

CHEROKEE COUNTY BOARD OF EDUCATION
ANNUAL FINANCIAL REPORT
FOR THE
FISCAL YEAR ENDED JUNE 30, 2011

CHEROKEE COUNTY BOARD OF EDUCATION
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TABLE OF CONTENTS

I. FINANCIAL SECTION

Independent Auditor's Report	1 and 3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	4
Statement of Activities	5
Fund Financial Statements:	
Balance Sheet – Governmental Funds	6
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	7
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	8
Statement of Fiduciary Net Assets - Agency Fund	9
Notes to Financial Statements	10-31
Required Supplementary Information:	
General Fund - Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual (Budgetary Basis)	32
Notes to Required Supplementary Information	33
Combining Fund Statements and Schedule:	
Combining Balance Sheet – Nonmajor Governmental Funds	34
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds	35
Schedule of Expenditures of Special Purpose Local Option Sales Tax Proceeds	36

II. SINGLE AUDIT SECTION

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 <i>Government Auditing Standards</i>	37 and 38
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	39-41
Schedule of Expenditures of Federal Awards	42-44
Schedule of Findings and Questioned Costs	45-56
Schedule of Prior Year Findings	57

I. FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

**To the Superintendent and Members of
the Cherokee County Board of Education
Canton, Georgia**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Cherokee County Board of Education as of and for the year ended June 30, 2011, which collectively comprise the Cherokee County Board of Education's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Cherokee County Board of Education'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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Cherokee County Board of Education 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.

As discussed in Note 1, the Cherokee County Board of Education implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as of July 1, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2012 on our consideration of the Cherokee County Board of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 General Fund – Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual on page 32 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 (GASB) who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response 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.

The Cherokee County Board of Education has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the GASB who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Cherokee County Board of Education's basic financial statements. The combining nonmajor fund financial statements, and the Schedule of Expenditures of Special Purpose Local Option Sales Tax Proceeds are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U. S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also 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.

Mauldin & Jenkins, LLC

Atlanta, Georgia
September 27, 2012

CHEROKEE COUNTY BOARD OF EDUCATION

STATEMENT OF NET ASSETS

JUNE 30, 2011

ASSETS	Governmental Activities
Cash and cash equivalents	\$ 140,722,616
Investments	4,241,109
Receivables:	
Accounts	954,885
Intergovernmental	30,979,233
Taxes	3,276,923
Inventory	745,759
Deferred charges	2,494,625
Capital assets (nondepreciable)	64,641,968
Capital assets (net of accumulated depreciation)	484,624,687
Total assets	<u>732,681,805</u>
LIABILITIES	
Accounts payable	4,719,564
Salaries and benefits payable	21,737,344
Accrued interest payable	7,636,440
Retainage payable	3,037,690
Other accrued liabilities	102
Claims payable due within one year	478,556
Claims payable due in more than one year	378,664
Compensated absences payable due within one year	1,116,694
Compensated absences payable due in more than one year	913,658
Bonds payable due within one year	17,505,000
Bonds payable due in more than one year	357,998,204
Capital leases due within one year	558,246
Total liabilities	<u>416,080,162</u>
NET ASSETS	
Invested in capital assets, net of related debt	250,543,819
Restricted for debt service	27,577,489
Unrestricted	38,480,335
Total net assets	<u>\$ 316,601,643</u>

The accompanying notes are an integral part of these financial statements.

CHEROKEE COUNTY BOARD OF EDUCATION

**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets Governmental Activities</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental activities:					
Instruction	\$ 229,912,480	\$ 10,970,071	\$ 168,376,525	\$ 5,869,397	\$ (44,696,487)
Support services:					
Pupil services	12,614,695	-	23,070	-	(12,591,625)
Improvement of instructional services	18,128,121	-	12,746	-	(18,115,375)
Educational media services	4,701,743	-	3,026,805	-	(1,674,938)
General administration	3,062,324	-	3,016,899	-	(45,425)
School administration	20,872,771	-	6,078,733	-	(14,794,038)
Business administration	1,949,435	-	5,488	-	(1,943,947)
Maintenance and operation of plant	24,283,934	-	9,077,681	-	(15,206,253)
Student transportation services	17,779,976	-	2,227,337	-	(15,552,639)
Central support services	3,256,299	-	5,297	-	(3,251,002)
Other support services	3,613,012	-	808,768	-	(2,804,244)
Food services operation	14,351,126	6,641,791	1,195	-	(7,708,140)
Community services operation	1,784,746	-	134	-	(1,784,612)
Interest on long-term debt	17,633,165	-	2,196,057	-	(15,437,108)
Total governmental activities	<u>\$ 373,943,827</u>	<u>\$ 17,611,862</u>	<u>\$ 194,856,735</u>	<u>\$ 5,869,397</u>	<u>(155,605,833)</u>
General revenues:					
Property taxes, levied for general purposes					132,517,956
Property taxes, levied for debt service					2,760,023
Sales taxes					25,865,204
Intangible taxes					111,564
Unrestricted investment earnings					105,477
Other					744,811
Total general revenues					<u>162,105,035</u>
Change in net assets					6,499,202
Net assets, beginning of year, as restated					310,102,441
Net assets, end of year					<u>\$ 316,601,643</u>

The accompanying notes are an integral part of these financial statements.

CHEROKEE COUNTY BOARD OF EDUCATION

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011**

	<u>General</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and cash equivalents	\$ 21,563,649	\$ 83,237,168	\$ 28,726,331	\$ 7,195,468	\$ 140,722,616
Investments	379,250	-	3,749,167	112,692	4,241,109
Receivables:					
Accounts	-	-	36,126	-	36,126
Intergovernmental	23,909,443	-	2,481,425	4,588,365	30,979,233
Taxes	3,209,538	-	67,385	-	3,276,923
Due from other funds	11,000,030	151,091	-	202,470	11,353,591
Inventory	401,447	-	-	344,312	745,759
Total assets	<u>\$ 60,463,357</u>	<u>\$ 83,388,259</u>	<u>\$ 35,060,434</u>	<u>\$ 12,443,307</u>	<u>\$ 191,355,357</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 1,504,488	\$ 3,009,080	\$ -	\$ 205,996	\$ 4,719,564
Accrued liabilities	102	-	-	-	102
Salaries and benefits payable	20,356,328	-	-	1,381,016	21,737,344
Retainage payable	-	3,037,690	-	-	3,037,690
Due to other funds	328,561	2,875	7,482,945	3,539,210	11,353,591
Deferred revenue	2,896,391	-	57,992	65,346	3,019,729
Total liabilities	<u>25,085,870</u>	<u>6,049,645</u>	<u>7,540,937</u>	<u>5,191,568</u>	<u>43,868,020</u>
FUND BALANCES					
Nonspendable:					
Inventory	401,447	-	-	344,312	745,759
Restricted:					
Capital projects	-	77,338,614	-	-	77,338,614
Debt service	-	-	27,519,497	-	27,519,497
Committed:					
School food services	-	-	-	3,439,354	3,439,354
School activities	-	-	-	3,584,289	3,584,289
Assigned:					
Use of reserves in 2012 budget	4,205,106	-	-	-	4,205,106
Unassigned	30,770,934	-	-	(116,216)	30,654,718
Total fund balances	<u>35,377,487</u>	<u>77,338,614</u>	<u>27,519,497</u>	<u>7,251,739</u>	<u>147,487,337</u>
Total liabilities and fund balances	<u>\$ 60,463,357</u>	<u>\$ 83,388,259</u>	<u>\$ 35,060,434</u>	<u>\$ 12,443,307</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

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

Cost	696,896,894	
Less accumulated depreciation	(147,630,239)	549,266,655

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.

Local funds		3,019,729
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Some long-term assets are not available to pay for current-period expenditures and, therefore, are not reported in the funds.

Federal funds		918,759
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.

Bonds	(368,210,000)	
Bond premium, net of amortization	(8,900,313)	
Deferred charges on refunding, net of amortization	1,607,109	
Bond issuance costs, net of amortization	2,494,625	
Capital leases payable	(558,246)	
Accrued interest payable	(7,636,440)	
Claims payable	(857,220)	
Compensated absences payable	(2,030,352)	(384,090,837)

Net assets of governmental activities

\$ 316,601,643

The accompanying notes are an integral part of these financial statements.

CHEROKEE COUNTY BOARD OF EDUCATION
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	General	Capital Projects	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
State funds	\$ 155,411,094	\$ 8,384,342	\$ -	\$ 1,076,587	\$ 164,872,023
Federal funds	8,394,633	-	1,277,298	24,971,716	34,643,647
Local and other funds	136,897,866	207,573	28,700,638	17,282,228	183,088,305
On behalf payments	789,490	-	-	-	789,490
Total revenues	<u>301,493,083</u>	<u>8,591,915</u>	<u>29,977,936</u>	<u>43,330,531</u>	<u>383,393,465</u>
EXPENDITURES					
Current:					
Instruction	201,588,582	-	-	9,808,317	211,396,899
Support services:					
Pupil services	8,626,085	-	-	3,988,610	12,614,695
Improvement of instructional services	5,162,712	-	-	12,965,409	18,128,121
Educational media services	4,701,743	-	-	-	4,701,743
General administration	2,187,582	-	-	182,267	2,369,849
School administration	20,624,903	-	-	204,871	20,829,774
Business administration	1,905,287	-	-	-	1,905,287
Maintenance and operation of plant	24,087,505	-	-	61,848	24,149,353
Student transportation services	14,669,212	-	-	285,054	14,954,266
Central support services	3,256,299	-	-	-	3,256,299
Other support services	3,297,677	-	-	315,335	3,613,012
Food services operation	257,858	-	-	14,077,542	14,335,400
Community services operation	1,784,746	-	-	-	1,784,746
Capital outlay	253,541	46,687,467	-	-	46,941,008
Debt service:					
Principal retirement	536,853	-	14,245,000	-	14,781,853
Interest	61,956	-	16,726,055	-	16,788,011
Bond issuance cost	-	521,415	-	-	521,415
Total expenditures	<u>293,002,541</u>	<u>47,208,882</u>	<u>30,971,055</u>	<u>41,889,253</u>	<u>413,071,731</u>
Excess (deficiency) of revenues over (under) expenditures	<u>8,490,542</u>	<u>(38,616,967)</u>	<u>(993,119)</u>	<u>1,441,278</u>	<u>(29,678,266)</u>
OTHER FINANCING SOURCES (USES)					
Proceeds from sale of capital assets	49,400	-	-	-	49,400
Proceeds from bonds issued	-	43,525,000	-	-	43,525,000
Premium on bonds	-	285,248	-	-	285,248
Payment to bond escrow agent	-	(3,715,362)	-	-	(3,715,362)
Transfers in	-	-	-	298,570	298,570
Transfers out	(298,570)	-	-	-	(298,570)
Total other financing sources (uses)	<u>(249,170)</u>	<u>40,094,886</u>	<u>-</u>	<u>298,570</u>	<u>40,144,286</u>
Net change in fund balances	8,241,372	1,477,919	(993,119)	1,739,848	10,466,020
FUND BALANCES, beginning of year, restated	<u>27,136,115</u>	<u>75,860,695</u>	<u>28,512,616</u>	<u>5,511,891</u>	<u>137,021,317</u>
FUND BALANCES, end of year	<u>\$ 35,377,487</u>	<u>\$ 77,338,614</u>	<u>\$ 27,519,497</u>	<u>\$ 7,251,739</u>	<u>\$ 147,487,337</u>

The accompanying notes are an integral part of these financial statements.

CHEROKEE COUNTY BOARD OF EDUCATION

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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

Net change in fund balances - total governmental funds \$ 10,466,020

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The amount by which capital outlays exceeded depreciation expense is as follows:

Capital outlay	\$ 42,105,987	
Depreciation expense	<u>(16,323,850)</u>	25,782,137

The net effect of the sale of capital assets is to decrease net assets (75,415)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Property taxes and sales taxes	\$ 162,685	
Intergovernmental grants	<u>(3,113,121)</u>	(2,950,436)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Principal payments	\$ 14,781,853	
Issuance of general obligation debt	(43,525,000)	
Bond premium	(285,248)	
Bond premium amortization expense	1,162,799	
Amortization of deferred charges	(1,280,207)	
Issuance costs	521,415	
Payment of refunded general obligation debt into escrow account	<u>3,715,362</u>	(24,909,026)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in accrued interest	\$ (727,746)	
Change in claims payable	(857,220)	
Change in compensated absences	<u>(229,112)</u>	<u>(1,814,078)</u>

Change in net assets - governmental activities \$ 6,499,202

The accompanying notes are an integral part of these financial statements.

CHEROKEE COUNTY BOARD OF EDUCATION

**STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUND
JUNE 30, 2011**

	ASSETS	<u>Student Activities Fund</u>
Cash		\$ 121,273
Total assets		<u>\$ 121,273</u>
	LIABILITIES	
Due to others		<u>\$ 121,273</u>
Total liabilities		<u>\$ 121,273</u>

The accompanying notes are an integral part of these financial statements.

CHEROKEE COUNTY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Cherokee County Board of Education (the “School District”) have been prepared in conformity with accounting principles generally accepted in the United States of America (“USGAAP”) as applicable to governmental units. The more significant of the School District's accounting policies are summarized below.

Reporting Entity

The School District is governed by an elected seven member board (the “Board”). Board members are elected by the public and have the authority to make decisions, the power to approve selection of management personnel, the ability to significantly influence operations, and the primary accountability for fiscal matters. The Board determines the millage rate at which school taxes are levied and may incur bonded indebtedness with voters’ approval.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the School District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. However, the School District does not consider any of its activities to be business-type activities.

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 that are clearly identifiable with a specific function or segment. 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 or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

CHEROKEE COUNTY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements and fiduciary fund statements are reported using the economic resources measurement focus and the accrual basis of accounting. Agency funds are custodial in nature and do not present results of operations or have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue when all 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 when they are both measurable and available. Property taxes are recognized as revenue in the period for which they were levied, if they are collected within sixty days of year end. All other revenues are also considered to be available when they are collectible within six months of year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and those related to other long-term liabilities, are recorded only when payment is due.

Revenue from grants and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis.

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

Property taxes, sales taxes, grant revenue, state Quality Basic Education (QBE) revenue and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The School District reports the following major governmental funds:

The General Fund is the School District's primary operating fund. The General Fund is used to account for all financial transactions of the School District except those required to be accounted for in another fund.

CHEROKEE COUNTY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Measurement Focus, Basis of Accounting, and Financial Statement Presentation - Continued

The Capital Projects Fund accounts for resources including bond proceeds, and grants which are used exclusively for acquiring school sites, constructing and equipping new school facilities, and renovating existing facilities.

The Debt Service Fund accounts for the accumulation of resources for, and the payment of general long-term debt principal, interest, and related costs. The primary revenue sources are local property taxes levied specifically for debt service and sales tax for the reduction of sales tax bonds.

Additionally, the School District reports the following fund types:

The Agency Fund is used to account for school activity funds that the School District holds for others in an agency capacity.

The special revenue funds are used to account for federal and state funded grants. These grants are awarded to the School District for the purpose of accomplishing specific educational tasks as defined in the grant agreements. These funds also contain several locally funded programs whose expenditures are committed to specified purposes. The School Activity Fund is also reported as a special revenue fund. The School Activity Fund is used to account for funds collected primarily through the fund raising efforts of the individual schools. Each school's principal is responsible, under the authority of the School District, for collecting, controlling, disbursing, and accounting for his or her school's funds. All resources of the fund, including any earnings on invested resources, have been committed to be used to support the schools' activities.

The effect of interfund activity has been eliminated from the government-wide financial statements.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2011, are recorded as prepaid items using the consumption method by recording an asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed. At the fund reporting level, an equal amount of fund balance is reported as nonspendable as this amount is not available for general appropriation.

Inventories

Inventory of the General Fund and School Food Services Fund is stated at cost using the first-in, first-out method. Donated food commodities are recorded at fair value. The School District utilizes the consumption method to recognize inventory usage. Under the consumption method, inventories are recorded as expenses/expenditures when used rather than when purchased.

CHEROKEE COUNTY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Investments

Investments are reported at fair value based upon quoted market prices.

Interfund Receivables and Payables

During the course of its operations, the School District makes transfers between funds to finance operations, provide services, acquire assets and service debt. To the extent that certain transfers between funds had not been received as of year end, balances of interfund amounts receivable or payable have been recorded.

Activity 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 interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.”

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental activities in the government-wide statement of net assets and depreciated over their estimated useful lives in the government-wide statement of activities. Capital assets are defined by the School District as assets with an initial, individual cost of \$10,000 and useful life of more than one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. However, all additions to land and buildings are capitalized. Items such as furniture and computer equipment purchased in groups costing more than \$10,000 are capitalized by type as a group. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend lives are not capitalized.

Property, plant and equipment is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	20
Buildings and improvements	50
Machinery and equipment	5-10

CHEROKEE COUNTY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Compensated Absences

Vacation leave of twelve days is awarded on a fiscal year basis to all full time personnel employed on a twelve month basis. No other employees are eligible to earn vacation leave. Vacation leave not utilized during the fiscal year may be carried over to the next fiscal year, providing such vacation leave does not exceed forty-five days. Unused vacation leave is accrued at the government wide statement of net assets. The school district does not pay out sick leave, and therefore it is not included in the accrual.

Long-Term Debt

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bond using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, the face amount of debt issued, as well as any premium, is reported as other financing sources. Issuance costs, whether or not withheld from actual proceeds, are reported as debt service expenditures.

Fund Equity/Net Assets

The District implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as of July 1, 2010. This new standard changed the overall definitions and classifications of governmental fund balances.

Fund equity at the governmental fund financial reporting level is classified as “fund balance.” Fund equity for all other reporting is classified as “net assets.”

Fund Balance – Generally, fund balance represents the difference between the assets and liabilities under the current financial resources measurement focus of accounting. In the fund financial statements, governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the Board is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balances are classified as follows:

- ***Nonspendable*** – Fund balances are reported as nonspendable when amounts cannot be spent because they are either (a) not in spendable form (i.e., items that are not expected to be converted to cash) or (b) legally or contractually required to be maintained intact.

CHEROKEE COUNTY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Fund Equity/Net Assets - Continued

- ***Restricted*** – Fund balances are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Board or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.
- ***Committed*** – Fund balances are reported as committed when they can be used only for specific purposes pursuant to constraints imposed by formal action of the Board members through the adoption of a resolution. Only the Board Members may modify or rescind the commitment.
- ***Assigned*** - Fund balances are reported as assigned when amounts are constrained by the Board's intent to be used for specific purposes, but are neither restricted nor committed. The Board has given authority to the Schools Superintendent and Assistant Superintendent to make assignments of fund balance.
- ***Unassigned*** - Fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criterion. The Board reports positive unassigned fund balance only in the general fund. Negative unassigned fund balances may be reported in all funds.

Flow Assumptions – When both restricted and unrestricted amounts of fund balance are available for use for expenditures incurred, it is the Board's policy to use restricted amounts first and then unrestricted amounts as they are needed. For unrestricted amounts of fund balance, it is the Board's policy to use fund balance in the following order:

- Committed
- Assigned
- Unassigned

Net Assets - Net assets represent the difference between assets and liabilities in reporting which utilizes the economic resources measurement focus. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used (i.e., the amount that the Board has spent) for the acquisition, construction or improvement of those assets. Net assets are reported as restricted using the same definition as used for restricted fund balance as described in the section above. All other net assets are reported as unrestricted.

The Board applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

CHEROKEE COUNTY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The School District adopts an annual budget for its general fund, all special revenue funds, and the debt service fund. The budget is prepared in accordance with provisions of the Quality Basic Education Act, OCGA Section 20-2-167. After the Board of Education has tentatively adopted the budget, the budget is advertised at least one time in a local newspaper of general circulation. At the next regular meeting of the Board after advertisement, the budget is revised as necessary and adopted as the final budget.

The School District employs encumbrance accounting. However, all appropriations lapse at year end and encumbrances are rebudgeted in the subsequent year.

The following functions had excesses of actual expenditures over appropriations in the amount shown for the fiscal year ended June 30, 2011.

General Fund:		
Support Services:		
Pupil services	\$	927,986
General administration		179,766
School administration		344,505
Maintenance and operation of plant		2,742,926
Student transportation services		50,392
Other support services		2,000,303
Food services operation		256,662
Debt service		5,548,809
		<u>\$ 12,051,349</u>

These over expenditures were funded by greater than anticipated revenues and other departments not using the full budget.

CHEROKEE COUNTY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 3 - DEPOSITS AND INVESTMENTS

Composition

Cash consists of deposits (including certificates of deposit, savings accounts and interest bearing checking accounts) in authorized financial institutions. Georgia Law authorizes the School District to deposit its funds in one or more solvent banks, insured federal savings and loan associations, or insured state chartered building and loan associations. The placement of proceeds from bond issues in certificates of deposits is limited to financial institutions located within this state.

Credit risk. State statutes authorize the Government to invest in obligations of the State of Georgia or other states; obligations issued by the U.S. government; local government investment pools; obligations fully insured or guaranteed by the U.S. government or by a government agency of the United States; obligations of any corporation of the U.S. government; prime banker's acceptances; repurchase agreements; and obligations of other political subdivisions of the State of Georgia.

The local government investment pool, "Georgia Fund 1," created by OCGA 36-83-8, is a stable net asset value investment pool, which follows Standard and Poor's criteria for AAAM rated money market funds and is regulated by the Georgia Office of the State Treasurer. However, Georgia Fund 1 operates in a manner consistent with Rule 2a-7 of the Investment Company Act of 1940 and is considered to be a 2a-7 like pool. The pool is not registered with the SEC as an investment company. The pool's primary objectives are safety of capital, investment income, liquidity and diversification while maintaining principal (\$1 per share value). Net asset value is calculated weekly to ensure stability. The pool distributes earnings (net of management fees) on a monthly basis and determines participants' shares sold and redeemed based on \$1 per share. As of June 30, 2011, the School District considers amounts held in Georgia Fund 1 as cash equivalents for financial statement presentation.

At June 30, 2011, the District had the following investments:

<u>Investment</u>	<u>Maturity</u>			<u>Credit Rating</u>	<u>Fair Value</u>
	<u>Less than 1 year</u>	<u>1-5 years</u>	<u>Greater than 5 years</u>		
Georgia Fund 1	\$ 106,166,293	\$ -	\$ -	AAAM	\$ 106,166,293
Federal Home					
Loan Treasuries	86,059	293,191	-	Aaa	379,250
Certificate of deposit	22,809	89,883	-	*	112,692
Money market accounts	17,550,996	-	3,749,167	*	21,300,163
	<u>\$ 123,826,157</u>	<u>\$ 383,074</u>	<u>\$ 3,749,167</u>		<u>\$ 127,958,398</u>

* These are money market accounts and certificates of deposit which are not rated.

CHEROKEE COUNTY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 3 - DEPOSITS AND INVESTMENTS - CONTINUED

Custodial credit risk. Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the School District will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. State statutes require all deposits and investments (other than federal or state government instruments) to be collateralized by depository insurance, obligations of the U.S. government, or bonds of public authorities, counties, or municipalities. As of June 30, 2011, the School District's cash accounts and investments were not properly collateralized and had approximately \$1,699,000 uninsured and unsecured.

Interest rate risk. The Government 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.

NOTE 4 - DUE FROM OTHER GOVERNMENTS

Due from other governments consists of grant reimbursements due from federal, state or other grantors for expenditures made but not yet reimbursed. The Georgia Department of Education is the main government agency that grants are due from as of June 30, 2011.

NOTE 5 - TAXES RECEIVABLE

Taxes receivable includes property taxes and sales taxes due to the School District. Property taxes were levied on August 21, 2010, based on property values assessed as of January 1, 2010, and were payable on or before November 15, 2010. An interest penalty of 10% per annum is charged on property taxes paid after that date. Sales tax receivable is included in the Debt Service Fund relative to Special Purpose Local Option Sales Tax revenue.

CHEROKEE COUNTY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 6 – CAPITAL ASSETS

	<u>Beginning</u> <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending</u> <u>Balance</u>
Governmental Activities:					
Capital assets, not being depreciated:					
Land	\$ 30,299,249	\$ 271,005	\$ -	\$ -	\$ 30,570,254
Construction in progress	82,004,286	8,326,671	-	(56,259,243)	34,071,714
Total capital assets, not being depreciated	<u>112,303,535</u>	<u>8,597,676</u>	<u>-</u>	<u>(56,259,243)</u>	<u>64,641,968</u>
Capital assets, being depreciated:					
Buildings and improvements	488,280,924	24,033,951	(368,042)	56,259,243	568,206,076
Machinery and equipment	44,980,721	9,433,906	(4,424,989)	-	49,989,638
Land improvements	14,018,758	40,454	-	-	14,059,212
Total capital assets, being depreciated	<u>547,280,403</u>	<u>33,508,311</u>	<u>(4,793,031)</u>	<u>56,259,243</u>	<u>632,254,926</u>
Less accumulated depreciation for:					
Buildings and improvements	96,869,530	12,440,720	(316,516)	-	108,993,734
Machinery and equipment	28,609,734	3,563,444	(4,401,100)	-	27,772,078
Land improvements	10,544,741	319,686	-	-	10,864,427
Total accumulated depreciation	<u>136,024,005</u>	<u>16,323,850</u>	<u>(4,717,616)</u>	<u>-</u>	<u>147,630,239</u>
Total capital assets, being depreciated, net	<u>411,256,398</u>	<u>17,184,461</u>	<u>(75,415)</u>	<u>56,259,243</u>	<u>484,624,687</u>
Governmental activities capital assets, net	<u>\$ 523,559,933</u>	<u>\$ 25,782,137</u>	<u>\$ (75,415)</u>	<u>\$ -</u>	<u>\$ 549,266,655</u>

It should be noted there is a restatement to opening balances of the construction in progress line for \$5,334,527 to include construction costs which were not properly capitalized in prior years.

Depreciation was charged to the functions/programs of the primary government as follows:

Governmental activities:	
Instruction	\$ 12,568,213
General Administration	692,475
School Administration	42,997
Support Services - Business	44,148
Maintenance & operation of Plant Services	134,581
Student Transportation Services	2,825,710
School Nutrition Program	15,726
Total depreciation expense - governmental activities	<u>\$ 16,323,850</u>

CHEROKEE COUNTY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 7 – SHORT-TERM BORROWINGS

During the year, the School District borrowed \$15,000,000 in the form a tax anticipation note for the purpose of funding capital acquisitions. The interest rate on the tax anticipation note was 0.96%. As of June 30, 2011, the note was paid in full.

Total interest incurred and expensed on short-term borrowings for the period ended June 30, 2011, was \$17,917.

The following is a summary of the tax anticipation note payable for the period ended June 30, 2011:

	Beginning Balance	Additions	Reductions	Ending Balance
Tax anticipation note	\$ -	\$ 15,000,000	\$ (15,000,000)	\$ -

NOTE 8 - GENERAL LONG TERM DEBT AND CAPITAL LEASE

The following is a summary of long-term debt of the School District for the year ended June 30, 2011:

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011	Due within One Year
General obligation bonds	\$ 350,277,247	\$ 43,561,244	\$ 19,380,311	\$ 375,503,204	\$ 17,505,000
Compensated absences	1,801,240	1,058,720	829,608	2,030,352	1,116,694
Claims payable	-	1,940,578	1,083,358	857,220	478,556
Capitalized lease obligations	1,095,099	-	536,853	558,246	558,246
Total general long-term debt	\$ 353,173,586	\$ 46,560,542	\$ 21,830,130	\$ 378,949,022	\$ 19,658,496

Compensated absences and claims payable are liquidated by each department of the General Fund.

General Obligation Bonds

During fiscal year 2011, the School District issued \$43,525,000 of general obligation refunding bonds, Series 2010A & B, Series A was issued for \$3,470,000 for the purpose of advance refunding a portion the balance of the Series 2001 general obligation bonds and a portion of the Series 2003 general obligation bonds. Series B was issued for \$40,055,000 for the pupose of acquiring, constructing, and equipping a new middle school. The bonds were issued on November 10, 2010 with a premium of \$285,248 and interest rates ranging from 2% to 4% on Series A and 5.626% on Series B. The reacquisition price exceeded the net carrying amount of the old debt by \$249,004. This amount is being netted against the new debt and amortized over the remaining life of the refunding bonds. The refunding was undertaken to reduce total debt service payments and resulted in an economic gain and a present value cash flow of \$108,720. The proceeds from the refunding bonds were placed into trust, along with certain amounts held in sinking funds, to pay the principal and interest on the refunded bonds as they become due. The amount of outstanding bonds considered defeased at June 30, 2011 is \$46,515,000. The District has determined the refunding will reduce debt service payments by approximately \$108,720 on a net present value basis.

CHEROKEE COUNTY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 8 - GENERAL LONG TERM DEBT AND CAPITAL LEASE - CONTINUED

At June 30, 2011, the School District had the following series of General Obligation Bonds outstanding:

	<u>Balance</u> <u>July 1, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2011</u>	<u>Due within</u> <u>One Year</u>
1999 Series general obligation bonds maturing on February 1, 2014, with interest rates ranging from 3.85% to 5.00%	\$ 15,140,000	\$ -	\$ 3,520,000	\$ 11,620,000	\$ 3,690,000
2001 Series general obligation bonds maturing on August 1, 2012, with interest rates ranging from 3.00% to 5.25%	13,890,000	-	5,715,000	8,175,000	4,000,000
2003 Series general obligation bonds maturing on August 1, 2014, with interest rates ranging from 2.00% to 5.00%	21,810,000	-	4,790,000	17,020,000	3,565,000
2006 Series general obligation bonds maturing on August 1, 2017, with interest rates ranging from 3.50% to 4.75%	25,870,000	-	1,670,000	24,200,000	2,205,000
2007A Series general obligation bonds maturing on August 1, 2028, with interest rates ranging from 3.50% to 5.00%	122,500,000	-	2,000,000	120,500,000	4,000,000
2007B Series general obligation bonds maturing on August 1, 2017, with interest rates ranging from 4.00% to 5.00%	41,915,000	-	-	41,915,000	-
2009A Series general obligation bonds maturing on August 1, 2023, with interest rates ranging from 4.00% to 5.00%	52,880,000	-	-	52,880,000	-
2009B Series general obligation bonds maturing on August 1, 2028, with interest rate of 5.87%	48,375,000	-	-	48,375,000	-
2010A Series general obligation bonds maturing on August 1, 2015, with interest rates ranging from 2.00% to 4.00%	-	3,470,000	-	3,470,000	45,000
2010B Series general obligation bonds maturing on August 1, 2028, with interest rate of 5.63%	-	40,055,000	-	40,055,000	-
General obligation bonds	342,380,000	43,525,000	17,695,000	368,210,000	17,505,000
Plus bond premium	9,777,864	285,248	1,162,799	8,900,313	-
Less deferred charges on refunding	(1,880,617)	(249,004)	522,512	(1,607,109)	-
Subtotal bonds payable	<u>\$ 350,277,247</u>	<u>\$ 43,561,244</u>	<u>\$ 19,380,311</u>	<u>\$ 375,503,204</u>	<u>\$ 17,505,000</u>

CHEROKEE COUNTY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 8 - GENERAL LONG TERM DEBT AND CAPITAL LEASE – CONTINUED

At June 30, 2011, principal and interest payments due by fiscal year for General Obligation Bonds are as follows:

Year ending June 30,	Principal	Interest	Total
2012	\$ 17,505,000	\$ 18,013,513	\$ 35,518,513
2013	19,770,000	17,695,270	37,465,270
2014	16,150,000	17,350,126	33,500,126
2015	16,230,000	15,955,507	32,185,507
2016	17,635,000	14,696,633	32,331,633
2017 - 2021	65,110,000	62,715,272	127,825,272
2022 - 2026	95,150,000	45,145,926	140,295,926
2027 - 2029	120,660,000	10,765,824	131,425,824
Total	<u>\$ 368,210,000</u>	<u>\$ 202,338,072</u>	<u>\$ 570,548,072</u>

Capital Lease. During the prior years, the School District entered into a capital lease agreement for financing the acquisition of school buses. The lease agreement carries an interest rates of 3.95%. The lease agreement qualifies as capital leases for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the date of inception.

The following is a schedule of the future minimum lease payments under the capital lease, and the present value of the net minimum lease payments at June 30, 2011:

Fiscal Year Ending June 30,	
2012	\$ 580,492
Less amount representing interest	<u>(22,246)</u>
Present value of future minimum lease payments	<u>\$ 558,246</u>

CHEROKEE COUNTY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 9 - INTERFUND TRANSACTIONS

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. Interfund transactions as of the year ended June 30, 2011 are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amounts</u>
General Fund	Debt Service Fund	\$ 7,457,945
General Fund	Nonmajor governmental funds	3,539,210
General Fund	Capital Projects Fund	2,875
		<u>11,000,030</u>
Capital Projects Fund	General Fund	126,091
Capital Projects Fund	Debt Service Fund	25,000
		<u>151,091</u>
Nonmajor governmental funds	General Fund	202,470
	Total	<u>\$ 11,353,591</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that the statute or budget requires to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Interfund transfers for the year ended June 30, 2011 are as follows:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amounts</u>
Nonmajor governmental funds	General Fund	<u>\$ 298,570</u>

CHEROKEE COUNTY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 10 - OPERATING LEASES

The Board is committed under various leases for equipment. These leases are considered for accounting purposes to be operating leases. Lease expenditures for the year totaled approximately \$331,469. Future minimum lease payments on these leases are as follows:

Year ending June 30,	Amount
2012	\$ 325,055
2013	325,055
2014	33,024
2015	7,805
Total	\$ 690,939

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 disaster. The School District is self-insured for workers' compensation and unemployment claims. The School District purchases commercial insurance for all other risks of loss. Settled claims have not exceeded purchased commercial insurance coverage in any of the past three years. There was no significant reduction in insurance coverage since last fiscal year.

Workers' Compensation Claims

The School District is self-insured for workers' compensation claims. The School District accounts for workers' compensation claims in the General Fund. Workers' compensation claims expenditures and liability are reported when it is probable that a loss has occurred, and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported and related claims administration expenses. Changes in the workers' compensation claims liability during the last two fiscal years are as follows:

Fiscal Year	Beginning of Year Liability	Current Year Claims Accrual	Claims Paid	End of Year Liability	Due Within One Year
2011	\$ -	\$ 1,940,578	\$ (1,083,358)	\$ 857,220	\$ 478,556
2010	-	1,016,160	(1,016,160)	-	-

CHEROKEE COUNTY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 11 - RISK MANAGEMENT - CONTINUED

Unemployment Claims

The School District is self insured with regard to unemployment compensation claims. These claims are accounted for in the School District's General Fund. Unemployment compensation expenditures and liabilities are reported when it is probable that a loss has occurred, and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported and claims administration expenses. Changes in the unemployment compensation liability during the last two fiscal years are as follows:

<u>Fiscal Year</u>	<u>Beginning of Year Liability</u>	<u>Current Year Claims Accrual</u>	<u>Claims Paid</u>	<u>End of Year Liability</u>	<u>Due Within One Year</u>
2011	\$ 48,278	\$ 220,639	\$ (268,917)	\$ -	\$ -
2010	-	687,362	(639,084)	48,278	-

NOTE 12 - RETIREMENT PLANS

Teachers Retirement System of Georgia (TRS)

Plan Description

The TRS is a cost-sharing multiple-employer defined benefit plan created in 1943 by an act of the Georgia General Assembly to provide retirement benefits for qualifying employees in educational service. A Board of Trustees comprised of active and retired members and ex-officio State employees is ultimately responsible for the administration of TRS. The Teachers Retirement System of Georgia issues a separate stand alone financial audit report and a copy can be obtained from the Georgia Department of Audits and Accounts.

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

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

CHEROKEE COUNTY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 12 - RETIREMENT PLANS - CONTINUED

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

Funding Policy

TRS is funded by member and employer contributions as adopted and amended by the Board of Trustees. Members become fully vested after 10 years of service. If a member terminates with less than 10 years of service, no vesting of employer contributions occurs, but the member's contributions may be refunded with interest. Member contributions are limited by State law to not less than 5% or more than 6% of a member's earnable compensation. Member contributions as adopted by the Board of Trustees for the fiscal year ended June 30, 2011, were 5.53% of annual salary. The member contribution rate will increase to 6.00% effective July 1, 2011. Employer contributions required for fiscal year 2011 were 10.28% of annual salary. The employer contribution rate will increase to 11.41% effective July 1, 2011.

Total actual and required contributions for the last three years were as follows:

	2011	2010	2009
Employees	\$ 10,861,235	\$ 10,489,918	\$ 10,130,473
School System	20,289,601	19,230,374	18,730,743

Public School Employees Retirement System of Georgia (PSERS)

Plan Description. Full time employees not eligible to participate in the Teachers Retirement System may participate in the Public School Employees Retirement System (PSERS). The PSERS is a cost sharing, multiple-employer, defined benefit pension plan established by the Georgia General Assembly in 1969. Upon retirement, the participating member will receive a monthly benefit of \$12.00 multiplied by the number of years of creditable service. Death, disability, and spousal benefits are also available through PSERS. Additionally, PSERS makes periodic cost-of-living adjustments to the monthly benefits. The School Board makes no contributions to PSERS.

CHEROKEE COUNTY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 12 - RETIREMENT PLANS - CONTINUED

Funding Policy. The State of Georgia, although not the employer of PSERS members, is required by statute to make employer contributions actuarially determined, approved and certified by the Board of the Employee's Retirement System of Georgia. The Board of Employee's Retirement System of Georgia issues a publicly available financial report that includes financial statements and required supplementary information for PSERS. That report may be obtained by writing Public School Employees Retirement System, Two Northside 75, Suite 300, Atlanta, Georgia 30318-7778, or by calling 1-800-805-4609.

Members become vested after ten years of creditable service. Upon termination of employment, member contributions are refundable with interest. However, if an otherwise vested member terminates and withdraws their member contributions, no vesting of employer contributions occurs. The employer contributions to the unfunded accrued liability were projected to liquidate the accrued liability within twelve years based upon the actuarial valuation at July 1, 1987. A member may retire and elect to receive normal monthly retirement benefits after completion of ten years of creditable service and attainment of age 65.

If a member chooses, he may begin receiving reduced benefits after age 60 and upon completion of ten years of service. Members retiring before age 65 will receive a benefit reduced by 1/2 of 1 % for each month under age 65.

NOTE 13 – CONTINGENCIES

Grant Programs

The School District participates in numerous State and Federal grant programs, which are governed by various rules and regulations of the grantor agencies.

Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the School District has not complied with the rules and regulations governing the grants, refunds of any amounts received may be required and the collectibility of any related receivable at year-end may be impaired. In the opinion of the School District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Construction Contracts

The School District has entered into various construction contracts. At year end, the uncompleted and unpaid portion of these contracts totaled approximately \$59,629,988.

CHEROKEE COUNTY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 13 – CONTINGENCIES - CONTINUED

Litigation

The School District is a defendant in certain legal actions in the nature of claims for alleged damages to persons and property and other similar types of actions rising in the course of School District operations. While the ultimate results of these legal actions cannot be determined, the School District does not expect that these matters will have a material adverse effect on the financial condition of the School District.

NOTE 14 - ON-BEHALF PAYMENTS FOR FRINGE BENEFITS

The School District has recognized revenue and expenditures in the amount of \$789,490 for health insurance and retirement contributions paid on the School District's behalf as follows:

Paid by the Georgia Department of Education to the State System of Personnel Administration for Health Insurance of Non-Certified Personnel in the amount of \$502,466.

Paid by the Office of Treasury and Fiscal Services to the Public School Employees Retirement System for Public School Employees Retirement (PSERS) in the amount of \$174,806.

Paid by the Georgia Department of Education to the Teachers Retirement System for Teachers Retirement (TRS) in the amount of \$112,218.

NOTE 15 – POSTEMPLOYMENT BENEFITS

Georgia School Personnel Post-employment Health Benefit Fund

Plan Description. The School District contributes to the Georgia School Personnel Post-employment Health Benefit Fund ("Benefit Fund"), a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the Georgia Department of Community Health. The Benefit Fund provides health insurance benefits to eligible retirees and their qualified beneficiaries. Pursuant to Title 45, Chapter 18 of the Official Code of Georgia Annotated, the authority to establish and amend the benefit provisions of the plan is assigned to the Board of Community Health. The Department of Community Health issues a publicly available financial report that includes financial statements and required supplementary information for the Benefit Fund. That report may be obtained from the Department of Community Health at 2 Peachtree Street, Atlanta, Georgia 30303.

CHEROKEE COUNTY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 15 – POSTEMPLOYMENT BENEFITS - CONTINUED

Funding Policy. The contribution requirements of the plan members and participating employers are established and may be amended by the Board of Community Health. Contributions of plan members or beneficiaries receiving benefits vary based on plan election, dependent coverage, and Medicare eligibility and election. On Average, plan members pay approximately twenty-five percent (25%) of the cost of health insurance coverage. Participating employers are statutorily required to contribute in accordance with the employer contribution rate established to fund both the active and retired employee health insurance plans based on projected pay-as-you-go financing requirements. The employer contribution rates for the combined active and retiree plans for the fiscal year ended June 30, 2011, were as follows:

Certified employees

July 2010 – April 2011	21.955% of covered payroll for August – May Coverage
May 2011 – June 2011	1.429% of covered payroll for June – July Coverage

Non-Certificated Employees \$246.20 per month at June 30, 2011

No additional contribution was required by the Board of Community Health for fiscal year 2011 nor contributed to the Benefit Fund to prefund benefits. Such additional contribution amounts are determined annually by the Board of Community Health in accordance with the State plan for other post-employment benefits and are subject to appropriation. The School District's contribution to the health insurance plans for the fiscal year ended June 30, 2011, 2010 and 2009 were \$28,610,970, \$26,705,216 and \$30,377,736, which equaled the required contribution.

CHEROKEE COUNTY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 16 – PRIOR PERIOD RESTATEMENTS

The District has determined that a restatement of beginning net assets of the Governmental Activities is necessary to (1) record cash activity which was not previously posted to the general ledger; (2) record full amount of understated property tax receivables as of June 30, 2010; (3) to remove interfund liabilities which did not exist in prior years; (4) to remove receivables which were incorrectly accrued as of June 30, 2010; (5) to properly show the school activity funds which were held in agency capacity as of June 30, 2010; (6) to report capital assets not properly included in 2010 financial statements; and (7) to correctly report the unamortized deferred costs and premiums associated with the School District’s long-term debt. These adjustments resulted in a change to the beginning net assets of the Governmental Activities as follows:

Net assets, as stated at June 30, 2010	\$ 307,341,988
Adjustment to properly record previously unrecorded cash activity	(686,480)
Adjustment to correct understated property tax revenues	27,100
Adjustment to write-off unidentified interfund balances by management	6,405,214
Adjustment to write off receivables accrued in error in prior year	(570,353)
Adjustment to correct reporting of funds held in agency capacity	(103,181)
Adjustment to remove revenues which were not eligible for recognition	(1,773,258)
Adjustment to include austerity cuts in QBE receivable	(4,590,438)
Adjustment for capital assets not properly reported	5,334,527
Adjustment to correct reporting of unamortized deferred costs	3,663,982
Adjustment to correct reporting of unamortized premiums	(4,946,660)
Net assets, restated as of June 30, 2010	<u>\$ 310,102,441</u>

The District has determined that a restatement of beginning fund balance of the General Fund is necessary to (1) defer property tax revenues which were not available for recognition within the School District’s recognition period; (2) record cash activity which was not previously posted to the general ledger; and (3) to remove interfund liabilities which did not exist in prior years. These adjustments resulted in a change to the beginning fund balance of the General Fund as follows:

Fund balance, as stated at June 30, 2010	\$ 34,108,990
Adjustment to defer tax revenues which were not available for recognition	(288,845)
Adjustment to properly record previously unrecorded cash activity	(698,457)
Adjustment to include austerity cuts in QBE receivable	(4,590,438)
Adjustment to write-off unidentified interfund balances by management	(1,395,135)
Fund balance, restated as of June 30, 2010	<u>\$ 27,136,115</u>

CHEROKEE COUNTY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 16 – PRIOR PERIOD RESTATEMENTS – CONTINUED

The District has determined that a restatement of beginning fund balance of the Debt Service Fund is necessary to (1) record understated property tax receivables and revenues; (2) defer property tax revenues which were not available for recognition within the School District’s recognition period; (3) record cash activity which was not previously posted to the general ledger; and (4) to remove interfund liabilities which did not exist in prior years. These adjustments resulted in a change to the beginning fund balance of the Debt Service Fund as follows:

Fund balance, as stated at June 30, 2010	\$ 25,924,023
Adjustment to correct understated property tax revenues	27,100
Adjustment to properly record previously unrecorded cash activity	11,977
Adjustment to defer tax revenues which were not available for recognition	(6,309)
Adjustment to write-off unidentified interfund balances by management	2,555,825
Fund balance, restated as of June 30, 2010	\$ 28,512,616

The District has determined that a restatement of beginning fund balance of the Capital Projects Fund is necessary to (1) to remove receivables which were incorrectly accrued as of June 30, 2010; (2) defer intergovernmental revenues which were not available for recognition under the School District’s recognition period; and (3) to remove interfund liabilities which did not exist in prior years. These adjustments resulted in a change to the beginning fund balance of the Capital Projects Fund as follows:

Fund balance, as stated at June 30, 2010	\$ 75,682,300
Adjustment to write off receivables accrued in error in prior year	(570,353)
Adjustment to defer revenues which were not available for recognition	(2,722,518)
Adjustment to remove revenues which were not eligible for recognition	(1,773,258)
Adjustment to write-off unidentified interfund balances by management	5,244,524
Fund balance, restated as of June 30, 2010	\$ 75,860,695

The District has determined that a restatement of beginning fund balance of the Nonmajor Governmental Funds is necessary to (1) properly show the school activity funds which were held in agency capacity as of June 30, 2010; and (2) defer intergovernmental revenues which were not available for recognition under the School District’s recognition period. These adjustments resulted in a change to the beginning fund balance of the Nonmajor Governmental Fund as follows:

Fund balance, as stated at June 30, 2010	\$ 7,116,589
Adjustment to correct reporting of funds held in agency capacity	(103,181)
Adjustment to defer revenues which were not available for recognition	(1,501,517)
Fund balance, restated as of June 30, 2010	\$ 5,511,891

REQUIRED SUPPLEMENTARY INFORMATION

CHEROKEE COUNTY BOARD OF EDUCATION

GENERAL FUND

**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	Budget		Actual	Variance With Final Budget
	Original	Final		
REVENUES				
State sources	\$ 152,924,272	\$ 152,942,242	\$ 155,411,094	\$ 2,468,852
Federal sources	3,361,840	3,361,840	8,394,633	5,032,793
Local sources and other funds	138,546,177	138,601,112	134,566,784	(4,034,328)
Total revenues	<u>294,832,289</u>	<u>294,905,194</u>	<u>298,372,511</u>	<u>3,467,317</u>
EXPENDITURES				
Current:				
Instruction	209,741,154	209,754,292	200,993,508	8,760,784
Support services:				
Pupil services	7,675,029	7,675,029	8,603,015	(927,986)
Improvement of instructional services	6,908,326	6,908,326	5,149,966	1,758,360
Educational media services	4,945,929	4,950,111	4,687,517	262,594
General administration	2,003,496	2,003,496	2,183,262	(179,766)
School administration	20,066,078	20,226,823	20,571,328	(344,505)
Business administration	1,944,596	1,944,596	1,899,799	44,797
Maintenance and operation of plant	21,296,634	21,304,634	24,047,560	(2,742,926)
Student transportation services	14,584,400	14,584,400	14,634,792	(50,392)
Central support services	3,548,816	3,548,816	3,251,002	297,814
Other support services	1,297,374	1,297,374	3,297,677	(2,000,303)
Food services operation	-	-	256,662	(256,662)
Capital outlay	325,100	325,100	253,541	71,559
Debt service:				
Principal retirement	10,050,000	10,050,000	15,536,853	(5,486,853)
Interest and fiscal charges	-	-	61,956	(61,956)
Total expenditures	<u>304,386,932</u>	<u>304,572,997</u>	<u>305,428,438</u>	<u>(855,441)</u>
Excess (deficiency) of revenues over expenditures	<u>(9,554,643)</u>	<u>(9,667,803)</u>	<u>(7,055,927)</u>	<u>2,611,876</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	350,008	350,008	49,400	(300,608)
Proceeds from tax anticipation note	10,000,000	10,000,000	15,000,000	5,000,000
Transfers out	(519,189)	(519,189)	(298,570)	220,619
Total other financing sources (uses)	<u>9,830,819</u>	<u>9,830,819</u>	<u>14,750,830</u>	<u>4,920,011</u>
Net change in fund balances	276,176	163,016	7,694,903	7,531,887
FUND BALANCES, beginning of year, restated	<u>27,136,115</u>	<u>27,136,115</u>	<u>27,136,115</u>	<u>-</u>
FUND BALANCES, end of year	<u>\$ 27,412,291</u>	<u>\$ 27,299,131</u>	<u>\$ 34,831,018</u>	<u>\$ 7,531,887</u>

The accompanying notes are an integral part of these financial statements.

CHEROKEE COUNTY BOARD OF EDUCATION

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2011

In the General Fund, accounting principles used on a budgetary basis differ from those used in preparing financial statements in conformity with generally accepted accounting principles (GAAP). The following table includes the items that were not considered in the budget period and are needed to reconcile the General Fund budget to the amounts reports in accordance with GAAP.

Thus, there is an accounting basis difference between the budget and actual Statement of Revenues, Expenditures and Changes in Fund Balances in the General Fund that is reconciled as follows:

Actual Revenues GAAP Basis	\$ 301,493,083	
Community Service Activity	(2,331,082)	
On-Behalf Benefit Contribution	<u>(789,490)</u>	
Actual Revenues, Budgetary Basis		<u>\$ 298,372,511</u>
Expenditures GAAP Basis	\$ 293,002,541	
Repayment of Tax Anticipation Note	15,000,000	
Community Service Activity	(1,784,613)	
On-Behalf Benefits Expenditure	<u>(789,490)</u>	
Expenditures, Budgetary Basis		<u>305,428,438</u>
Other Financing Sources (Uses), GAAP Basis, Net	\$ (249,170)	
Tax Anticipation Note Proceeds	<u>15,000,000</u>	
Other Financing Sources (Uses), Budgetary Basis, Net		<u>14,750,830</u>
Net Change in Fund Balance, Budgetary Basis		<u>\$ 7,694,903</u>
Net Change in Fund Balance, GAAP Basis		<u>\$ 8,241,372</u>

CHEROKEE COUNTY BOARD OF EDUCATION

NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

TITLE I FEDERAL PROGRAM FUND	This fund is used to account for the expenditure and reimbursement of restricted federal grant funding for operation of the Title I program.
SPECIAL EDUCATION FUND	This fund is used to account for the expenditure and reimbursement of restricted federal grant funding for operation of the special education program.
VOCATIONAL EDUCATION FUND	This fund is used to account for the expenditure and reimbursement of restricted federal grant funding for operation of the vocational education program.
TITLE II FEDERAL PROGRAM FUND	This fund is used to account for the expenditure and reimbursement of restricted federal grant funding for operation of the Title II program.
RACE TO THE TOP PROGRAM FUND	This fund is used to account for the expenditure and reimbursement of restricted federal grant funding for operation of the race to the top program.
TITLE III FEDERAL PROGRAM FUND	This fund is used to account for the expenditure and reimbursement of restricted federal grant funding for operation of the Title III program.
TITLE IV FEDERAL PROGRAM FUND	This fund is used to account for the expenditure and reimbursement of restricted federal grant funding for operation of the Title IV program.
SCHOOL ACTIVITIES FUND	This fund is used to account for the collection of various charges for services and events held at each of the local schools. These revenues have been committed to use at each of the local schools, as authorized and determined by each school's principal.
PRE-K LOTTERY FUND	This fund is used to account for the expenditure and reimbursement of restricted state grant funding for operation of the pre-kindergarten program.
JUVENILE JUSTICE FUND	This fund is used to account for the expenditure and reimbursement of restricted local grant funding for support of the school district's troubled youth program.
SCHOOL FOOD SERVICES FUND	This fund is used to account for the charges to students as well as federal grant revenues used in providing school foods to the children of the District. The charges earned through this fund have been committed by the Board to provide school meals to students.
HEADSTART FUND	This fund is used to account for the expenditure and reimbursement of restricted federal grant funding for operation of the District's headstart program.

CHEROKEE COUNTY BOARD OF EDUCATION

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2011**

	Special Revenue Funds				
	Title I Federal Program Fund	Special Education Fund	Vocational Education Fund	Title II Federal Program Fund	Race to the TOP Program Fund
ASSETS					
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts receivable	1,268,434	2,465,129	227,429	332,415	132,652
Due from other funds	-	-	-	-	-
Investments	-	-	-	-	-
Inventory	-	-	-	-	-
Total assets	<u>\$ 1,268,434</u>	<u>\$ 2,465,129</u>	<u>\$ 227,429</u>	<u>\$ 332,415</u>	<u>\$ 132,652</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 10,749	\$ 36,211	\$ 11,560	\$ 12,200	\$ 80,030
Salaries and benefits payable	348,106	486,991	-	-	-
Due to other funds	909,511	1,956,797	215,869	320,215	52,622
Deferred revenue	65,346	-	-	-	-
Total liabilities	<u>1,333,712</u>	<u>2,479,999</u>	<u>227,429</u>	<u>332,415</u>	<u>132,652</u>
FUND BALANCES					
Nonspendable:					
Inventory	-	-	-	-	-
Committed:					
School food services	-	-	-	-	-
School activities	-	-	-	-	-
Unassigned					
Unassigned	(65,278)	(14,870)	-	-	-
Total fund balances	<u>(65,278)</u>	<u>(14,870)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 1,268,434</u>	<u>\$ 2,465,129</u>	<u>\$ 227,429</u>	<u>\$ 332,415</u>	<u>\$ 132,652</u>

Continued

Special Revenue Funds							
Title III Federal Program Fund	Title IV Federal Program Fund	School Activities Fund	Pre-K Lottery Fund	Juvenile Justice Fund	School Food Services Fund	Headstart Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 3,471,597	\$ 44,799	\$ -	\$ 3,679,072	\$ -	\$ 7,195,468
26,774	1,676	-	4,063	60,355	68,438	1,000	4,588,365
-	-	-	-	-	202,470	-	202,470
-	-	112,692	-	-	-	-	112,692
-	-	-	-	-	344,312	-	344,312
<u>\$ 26,774</u>	<u>\$ 1,676</u>	<u>\$ 3,584,289</u>	<u>\$ 48,862</u>	<u>\$ 60,355</u>	<u>\$ 4,294,292</u>	<u>\$ 1,000</u>	<u>\$ 12,443,307</u>
\$ 5,000	\$ 30,120	\$ -	\$ 6,135	\$ -	\$ 13,991	\$ -	\$ 205,996
6,557	-	-	42,727	-	496,635	-	1,381,016
15,217	7,624	-	-	60,355	-	1,000	3,539,210
-	-	-	-	-	-	-	65,346
<u>26,774</u>	<u>37,744</u>	<u>-</u>	<u>48,862</u>	<u>60,355</u>	<u>510,626</u>	<u>1,000</u>	<u>5,191,568</u>
-	-	-	-	-	344,312	-	344,312
-	-	-	-	-	3,439,354	-	3,439,354
-	-	3,584,289	-	-	-	-	3,584,289
-	(36,068)	-	-	-	-	-	(116,216)
-	(36,068)	3,584,289	-	-	3,783,666	-	7,251,739
<u>\$ 26,774</u>	<u>\$ 1,676</u>	<u>\$ 3,584,289</u>	<u>\$ 48,862</u>	<u>\$ 60,355</u>	<u>\$ 4,294,292</u>	<u>\$ 1,000</u>	<u>\$ 12,443,307</u>

CHEROKEE COUNTY BOARD OF EDUCATION

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	Special Revenue Funds				
	Title I Federal Program Fund	Special Education Fund	Vocational Education Fund	Title II Federal Program Fund	Race to the TOP Program Fund
REVENUES					
State funds	\$ -	\$ -	\$ -	\$ -	\$ -
Federal funds	5,037,173	10,883,666	227,449	669,324	132,652
Local and other funds	-	-	-	-	-
Total revenues	<u>5,037,173</u>	<u>10,883,666</u>	<u>227,449</u>	<u>669,324</u>	<u>132,652</u>
EXPENDITURES					
Instruction	3,800,847	4,501,769	198,339	25,212	-
Support services:					
Pupil services	717	3,967,702	-	-	-
Improvement of instructional services	957,767	367,309	32,090	657,717	132,652
General administration	20,584	140,323	77	9,016	-
School administration	4,671	200,200	-	-	-
Maintenance and operation of plant	-	61,848	-	-	-
Student transportation services	51,369	181,135	-	-	-
Other support services	315,335	-	-	-	-
Food services operation	-	-	-	-	-
Total expenditures	<u>5,151,290</u>	<u>9,420,286</u>	<u>230,506</u>	<u>691,945</u>	<u>132,652</u>
Excess (deficiency) of revenues over (under) expenditures	(114,117)	1,463,380	(3,057)	(22,621)	-
OTHER FINANCING SOURCES					
Transfers in	48,420	5,546	3,057	22,621	-
Total other financing sources	<u>48,420</u>	<u>5,546</u>	<u>3,057</u>	<u>22,621</u>	<u>-</u>
Net change in fund balance	(65,697)	1,468,926	-	-	-
FUND BALANCES (DEFICIT) , beginning of year, restated	<u>419</u>	<u>(1,483,796)</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES (DEFICIT), end of year	<u>\$ (65,278)</u>	<u>\$ (14,870)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Continued

Special Revenue Funds							
Title III Federal Program Fund	Title IV Federal Program Fund	School Activities Fund	Pre-K Lottery Fund	Juvenile Justice Fund	School Food Services Fund	Headstart Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ 589,217	\$ -	\$ 487,370	\$ -	\$ 1,076,587
76,278	2,494	-	44,662	-	7,455,507	442,511	24,971,716
-	-	10,572,865	-	64,797	6,644,566	-	17,282,228
<u>76,278</u>	<u>2,494</u>	<u>10,572,865</u>	<u>633,879</u>	<u>64,797</u>	<u>14,587,443</u>	<u>442,511</u>	<u>43,330,531</u>
61,002	17,091	-	681,327	77,471	-	445,259	9,808,317
1,214	18,977	-	-	-	-	-	3,988,610
88,085	963	10,727,754	537	535	-	-	12,965,409
10,736	1,531	-	-	-	-	-	182,267
-	-	-	-	-	-	-	204,871
-	-	-	-	-	-	-	61,848
2,026	-	-	980	49,544	-	-	285,054
-	-	-	-	-	-	-	315,335
-	-	-	-	-	14,059,867	17,675	14,077,542
<u>163,063</u>	<u>38,562</u>	<u>10,727,754</u>	<u>682,844</u>	<u>127,550</u>	<u>14,059,867</u>	<u>462,934</u>	<u>41,889,253</u>
(86,785)	(36,068)	(154,889)	(48,965)	(62,753)	527,576	(20,423)	1,441,278
86,785	-	-	48,965	62,753	-	20,423	298,570
<u>86,785</u>	<u>-</u>	<u>-</u>	<u>48,965</u>	<u>62,753</u>	<u>-</u>	<u>20,423</u>	<u>298,570</u>
-	(36,068)	(154,889)	-	-	527,576	-	1,739,848
-	-	3,739,178	-	-	3,256,090	-	5,511,891
<u>\$ -</u>	<u>\$ (36,068)</u>	<u>\$ 3,584,289</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,783,666</u>	<u>\$ -</u>	<u>\$ 7,251,739</u>

CHEROKEE COUNTY BOARD OF EDUCATION

**SCHEDULE OF EXPENDITURES OF
SPECIAL PURPOSE LOCAL OPTION SALES TAX PROCEEDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

2002 SPLOST

	<u>Original Estimated Cost</u>	<u>Current Estimated Cost</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total</u>
Acquisition, construction, renovation and equipping of schools	\$ 237,325,000	\$ 212,953,650	\$ 212,066,413	\$ 887,237	\$ 212,953,650
Debt Service	72,000,000	72,000,000	72,000,000	-	72,000,000
	<u>\$ 309,325,000</u>	<u>\$ 284,953,650</u>	<u>\$ 284,066,413</u>	<u>\$ 887,237</u>	<u>\$ 284,953,650</u>

2007 SPLOST

	<u>Original Estimated Cost</u>	<u>Current Estimated Cost</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total</u>
Acquisition, construction, renovation and equipping of schools	\$ 464,000,000	\$ 266,310,000	\$ 194,161,028	\$ 45,800,230	\$ 239,961,258
Debt Service	176,000,000	142,193,731	40,621,262	26,653,071	67,274,333
	<u>\$ 640,000,000</u>	<u>\$ 408,503,731</u>	<u>\$ 234,782,290</u>	<u>\$ 72,453,301</u>	<u>\$ 307,235,591</u>

Debt service payments on non-SPLOST funded bonds	4,317,984
Cost of issuance of refunding 2011 bonds	521,415
Total expenditures of Capital Projects Fund and Debt Service Fund	<u>78,179,937</u>

NOTE: Adjustments were made to the Original Estimated Cost to agree the columns to the approved referendums as voted on by the citizens of Cherokee County. Additionally, the Current Estimated Costs were adjusted to reflect the decreased collections experienced by the District, which have resulted in decreased anticipated cost of construction. There was also an adjustment of the prior year column to reflect SPLOST expenditures as compared to the approved referendum. The 2003 SPLOST expenditures were previously overstated by approximately \$23.8 million, while the 2007 SPLOST expenditures were understated by approximately \$38.1 million.

II. SINGLE AUDIT SECTION



**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***

**To the Superintendent and Members of
the Cherokee County Board of Education
Canton, Georgia**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Cherokee County Board of Education (the "District"), as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 27, 2012, which references that the District implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, effective July 1, 2010. 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

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the 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 District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs, as items 2011-1, 2011-2, 2011-3, and 2011-5, to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2011-4.

We noted certain matters that we reported to management of the Cherokee County Board of Education in a separate letter dated September 27, 2012.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and, accordingly, we express no opinion on them.

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

Mauldin & Jenkins, LLC

Atlanta, Georgia
September 27, 2012



**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**

**To the Superintendent and Members of
the Cherokee County Board of Education
Canton, Georgia**

Compliance

We have audited the Cherokee County Board of Education's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The Cherokee County Board of Education's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Cherokee County Board of Education's management. Our responsibility is to express an opinion on the Cherokee County Board of Education'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 the Cherokee County Board of Education's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Cherokee County Board of Education's compliance with those requirements.

In our opinion, the Cherokee County Board of Education complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2011-6.

Internal Control Over Compliance

Management of the Cherokee County Board of Education is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Cherokee County Board of Education's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Cherokee County Board of Education's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is 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 internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be 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. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs, as item 2011-6. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Cherokee County Board of Education's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Cherokee County Board of Education's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the members of the Cherokee County Board of Education, others within the entity, 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.

Mauldin & Jenkins, LLC

Atlanta, Georgia
September 27, 2012

CHEROKEE COUNTY BOARD OF EDUCATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE FISCAL YEAR ENDED JUNE 30, 2011

FUNDING AGENCY PROGRAM/GRANT	CFDA NUMBER	PASS- THROUGH ENTITY ID NUMBER	EXPENDITURES IN PERIOD
U.S. Department of Agriculture:			
Pass-Through From Georgia Department of Education			
Child Nutrition Cluster			
Food Services			
School Breakfast Program - Cash Assistance	10.553	N/A	\$ 1,216,272
National School Lunch Program:			
Cash Assistance	10.555	N/A	5,276,057
Non-Cash Assistance (Commodities)	10.555	N/A	963,178
Total Child Nutrition Cluster			7,455,507
Total U.S. Department of Agriculture			7,455,507
U.S. Department of Defense:			
R.O.T.C. Program	12.357	N/A	328,791
U.S. Department of Education:			
Pass-Through from Georgia Department of Education			
Special Education Cluster			
Part B-Special Education			
Flow Through	84.027	N/A	5,466,257
High Cost Fund Pool	84.027	N/A	77,916
Preschool	84.173	N/A	23,840
Flow Through - ARRA	84.391	N/A	3,747,675
Preschool - ARRA	84.392	N/A	104,877
Total Special Education Cluster			9,420,565
Education Jobs Fund	84.410	N/A	7,465,500
Title I Cluster			
Improving Academic Achievement	84.010	N/A	3,873,325
Distinguished District Awards	84.010	N/A	2,583
Improving Academic Achievement - ARRA	84.389	N/A	1,134,508
Total Title I Cluster			5,010,416
Title I - C			
Migrant Education	84.011	N/A	27,095
			(Continued)

CHEROKEE COUNTY BOARD OF EDUCATION

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

FUNDING AGENCY PROGRAM/GRANT	CFDA NUMBER	PASS- THROUGH ENTITY ID NUMBER	EXPENDITURES IN PERIOD
U.S. Department of Education (Continued):			
Pass-Through from Georgia Department of Education (Continued)			
Title II			
Advance Placement Grant	84.367	N/A	7,000
Improving Teacher Quality	84.367	N/A	<u>662,324</u>
Total Title II Cluster			<u>669,324</u>
Title III			
Limited English Proficient	84.365A	N/A	<u>76,278</u>
Title IV			
Safe and Drug Free Schools And Communities	84.186A	N/A	<u>2,494</u>
Race to the Top - ARRA	84.395	N/A	<u>132,652</u>
Vocational Education-Basic Grants to States			
Perkins-Career, Technical and Agricultural Educaton	84.048A	N/A	221,800
Vocational Grants-Perkins Plus	84.048A	N/A	<u>5,572</u>
Total Vocational Education-Basic Grants to States			<u>227,372</u>
Total U.S. Department of Eduction			<u>23,031,696</u>
Environmental Protection Agency			
Passed through Georgia Department of Natural Resources			
National Clean Diesel Grant - ARRA	66.040	N/A	<u>599,060</u>
U.S. Department of Health and Human Services:			
Headstart Program	93.600	N/A	<u>442,511</u>
Total Federal Financial Assistance			<u><u>\$ 31,857,565</u></u>

CHEROKEE COUNTY BOARD OF EDUCATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Notes to the Schedule of Expenditures of Federal Awards

N/A - Not Available

- (1) The amounts shown for the Food Distribution Program represent the Federally assigned value of nonmonetary assistance for donated commodities received and/or consumed by the system during the current fiscal year.

The Cherokee County Board of Education did not provide Federal Assistance to any Subrecipient.

BASIS OF PRESENTATION

The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Cherokee County Board of Education and is presented on the accrual basis of accounting.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of State and Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

CHEROKEE COUNTY BOARD OF EDUCATION

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**SECTION I
SUMMARY OF AUDITOR'S RESULTS**

Financial Statements

Type of auditor's report issued Unqualified

Internal control over financial reporting:
Material weaknesses identified? yes no

Significant deficiencies identified not considered
to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal Control over major programs:
Material weaknesses identified? yes no

Significant deficiencies identified not considered
to be material weaknesses? yes no

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

Any audit findings disclosed that are required to
be reported in accordance with OMB Circular
A-133, Section 510(a)? yes no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
66.040	National Clean Diesel Grant – ARRA
84.027, 84.173, 84.391, 84.392	Special Education Cluster
84.410	Education Jobs Fund
84.010, 84.389	Title I Cluster

Dollar threshold used to distinguish between
Type A and Type B programs: \$955,727

Auditee qualified as low-risk auditee? yes no

CHEROKEE COUNTY BOARD OF EDUCATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE FISCAL YEAR ENDED JUNE 30, 2011

SECTION II FINANCIAL STATEMENT FINDINGS AND RESPONSES

2011 - 1. Restatement of Opening Equity Balances

Criteria: Internal controls should be in place to ensure that financial statements properly present the financial position and results of the District in accordance with generally accepted accounting principles.

Condition: Internal controls were not sufficient to detect material misstatements in the District's opening equity balances.

Context/Cause: During our testing, audit adjustments were required to reconcile the opening equity of numerous funds of the District to the June 30, 2010 audited financial statements. These adjustments were due to adjusting entries that were incorrectly coded to the equity during the current year, as well as audit entries from the prior year which were never posted to the District's general ledger. Adjustments of \$30,590,000, \$9,325,000, \$5,312,000, and \$24,000 were required to correct opening equity in the General Fund, Capital Projects Fund, Debt Service Fund and the aggregate non-major governmental funds, respectively. It should be noted that of the \$30,590,000 of adjustments in the General Fund, \$24,909,000 related to the District's reversal of prior year receivables against fund balance rather than through the current year's revenue. During our audit for the year ended June 30, 2011, several misstatements were also identified that resulted in restatements of opening net assets/fund balances (equity) for the year ended June 30, 2011, which are as follows:

- Adjustments were made to the General Fund's opening fund balance in order to properly (1) defer tax revenues which were not available to be recognized under the modified accrual basis of accounting; (2) record cash activity which was being carried on bank reconciliations rather than reported in the general ledger; (3) adjust the prior year QBE accrual to consider austerity cuts from the state and (4) write-off interfund balances which were incorrectly reported in the prior year. Adjustments to the General Fund's opening equity netted to a decrease of approximately \$6,973,000.
- Adjustments were made to the Debt Service Fund's opening fund balance in order to properly (1) defer tax revenues which were not available to be recognized under the modified accrual basis of accounting; (2) record understated tax receivables and revenues; (3) record cash activity which was being carried on bank reconciliations rather than reported in the general ledger; and (4) write-off interfund balances which were incorrectly reported in the prior year. Adjustments to the Debt Service Fund netted to approximately \$2,589,000, to increase opening equity.

CHEROKEE COUNTY BOARD OF EDUCATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE FISCAL YEAR ENDED JUNE 30, 2011

SECTION II FINANCIAL STATEMENT FINDINGS AND RESPONSES

2011 - 1. Restatement of Opening Equity Balances - Continued

- Adjustments were made to the Capital Projects Fund's opening fund balance in order to properly (1) write-off receivables of approximately \$571,000 from the prior year which were reported in error as of June 30, 2010; (2) defer intergovernmental revenues of approximately \$2,723,000 which were not available to be recognized under the modified accrual basis of accounting; (3) remove grant revenues and receivables of approximately \$1,773,000 which did not meet the eligibility criteria for recognition under GASB Statement No. 33; and (4) write-off interfund balances of approximately \$5,245,000 which were incorrectly reported in the prior year. Net adjustments to the Capital Projects Fund netted to approximately \$178,000, to increase opening equity.
- Adjustments were made to the Nonmajor Governmental Funds' opening fund balance in order to properly (1) defer intergovernmental revenues which were not available to be recognized under the modified accrual basis of accounting; and (2) report the student activities funds being held in a custodial capacity as an agency fund rather than as part of the special revenue funds. Adjustments to the Nonmajor Governmental Funds netted to approximately \$1,605,000, to decrease opening equity.
- Adjustments were made to the School District's Government Wide opening net assets in order to properly (1) record cash activity of approximately \$686,000 which was being carried on bank reconciliations rather than reported in the general ledger; (2) record understated tax receivables and revenues of approximately \$27,000; (3) write-off interfund balances of approximately \$6,405,000 which were incorrectly reported in the prior year; (4) write-off receivables of approximately \$571,000 from the prior year which were reported in error as of June 30, 2010; (5) report the student activities funds of approximately \$103,000 being held in a custodial capacity as an agency fund rather than as part of the governmental activities; (6) remove grant revenues and receivables of approximately \$1,773,000 which did not meet the eligibility criteria for recognition under GASB Statement No. 33; (7) adjust the prior year QBE accrual by approximately \$4,590,000 to consider austerity cuts from the state; (8) capitalize costs of approximately \$5,334,000 incurred in prior year fund level statements, but not included in the capital asset detail; and (9) properly report the unamortized premium and deferred costs related to the long-term financing of the School District which required an adjustment of approximately \$1,283,000. Total net adjustments to the Governmental Activities netted to approximately \$2,760,000 to decrease opening net assets.

Effects: Audit adjustments totaling approximately \$37,194,000 was needed to correctly report the opening equity balances.

CHEROKEE COUNTY BOARD OF EDUCATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE FISCAL YEAR ENDED JUNE 30, 2011

SECTION II FINANCIAL STATEMENT FINDINGS AND RESPONSES

2011 - 1. Restatement of Opening Equity Balances - Continued

Recommendation: We recommend the District carefully review the financial statements and applicable reporting requirements under generally accepted accounting principles to ensure that all information and financial data is being properly reported. We also recommend the District carefully review all opening equity balances to ensure the general ledger agrees with the audited financial statements from the prior year.

Auditee's Response: Auditee will review the financial statement to ensure the information and financial data is being properly reported in accordance with applicable reporting requirements under generally accepted accounting principles. The prior year auditor never presented the reconciling adjusting entries to the School District and as such, none were made. Auditee does concur that reconciling adjustments should be recorded or provided along with the trial balances for the financial statement preparation process.

CHEROKEE COUNTY BOARD OF EDUCATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE FISCAL YEAR ENDED JUNE 30, 2011

SECTION II FINANCIAL STATEMENT FINDINGS AND RESPONSES

2011 - 2. Reconciliation of Cash Accounts

Criteria: Timely and accurate cash reporting of all funds included in the financial statements of the District is imperative to facilitate informed financial decisions by the District's management and those with oversight over management. Additionally, accounting principles generally accepted in the United States of America (GAAP) require a proper cutoff of cash for reporting in the District's financial statements.

Condition: Internal controls and cash reporting procedures were not sufficient to facilitate the accurate and timely reporting of the District's overall cash position and results of operations in the general ledger for several months throughout the year ended June 30, 2011.

Context/Cause: The primary and most significant cash reporting internal control procedure pertains to the cash bank reconciliation process. During our review and testing of the cash reconciliation procedures being performed by the School District, we noted the District was performing reconciliations of all cash accounts from the bank balance to the general ledger balance. However, during the process there were several items which were being carried on the bank reconciliation as unrecorded general ledger activity. These items represented nonsystem generated activity, such as cash receipts and wire payments, which were not reported in the District's general ledger accounting system. These items were being carried on the bank reconciliations as unrecorded items as follows:

- Unrecorded Capital Project Fund activity resulted in adjustments of approximately \$2,991,000.
- Unrecorded General Fund activity resulted in adjustments of approximately \$577,000.
- Unrecorded Debt Service Fund activity resulted in adjustments of approximately \$114,000.
- Nonmajor Governmental Funds cash activity was overstated which resulted in an adjustment of approximately \$141,000.

Effects: The District was unable to report timely, accurate financial information because cash was not correctly recorded in the general ledger. Some of the reconciling items noted on the bank reconciliations dated back to the prior year. Adjustments of over \$3,823,000 were made to the various funds of the District.

CHEROKEE COUNTY BOARD OF EDUCATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE FISCAL YEAR ENDED JUNE 30, 2011

SECTION II FINANCIAL STATEMENT FINDINGS AND RESPONSES

2011 - 2. Reconciliation of Cash Accounts – Continued

Recommendation: Proper general ledger maintenance for cash is imperative to ensure that the District's financial transactions are reported correctly, and that accurate financial information is provided to management and the Board of Education. Timely recording of cash activity is an important internal control to mitigate the risk of asset misappropriation. The District should take the necessary steps to ensure that cash transactions are timely posted to the District's general ledger.

Auditee's Response: Auditee does agree that adjustments should be made on a more timely basis to financial records and will take necessary steps in the future to ensure this action is made before the end of the fiscal year.

CHEROKEE COUNTY BOARD OF EDUCATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE FISCAL YEAR ENDED JUNE 30, 2011

SECTION II FINANCIAL STATEMENT FINDINGS AND RESPONSES

2011 - 3. Year-End Financial Close out Procedures

Criteria: Internal controls should be in place to ensure that the amounts reported as receivables and revenues are appropriate and properly valued. Additionally, expenditures should be recognized as soon as a liability is incurred regardless of the timing of the related cash flows. However, debt service expenditures should only be recorded when payment is due.

Condition: Internal controls were not sufficient to detect misstatements in the reporting of the District's year-end accruals for revenues and related receivables as well as expenditures and related liabilities.

Context/Cause: During our testing, certain audit adjustments were required to correct current year amounts. The nature of these adjustments is as follows:

- The General Fund did not have the property tax receivables reported on the general ledger which required an adjustment of approximately \$889,000 to record the uncollected taxes. The year end accrual for the state QBE receivable was reduced by approximately \$3,884,000 to agree with the Department of Education accrual report provided directly from the DOE. The year end accruals for other revenues required adjustments of approximately \$2,237,000.
- The Debt Service Fund required an adjustment of approximately \$2,225,000 to reduce the year-end accrual of the sales tax distributions to agree with the State determined one month accrual. Additionally, the Debt Service Fund was incorrectly reporting the deposits made into the District's sinking fund account as principal reductions as the monthly payments were being made; however debt service expenditures should only be reported as expenditures when they are due and payable. Thus adjustments of approximately \$3,749,000 were required to properly report the expenditures of this fund.
- The Capital Projects Fund required an adjustment of approximately \$2,723,000 to recognize revenues in the current year for the District's GSFIC grants which were incorrectly recognized in the prior year, although they were not considered available under modified accrual accounting. Additionally, the Capital Projects Fund did not properly accrue all expenditures related to construction work performed as of June 30, 2011. Through our subsequent disbursement testing and retainage payable testing, we identified approximately \$7,095,000 of adjustments which were necessary to properly state current year expenditures.
- The Nonmajor Governmental funds required an adjustment of approximately \$65,000 to defer revenues in the current year for the District's grants which were not considered available under modified accrual accounting.

CHEROKEE COUNTY BOARD OF EDUCATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE FISCAL YEAR ENDED JUNE 30, 2011

SECTION II FINANCIAL STATEMENT FINDINGS AND RESPONSES

2011 - 3. Year-End Financial Close out Procedures – Continued

Effects: Audit adjustments totaling approximately \$22,867,000 were needed to correctly report year-end accruals and the related revenues and expenditures.

Recommendation: We recommend the District carefully review all year-end accruals to ensure they are reported in the proper reporting period, and in accordance with generally accepted accounting principles.

Auditee's Response: Auditee will take necessary steps to ensure year-end accruals are reported accurately as recommended by auditor.

CHEROKEE COUNTY BOARD OF EDUCATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE FISCAL YEAR ENDED JUNE 30, 2011

SECTION II FINANCIAL STATEMENT FINDINGS AND RESPONSES

2011 - 4. Collateralization of Deposits

Criteria: Policies should be in place to ensure all financial institutions holding cash deposits of District funds properly insure and/or collateralize those deposits in accordance with state law, at all times of the fiscal year.

Condition: As of June 30, 2011, the District had \$1,699,389 in deposits that were not properly collateralized at 110% in accordance with the Official Code of Georgia Annotated (OCGA) Section 45-8-12(c).

Context/Cause: The deposits with four different financial institutions exceeded the limit for federal depository insurance coverage and were not sufficiently collateralized in accordance with State of Georgia law. This was caused by the District's accounts not being coded as public funds, therefore no collateral was pledged.

Effects: The failure of a financial institution to fully insure or collateralize the deposits could result in a financial loss to the District, should the financial institution fail.

Recommendation: The District should ensure that all deposits with its financial institutions are coded as public funds and have pledging agreements in place. The District should also monitor its deposits on an on-going basis to ensure that all deposits over the federal depository insurance coverage limit are collateralized in accordance with State statutes.

Auditee's Response: We concur. The District will ensure all deposits, including those of the individual schools, are coded as public funds and will monitor deposits on a monthly basis to ensure that all deposits over the federal depository insurance coverage limit are collateralized in accordance with State statutes.

CHEROKEE COUNTY BOARD OF EDUCATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE FISCAL YEAR ENDED JUNE 30, 2011

SECTION II FINANCIAL STATEMENT FINDINGS AND RESPONSES

2011 - 5. Schedule of Expenditures of Federal Awards

Criteria: OMB Circular A-133, subpart C, section 310(b) provides that the auditee shall prepare a schedule of expenditures of federal awards for the period covered by the auditee's financial statements.

Condition: The District's schedule of expenditures of federal awards did not include all the federal expenditures and non-cash transactions of the District for the 2011 fiscal year.

Context/Cause: During our review of the District's general ledger and confirmations of payments by the grantor agencies, we identified three programs which were not originally included in the schedule of expenditures of federal awards: the Child Nutrition Cluster (CFDA No. 10.553 and 10.555), R.O.T.C. Program (CFDA No. 12.357), and the Headstart Program (CFDA No. 93.600).

Effects: By not including these three programs on the schedule of expenditures of federal awards, the District understated the schedule by approximately \$8,227,000. This included the omission of one Type A program and two Type B programs.

Questioned Costs: None noted.

Recommendation: We recommend the District carefully review all grant agreements and related expenditures and non-cash contributions to ensure amounts are correctly reported on the schedule of expenditures of federal awards.

Auditee's Response: Auditee will ensure that all grants are properly included on the Schedule of Expenditures of Federal Awards.

CHEROKEE COUNTY BOARD OF EDUCATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE FISCAL YEAR ENDED JUNE 30, 2011

SECTION III FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

2011 - 6. Procurement and Suspension and Debarment

Programs: U.S. Department of Education (CFDA No. 84.010 and 84.389) and (CFDA No. 84.027, 84.173, 84.391 and 84.392)

CFDA Program Titles: Title I Cluster and Special Education Cluster

Pass-through Agency: Georgia Department of Education

Pass-through Number: N/A

Criteria: Grant requirements state non-Federal entities are prohibited from contracting with or making sub-awards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. "Covered transactions" include those procurement contracts for goods and services awarded under a nonprocurement transaction that are expected to equal or exceed \$25,000 or meet certain other specified criteria. 2 CFR section 180.220 of the government-wide nonprocurement debarment and suspension guidance contains those additional limited circumstances. The District is required to have the vendors specifically confirm their exclusion from the database for contracts funded by federal programs or the District may elect to check the *Excluded Parties List System (EPLS)*.

Condition: We tested all contracts which were procured under both programs during the 2011 fiscal year and noted none of the contracts had documentation to confirm the contractor was not suspended or debarred from working with federally funded projects. The expenditures paid to these contractors accounted for approximately 3% of the total program expenditures under the Title I Cluster and 4% of total program expenditures under the Special Education Cluster.

Context/Cause: During our testing of the District's compliance with the procurement requirements, we noted that while the District was familiar with the requirement and how to use the *EPLS*, they did not have the appropriate documentation to support or validate their testing of the selected vendors. The District was not requiring the contractor to sign certification forms, nor did the District maintain results of their performing a search of the *EPLS*.

Effects: A contract could have been awarded to an ineligible party; however during our testing we noted that the vendors selected by the District were not included on the *EPLS*.

Questioned Costs: None noted.

Recommendation: We recommend the District include specific language relative to the suspension and debarment requirements within the contract and perform a search for the vendor on the *EPLS* (and maintain documentation of the search), for all federally funded contracts to ensure that contracts are not awarded to suspended or debarred parties.

CHEROKEE COUNTY BOARD OF EDUCATION

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**SECTION III
FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

2011 - 6. Procurement and Suspension and Debarment - Continued

Auditee's Response: Auditee will ensure documentation required by auditor will be secured and kept for review.

CHEROKEE COUNTY BOARD OF EDUCATION

**SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

None reported.