changes in the workers' compensation claims liability during the last two fiscal years are as follows:

	Beginning of Year Liability	Claims and Changes in Estimates	Claims Paid	End of Year Liability
2009	$ 0.00	$ 1,033,561.47	$ 776,160.33	$ 257,401.14
2010	$ 257,401.14	$ 965,654.62	$ 680,377.76	$ 542,678.00

The School District is self-insured with regard to unemployment compensation claims. The School District accounts for claims within the General Fund with expenses/expenditures and liability being reported when it is probable that a loss has occurred, and the amount of that loss can be reasonably estimated.

Changes in the unemployment compensation claims liability during the last two fiscal years are as follows:

	Beginning of Year Liability	Claims and Changes in Estimates	Claims Paid	End of Year Liability
2009	$ 0.00	$ 49,039.22	$ 49,039.22	$ 0.00
2010	$ 0.00	$ 182,166.39	$ 182,166.39	$ 0.00

The School District has purchased surety bonds to provide additional insurance coverage as follows:

Position Covered	Amount
Superintendent	$ 50,000.00
All Other Employees	$ 50,000.00

Note 8: LONG-TERM DEBT

CAPITAL LEASES

The Newton County Board of Education has entered into various lease agreements for buses. These lease agreements qualify as capital leases for accounting purposes, and, therefore have been recorded at the present value of the future minimum lease payments as of the date of their inception.

GENERAL OBLIGATION DEBT OUTSTANDING

General Obligation Bonds currently outstanding are as follows:

Purpose	Interest Rates	Amount
General Government - Series 2008	3.25% - 5.00%	$ 37,000,000.00
General Government - Refunding - Series 1997	3.60% - 5.30%	2,955,000.00
General Government - Refunding - Series 2003	1.05% - 5.00%	12,645,000.00
		$ 52,600,000.00

Voters have authorized $74,500,000.00 in general obligation debt for acquiring, constructing, and equipping new schools; equip one new high school and complete one new middle school; and acquire land for future schools which was not issued as of June 30, 2010. As noted in Note 12: Subsequent Events, in the subsequent fiscal year the School District issued $25,050,000.00 of this authorized debt.

The changes in Long-Term Debt during the fiscal year ended June 30, 2010, were as follows:

	Governmental Funds				
	Balance July 1, 2009	Additions	Deductions	Balance June 30, 2010	Due Within One Year
G. O. Bonds	$ 61,985,000.00		$ 9,385,000.00	$ 52,600,000.00	$ 7,310,000.00
Capital Leases	3,199,938.34		1,073,040.50	2,126,897.84	1,114,438.97
Compensated Absences (1)	0.00	$ 524,937.00		524,937.00	
Bond Premiums Amortized	2,344,741.67		426,316.67	1,918,425.00	426,316.67
	$ 67,529,680.01	$ 524,937.00	$ 10,884,357.17	$ 57,170,259.84	$ 8,850,755.64

(1) The portion of Compensated Absences due within one year has been determined to be immaterial to the basic financial statements.

At June 30, 2010, payments due by fiscal year which includes principal and interest for these items are as follows:

	Capital Leases	
	Principal	Interest
Fiscal Year Ended June 30:		
2011	$ 1,114,438.97	$ 83,424.10
2012	603,464.46	40,423.03
2013	408,994.41	16,032.56
Total Principal and Interest	$ 2,126,897.84	$ 139,879.69

	General Obligation Debt		Unamortized
	Principal	Interest	Bond Premium
Fiscal Year Ended June 30:			
2011	$ 7,310,000.00	$ 2,444,242.50	$ 426,316.67
2012	9,410,000.00	2,090,682.50	426,316.67
2013	10,020,000.00	1,631,970.00	426,316.67
2014	11,160,000.00	1,142,650.00	426,316.67
2015	11,790,000.00	645,900.00	213,158.32
2016	2,910,000.00	116,400.00	
Total Principal and Interest	$ 52,600,000.00	$ 8,071,845.00	$ 1,918,425.00

Note 9: ON-BEHALF PAYMENTS

The School District has recognized revenues and costs in the amount of $411,167.00 for health insurance and retirement contributions paid on the School District's behalf by the following State Agencies.

Georgia Department of Education
Paid to the Georgia Department of Community Health
For Health Insurance of Non-Certified Personnel
In the amount of $304,484.16

Paid to the Teachers Retirement System of Georgia
For Teachers Retirement System (TRS) Employer's Cost
In the amount of $29,647.94

Office of Treasury and Fiscal Services
Paid to the Public School Employees Retirement System
For Public School Employees Retirement (PSERS) Employer's Cost
In the amount of $77,034.90

Note 10: SIGNIFICANT COMMITMENTS

The following is an analysis of significant outstanding construction or renovation contracts executed by the School District as of June 30, 2010, together with funding available:

Project	Unearned Executed Contracts	Funding Available From State
10G-707-024	$ 47,401.35	$ 292,052.00
10-707-088	13,012,954.00	4,955,169.00
Sharp Stadium Improvements	35,104.51	
Newton College and Career Academy	246,906.00	
	$ 13,342,365.86	$ 5,247,221.00

The amounts described in this note are not reflected in the basic financial statements.

Note 11: SIGNIFICANT CONTINGENT LIABILITIES

Amounts received or receivable principally from the Federal government are subject to audit and review by grantor agencies. This could result in requests for reimbursement to the grantor agency for any costs which are disallowed under grant terms. The School District believes that such disallowances, if any, will be immaterial to its overall financial position.

The School District is a defendant in various legal proceedings pertaining to matters incidental to the performance of routine School District operations. The ultimate disposition of these proceedings is not presently determinable, but is not believed to be material to the basic financial statements.

Note 12: SUBSEQUENT EVENTS

In the subsequent fiscal year, the School District issued general obligation bonds, Series 2010A, in the amount of $2,945,000.00. The proceeds from these bonds will be used for the refunding of all the School District's outstanding General Obligation Refunding Series 1997 bonds.

The School District also issued general obligation bonds Series 2010B (Direct Pay Qualified School Construction Bonds) in the amount of $25,050,000.00. The proceeds from these bonds will be used for the cost of acquiring, constructing, and equipping school buildings (including one new high school and completing one new middle school) and acquiring land for future schools.

Note 13: POST-EMPLOYMENT BENEFITS

GEORGIA SCHOOL PERSONNEL EMPLOYEES POST-EMPLOYMENT HEALTH BENEFIT FUND

Plan Description. The Georgia School Personnel Post-Employment Health Benefit Fund (School OPEB Fund) is a cost-sharing multiple-employer defined benefit post-employment healthcare plan that covers eligible former employees of public school systems, libraries and regional educational service agencies. The School OPEB Fund provides health insurance benefits to eligible former employees and their qualified beneficiaries through the State Employees Health Insurance Plan administered by the Department of Community Health. The Official Code of Georgia Annotated (OCGA) assigns the authority to establish and amend the benefit provisions of the group health plans, including benefits for retirees, to the Board of Community Health (Board).

Funding Policy. The contribution requirements of plan members and participating employers are established by the Board in accordance with the current Appropriations Act and may be amended by the Board. Contributions of plan members or beneficiaries receiving benefits vary based on plan election, dependent coverage, and Medicare eligibility and election. On average, plan members pay approximately 25 percent of the cost of the health insurance coverage.

Participating employers are statutorily required to contribute in accordance with the employer contribution rates established by the Board. The contribution rates are established to fund all benefits due under the health insurance plans for both active and retired employees based on projected "pay-as-you-go" financing requirements. Contributions are not based on the actuarially calculated annual required contribution (ARC) which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The combined active and retiree contribution rates established by the Board for employers participating in the School OPEB Fund were as follows for the fiscal year ended June 30, 2010:

For certificated teachers, librarians and regional educational service agencies:

July 2009	18.534%	of covered payroll for August Coverage
August 2009 - October 2009	14.492%	of covered payroll for September - November Coverage
November 2009 - June 2010	18.534%	of covered payroll for December - July Coverage

For non-certificated school personnel:

July 2009 - June 2010	$162.72	per member per month plus Department of Education contribution of $22,838,311.00

No additional contribution was required by the Board for fiscal year 2010 nor contributed to the State OPEB Fund to prefund retiree benefits. Such additional contribution amounts are determined annually by the Board in accordance with the State plan for other post-employment benefits and are subject to appropriation.

The School District's combined active and retiree contributions to the health insurance plans, which equaled the required contribution, for the current fiscal year and the preceding two fiscal years were as follows:

Fiscal Year	Percentage Contributed	Required Contribution
2010	100%	$ 14,295,916.16
2009	100%	$ 12,883,881.00
2008	100%	$ 13,025,689.58

Note 14: RETIREMENT PLANS

TEACHERS RETIREMENT SYSTEM OF GEORGIA (TRS)

Plan Description. The TRS is a cost-sharing multiple-employer defined benefit plan created in 1943 by an act of the Georgia General Assembly to provide retirement benefits for qualifying employees in educational service. A Board of Trustees comprised of active and retired members and ex-officio

State employees is ultimately responsible for the administration of TRS. The Teachers Retirement System of Georgia issues a separate stand alone financial audit report and a copy can be obtained from the Georgia Department of Audits and Accounts.

On October 25, 1996, the Board created the Supplemental Retirement Benefits Plan of the Georgia Teachers Retirement System (SRBP-TRS). SRBP-TRS was established as a qualified excess benefit plan in accordance with Section 415 of the Internal Revenue Code (IRC) as a portion of TRS. The purpose of SRBP-TRS is to provide retirement benefits to employees covered by TRS whose benefits are otherwise limited by IRC Section 415. Beginning July 1, 1997, all members and retired former members in TRS are eligible to participate in the SRBP-TRS whenever their benefits under TRS exceed the IRC Section 415 imposed limitation on benefits.

TRS provides service retirement, disability retirement, and survivor's benefits. The benefit structure of TRS is defined and may be amended by State statute. A member is eligible for normal service retirement after 30 years of creditable service, regardless of age, or after 10 years of service and attainment of age 60. A member is eligible for early retirement after 25 years of creditable service.

Normal retirement (pension) benefits paid to members are equal to 2% of the average of the member's two highest paid consecutive years of service, multiplied by the number of years of creditable service up to 40 years. Early retirement benefits are reduced by the lesser of one-twelfth of 7% for each month the member is below age 60 or by 7% for each year or fraction thereof by which the member has less than 30 years of service. It is also assumed that certain cost-of-living adjustments, based on the Consumer Price Index, will be made in future years. Retirement benefits are payable monthly for life. A member may elect to receive a partial lump-sum distribution in addition to a reduced monthly retirement benefit. Death, disability and spousal benefits are also available.

Funding Policy. TRS is funded by member and employer contributions as adopted and amended by the Board of Trustees. Members become fully vested after 10 years of service. If a member terminates with less than 10 years of service, no vesting of employer contributions occurs, but the member's contributions may be refunded with interest. Member contributions are limited by State law to not less than 5% or more than 6% of a member's earnable compensation. Member contributions as adopted by the Board of Trustees for the fiscal year ended June 30, 2010, were 5.25% of annual salary. The member contribution rate will increase to 5.53% effective July 1, 2010. Employer contributions required for fiscal year 2010 were 9.74% of annual salary as required by the June 30, 2007, actuarial valuation. The employer contribution rate will increase to 10.28% effective July 1, 2010.

Employer contributions for the current fiscal year and the preceding two fiscal years are as follows:

Fiscal Year	Percentage Contributed		Required Contribution
2010	100%	$	9,522,468.15
2009	100%	$	9,056,307.83
2008	100%	$	8,454,154.00

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NEWTON COUNTY BOARD OF EDUCATION
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2010

SCHEDULE "1"

	NONAPPROPRIATED BUDGETS		ACTUAL
	ORIGINAL (1)	FINAL (1)	AMOUNTS
REVENUES			
Property Taxes	$ 51,247,395.00	$ 48,177,395.00	$ 47,400,911.79
Sales Tax			522,391.03
State Funds	93,585,225.00	85,447,587.00	85,387,598.10
Federal Funds	23,987,253.00	30,622,562.71	28,344,643.07
Charges for Services	2,728,418.00	2,728,418.00	5,703,632.06
Investment Earnings	408,000.00	408,000.00	37,866.63
Miscellaneous	272,350.00	272,350.00	203,271.96
Total Revenues	$ 172,228,641.00	$ 167,656,312.71	$ 167,600,314.64
EXPENDITURES			
Current			
Instruction	$ 117,383,122.00	$ 113,513,798.00	$ 109,607,416.34
Support Services			
Pupil Services	4,958,449.00	4,820,488.00	4,511,781.93
Improvement of Instructional Services	5,538,178.00	6,745,363.00	5,285,483.18
Educational Media Services	2,401,483.00	2,408,780.00	2,304,388.29
General Administration	1,033,501.00	1,333,102.00	1,277,906.26
School Administration	9,025,192.00	8,781,571.00	8,679,104.85
Support Services - Business	790,124.00	753,945.00	722,933.94
Maintenance and Operation of Plant Services	13,853,531.00	13,708,940.00	11,326,910.79
Student Transportation Service	8,729,676.00	8,841,097.00	8,512,145.83
Central Support Services	1,534,251.00	1,468,358.00	1,330,564.05
Other Support Services	655,849.00	204,145.00	2,634,569.80
Food Services Operation	9,767,336.00	9,767,336.00	9,866,254.12
Debt Service		270,000.00	270,000.00
Total Expenditures	$ 175,670,692.00	$ 172,616,923.00	$ 166,329,459.38
Net Change in Fund Balances	$ -3,442,051.00	$ -4,960,610.29	$ 1,270,855.26
Fund Balances - Beginning	30,261,266.62	15,151,851.77	14,204,701.87
Fund Balances - Ending	$ 26,819,215.62	$ 10,191,241.48	$ 15,475,557.13

Notes to the Schedule of Revenues, Expenditures and Changes in Fund Balances Budget and Actual

(1) Original and Final Budget amounts do not include budgeted revenues or expenditures of the various principal accounts.

The accompanying schedule of revenues, expenditures and changes in fund balances budget and actual is presented on the modified accrual basis of accounting which is the basis of accounting used in the presentation of the fund financial statements.

See notes to the basic financial statements.

NEWTON COUNTY BOARD OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010

SCHEDULE "2"

FUNDING AGENCY PROGRAM/GRANT		CFDA NUMBER	PASS-THROUGH ENTITY ID NUMBER	EXPENDITURES IN PERIOD	
Agriculture, U. S. Department of					
Child Nutrition Cluster					
Pass-Through From Georgia Department of Education					
Food Services					
School Breakfast Program		10.553	N/A	(2)	
National School Lunch Program		10.555	N/A	$ 9,602,243.99	(1)
Total Child Nutrition Cluster				$ 9,602,243.99	
Other Programs					
Pass-Through From Georgia Department of Education					
Food Services					
ARRA - Child Nutrition Discretionary Grants Limited Availability		10.579	N/A	23,413.00	
Total U. S. Department of Agriculture				$ 9,625,656.99	
Education, U. S. Department of					
Education Technology State Grants Cluster					
Pass-Through From Georgia Department of Education					
Education Technology State Grants		84.318	N/A	$ 31,786.00	
Special Education Cluster					
Pass-Through From Georgia Department of Education					
Special Education					
ARRA - Grants to States	*	84.391	N/A	$ 1,612,801.10	
ARRA - Preschool Grants	*	84.392	N/A	63,840.37	
Grants to States	*	84.027	N/A	3,317,640.50	
Preschool Grants	*	84.173	N/A	96,121.41	
Total Special Education Cluster				$ 5,090,403.38	
State Fiscal Stabilization Fund Cluster					
Pass-Through From Georgia Department of Education					
ARRA - Education State Grants	*	84.394	N/A	$ 9,191,661.00	
Title I, Part A Cluster					
Pass-Through From Georgia Department of Education					
ARRA - Title I Grants to Local Educational Agencies	*	84.389	N/A	$ 1,411,222.01	
Title I Grants to Local Educational Agencies	*	84.010	N/A	4,104,451.59	(3)
Total Title I, Part A Cluster				$ 5,515,673.60	
Other Programs					
Pass-Through From Georgia Department of Education					
Career and Technical Education - Basic Grants to States		84.048	N/A	$ 254,750.00	
English Language Acquisition Grants		84.365	N/A	87,126.27	
Improving Teacher Quality State Grants		84.367	N/A	604,121.75	
Safe and Drug-Free Schools and Communities - National Programs		84.184	N/A	84,861.82	
Twenty-First Century Community Learning Centers		84.287	N/A	228,066.54	(4)
Total Other Programs				$ 1,258,926.38	
Total U. S. Department of Education				$ 21,088,450.36	
Defense, U. S. Department of					
Direct					
Department of the Marines					
R.O.T.C. Program				$ 47,074.95	

NEWTON COUNTY BOARD OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010

FUNDING AGENCY PROGRAM/GRANT	CFDA NUMBER	PASS-THROUGH ENTITY ID NUMBER	EXPENDITURES IN PERIOD
Health and Human Services, U. S. Department of			
Child Care and Development Fund Cluster			
Pass-Through From Bright From the Start:			
Georgia Department of Early Care and Learning			
ARRA - Child Care and Development Block Grant	93.713	N/A	$ 11,397.05
Total Federal Financial Assistance			$ 30,772,579.35

N/A = Not Available

Notes to the Schedule of Expenditures of Federal Awards

(1) Includes the Federally assigned value of donated commodities for the Food Donation Program in the amount of $510,064.16.
(2) Expenditures for the funds earned on the School Breakfast Program ($1,575,399.76) were not maintained separately and are included in the 2010 National School Lunch Program.
(3) Includes Federal Assistance of $23,385.93, provided to the Challenge Charter Academy.
(4) Includes Federal Assistance of $19,696.85, provided to the Challenge Charter Academy.

Major Programs are identified by an asterisk (*) in front of the CFDA number.

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the Newton County Board of Education except for a component unit. The component unit, Challenge Foundation Inc., D/B/A Challenge Charter Academy is subject to a separate audit in compliance with Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. The Federal transactions of this entity are excluded from the schedule. Challenge Foundation, Inc., D/B/A Challenge Charter Academy is a blended component unit and is included in the basic financial statements of Newton County Board of Education.

The Schedule of Expenditures of Federal Awards is presented on the modified accrual basis of accounting which is the basis of accounting used in the presentation of the fund financial statements.

See notes to the basic financial statements.

NEWTON COUNTY BOARD OF EDUCATION
SCHEDULE OF STATE REVENUE
YEAR ENDED JUNE 30, 2010

SCHEDULE "3"

AGENCY/FUNDING	GOVERNMENTAL FUND TYPES GENERAL FUND	CAPITAL PROJECTS FUND	NONMAJOR FUND	TOTAL
GRANTS				
Bright From the Start:				
Georgia Department of Early Care and Learning				
Pre-Kindergarten Program	$ 2,469,882.25			$ 2,469,882.25
Education, Georgia Department of				
Quality Basic Education				
Direct Instructional Cost				
Kindergarten Program	5,174,521.00			5,174,521.00
Kindergarten Program - Early Intervention Program	1,413,348.00			1,413,348.00
Primary Grades (1-3) Program	12,722,078.00			12,722,078.00
Primary Grades - Early Intervention (1-3) Program	2,060,841.00			2,060,841.00
Upper Elementary Grades (4-5) Program	6,159,969.00			6,159,969.00
Upper Elementary Grades - Early Prevention (4-5) Program	1,652,222.00			1,652,222.00
Middle Grades (6-8) Program	8,860,870.56		$ 79,395.00	8,940,265.56
High School General Education (9-12) Program	8,508,836.44		73,810.00	8,582,646.44
Vocational Laboratory (9-12) Program	2,532,417.00		37,037.00	2,569,454.00
Students with Disabilities				
Category I	16,682,307.00		197,555.00	16,879,862.00
Gifted Student - Category VI	2,693,580.00			2,693,580.00
Remedial Education Program	1,729,821.00		21,306.00	1,751,127.00
English Speakers of Other Languages (ESOL)	596,568.00		923.00	597,491.00
Media Center Program	1,941,147.00		7,681.00	1,948,828.00
20 Days Additional Instruction	576,297.00		2,597.00	578,894.00
Staff and Professional Development	413,096.00		2,686.00	415,782.00
Indirect Cost				
Central Administration	2,098,066.00		6,654.00	2,104,720.00
School Administration	3,596,169.00		64,986.00	3,661,155.00
Facility Maintenance and Operations	4,871,331.00		26,686.00	4,898,017.00
Categorical Grants				
Pupil Transportation				
Regular	1,445,384.00			1,445,384.00
Nursing Services	303,282.00			303,282.00
Vocational Supervisors	30,408.00			30,408.00
Education Equalization Funding Grant	11,023,135.00			11,023,135.00
Food Services	330,932.00			330,932.00
Vocational Education	1,091,446.59			1,091,446.59
Amended Formula Adjustment	-17,506,929.00			-17,506,929.00
Other State Programs				
Alternative Program	798,315.00			798,315.00
Apprenticeship Program	37,051.00			37,051.00
Charter Schools	67,653.24			67,653.24
Dual Enrollment	29,295.00			29,295.00
GA Special Needs Scholarship Fund	27,310.00			27,310.00
Health Insurance	304,484.16			304,484.16
National Teacher Certification	82,447.31			82,447.31
Preschool Handicapped Program	402,557.53			402,557.53
Project Adventure	60,163.68			60,163.68
Teachers Retirement	29,647.94			29,647.94
Virtual Schools Grant	612.50			612.50
Georgia State Financing and Investment				
Reimbursement on Construction Projects		$ 292,052.00		292,052.00
Office of Treasury and Fiscal Services				
Public School Employees Retirement	77,034.90			77,034.90
	$ 85,387,598.10	$ 292,052.00	$ 521,316.00	$ 86,200,966.10

See notes to the basic financial statements.

NEWTON COUNTY BOARD OF EDUCATION
SCHEDULE OF APPROVED LOCAL OPTION SALES TAX PROJECTS
YEAR ENDED JUNE 30, 2010

SCHEDULE "4"

PROJECT	ORIGINAL ESTIMATED COST (1)	CURRENT ESTIMATED COSTS (2)	AMOUNT EXPENDED IN CURRENT YEAR (3)	AMOUNT EXPENDED IN PRIOR YEAR (3)	PROJECT STATUS
To acquire, construct, and equip three new elementary schools, one new middle school, and one new stadium, complete one new elementary school and one new middle school currently under construction, acquire land for future schools, school buses, including, without limitation, those presently leased by it, and instructional and administrative technology improvements for existing schools, add to, renovate, repair, improve, and equip existing school buildings and other buildings and facilities useful or desirable in connection therewith, including, without limitation, additions and renovations to Alcovy High School and to an existing stadium, complete a new high school to the extent proceeds of general obligation bonds of the Newton School District are not sufficient to pay the costs of acquiring, constructing, and equipping such school, and acquire any necessary property therefor, both real and personal, all at a maximum cost of $95,000,000.	$ 95,000,000.00	$ 95,000,000.00	$ 12,195,425.04	$ 25,541,269.00	Ongoing
To retire a portion of the Series 1997 Bonds, the Series 2003 Bonds or bonds issued by the Newton School District to refund such bonds (collectively the "Newton Bonds") by paying or making provision for the payment of the principal of and interest on the Newton Bonds coming due on February 1, 2010 through August 1, 2015, in the maximum amount of $5,000,000.00.	5,000,000.00	5,000,000.00			Ongoing
	$ 100,000,000.00	$ 100,000,000.00	$ 12,195,425.04	$ 25,541,269.00	

(1) The School District's original cost estimate as specified in the resolution calling for the imposition of the Local Option Sales Tax.

(2) The School District's current estimate of total cost for the projects. Includes all cost from project inception to completion.

(3) The voters of Newton County approved the imposition of a 1% sales tax to fund the above projects and retire associated debt. Amounts expended for these projects may include sales tax proceeds, state, local property taxes and/or other funds over the life of the projects.

See notes to the basic financial statements.

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NEWTON COUNTY BOARD OF EDUCATION
GENERAL FUND - QUALITY BASIC EDUCATION PROGRAM (QBE)
ALLOTMENTS AND EXPENDITURES - BY PROGRAM
YEAR ENDED JUNE 30, 2010

SCHEDULE "5"

DESCRIPTION	ALLOTMENTS FROM GEORGIA DEPARTMENT OF EDUCATION (1) (2)	ELIGIBLE QBE PROGRAM COSTS SALARIES	OPERATIONS	TOTAL
Direct Instructional Programs				
Kindergarten Program	$ 6,050,817.00	$ 5,698,707.28	$ 81,402.89	$ 5,780,110.17
Kindergarten Program-Early Intervention Program	1,523,891.00	566,546.46	5,132.97	571,679.43
Primary Grades (1-3) Program	14,754,980.00	14,667,085.12	478,474.04	15,145,559.16
Primary Grades-Early Intervention (1-3) Program	2,264,789.00	2,223,922.93	14,521.46	2,238,444.39
Upper Elementary Grades (4-5) Program	7,124,009.00	5,782,673.35	173,210.65	5,955,884.00
Upper Elementary Grades-Early Intervention (4-5) Program	1,796,518.00	817,803.96	5,432.48	823,236.44
Middle Grades (6-8) Program	23,840.00		15.00	15.00
Middle School (6-8) Program	11,253,431.00	11,062,920.39	392,345.56	11,455,265.95
High School General Education (9-12) Program	10,864,045.00	11,502,400.45	731,791.99	12,234,192.44
Vocational Laboratory (9-12) Program	2,880,187.00	2,169,679.56	545,599.39	2,715,278.95
Students with Disabilities	19,205,410.00			
Category I		64,763.19	33,718.92	98,482.11
Category II		947,310.37	17,862.09	965,172.46
Category III		15,679,456.68	70,508.62	15,749,965.30
Category IV		247,444.88	463.66	247,908.54
Gifted Student - Category VI	3,101,515.00	1,497,614.80	9,585.61	1,507,200.41
Remedial Education Program	1,928,432.00	222,196.88		222,196.88
Alternative Education Program	929,605.00	1,293,381.73	7,985.81	1,301,367.54
English Speakers of Other Languages (ESOL)	665,663.00	821,172.77	2,108.21	823,280.98
TOTAL DIRECT INSTRUCTIONAL PROGRAMS	$ 84,367,132.00	$ 75,265,080.80	$ 2,570,159.35	$ 77,835,240.15
Media Center Program	2,244,973.00	2,033,853.36	241,519.64	2,275,373.00
Staff and Professional Development	483,949.00			490,188.82
TOTAL QBE FORMULA FUNDS	$ 87,096,054.00	$ 77,298,934.16	$ 2,811,678.99	$ 80,600,801.97

(1) Comprised of State Funds plus Local Five Mill Share.

(2) Allotments do not include the impact of the State amended formula adjustment.

See notes to the basic financial statements.

SECTION II

COMPLIANCE AND INTERNAL CONTROL REPORTS

DEPARTMENT OF AUDITS AND ACCOUNTS

270 Washington Street, S.W., Suite 1-156
Atlanta, Georgia 30334-8400

Russell W. Hinton
STATE AUDITOR
(404) 656-2174

March 29, 2011

Honorable Nathan Deal, Governor
Members of the General Assembly
Members of the State Board of Education
and
Superintendent and Members of the
Newton County Board of Education

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

Ladies and Gentlemen:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Newton County Board of Education as of and for the year ended June 30, 2010, which collectively comprise Newton County Board of Education's basic financial statements and have issued our report thereon dated March 29, 2011. Our report includes a reference to other auditors. 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. Other auditors audited the financial statements of the Challenge Foundation, Inc., D/B/A Challenge Charter Academy, as described in our report on Newton County Board of Education's financial statements. This report does not include the results of other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Newton County Board of Education's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Newton County Board of Education's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Newton County Board of Education's internal control over financial reporting.

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

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Newton County Board of Education's financial statements are free of material misstatement, we and other auditors 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.*

We noted certain matters that we have reported to management of Newton County Board of Education in a separate letter dated March 29, 2011.

This report is intended solely for the information and use of management, members of the Newton County Board of Education, others within the entity, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Russell W. Hinton

Russell W. Hinton, CPA, CGFM
State Auditor

RWH:as
2010YB-11

DEPARTMENT OF AUDITS AND ACCOUNTS

270 Washington Street, S.W., Suite 1-156
Atlanta, Georgia 30334-8400

Russell W. Hinton
STATE AUDITOR
(404) 656-2174

March 29, 2011

Honorable Nathan Deal, Governor
Members of the General Assembly
Members of the State Board of Education
and
Superintendent and Members of the
Newton County Board of Education

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Ladies and Gentlemen:

Compliance

We have audited Newton County Board of Education'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 its major Federal programs for the year ended June 30, 2010. Newton County Board of Education's major Federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of Newton County Board of Education's management. Our responsibility is to express an opinion on Newton County Board of Education's compliance based on our audit.

Newton County Board of Education's basic financial statements include the operations of Challenge Foundation, Inc., D/B/A Challenge Charter Academy, which received $533,445.98 in Federal awards which is not included in the Schedule of Federal Expenditures during the year ended June 30, 2010. Our audit, described below, did not include the operations of Challenge Foundation, Inc., D/B/A Challenge Charter Academy because the component unit engaged other auditors to perform an audit in accordance with OMB Circular A-133.

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 the Newton County Board of Education'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. Our audit does not provide a legal determination on Newton County Board of Education's compliance with those requirements.

As described in item FA-7071-10-01 in the accompanying Schedule of Findings and Questioned Costs, Newton County Board of Education did not comply with requirements regarding Matching, Level of Effort and Earmarking that is applicable to its Special Education Cluster (CFDA 84.027, 84.173, 84.391 and 84.392). Compliance with such requirements is necessary, in our opinion, for Newton County Board of Education to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Newton County Board of Education complied, in all material respects, with the 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, 2010.

Internal Control Over Compliance

The management of Newton County Board of Education is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered Newton County Board of Education's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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 the Newton County Board of Education's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

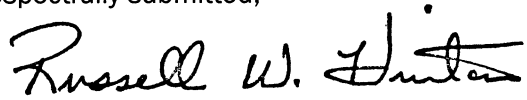
A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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. However, the significant deficiency noted below is also considered to be a material weakness.

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. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item FA-7071-10-01 to be a significant deficiency.

Newton County Board of Education's response to the finding identified in our audit is described in the accompanying Schedule of Management's Responses. We did not audit Newton County Board of Education's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of management, members of the Newton County Board of Education, others within the entity, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Russell W. Hinton, CPA, CGFM
State Auditor

RWH:as
2010SA-65X

SECTION III

AUDITEE'S RESPONSE TO PRIOR YEAR FINDINGS AND QUESTIONED COSTS

NEWTON COUNTY BOARD OF EDUCATION
AUDITEE'S RESPONSE
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

PRIOR YEAR FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

No matters were reported.

PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

SECTION IV

FINDINGS AND QUESTIONED COSTS

NEWTON COUNTY BOARD OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

I SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issue:
Governmental Activities; General Fund; Capital Projects Fund; Debt Service Fund; Aggregate Remaining Fund Information — Unqualified

Internal control over financial reporting:
- Material weakness identified? — No
- Significant deficiency identified? — None Reported

Noncompliance material to financial statements noted: — No

Federal Awards

Internal Control over major programs:
- Material weakness identified? — Yes
- Significant deficiency identified? — None Reported

Type of auditor's report issued on compliance for major programs:

Unqualified for all major programs except for Special Education Cluster, which was qualified.

Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section 510(a)? — Yes

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
	Title I, Part A Cluster
	Special Education Cluster
	State Fiscal Stabilization Fund Cluster

Dollar threshold used to distinguish between Type A and Type B programs: $923,177.38

Auditee qualified as low-risk auditee? — No

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

No matters were reported.

III FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

MATCHING, LEVEL OF EFFORT, EARMARKING
Failure to Meet Maintenance of Effort
Material Weakness
Material Noncompliance
U. S. Department of Education
Through Georgia Department of Education
Special Education Cluster (CFDA 84.027, 84.173, 84.391, and 84.392)
Finding Control Number: FA-7071-10-01

Condition:
The School District did not meet the maintenance of effort requirement.

Criteria:
The Compliance Supplement, Part 4 (4-84.027, III, G.2.1, IDEA, Part B) indicates that funds received by an LEA cannot be used, except under certain limited circumstances, to reduce the level of expenditures for the education of children with disabilities made by the LEA from local funds below the level of those expenditures for the preceding fiscal year. To meet this requirement, an LEA must expend, in any particular fiscal year, an amount of local funds for the education of children with disabilities that is at least equal to the amount of local funds expended for this purpose by the LEA in the prior fiscal year.

Questioned Cost:
$798,069.99

Information:
State and Local funds for the education of children with disabilities decreased both in aggregate and per pupil during the year under review.

	Fiscal Year 2010	Fiscal Year 2009
Non-Federal Expenditures	$ 18,922,140.48	$ 19,720,210.47
Number of Students	2,423	2452
Non-Federal Expenditures per Student	$ 7,809.39	$ 8,042.50

Cause:
Newton County did not properly manage their funds to meet the maintenance of effort requirements related to the education of children with disabilities.

Effect:
Failure to monitor expenditures for compliance with maintenance of effort requirements can lead to a material noncompliance with the provisions of the Federal grant.

Recommendation:
The School District should implement appropriate procedures to ensure that maintenance of effort is met regarding the education of children with disabilities. The Georgia Department of Education should review this matter to determine if a refund is appropriate.

SECTION V

MANAGEMENT'S RESPONSES

NEWTON COUNTY BOARD OF EDUCATION
SCHEDULE OF MANAGEMENT'S RESPONSES
YEAR ENDED JUNE 30, 2010

Finding Control Number: FA-7071-10-01

The management of Newton County Schools is working closely with the Georgia Department of Education to resolve this finding. Reductions in state funding for fiscal year 2010 totaled $4,725,556 including a $2,448,907 reduction described as "6 Days Furlough Reduction." The management of Newton County Schools had no choice but to reduce the work year, salaries and benefits for all personnel including special education personnel. These reductions to special education salaries and benefits total $805,625.94 and the cost was not shifted to federal funds.

Newton County Schools is closely monitoring expenditures for fiscal year 2011 and at this time, barring any further reductions in state funding, expects to meet the "Maintenance of Effort" requirement for fiscal year 2011.

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