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NEWTON COUNTY SCHOOL DISTRICT

Audited Financial Statements

For the Year Ended June 30, 2011

Newton County School District

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INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

Superintendent and School Board
Newton County School District

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Newton County School District as of and for the year ended June 30, 2011, which collectively comprise the Newton County School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Newton County School District's management. 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 includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, 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 School District, as of June 30, 2011, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2011, on our consideration of the Newton County 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information 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 supplemental 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Newton County School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards and the Schedule of Instructional, Administrative and Other Expenditures for Governmental Funds are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Newton County School District's basic financial statements. 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, is presented for purposes of additional analysis as required by the Mississippi Department of Education and is not a required part of the basic financial statements. Such information 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.


Marcus J. Martin
Certified Public Accountants

December 15, 2011
Laurel, Mississippi

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**NEWTON COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011**

The following discussion and analysis of Newton County School District's financial performance provides an overview of the School District's financial activities for the year ended June 30, 2011. 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 assets for 2011 increased \$582,337, which represents a 3% increase from fiscal year 2010. Total net assets for 2010 increased \$409,941 represents a 2% increase from fiscal year 2009.
- General revenues amounted to \$10,568,332 and \$10,909,368, or 67% and 69% of all revenues for fiscal years 2011 and 2010, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$5,124,293 or 33% of total revenues for 2011, and \$4,832,211, or 31% of total revenues for 2010.
- The District had \$15,110,288 and \$15,331,638 in expenses for fiscal years 2011 and 2010; only \$5,124,293 for 2011 and \$4,832,211 for 2010 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$10,568,332 for 2011 and \$10,909,368 for 2010 were adequate to provide for these programs.
- Among major funds, the General Fund had \$11,484,474 in revenues and \$10,856,480 in expenditures for 2011, and \$11,728,106 in revenues and \$11,164,243 in expenditures in 2010. The General Fund's fund balance increased by \$347,618 from 2010 to 2011, and decreased by \$15,639 from 2009 to 2010.
- Capital assets, net of accumulated depreciation, decreased by \$337,325 for 2011 and decreased by \$217,321 for 2010. The decrease for 2011 was due to the net decrease produced from current year additions coupled with the increase in accumulated depreciation.
- Long-term debt decreased by \$235,000 for 2011 and decreased by \$230,000 for 2010. This decrease for 2011 was due primarily to principal payments on outstanding long-term debt. The liability for compensated absences increased by \$10,909 for 2011 and increased by \$4,940 for 2010.

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 supplemental information, supplemental 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 Assets 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 Assets presents information on all the District's nonfiduciary assets and liabilities, with the differences between the two reported as "net assets." Over time, increases or decreases in the District's net assets 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 assets changed during the most recent fiscal year. All changes in net assets 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.

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 Assets, 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.

Required Supplemental Information

In addition to the basic financial statements and accompanying notes, this report also presents budgetary comparison schedules as required supplemental 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.

Supplemental 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 assets

Net assets may serve over time as a useful indicator of the District's financial position. Assets exceeded liabilities by \$17,958,496 as of June 30, 2011.

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 assets at June 30, 2011 and June 30, 2010.

Table 1
Condensed Statement of Net Assets

	June 30, 2011	June 30, 2010	Percentage Change
Current Assets	\$ 6,191,551	\$ 5,533,562	12%
Restricted assets	24,547	24,728	-1%
Capital assets, net	12,638,148	12,975,473	-3%
Total Assets	18,854,246	18,533,763	2%
Current Liabilities	387,778	397,336	-2%
Long-term debt outstanding	507,972	760,268	-33%
Total Liabilities	895,750	1,157,604	-23%
Net assets:			
Invested in capital assets, net of related debt	12,033,502	12,120,473	-1%
Restricted	2,382,269	1,516,439	57%
Unrestricted	3,542,725	3,739,247	-5%
Total net assets	\$ 17,958,496	\$ 17,376,159	3%

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

- Increase in current assets in the amount of \$657,989 was due primarily to the increase in cash caused from increase revenues and the limiting of cash outflows by administration where possible.
- Net decrease in long-term debt is due primarily to principal retirement in the amount of \$235,000.

Changes in net assets

The District's total revenues for the fiscal years ended June 30, 2011 and June 30, 2010 were \$15,692,625 and \$15,741,579 respectively. The total cost of all programs and services was \$15,110,288 for 2011 and \$15,331,638 for 2010.

Table 2 presents a summary of the changes in net assets for the fiscal years ended June 30, 2011 and June 30, 2010.

Table 2
Changes in Net Assets

	Year Ended June 30, 2011	Year Ended June 30, 2010	Percentage Change
Revenues:			
Program Revenues:			
Charges for Services	\$ 1,192,985	\$ 1,028,876	16%
Operating grants and contributions	3,551,526	3,697,165	-4%
Capital grants and contributions	379,782	106,170	258%
General Revenues:			
Property taxes	1,926,472	1,866,168	3%
Grants and contributions not restricted	8,412,619	8,656,073	-3%
Investment earnings	32,338	63,611	-49%
Sixteenth sections sources	116,661	267,186	-56%
Other	80,242	56,330	42%
Total Revenues	15,692,625	15,741,579	0%
Expenses:			
Instruction	9,132,685	9,264,603	-1%
Support services	4,719,572	4,716,349	0%
Non-instructional	1,101,460	1,229,325	-10%
Sixteenth section	124,733	80,511	55%
Interest and other expenses on long-term liabilities	31,838	40,850	-22%
Total Expenses	15,110,288	15,331,638	-1%
Increase (Decrease) in net assets	582,337	409,941	42%
Net Assets, July 1	17,376,159	16,966,218	2%
Net Assets, June 30	\$ 17,958,496	\$ 17,376,159	3%

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 debt. 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.

Table 3
Net Cost of Governmental Activities

	Total Expenses		Percentage
	2011	2010	Change
Instruction	9,132,685	9,264,603	-1%
Support services	4,719,572	4,716,349	0%
Non-instructional	1,101,460	1,229,325	-10%
Sixteenth section	124,733	80,511	55%
Interest on long-term liabilities	31,838	40,850	-22%
Total Expenses	\$ 15,110,288	\$ 15,331,638	-1%
	Net (Expense) Revenue		Percentage
	2011	2010	Change
Instruction	(6,317,195)	(6,414,454)	-2%
Support services	(3,535,937)	(3,837,616)	-8%
Non-instructional	(275,894)	(363,485)	-24%
Sixteenth section	174,869	156,978	11%
Interest on long-term liabilities	(31,838)	(40,850)	-22%
Total net (expense) revenue	\$ (9,985,995)	\$ (10,499,427)	-5%

- Net cost of governmental activities (\$9,985,995 for 2011 and \$10,499,427 for 2010) was financed by general revenue, which is primarily made up of property taxes (\$1,926,472 for 2011 and \$1,866,168 for 2010) and state and federal revenues (\$8,412,619 for 2011 and \$8,656,073 for 2010). In addition, there was \$116,661 and \$267,186 in Sixteenth Section sources for 2011 and 2010, respectively.
- Investment earnings amounted to \$32,338 for 2011 and \$63,611 for 2010.

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 \$6,070,905, an increase of \$708,960, which includes an increase in reserve for inventory of \$1,381. \$3,700,043 or 61% 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 \$2,370,862 or 39% is either nonspendable, restricted, committed or assigned to indicate that it is not available for spending except only for the purposes to which it is restricted, committed or assigned.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$347,618. The fund balance of Other Governmental Funds showed an increase in the amount of \$86,485, which includes an increase in reserve for inventory of \$1,381. The increase in the fund balances for the

other major funds were as follows:

Major Fund	Increase (Decrease)
16th Section Interest	\$ 274,857

BUDGETARY HIGHLIGHTS

During the year, the District did not significantly revise the annual operating budget. A schedule showing the original and final budget amounts compared to the District's actual financial activity for the General Fund and the major special revenue fund is provided in this report as required supplemental information.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2011, the District's total capital assets were \$19,286,789, including land, school buildings, building improvements, buses, other school vehicles, furniture and equipment, and any intangible assets. This amount represents an increase of \$167,409 from 2010. Total accumulated depreciation as of June 30, 2011, was \$6,648,641, and total depreciation expense for the year was \$517,293, resulting in total net capital assets of \$12,638,148.

Table 4
Capital Assets, Net of Accumulated Depreciation

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>Percentage Change</u>
Land	192,862	192,862	0%
Construction in Progress	82,075	82,075	0%
Buildings	10,439,959	10,732,718	-3%
Building Improvements	191,900	202,000	-5%
Improvements other than buildings	837,641	898,174	-7%
Mobile Equipment	796,457	748,988	6%
Furniture and equipment	97,254	118,656	-18%
Total	<u>\$ 12,638,148</u>	<u>\$ 12,975,473</u>	-3%

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

Debt Administration. At June 30, 2011, the District had \$620,000 in outstanding long-term debt, of which \$255,000 is due within one year. The liability for compensated absences increased \$10,909 from the prior year.

The District does not have a bond rating.

Table 5
Outstanding Long-Term Debt

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>Percentage Change</u>
General obligation bonds payable	620,000	855,000	-27%
Compensated absences payable	157,330	146,421	7%
Total	<u>\$ 777,330</u>	<u>\$ 1,001,421</u>	-22%

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

CURRENT ISSUES

The District is currently financially stable. The District is proud of its community support of the public schools. The District has committed itself to financial excellence for many years. The District plans to continue its sound fiscal management to meet the challenges of the future.

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

Enrollment for the 2010-2011 year decreased by 12% to 1,797 students.

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 County School District, P. O. Box 97, Decatur, MS 39327.

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FINANCIAL STATEMENTS

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NEWTON COUNTY SCHOOL DISTRICT
Statement of Net Assets
June 30, 2011

Exhibit A

	Governmental Activities
Assets:	
Cash and cash equivalents	\$ 5,736,048
Due from other governments	368,381
Other receivables, net	45,935
Inventories	29,768
Deferred debt issuance costs	11,419
Restricted assets	24,547
Capital assets, non-depreciable:	
Land	192,862
Construction in progress	82,075
Capital assets, net of accumulated depreciation:	
Buildings	10,439,959
Building improvements	191,900
Improvements other than buildings	837,641
Mobile equipment	796,457
Furniture and equipment	97,254
	18,854,246
Total Assets	18,854,246
Liabilities:	
Accounts payable and accrued liabilities	45,095
Due to other governments	88,679
Long-term liabilities, due within one year:	
Capital related liabilities	247,323
Non-capital related liabilities	6,681
Long-term liabilities, due beyond one year:	
Capital related liabilities	357,323
Non-capital related liabilities	150,649
	895,750
Total Liabilities	895,750
Net Assets:	
Invested in capital assets, net of related debt	12,033,502
Restricted for:	
Expendable:	
School-based activities	2,325,779
Forestry improvements	33,673
Unemployment benefits	35,020
Non-expendable:	
Sixteenth section	24,197
Unrestricted	3,506,325
	3,506,325
Total Net Assets	\$ 17,958,496

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

NEWTON COUNTY SCHOOL DISTRICT
 Statement of Activities
 For the Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues		Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions		
Governmental Activities:					
Instruction	\$ 9,132,685	\$ 506,078	\$ 2,296,063	\$ 13,349	\$ (6,317,195)
Support services	4,719,572	361,839	455,363	366,433	(3,535,937)
Non-instructional	1,101,460	25,466	800,100	-	(275,894)
Sixteenth section	124,733	299,602	-	-	174,869
Interest on long-term liabilities	31,838	-	-	-	(31,838)
Total Governmental Activities	\$ 15,110,288	\$ 1,192,985	\$ 3,551,526	\$ 379,782	(9,985,995)
General Revenues:					
Taxes:					
General purpose levies					1,926,472
Unrestricted grants and contributions:					
State					8,364,428
Federal					48,191
Unrestricted investment earnings					32,338
Sixteenth section sources					116,661
Other					80,242
Total General Revenues					10,568,332
Change in Net Assets					582,337
Net Assets - Beginning					17,376,159
Net Assets - Ending					\$ 17,958,496

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

NEWTON COUNTY SCHOOL DISTRICT
 Balance Sheet - Governmental Funds
 June 30, 2011

	Major Funds		Other Governmental Funds	Total Governmental Funds
	General Fund	16th Section Interest		
ASSETS				
Cash and cash equivalents	\$ 3,840,664	\$ 1,584,790	\$ 328,382	\$ 5,753,836
Investments	-	-	6,759	6,759
Due from other governments	144,799	-	223,582	368,381
Other receivables, net	17,142	18,774	-	35,916
Due from other funds	201,780	350	3,187	205,317
Inventories	-	-	29,768	29,768
Total Assets	<u>\$ 4,204,385</u>	<u>\$ 1,603,914</u>	<u>\$ 591,678</u>	<u>\$ 6,399,977</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 7,748	\$ 30,561	\$ 6,462	\$ 44,771
Due to other governments	-	88,679	-	88,679
Due to other funds	3,511	-	192,111	195,622
Total Liabilities	<u>11,259</u>	<u>119,240</u>	<u>198,573</u>	<u>329,072</u>
Fund Balances:				
Nonspendable:				
Inventory	-	-	29,768	29,768
Permanent fund purposes	-	-	24,197	24,197
Restricted:				
Forestry improvement purposes	-	-	33,673	33,673
Unemployment benefits	-	-	35,020	35,020
Sixteenth section	-	1,484,674	-	1,484,674
Other purposes	36,997	-	270,447	307,444
Assigned:				
Alternative school consortium	314,415	-	-	314,415
Other purposes	141,671	-	-	141,671
Unassigned	<u>3,700,043</u>	<u>-</u>	<u>-</u>	<u>3,700,043</u>
Total Fund Balances	<u>4,193,126</u>	<u>1,484,674</u>	<u>393,105</u>	<u>6,070,905</u>
Total Liabilities and Fund Balances	<u>\$ 4,204,385</u>	<u>\$ 1,603,914</u>	<u>\$ 591,678</u>	<u>\$ 6,399,977</u>

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

NEWTON COUNTY SCHOOL DISTRICT
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2011

Total fund balances for governmental funds		\$ 6,070,905
Amounts reported for governmental activities in the statement of net assets are different because:		
1. Deferred debt issuance costs for long-term liabilities are reported as expenditures in governmental funds, but are deferred and amortized in the Statement of Activities.		11,419
2. Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:		
Land	\$ 192,862	
Construction in progress	82,075	
Buildings	14,643,792	
Building improvements	252,500	
Improvements other than buildings	1,513,283	
Mobile equipment	2,069,925	
Furniture and equipment	532,352	
Accumulated depreciation	<u>(6,648,641)</u>	12,638,148
3. Long-term liabilities and accrued interest are not due and payable in the current period and therefore are not reported in the funds:		
General obligation bonds	(620,000)	
Compensated absences	(157,330)	
Unamortized charges	<u>15,354</u>	(761,976)
Net assets of governmental activities		<u><u>\$ 17,958,496</u></u>

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

NEWTON COUNTY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30 2011

	Major Funds		Other Governmental Funds	Total Governmental Funds
	General Fund	16th Section Interest		
Revenues:				
Local sources	\$ 2,943,571	\$ -	\$ 711,074	\$ 3,654,645
State sources	8,492,834	-	315,378	8,808,212
Federal sources	48,069	-	2,764,303	2,812,372
Sixteenth section sources	-	363,484	53,295	416,779
Total Revenues	<u>11,484,474</u>	<u>363,484</u>	<u>3,844,050</u>	<u>15,692,008</u>
Expenditures:				
Instruction	6,877,364	-	1,761,695	8,639,059
Support services	3,833,201	-	1,120,929	4,954,130
Noninstructional services	145,915	-	901,511	1,047,426
Sixteenth section	-	88,988	35,745	124,733
Debt service:				
Principal	-	-	235,000	235,000
Interest	-	-	30,238	30,238
Other	-	-	1,600	1,600
Total Expenditures	<u>10,856,480</u>	<u>88,988</u>	<u>4,086,718</u>	<u>15,032,186</u>
Excess (Deficiency) of Revenues over Expenditures	<u>627,994</u>	<u>274,496</u>	<u>(242,668)</u>	<u>659,822</u>
Other Financing Sources (Uses):				
Insurance recovery	9,329	-	-	9,329
Sale of other property	38,607	-	-	38,607
Operating transfers in	95,534	350	423,846	519,730
Operating transfers out	(423,846)	-	(95,884)	(519,730)
Other financing sources	-	11	-	11
Other financing uses	-	-	(190)	(190)
Total other financing sources (uses)	<u>(280,376)</u>	<u>361</u>	<u>327,772</u>	<u>47,757</u>
Net Change in Fund Balances	<u>347,618</u>	<u>274,857</u>	<u>85,104</u>	<u>707,579</u>
Fund Balances:				
July 1, 2010	3,845,508	1,209,817	306,620	5,361,945
Increase in reserve for inventory	-	-	1,381	1,381
June 30, 2011	<u>\$ 4,193,126</u>	<u>\$ 1,484,674</u>	<u>\$ 393,105</u>	<u>\$ 6,070,905</u>

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

NEWTON COUNTY SCHOOL DISTRICT
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, 2011

Net Change in fund balances - total governmental funds \$ 707,579

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	\$ 217,902	
	Depreciation expense	<u>(517,293)</u>	(299,391)
2.	In the statement of activities, only the gain/loss on the sale of assets is reported, while in the governmental funds, the proceeds from the sale increases financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the assets sold.		(37,934)
3.	The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principles of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any affect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and the difference between the carrying value of refunded debt and the acquisition cost of refunded debt when debt is first issued. These amounts are deferred and amortized in the statement of activities.		
	Payments of debt principal		235,000
4.	Some expenses reported in the Statement of Activites 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	(10,909)	
	Change in inventory reserve	1,381	
	Amortization of deferred debt issuance costs and unamortized charges	<u>(13,386)</u>	(22,914)
5.	Rounding		<u>(3)</u>
Change in Net Assets of Governmental Activities			<u><u>\$ 582,337</u></u>

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

NEWTON COUNTY SCHOOL DISTRICT
 Statement of Fiduciary Net Assets
 June 30, 2011

	Private-Purpose Trust Fund	Agency Funds
Assets:		
Cash and cash equivalents	\$ 1,126	\$ 518,410
Due from other funds	-	324
	<hr/>	<hr/>
Total Assets	<u>\$ 1,126</u>	<u>\$ 518,734</u>
Liabilities:		
Accounts payable and accrued liabilities	\$ -	\$ 466,185
Due to other funds	-	10,019
Due to student clubs	-	42,530
	<hr/>	<hr/>
Total Liabilities	<u>\$ -</u>	<u>\$ 518,734</u>
Net assets		
Reserved for endowments	\$ 1,126	
Total Net Assets	<u>\$ 1,126</u>	

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

Exhibit F

**NEWTON COUNTY SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Assets
For the Year Ended June 30 2011**

	<u>Private-Purpose Trust Fund</u>
Additions	
Interest on investments	\$ 12
Total Additions	<u>12</u>
Deductions	
Scholarships awarded	<u>500</u>
Total Deductions	<u>500</u>
Change in Net Assets	(488)
Net Assets	
June 30, 2010	1,614
June 30, 2011	<u>\$ 1,126</u>

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

NEWTON COUNTY SCHOOL DISTRICT

Notes to the Financial Statements For the year ended June 30, 2011

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. Basis of Presentation

In February 2009, the GASB issued GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The fund balance amounts for governmental funds have been reclassified in accordance with GASB Statement No. 54. As a result, amounts previously reported as reserved and unreserved are now reported as nonspendable, restricted, committed, assigned, or unassigned.

B. Financial Reporting Entity

As defined by accounting principles generally accepted in the United States of America, the school district is considered a "primary government." The school district is governed by a five member board to which each member elected by the citizens of each defined county district.

For financial reporting purposes, Newton County 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.

C. Government-wide and Fund Financial Statements

Government-wide Financial Statements – The Statement of Net Assets 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 Assets presents the District's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

1. Invested in capital assets, net of related debt, 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 assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.
3. Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have 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

NEWTON COUNTY SCHOOL DISTRICT

Notes to the Financial Statements For the year ended June 30, 2011

function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property taxes and other items not included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported in separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other governmental funds.

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.

Sixteenth Section Interest - This special revenue fund is used to account for expendable revenue earned from sixteenth section lands as well as the related earnings from the investment of nonexpendable revenues.

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 school district also reports fiduciary funds which focus on net assets and changes in net assets.

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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

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

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

FIDUCIARY FUNDS

Private-purpose Trust Funds - Private-purpose trust funds are used to report all trust arrangements, other than those properly reported elsewhere, in which the principal and income benefit individuals, private organizations or other governments.

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.

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

In the government-wide Statement of Net Assets 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

NEWTON COUNTY SCHOOL DISTRICT

Notes to the Financial Statements For the year ended June 30, 2011

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 county 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 are both restricted and unrestricted net assets 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 2005 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.

E. Encumbrances

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

NEWTON COUNTY SCHOOL DISTRICT

Notes to the Financial Statements For the year ended June 30, 2011

F. Assets, liabilities, and net assets/fund balances

1. Cash, Cash equivalents and Investments

Cash and cash equivalents

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

Investments

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

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

Investments for the district are reported at fair market value.

2. Receivables and payables

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

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

3. Due from Other Governments

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

4. Inventories and Prepaid Items

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

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 Assets 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 16th Section Principal fund is not available for use by the district except as provided for under state statute for loans from this fund.

NEWTON COUNTY SCHOOL DISTRICT

**Notes to the Financial Statements
For the year ended June 30, 2011**

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 Assets. 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:

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

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

7. 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 retires.

8. Long-term Liabilities, Deferred Debt Expense, and Bond Discounts/Premiums

In the government-wide financial statements, outstanding debt is reported as liabilities. Bond issue cost, 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.

NEWTON COUNTY SCHOOL DISTRICT

Notes to the Financial Statements For the year ended June 30, 2011

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures. See Note 6 for details.

9. 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.

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 finance director 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.

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

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

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

NEWTON COUNTY SCHOOL DISTRICT

**Notes to the Financial Statements
For the year ended June 30, 2011**

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

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 \$5,760,595 (which includes \$6,759 of certificates of deposit with original maturities beyond three months and reported on the Balance Sheet as investments) and \$519,536, 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, 2011, none of the district's bank balance of \$6,624,770 was exposed to custodial credit risk.

Investments

As of June 30, 2011, the district had the following investments

<u>Investment Type</u>	<u>Maturities (in years)</u>	<u>Rating</u>	<u>Fair Value</u>
Certificate of Deposit	5 years	Not Rated	\$ 6,759
Total investments			<u>\$ 6,759</u>

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

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

Custodial Credit Risk - Investments. Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The district does not have a formal investment policy that addresses custodial credit risk. As of June 30, 2011, the district did not have any investments to which this would apply.

NEWTON COUNTY SCHOOL DISTRICT

**Notes to the Financial Statements
For the year ended June 30, 2011**

Concentration of Credit Risk. Disclosure of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds and external investment pools, and other pooled investments. As of June 30, 2011, the district had the following investments:

Issuer	Fair Value	% of Total Investments
Certificate of deposit - Great Southern National Bank	\$ 6,759	100%
Total	<u>\$ 6,759</u>	

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	Other Governmental Funds	\$ 191,761
	Fiduciary Funds	10,019
Sixteenth Section Interest	Other Governmental Funds	350
Other Governmental Funds	General Fund	3,187
Fiduciary Funds	General Fund	324
Total		<u>\$ 205,641</u>

The purpose of the above loans represent the recording of indirect costs from federal grants, loans for working capital and interest earned in agency funds that will be transferred to the General Fund.

B. Inter-fund Transfers

Transfer Out	Transfer In	Amount
General Fund	Other Governmental Funds	\$ 423,846
Other Governmental Funds	General Fund	95,534
	16th Section Interest	350
Total		<u>\$ 519,730</u>

The principal purpose of inter-fund transfers was to provide operating funds to other governmental funds from the General Fund, to pay indirect costs of federal grants to the General Fund, transfer unrestricted earnings from the 16th Section Interest Fund to the General Fund for operating purposes and to transfer unrestricted investment earnings on 16th Section Principal funds to the 16th Section Interest Fund.

Note 4 – Restricted Assets

The restricted assets represent the cash balance and investment balance, totaling \$17,788 and \$6,759 of the Sixteenth Section Principal Fund (Permanent Fund) which is legally restricted and may not be used for purposes that support the district's programs.

NEWTON COUNTY SCHOOL DISTRICT

**Notes to the Financial Statements
For the year ended June 30, 2011**

Note 5 – Capital Assets

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

	Balance 7/1/10	Increases	Decreases	Balance 6/30/11
Governmental activities:				
Non-depreciable capital assets:				
Land	\$ 192,862	\$ 37,807	\$ 37,807	\$ 192,862
Construction in progress	82,075	-	-	82,075
Total non-depreciable capital assets	<u>274,937</u>	<u>37,807</u>	<u>37,807</u>	<u>274,937</u>
Depreciable capital assets:				
Buildings	14,643,792	-	-	14,643,792
Building improvements	252,500	-	-	252,500
Improvements other than buildings	1,513,283	-	-	1,513,283
Mobile Equipment	1,895,825	174,100	-	2,069,925
Furniture and equipment	539,043	5,995	12,686	532,352
Total depreciable capital assets	<u>18,844,443</u>	<u>180,095</u>	<u>12,686</u>	<u>19,011,852</u>
Less accumulated depreciation for:				
Buildings	3,911,074	292,759	-	4,203,833
Building improvements	50,500	10,100	-	60,600
Improvements other than buildings	615,109	60,533	-	675,642
Mobile Equipment	1,146,837	126,631	-	1,273,468
Furniture and equipment	420,387	27,270	12,559	435,098
Total accumulated depreciation	<u>6,143,907</u>	<u>517,293</u>	<u>12,559</u>	<u>6,648,641</u>
Total depreciable capital assets, net	<u>12,700,536</u>	<u>(337,198)</u>	<u>127</u>	<u>12,363,211</u>
Total capital assets, net	<u>\$ 12,975,473</u>	<u>\$ (299,391)</u>	<u>\$ 37,934</u>	<u>\$ 12,638,148</u>

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 309,560
Support services	138,152
Non-instructional	69,581
Total depreciation expense	<u>\$ 517,293</u>

The capital assets above include significant amounts of buildings which have been valued at estimated historical cost. The estimated historical cost was based on replacement cost multiplied by the consumer price index implicit price deflator for the year of acquisition.

NEWTON COUNTY SCHOOL DISTRICT

**Notes to the Financial Statements
For the year ended June 30, 2011**

Note 6 – Long-term Liabilities

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

	Balance 7/1/10	Additions	Reductions	Balance 6/30/11	Amounts due within one year
A. General obligation bonds payable	\$ 855,000	\$ -	\$ 235,000	\$ 620,000	\$ 255,000
B. Compensated absences payable	146,421	16,477	5,568	157,330	6,681
Subtotal	1,001,421	16,477	240,568	777,330	261,681
C. Unamortized charges	(23,031)	-	7,677	(15,354)	(7,677)
Total	<u>\$ 978,390</u>	<u>\$ 16,477</u>	<u>\$ 248,245</u>	<u>\$ 761,976</u>	<u>\$ 254,004</u>

A. General obligation bonds payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
General obligation bond refinancing 2002	Varies	9/1/2002	7/15/2013	\$ 2,140,000	\$ 620,000
Total				<u>\$ 2,140,000</u>	<u>\$ 620,000</u>

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

Year Ending June 30	Principal	Interest	Total
2012	\$ 255,000	\$ 20,374	\$ 275,374
2013	240,000	10,230	250,230
2014	125,000	2,625	127,625
Total	<u>\$ 620,000</u>	<u>\$ 33,229</u>	<u>\$ 653,229</u>

The amount of bonded indebtedness that can be incurred by the school district is limited by Sections 37-59-5 and 37-59-7, Miss. Code Ann. (1972). Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in Section 37-59-7, Miss. Code Ann. (1972) have been met. As of June 30, 2011, the school district did not have any outstanding bonded indebtedness outstanding that was subject to these limitations.

This debt will be retired from the 2002 G. O. Bond and EEF Building Funds.

B. Compensated absences payable

As more fully explained in Note 1(F)(7), 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.

C. Unamortized Charges

Unamortized charges represent the unamortized difference between reacquisition price and the net carrying value of refunded debt by the school district in connection with the issuance of debt. Currently, these costs net of accumulated amortization are \$15,354.

NEWTON COUNTY SCHOOL DISTRICT

**Notes to the Financial Statements
For the year ended June 30, 2011**

Note 7 – Prior Year Defeasance of Debt

In prior years, the Newton County School District defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the district's financial statements. On June 30, 2011, \$705,000 of bonds outstanding are defeased.

Note 8 – 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 for fiscal year ended June 30, 2011 was 12.00% 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, 2011, 2010 and 2009 were \$1,037,413, \$1,049,256 and \$1,027,270, respectively, which equaled the required contributions for each year.

Note 9 - Sixteenth Section Lands

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

Year Ending June 30	Amount
2012	\$ 33,777
2013	28,437
2014	9,044
2015	6,993
2016	3,741
2011-2021	16,697
2022-2026	15,230
2027-2031	11,252
2032-2036	4,839
2037-2041	1,849
2042-2046	225
Total	<u>\$ 132,084</u>

NEWTON COUNTY SCHOOL DISTRICT

Notes to the Financial Statements For the year ended June 30, 2011

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.

Litigation – The school district is party to legal proceedings, many of which occur in the normal course of governmental operations. It is not possible at the present time to estimate the outcome or liability, if any, of the school district with respect to the various proceedings. However, the school district's legal counsel believes that ultimate liability resulting from these lawsuits will not have a material adverse effect on the financial condition 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 72 school districts and covers risks of loss arising from injuries to the members' employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by Wells Fargo in Portland, Oregon. The funds in the trust account are used to pay any claim up to \$750,000. For a claim exceeding \$750,000, MSBAWCT has insurance which will pay the excess to the statutory amount required by the Mississippi Workers' Compensation Commission Act. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

Note 12 – Alternative School Consortium

The school district entered into an Alternative School Agreement dated August 19, 1994 creating the East Central Alternative School Consortium. This 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 Newton County School District, Forest Municipal School District, Newton Municipal School District, Philadelphia Public School District, Scott County School District, Neshoba County School District, and Enterprise Public School District.

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 district 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.

NEWTON COUNTY SCHOOL DISTRICT

**Notes to the Financial Statements
For the year ended June 30, 2011**

The following Statement of Revenues, Expenditures and Changes in Fund Balances is presented to detail the financial activity of the East Central Alternative School Consortium.

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
For the Year Ended June 30 2011

Revenues	
Local Sources	
Tuition from other I.F.A.'s within the state:	
Scott County School District	\$ 188,622
Neshoba County School District	159,387
Newton Municipal School District	93,803
Enterprise School District	93,803
Forest Municipal School District	93,803
Philadelphia Public School District	93,803
Total tuition from other I.F.A.'s within the state	<u>723,221</u>
Interest	2,018
Total local sources	<u>725,239</u>
Total revenues	<u>725,239</u>
Expenditures:	
Salaries	659,524
Employee benefits	209,291
Purchased property services	41,938
Other purchased services	1,337
Supplies	9,929
Property	2,664
Other	812
Total expenditures	<u>925,495</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(200,256)</u>
Other financing sources/uses:	
Operating Transfers in	98,415
Operating Transfers out	<u>(32,374)</u>
Total other financing sources/uses	<u>66,041</u>
Net change in fund balance	<u>(134,215)</u>
Fund balance:	
July 1, 2010	314,415
June 30, 2011	<u>\$ 180,200</u>

Note 13 – Vocational School Consortium

The school district entered into a Vocational Educational Agreement dated April 11, 1994 creating the Newton County/Union Consortium. This consortium was created pursuant to the provisions of Section 37-31-73, Miss. Code Ann. (1972), and approved by the Mississippi Department of Education. The consortium includes the Newton County School District and Union Municipal School District.

Section 37-31-73, Miss. Code Ann. (1972), authorizes the above noted entities to enter into an agreement that would provide for the construction or operation of a regional vocational education center. Any such agreement should provide for a designated fiscal agent, providing the method of financing the construction and operation of such facilities, the manner in which such facilities are to be controlled and staffed and detail procedures for student admission and transportation services for those students.

The Newton County School District School District has been designated as the fiscal agent for the Newton County/Union Consortium, and the operations of the consortium are included in its financial statements.

NEWTON COUNTY SCHOOL DISTRICT

**Notes to the Financial Statements
For the year ended June 30, 2011**

The following Statement of Revenues, Expenditures and Changes in Fund Balances is presented to detail the financial activity of the Newton County/Union Consortium.

Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds
For the Year Ended June 30 2011

Revenues	
Local Sources	
Taxes	\$ 262,684
Tuition from other LEA's within the state:	
Union Public School District	41,440
Other local sources	35,365
Total local sources	<u>339,489</u>
State Sources	222,602
Federal Sources	29,882
Total revenues	<u>591,973</u>
Expenditures	
Salaries	523,526
Employee benefits	144,311
Purchased property services	47,009
Other purchased services	2,893
Supplies	42,390
Property	10,495
Other	2,458
Total expenditures	<u>773,082</u>
Excess (Deficiency) of revenues over expenditures	<u>(181,109)</u>
Other financing sources/uses:	
Operating transfers in	204,175
Operating transfers out	(24,466)
Total other financing sources/uses	<u>179,709</u>
Net change in fund balance	(1,400)
Fund balance	
July 1, 2010	45,118
June 30, 2011	<u>\$ 43,718</u>

Note 14 - Insurance loss recoveries

The district received \$9,329 in insurance loss recoveries related to property damage during the 2010-2011 fiscal year. In the government-wide Statement of Activities, the insurance loss recoveries were reported as charges for services and charged to the support services expense function.

Note 15 - Deferred debt issuance costs

Deferred debt issuance costs are those costs including legal fees and other cost incurred by the school district in connection with the issuance of debt. Currently, these costs net of accumulated amortization are \$11,419.

REQUIRED SUPPLEMENTAL INFORMATION

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NEWTON COUNTY SCHOOL DISTRICT
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2011

	Budgeted Amounts		Actual (GAAP) Basis	Variances	
				Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 2,942,753	\$ 2,861,309	\$ 2,943,571	\$ (81,444)	\$ 82,262
State sources	9,024,350	9,024,350	8,492,834	-	(531,516)
Federal sources	49,000	49,000	48,069	-	(931)
Total revenues	<u>12,016,103</u>	<u>11,934,659</u>	<u>11,484,474</u>	<u>(81,444)</u>	<u>(450,185)</u>
Expenditures:					
Instruction	7,507,144	7,507,144	6,877,364	-	629,780
Support services	4,270,405	4,270,405	3,833,201	-	437,204
Noninstructional services	110,421	110,421	145,915	-	(35,494)
Total expenditures	<u>11,887,970</u>	<u>11,887,970</u>	<u>10,856,480</u>	<u>-</u>	<u>1,031,490</u>
Excess (Deficiency) of revenues over (under) expenditures	<u>128,133</u>	<u>46,689</u>	<u>627,994</u>	<u>(81,444)</u>	<u>581,305</u>
Other Financing Sources (Uses):					
Insurance recovery	-	-	9,329	-	9,329
Sale of other property	1,000	1,000	38,607	-	37,607
Operating transfers in	1,365,849	1,365,849	95,534	-	(1,270,315)
Operating transfers out	<u>(1,763,629)</u>	<u>(1,763,629)</u>	<u>(423,846)</u>	<u>-</u>	<u>1,339,783</u>
Total other financing sources (uses)	<u>(396,780)</u>	<u>(396,780)</u>	<u>(280,376)</u>	<u>-</u>	<u>116,404</u>
Net change in fund balances	<u>(268,647)</u>	<u>(350,091)</u>	<u>347,618</u>	<u>(81,444)</u>	<u>697,709</u>
Fund Balances:					
July 1, 2010	-	-	3,845,508	-	3,845,508
June 30, 2011	<u>\$ (268,647)</u>	<u>\$ (350,091)</u>	<u>\$ 4,193,126</u>	<u>\$ (81,444)</u>	<u>\$ 4,543,217</u>

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

**Budgetary Comparison Schedule
Sixteenth Section Interest Fund
For the Year Ended June 30, 2011**

	Budgeted Amounts		Actual (GAAP) Basis	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Sixteenth section sources	\$ 344,950	\$ 344,950	\$ 363,484	\$ -	\$ 18,534
Total Revenues	344,950	344,950	363,484	-	18,534
Expenditures:					
Sixteenth section	9,300	9,300	88,988	-	(79,688)
Total Expenditures	9,300	9,300	88,988	-	(79,688)
Excess (Deficiency) of revenues over Expenditures	335,650	335,650	274,496	-	(61,154)
Other financing sources (uses):					
Operating transfers in	400	400	350	-	(50)
Other financing sources	-	-	11	-	11
Total Other Financing Sources (Uses)	400	400	361	-	(39)
Net Change in Fund Balances	336,050	336,050	274,857	-	(61,193)
Fund Balances:					
July 1, 2010	-	-	1,209,817	-	1,209,817
June 30, 2011	\$ 336,050	\$ 336,050	\$ 1,484,674	\$ -	\$ 1,148,624

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

NEWTON COUNTY SCHOOL DISTRICT

**Notes to the Required Supplemental Information
For the Year Ended June 30, 2011**

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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SUPPLEMENTAL INFORMATION

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NEWTON COUNTY SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Child nutrition cluster:		
School breakfast program	10.553	152,725
National school lunch program	10.555	539,205
Total child nutrition cluster		691,930
Total U.S. Department of Agriculture		691,930
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the universal service fund	32.XXX	39,375
Total Federal Communications Commission		39,375
<u>U.S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Career and technical education - basic grants to states	84.048	29,882
Safe and drug-free schools and communities - state grants	84.186	3,758
Fund for the improvement of education	84.215	168
Rural education	84.358	12,642
Eisenhower professional development state grants	84.367	153,150
ARRA - State fiscal stabilization fund - education state grants	84.394	553,898
Hurricane education recovery	84.938	17,645
Total		771,143
Title I cluster:		
Title I - grants to local educational agencies	84.010	488,046
ARRA - Title I grants to local educational agencies, Recovery Act	84.389	117,768
Total Title I cluster		605,814
Special education cluster:		
Special education - grants to states	84.027	230,024
Special education - preschool grants	84.173	34,447
ARRA - Special education grants to states, Recovery Act	84.391	426,835
ARRA - Special education - preschool grants, Recovery Act	84.392	19,209
Total special education cluster		710,515
Total passed-through Mississippi Department of Education		2,087,472
Total U.S. Department of Education		2,087,472
Total for All Federal Awards		\$ 2,818,777

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.

NEWTON COUNTY SCHOOL DISTRICT
Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
For the Year Ended June 30, 2011

<u>Expenditures</u>	<u>Total</u>	<u>Instruction and Other Student Instructional Expenditures</u>	<u>General Administration</u>	<u>School Administration</u>	<u>Other</u>
Salaries and fringe benefits	\$ 11,676,016	8,027,546	3,140,381	181,631	326,458
Other	3,356,170	718,050	1,330,893	194,686	1,112,541
Total	<u>\$ 15,032,186</u>	<u>\$ 8,745,596</u>	<u>\$ 4,471,274</u>	<u>\$ 376,317</u>	<u>\$ 1,438,999</u>
Total number of students	* 1,797				
Cost per student	<u>\$ 8,365</u>	<u>\$ 4,867</u>	<u>\$ 2,488</u>	<u>\$ 209</u>	<u>\$ 801</u>

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

Instruction and Other Student Instructional Expenditures – includes the activities dealing directly with the interaction between teachers and students. Included here are the activities, teacher’s 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.

OTHER INFORMATION

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NEWTON COUNTY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
General Fund
Last Four Years
Unaudited

	<u>2011</u>	<u>2010</u> *	<u>2009</u> *	<u>2008</u> *
Revenues:				
Local sources	\$ 2,943,571	\$ 2,964,934	\$ 3,070,857	\$ 3,029,188
State sources	8,492,834	8,708,265	9,601,012	9,745,308
Federal sources	48,069	54,907	51,792	53,661
Total Revenues	<u>11,484,474</u>	<u>11,728,106</u>	<u>12,723,661</u>	<u>12,828,157</u>
Expenditures:				
Instruction	6,877,364	6,892,044	7,349,867	7,312,668
Support services	3,833,201	4,127,121	4,149,466	4,077,505
Noninstructional services	145,915	145,078	131,514	130,313
Facilities acquisition and construction	-	-	-	40,581
Total Expenditures	<u>10,856,480</u>	<u>11,164,243</u>	<u>11,630,847</u>	<u>11,561,067</u>
Excess (Deficiency) of Revenues over Expenditures	<u>627,994</u>	<u>563,863</u>	<u>1,092,814</u>	<u>1,267,090</u>
Other Financing Sources (Uses):				
Insurance recovery	9,329	-	-	5,399
Sale of other property	38,607	-	-	1,898
Operating transfers in	95,534	150,093	1,767,301	1,349,284
Operating transfers out	(423,846)	(729,595)	(2,651,302)	(3,041,712)
Other financing uses	-	-	-	(31,156)
Total Other Financing Sources (Uses)	<u>(280,376)</u>	<u>(579,502)</u>	<u>(884,001)</u>	<u>(1,716,287)</u>
Net Change in Fund Balances	<u>347,618</u>	<u>(15,639)</u>	<u>208,813</u>	<u>(449,197)</u>
Fund Balances:				
Beginning of period	<u>3,845,508</u>	<u>3,861,159</u>	<u>3,652,346</u>	<u>4,101,543</u>
End of period	<u>\$ 4,193,126</u>	<u>\$ 3,845,520</u>	<u>\$ 3,861,159</u>	<u>\$ 3,652,346</u>

* SOURCE - PRIOR YEAR AUDIT REPORTS

NEWTON COUNTY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Last Four Years
Unaudited

	<u>2011</u>	<u>2010</u>	*	<u>2009</u>	*	<u>2008</u>	*
Revenues:							
Local sources	\$ 3,654,645	\$ 3,666,257		\$ 3,786,426		\$ 3,747,952	
State sources	8,808,212	8,998,472		9,919,564		10,073,784	
Federal sources	2,812,372	2,644,457		1,815,397		1,817,100	
Sixteenth section sources	416,779	505,239		295,786		223,978	
Total Revenues	<u>15,692,008</u>	<u>15,814,425</u>		<u>15,817,173</u>		<u>15,862,814</u>	
Expenditures:							
Instruction	8,639,059	8,763,497		8,530,518		8,476,555	
Support services	4,954,130	5,032,675		4,988,517		4,868,831	
Noninstructional services	1,047,426	1,167,333		1,187,322		1,205,465	
Sixteenth section	124,733	80,511		170,622		29,125	
Facilities acquisition and construction	-	82,075		339,532		1,294,303	
Debt service:							
Principal	235,000	230,000		225,000		215,000	
Interest	30,238	39,250		47,556		55,098	
Other	1,600	1,600		1,600		1,600	
Total Expenditures	<u>15,032,186</u>	<u>15,396,941</u>		<u>15,490,667</u>		<u>16,145,977</u>	
Excess (Deficiency) of Revenues over Expenditures	<u>659,822</u>	<u>417,484</u>		<u>326,506</u>		<u>(283,163)</u>	
Other Financing Sources (Uses):							
Insurance recovery	9,329	-		-		5,399	
Sale of other property	38,607	-		-		1,898	
Operating transfers in	519,730	880,219		2,795,683		3,101,144	
Operating transfers out	(519,730)	(880,219)		(2,795,683)		(3,101,144)	
Other financing sources	11	-		-		4,636	
Other financing uses	(190)	-		-		(35,856)	
Total Other Financing Sources (Uses)	<u>47,757</u>	<u>-</u>		<u>-</u>		<u>(23,923)</u>	
Net Change in Fund Balances	<u>707,579</u>	<u>417,484</u>		<u>326,506</u>		<u>(307,086)</u>	
Fund Balances:							
Beginning of period	5,361,945	4,946,359		4,610,251		4,915,387	
Increase (Decrease) in reserve for inventory	1,381	(1,886)		9,602		1,950	
End of period	<u>\$ 6,070,905</u>	<u>\$ 5,361,957</u>		<u>\$ 4,946,359</u>		<u>\$ 4,610,251</u>	

* SOURCE - PRIOR YEAR AUDIT REPORTS

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

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

Superintendent and School Board
Newton County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Newton County School District as of and for the year ended June 30, 2011, which collectively comprise the Newton County School District's basic financial statements and have issued our report thereon dated December 15, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the school district'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 school district's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the school district'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 the 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 the school district's financial statements are free of 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*.

We noted certain matters that we reported to management of the Newton County School District in a separate letter dated December 15, 2011.

This report is intended solely for the information and use of the school board, management, other within the entity, entities with accreditation overview, 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.

Marcus J. Martin
Marcus J. Martin
Certified Public Accountant

December 15, 2011
Laurel, Mississippi

**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**

Superintendent and School Board
Newton County School District

Compliance

We have audited Newton County 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 County School District's major federal programs for the year ended June 30, 2011. Newton County 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Newton County School District's management. Our responsibility is to express an opinion on Newton County School District's compliance based on our audit.

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 County 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. Our audit does not provide a legal determination on Newton County School District's compliance with those requirements.

In our opinion, Newton County School District 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, 2011.

Internal Control Over Compliance

Management of the Newton County School District, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Newton County School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our 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 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,

A material weakness in internal control over compliance is a deficiency, or a combination of control deficiencies, in to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. 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.

Our consideration of the internal control over compliance was for the limited purpose described in first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the school board, management, others within the entity, entities with accreditation overview, 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.


Marcus J. Martin
Certified Public Accountant

December 15, 2011
Laurel, Mississippi

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

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

Superintendent and School Board
Newton County School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Newton County School District as of and for the year ended June 30, 2011, which collectively comprise Newton County School District's basic financial statements and have issued our report thereon dated December 15, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$668 of 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 no instances of noncompliance related to incorrect or inappropriate functional level expenditure coding.

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

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

I. Finding

As stated in prior years, Section 29-3-57, Miss. Code Ann. (1972), requires the superintendent of education to collect promptly all rentals due on sixteenth section leases. This section further stipulates that upon a 60 day default in payment of any rentals according to the terms of the lease, the lease shall be terminated unless the board finds extenuating circumstances were present.

During my test of sixteenth section leases, I observed four instances where sixteenth section leases were more than 60 days past due with no documentation that board action was taken as required by Section 29-3-57, Miss. Code Ann. (1972). Noncompliance with Section 29-3-57, Miss. Code Ann. (1972), could result in the district not receiving rental income for the use of sixteenth section lands and forfeiture of the related interest income.

Recommendation

I recommend that the district comply with Section 29-3-57, Miss. Code Ann. (1972), when leases are in default for more than 60 days from the due date by declaring the lease terminated unless the board finds extenuating circumstances are present and documents those circumstances in the board minutes.

School District's Response

The district will review all sixteenth section leases to ensure that they are not more than 60 days in default. Any leases that are in default 60 or more days will be brought before the school board so that action may be taken.

2. Finding

Section 31-7-13(b) requires all purchases of commodities over \$5,000 but not more than \$50,000, exclusive of freight and shipping charges may be made from the lowest and best bidder without publishing or posting advertisement of bids, provided at least two competitive written bids have been obtained. As a result of our audit procedures, we observed one instance where the school district did not obtain the required two quotes.

Recommendation

We recommend that the school district fulfill the requirements of Section 31-7-13(b) which requires the district obtain two written quotes for all purchases of commodities over \$5,000 but not more than \$50,000.

Response

The school district will follow its policies and procedures to ensure that the requirements of state purchasing laws are met for accounts payable expenditures. This includes following the requirements set forth in Section 31-7-13(b) which requires the district to have two written quotes for purchases over \$5,000 but less than \$50,000.

3. Finding

Section 29-3-121 requires that the superintendent of each school district make or cause to be made annual lists of children enrolled in the schools of such district and who reside in shared townships in such district. The lists shall be filed with the superintendent of the custodial school district on or before December 31 of each year. Failure to timely provide the list to the superintendent of the custodial school district shall cause the district to forfeit its right to such funds unless all school districts involved in the sharing of such funds execute a written agreement providing for such distribution. As a result of our audit procedures, we observed that the school district did not file these lists by the due date as required.

Recommendation

We recommend that the school district fulfill the filing requirements for the annual lists of children enrolled in the school district who reside in shared townships of the school district to ensure that the school district qualifies to receive all funds that it is entitled to.

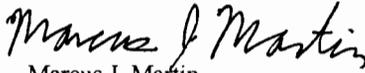
Response

The school district will follow the requirements as set forth in Section 29-3-121 regarding the preparation of accurate annual lists of children enrolled in shared townships in such district, and the filing of such lists by December 31.

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

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

This report is intended solely for the information and use of the school board and management, entities with accreditation overview, and 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.


Marcus J. Martin
Certified Public Accountant

December 15, 2011
Laurel, Mississippi

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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NEWTON COUNTY SCHOOL DISTRICT

**Schedule of Findings and Questioned Costs
June 30, 2011**

Section I: Summary of Auditor's Results

Financial Statements: Unqualified

1. Type of auditor's report issued:

2. Internal control over financial reporting:
 - a. Material weakness(es) identified? No
 - b. Significant deficiency(ies) identified? None reported

3. Noncompliance material to financial statements noted? No

Federal Awards:

4. Internal control over major programs:
 - a. Material weakness(es) identified? No
 - b. Significant deficiency(ies) identified? None reported

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

6. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? No

7. Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
	Title I Cluster:
84.010	Title I - grants to local educational agencies
84.389	ARRA – Title I - grants to local educational agencies, Recovery Act
	Special Education Cluster:
84.027	Special education – grants to states
84.173	Special education – preschool grants
84.391	ARRA – Special education - grants to states, Recovery Act
84.392	ARRA – Special education – preschool grants, Recovery Act
84.394	ARRA – State Fiscal Stabilization Fund – Education state grants, Recovery Act

NEWTON COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
June 30, 2011

- | | | |
|----|--|-----------|
| 8. | Dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 9. | Auditee qualified as low-risk auditee? | Yes |

Section II: Financial Statement Findings

The results of our tests did not disclose any findings related to the financial statements that are required to be reported under *Government Auditing Standards*.

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.