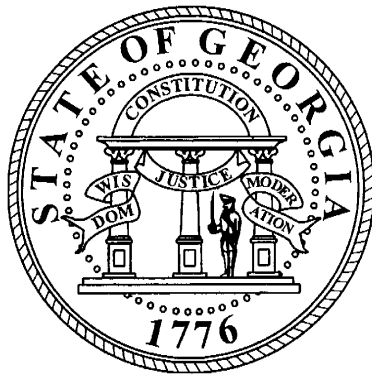


**CITY OF GAINESVILLE BOARD OF EDUCATION
HALL COUNTY, GEORGIA**

**REPORT ON AUDIT
OF THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**



STATE OF GEORGIA

DEPARTMENT OF AUDITS AND ACCOUNTS

**Russell W. Hinton
State Auditor**

CITY OF GAINESVILLE BOARD OF EDUCATION - HALL COUNTY

- TABLE OF CONTENTS -

	<u>Page</u>
SECTION I	
FINANCIAL	
INDEPENDENT AUDITOR'S COMBINED REPORT ON BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION - SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	
REQUIRED SUPPLEMENTARY INFORMATION	
MANAGEMENT'S DISCUSSION AND ANALYSIS	i
EXHIBITS	
BASIC FINANCIAL STATEMENTS	
DISTRICT-WIDE FINANCIAL STATEMENTS	
A STATEMENT OF NET ASSETS	1
B STATEMENT OF ACTIVITIES	2
FUND FINANCIAL STATEMENTS	
C BALANCE SHEET	
GOVERNMENTAL FUNDS	4
D RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS	5
E STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES	
GOVERNMENTAL FUNDS	6
F RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES	7
G STATEMENT OF FIDUCIARY NET ASSETS	
FIDUCIARY FUNDS	9
H NOTES TO THE BASIC FINANCIAL STATEMENTS	10
SCHEDULES	
REQUIRED SUPPLEMENTARY INFORMATION	
1 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL GENERAL FUND	27

CITY OF GAINESVILLE BOARD OF EDUCATION - HALL COUNTY

- TABLE OF CONTENTS -

	<u>Page</u>
SECTION I	
FINANCIAL	
SCHEDULES	
SUPPLEMENTARY INFORMATION	
2 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	28
3 SCHEDULE OF STATE REVENUE	30
4 SCHEDULE OF APPROVED LOCAL OPTION SALES TAX PROJECTS	31
5 ALLOTMENTS AND EXPENDITURES GENERAL FUND - QUALITY BASIC EDUCATION PROGRAMS (QBE) BY PROGRAM	33
SECTION II	
COMPLIANCE AND INTERNAL CONTROL REPORTS	
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <u>GOVERNMENT AUDITING STANDARDS</u>	
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	
SECTION III	
AUDITEE'S RESPONSE TO PRIOR YEAR FINDINGS AND QUESTIONED COSTS	
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS	
SECTION IV	
FINDINGS AND QUESTIONED COSTS	
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	

CITY OF GAINESVILLE BOARD OF EDUCATION - HALL COUNTY

- TABLE OF CONTENTS -

SECTION V

MANAGEMENT'S RESPONSES

SCHEDULE OF MANAGEMENT'S RESPONSES

SECTION I
FINANCIAL



DEPARTMENT OF AUDITS AND ACCOUNTS

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

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

July 11, 2007

Honorable Sonny Perdue, Governor
Members of the General Assembly
Members of the State Board of Education
and
Superintendent and Members of the
City of Gainesville Board of Education

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

Ladies and Gentlemen:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information (Exhibits A through H) of the City of Gainesville Board of Education, as of and for the year ended June 30, 2006, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Gainesville 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.

As discussed in Note 2 to the basic financial statements, management has not reconciled amounts reported as capital assets in governmental activities to detailed supporting listings. Also, documentation supporting accumulated depreciation and construction in progress activity is incomplete. Accounting principles generally accepted in the United States of America require that

capital assets be accurately capitalized and depreciated. The amount by which this departure would affect the assets, net assets and expenses of the governmental activities is not reasonably determinable.

In our opinion, except for the effects of not properly reporting capital assets, accumulated depreciation and construction in progress in the governmental activities as described in the proceeding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the City of Gainesville Board of Education, as of June 30, 2006, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of the City of Gainesville Board of Education, as of June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

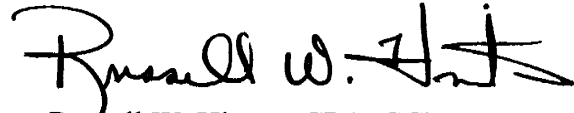
In accordance with Government Auditing Standards, we have also issued our report dated July 11, 2007, on our consideration of the City of Gainesville Board of Education's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and the Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual, as presented on pages i through x and page 27 respectively, are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Russell W. Hinton". The signature is fluid and cursive, with a prominent initial "R" and a stylized "H".

Russell W. Hinton, CPA, CGFM
State Auditor

RWH:as
2006ARL-19

**CITY OF GAINESVILLE BOARD OF EDUCATION - HALL COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

INTRODUCTION

Our discussion and analysis of the Gainesville City School District's financial performance provides an overview of the School District's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2006 are as follows:

- The School District implemented GASB 34 for fiscal year 2003. Comparisons are available for the fiscal year 2006.
- On the District-wide financial statements, the assets of the School District exceeded liabilities by \$41.2 million.
- The School District had \$49.1 million in expenses relating to governmental activities; only \$27.4 million of these expenses are offset by program specific charges for services, grants and contributions. General revenues (primarily property and sales taxes) of \$28.6 million were adequate to provide for these programs.
- As stated above, general revenues accounted for \$28.6 million or 51% of all revenues totaling \$56.1 million. Program specific revenues in the form of charges for services, grants and contributions accounted for the rest.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts; management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two levels of statements that present different views of the School District. These include the District-wide and fund financial statements.

The District-wide financial statements include the Statement of Net Assets and Statement of Activities. These statements provide information about the activities of the School District presenting both short-term and long-term information about the School District's overall financial status.

The fund financial statements focus on individual parts of the School District, reporting the School District's operation in more detail. The Governmental Funds statements disclose how basic services are financed in the short-term as well as what remains for future spending. The

**CITY OF GAINESVILLE BOARD OF EDUCATION - HALL COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Fiduciary Funds statements provide information about the financial relationships in which the School District acts solely as a trustee or agent for the benefit of others. The fund financial statements reflect the School District's most significant funds. In the case of the Gainesville City School District, the General Fund, District-wide Capital Projects Fund, and Debt Service Fund are the most significant funds.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements. Additionally, other supplementary information (not required) is also presented that further supplements understanding of the financial statements.

District-wide Statements

The District-wide financial statements are basically a consolidation of all of the School District's operating funds into one column called governmental activities. In reviewing the District-wide financial statements, a reader might ask the question, are we in a better financial position than last year? The Statement of Net Assets and the Statement of Activities provides the basis for answering this question. These financial statements include all School District's assets and liabilities and uses the **accrual basis of accounting** similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's net assets and any changes in those assets. The change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the results of many factors, including those not under the School District's control, such as the property tax base, facility conditions, required educational programs and other factors.

The Statement of Net Assets and the Statement of Activities reflects the School District's governmental activities.

Fund Financial Statements

The School District uses many funds to account for a multitude of financial transactions during the fiscal year. However, the fund financial statements presented in this report provide detail information about only the School District's significant or major funds.

Governmental Funds - Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the **modified accrual method of accounting** which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides.

**CITY OF GAINESVILLE BOARD OF EDUCATION - HALL COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

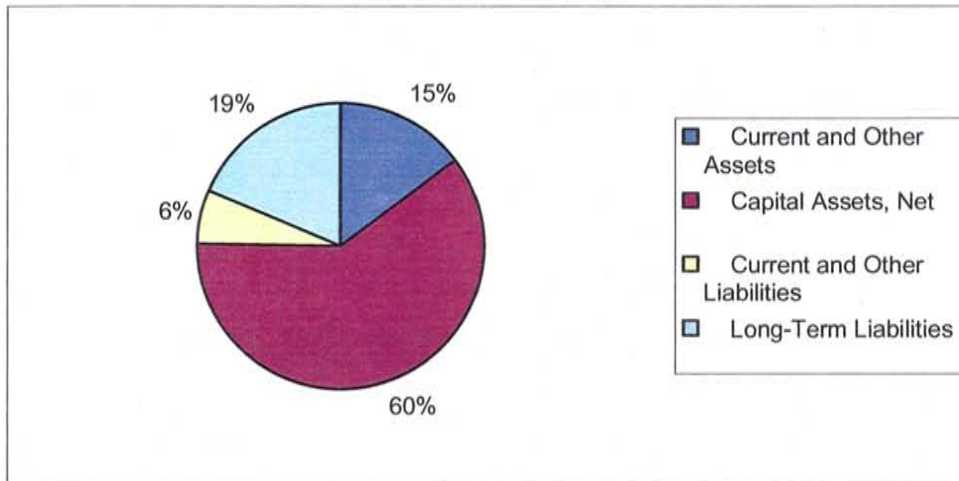
Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds are reconciled to the financial statements.

Fiduciary Funds - The School District is the trustee, or fiduciary, for assets that belong to others, such as school clubs and organizations within the principals' accounts. The School District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The School District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Chart 1 provides a visual summary of Assets and Liabilities in relation to one another at June 30th. Table 1 provides a summary of the School District's net assets for this fiscal year and a comparison to last year.

**Chart 1
Assets and Liabilities**



**CITY OF GAINESVILLE BOARD OF EDUCATION - HALL COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**Table 1
Net Assets**

	<u>Governmental Activities</u>	
	<u>Fiscal Year 2006</u>	<u>Fiscal Year 2005</u>
Assets		
Current and Other Assets	\$ 12,003,048	\$ 9,885,113
Capital Assets, Net	<u>49,661,354</u>	<u>48,099,905</u>
Total Assets	\$ <u>61,664,402</u>	\$ <u>57,985,018</u>
Liabilities		
Current and Other Liabilities	\$ 5,025,967	\$ 5,526,812
Long-Term Liabilities	<u>15,421,352</u>	<u>18,160,801</u>
Total Liabilities	\$ <u>20,447,319</u>	\$ <u>23,687,613</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	\$ 34,240,002	\$ 29,939,104
Restricted	7,705,829	4,260,943
Unrestricted	<u>-728,748</u>	<u>97,358</u>
Total Net Assets	\$ <u>41,217,083</u>	\$ <u>34,297,405</u>

Chart 2 shows the School District's 2006 revenues. Chart 3 shows a breakdown of expenses for the School District for 2006. Table 2 shows the Changes in Net Assets for this fiscal year comparing it to the previous year.

**CITY OF GAINESVILLE BOARD OF EDUCATION - HALL COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Chart 2

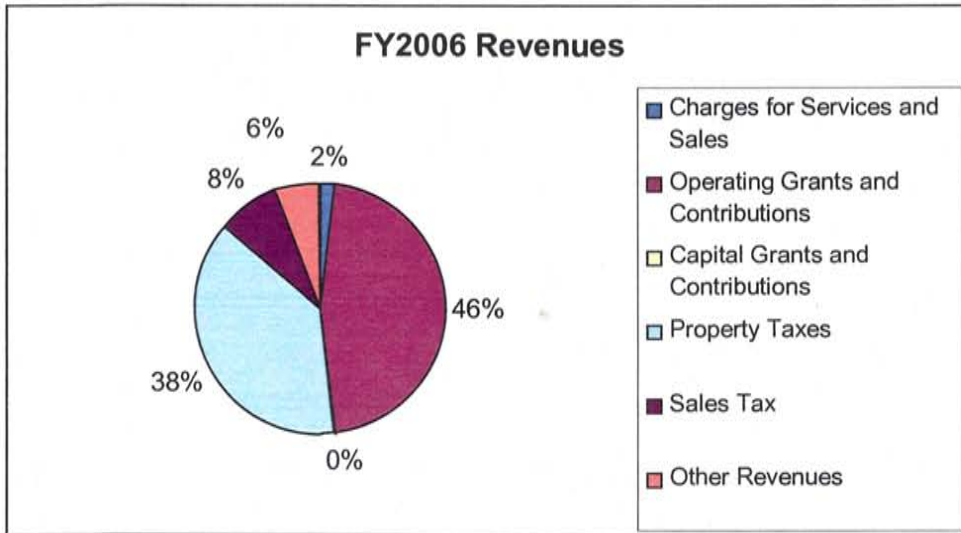
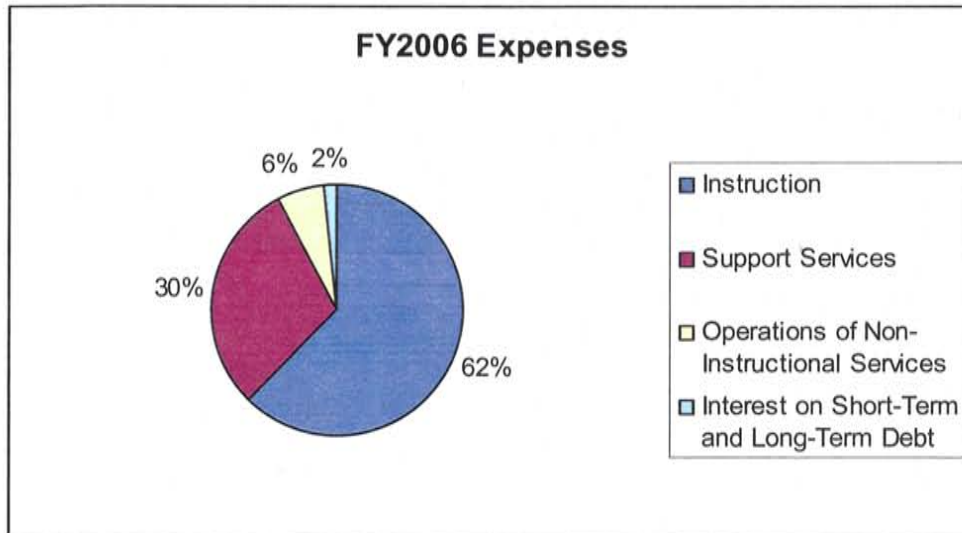


Chart 3



**CITY OF GAINESVILLE BOARD OF EDUCATION - HALL COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**Table 2
Change in Net Assets**

	Governmental Activities	
	Fiscal Year 2006	Fiscal Year 2005
Revenues		
Program Revenues:		
Charges for Services and Sales	\$ 1,098,505	\$ 1,071,199
Operating Grants and Contributions	25,972,375	22,987,720
Capital Grants and Contributions	351,852	50,968
Total Program Revenues	\$ 27,422,732	\$ 24,109,887
General Revenues:		
Taxes		
Property Taxes		
For Maintenance and Operations	\$ 19,619,567	\$ 18,797,357
For Debt Service	1,612,409	1,261,498
Sales Taxes		
Special Purpose Local Option Sales Tax		
For Debt Service	2,225,537	2,538,534
For Capital Projects	2,290,772	1,372,258
Real Estate	92,220	68,679
Grants and Contributions not Restricted to Specific Programs		322,081
Investment Earnings	279,857	179,468
Miscellaneous	2,507,412	966,714
Total General Revenues	\$ 28,627,774	\$ 25,506,589
Total Revenues	\$ 56,050,506	\$ 49,616,476
Program Expenses		
Instruction	\$ 30,487,542	\$ 28,481,027
Support Services		
Pupil Services	1,849,037	1,813,958
Improvement of Instructional Services	1,679,712	1,742,863
Educational Media Services	966,369	852,755
General Administration	902,491	686,525
School Administration	2,995,658	2,557,776
Business Administration	811,765	775,203
Maintenance and Operation of Plant	3,211,646	3,341,263
Student Transportation Services	1,924,350	1,770,687
Central Support Services	218,077	209,168
Other Support Services	279,134	168,117
Operations of Non-Instructional Services		
Enterprise Operations	390,695	457,220
Community Services	30,497	
Food Services	2,627,607	2,418,834
Interest on Short-Term and Long-Term Debt	756,248	963,685
Total Expenses	\$ 49,130,828	\$ 46,239,081
Increase in Net Assets	\$ 6,919,678	\$ 3,377,395

**CITY OF GAINESVILLE BOARD OF EDUCATION - HALL COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Governmental Activities

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting these services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. Net cost of services can be defined as the total cost less fees generated by the activities and intergovernmental revenue provided for specific programs. The net cost reflects the financial burden on the School District's taxpayers by each activity.

**Table 3
Governmental Activities**

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>Fiscal Year 2006</u>	<u>Fiscal Year 2005</u>	<u>Fiscal Year 2006</u>	<u>Fiscal Year 2005</u>
Instruction	\$ 30,487,542	\$ 28,481,027	\$ 12,550,447	\$ 12,332,571
Support Services				
Pupil Services	1,849,037	1,813,958	1,215,763	1,183,760
Improvement of Instructional Services	1,679,712	1,742,863	804,266	896,074
Educational Media Services	966,369	852,755	270,785	303,202
General Administration	902,491	686,525	161,592	681,541
School Administration	2,995,658	2,557,776	1,863,744	1,498,951
Business Administration	811,765	775,203	811,765	775,203
Maintenance and Operation of Plant	3,211,646	3,341,263	1,571,293	1,811,414
Student Transportation Services	1,924,350	1,770,687	1,538,396	1,413,829
Central Support Services	218,077	209,168	218,077	-469,881
Other Support Services	279,134	168,117	190,916	148,214
Operations of Non-Instructional Services				
Enterprise Operations	390,695	457,220	-296,182	457,220
Community Services	30,497		30,497	
Food Services	2,627,607	2,418,834	20,489	133,411
Interest on Short-Term and Long-Term Debt	<u>756,248</u>	<u>963,685</u>	<u>756,248</u>	<u>963,685</u>
 Total Expenses	 <u>\$ 49,130,828</u>	 <u>\$ 46,239,081</u>	 <u>\$ 21,708,096</u>	 <u>\$ 22,129,194</u>

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S FUNDS

The School District's governmental funds are accounted for using the modified accrual basis of accounting. The governmental funds had total revenues and other financing sources of \$57.0 million and total expenditures and other financing uses of \$54.7 million.

General Fund Budgeting Highlights

The School District's budget is prepared according to Georgia Law. The most significant budgeted fund is the General Fund. During the course of fiscal year 2006, the School District amended its general fund budget as needed. For the General Fund, the actual revenues of \$47.8 million exceeded the original budgeted amounts of \$37.6 million by \$10.2 million. This difference (actual vs. original budget) was due primarily to an increase in state funds by \$2.1 million, Federal revenues over original budget by \$6.7 million and miscellaneous revenues over original budget by \$1.1 million.

**CITY OF GAINESVILLE BOARD OF EDUCATION - HALL COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

The actual revenues of \$47.8 million was less than the final budgeted amounts by \$0.87 million. Conservative budgeting for state funds and Federal funds more than offset any shortfall in other revenue categories.

The actual expenditures of \$47.7 million exceeded the original budgeted amount of \$39.9 million by \$7.8 million. This difference was primarily due to lease payments not budgeted, additional staff to meet class size requirements, food services expenditures not budgeted, and our school principals' accounts not being included in the original budget process.

The School District did not use financial reserves to balance its fiscal year 2006 budget. General Fund revenues exceeded expenditures by \$104,954. This increase is the result of actual revenues exceeding actual expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At fiscal year ended June 30, 2006, the School District had \$49.6 million invested in capital assets, all in governmental activities. Table 4 reflects a summary of these balances net of accumulated depreciation. Capital assets comparisons to fiscal year 2005 are shown below.

**Table 4
Capital Assets
(Net of Depreciation)**

	Governmental Activities	
	Fiscal Year 2006	Fiscal Year 2005
Land	\$ 5,331,706	\$ 5,405,102
Land Improvements	67,694	
Buildings and Improvements	41,213,879	39,318,360
Equipment	3,048,075	3,376,443
Total	\$ 49,661,354	\$ 48,099,905

Due to the ongoing growth in the city, the School District is planning numerous construction projects including new buildings, additions and renovations.

Debt

At fiscal year ended June 30, 2006, the School District had \$7.2 million in general obligation bonds outstanding and \$8.2 million in other long-term debt. Table 5 summarizes the School District's debt for general obligation bonds, long-term debt agreement, and capital leases outstanding for fiscal year 2006 and comparative data for fiscal year 2005.

**CITY OF GAINESVILLE BOARD OF EDUCATION - HALL COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**Table 5
Debt at June 30**

	<u>Governmental Activities</u>	
	<u>Fiscal Year 2006</u>	<u>Fiscal Year 2005</u>
Capital Leases		
Long-Term	\$ 3,575,558	\$ 2,153,763
Due in One Year	370,794	377,038
Long-Term Debt Agreement with City of Gainesville Government		
Long-Term	3,490,000	4,250,000
Due in One Year	760,000	720,000
General Obligation Bonds		
Long-Term	3,675,000	7,225,500
Due in One Year	<u>3,550,000</u>	<u>3,434,500</u>
 Total	 <u>\$ 15,421,352</u>	 <u>\$ 18,160,801</u>

CURRENT ISSUES

Currently known facts, decisions or conditions that are expected to have a significant effect on financial positions or results of operations are as follows:

- Economic Slowdown - State funding for education has been stagnant and as a result more pressure is being placed on the local School Districts to prioritize its educational programs and provide additional local funding. Additional costs to the School District will be required with the continued implementation of House Bill 1187, which mandates lower teacher to student ratios, requiring additional teachers and additional classrooms. Despite these challenges, the Gainesville City School District is strong financially and we remain optimistic about the ability of the School District to maximize all of the financial resources to provide a quality education to our students. On a positive note the property tax digest continues to grow at a 2% to 3% annual growth rate. Enrollment also continues to grow at 5% to 6% annually.
- Capital Improvements - The School District plans capital improvements as future capital needs arise due to increased student population and facility repair and maintenance needs. Specific capital expenditure plans are formalized in conjunction with individual general obligation bond issues and anticipated annual receipts of capital outlay funds from the State of Georgia Department of Education. The School District regularly monitors anticipated capital outlay needs and updates the 5 year facility plan as needed.

**CITY OF GAINESVILLE BOARD OF EDUCATION - HALL COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

- Significant cost and budgetary control measures have been initiated by the School District in fiscal year 2006 and are budgeted to continue in fiscal year 2007 and fiscal year 2008. The Board of Education has taken budgetary action to see to it that the City of Gainesville School System will overcome the current economic downturns while maintaining the working reserve in order to sustain the school system through any future poor economic conditions.

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Dr. Steven E. Ballowe, Superintendent at Gainesville City School District, 508 Oak Street, Gainesville, Georgia 30501.

CITY OF GAINESVILLE BOARD OF EDUCATION - HALL COUNTY

CITY OF GAINESVILLE BOARD OF EDUCATION - HALL COUNTY
STATEMENT OF NET ASSETS
JUNE 30, 2006

EXHIBIT "A"

		GOVERNMENTAL ACTIVITIES
<u>ASSETS</u>		
Cash and Cash Equivalents	\$	6,698,868
Investments		181,381
Accounts Receivable, Net		
Taxes		1,619,867
State Government		2,567,098
Federal Government		863,598
Other		28,017
Inventories		44,219
Capital Assets		
Land		5,331,706
Land Improvements		73,396
Buildings		58,434,421
Equipment		9,032,409
Less: Accumulated Depreciation		-23,210,578
 Total Assets	 \$	 <u>61,664,402</u>
<u>LIABILITIES</u>		
Accounts Payable	\$	270,531
Salaries Payable		4,701,306
Contracts Payable		50,334
Deposits and Deferred Revenues		3,796
Long-Term Liabilities		
Due Within One Year		4,680,794
Due in More Than One Year		10,740,558
 Total Liabilities	 \$	 <u>20,447,319</u>
<u>NET ASSETS</u>		
Invested in Capital Assets, Net of Related Debt	\$	34,240,002
Restricted for		
Bus Replacement		51,852
Continuation of Federal Programs		1,160,199
Debt Service		2,263,179
Capital Projects		4,230,599
Unrestricted (Deficit)		-728,748
 Total Net Assets	 \$	 <u>41,217,083</u>
 Total Liabilities and Net Assets	 \$	 <u>61,664,402</u>

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

CITY OF GAINESVILLE BOARD OF EDUCATION - HALL COUNTY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

	EXPENSES	CHARGES FOR SERVICES
<u>GOVERNMENTAL ACTIVITIES</u>		
Instruction	\$ 30,487,542	\$ 148,428
Support Services		
Pupil Services	1,849,037	
Improvement of Instructional Services	1,679,712	
Educational Media Services	966,369	
General Administration	902,491	
School Administration	2,995,658	
Business Administration	811,765	
Maintenance and Operation of Plant	3,211,646	
Student Transportation Services	1,924,350	
Central Support Services	218,077	
Other Support Services	279,134	
Operations of Non-Instructional Services		
Enterprise Operations	390,695	686,877
Community Services	30,497	
Food Services	2,627,607	263,200
Interest on Short-Term and Long-Term Debt	756,248	
 Total Governmental Activities	 \$ 49,130,828	 \$ 1,098,505
 General Revenues		
Taxes		
Property Taxes		
For Maintenance and Operations		
For Debt Services		
Sales Taxes		
Special Purpose Local Option Sales Tax		
For Capital Projects		
For Debt Service		
Real Estate		
Investment Earnings		
Miscellaneous		
 Total General Revenues		
 Change in Net Assets		
 Net Assets - Beginning of Year		
 Net Assets - End of Year		

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

EXHIBIT "B"

<u>PROGRAM REVENUES</u>		<u>NET (EXPENSES)</u>
<u>OPERATING</u>	<u>CAPITAL</u>	<u>REVENUES</u>
<u>GRANTS AND</u>	<u>GRANTS AND</u>	<u>AND CHANGES IN</u>
<u>CONTRIBUTIONS</u>	<u>CONTRIBUTIONS</u>	<u>NET ASSETS</u>
\$ 17,488,667	\$ 300,000	\$ -12,550,447
633,274		-1,215,763
875,446		-804,266
695,584		-270,785
740,899		-161,592
1,131,914		-1,863,744
		-811,765
1,640,353		-1,571,293
334,102	51,852	-1,538,396
		-218,077
88,218		-190,916
		296,182
		-30,497
2,343,918		-20,489
		-756,248
<u>\$ 25,972,375</u>	<u>\$ 351,852</u>	<u>\$ -21,708,096</u>

\$ 19,619,567
1,612,409

2,290,772
2,225,537
92,220
279,857
2,507,412

\$ 28,627,774

\$ 6,919,678

34,297,405

\$ 41,217,083

CITY OF GAINESVILLE BOARD OF EDUCATION - HALL COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

EXHIBIT "C"

	<u>GENERAL FUND</u>	<u>DISTRICT- WIDE CAPITAL PROJECTS FUND</u>	<u>DEBT SERVICE FUND</u>	<u>TOTAL</u>
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 1,142,703	\$ 3,481,235	\$ 2,074,930	\$ 6,698,868
Investments	37,565		143,816	181,381
Accounts Receivable, Net				
Taxes	2,665,233	838,708	334,579	3,838,520
State Government	2,567,098			2,567,098
Federal Government	863,598			863,598
Other	28,017			28,017
Inventories	<u>44,219</u>			<u>44,219</u>
Total Assets	<u>\$ 7,348,433</u>	<u>\$ 4,319,943</u>	<u>\$ 2,553,325</u>	<u>\$ 14,221,701</u>
 <u>LIABILITIES AND FUND BALANCES</u>				
<u>LIABILITIES</u>				
Accounts Payable	\$ 231,521	\$ 39,010		\$ 270,531
Salaries Payable	4,701,306			4,701,306
Contracts Payable		50,334		50,334
Deposits and Deferred Revenue	<u>3,796</u>			<u>3,796</u>
Total Liabilities	<u>\$ 4,936,623</u>	<u>\$ 89,344</u>		<u>\$ 5,025,967</u>
 <u>FUND BALANCES</u>				
Reserved for:				
Bus Replacement	\$ 51,852			\$ 51,852
Continuation of Federal Programs	1,115,980			1,115,980
Debt Service			\$ 2,553,325	2,553,325
Inventories	44,219			44,219
Capital Projects		\$ 4,230,599		4,230,599
Unreserved				
Designated for Self-Insurance	82,475			82,475
Undesignated Reported in:				
General Fund	<u>1,117,284</u>			<u>1,117,284</u>
Total Fund Balances	<u>\$ 2,411,810</u>	<u>\$ 4,230,599</u>	<u>\$ 2,553,325</u>	<u>\$ 9,195,734</u>
Total Liabilities and Fund Balances	<u>\$ 7,348,433</u>	<u>\$ 4,319,943</u>	<u>\$ 2,553,325</u>	<u>\$ 14,221,701</u>

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

CITY OF GAINESVILLE BOARD OF EDUCATION - HALL COUNTY
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2006

EXHIBIT "D"

Total Fund Balances - Governmental Funds (Exhibit "C") \$ 9,195,734

Amounts reported for Governmental Activities in the Statement of Net Assets are different because:

Capital Assets used in Governmental Activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Land	\$	5,331,706	
Land Improvements		73,396	
Buildings		58,434,421	
Equipment		9,032,409	
Accumulated Depreciation		<u>-23,210,578</u>	
Total Capital Assets			49,661,354

Some of the School District's property tax revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures. -2,218,653

Long-Term Liabilities, including Bonds Payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-Term Liabilities at year-end consist of:

Bonds Payable	\$	-7,225,000	
Long-Term Debt Agreement		-4,250,000	
Capital Leases		<u>-3,946,352</u>	
Total Long-Term Liabilities			<u>-15,421,352</u>

Net Assets of Governmental Activities (Exhibit "A") \$ 41,217,083

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

CITY OF GAINESVILLE BOARD OF EDUCATION - HALL COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

EXHIBIT "E"

	<u>GENERAL FUND</u>	<u>DISTRICT- WIDE CAPITAL PROJECTS FUND</u>	<u>DEBT SERVICE FUND</u>	<u>TOTAL</u>
REVENUES				
Property Taxes	\$ 19,236,890		\$ 1,654,832	\$ 20,891,722
Sales Taxes	92,220	\$ 2,290,772	2,225,537	4,608,529
State Funds	19,189,018			19,189,018
Federal Funds	6,835,209			6,835,209
Charges for Services	1,098,505			1,098,505
Investment Earnings	228,022	41,750	10,085	279,857
Miscellaneous	<u>1,112,072</u>		<u>71,908</u>	<u>1,183,980</u>
Total Revenues	\$ <u>47,791,936</u>	\$ <u>2,332,522</u>	\$ <u>3,962,362</u>	\$ <u>54,086,820</u>
EXPENDITURES				
Current				
Instruction	\$ 29,411,060	\$ 23,644		\$ 29,434,704
Support Services				
Pupil Services	1,839,959			1,839,959
Improvement of Instructional Services	1,670,398			1,670,398
Educational Media Services	868,075			868,075
General Administration	900,050			900,050
School Administration	2,750,921			2,750,921
Business Administration	758,018	46,621	\$ 1,359	805,998
Maintenance and Operation of Plant	3,940,447			3,940,447
Student Transportation Services	1,772,259			1,772,259
Central Support Services	225,910			225,910
Other Support Services	281,415			281,415
Enterprise Operations	390,695			390,695
Community Services	30,497			30,497
Food Services Operation	2,333,271			2,333,271
Capital Outlay	61,500	1,006,498		1,067,998
Debt Services				
Principal	382,726	111,294	4,155,000	4,649,020
Interest	<u>69,781</u>	<u>10,861</u>	<u>675,606</u>	<u>756,248</u>
Total Expenditures	\$ <u>47,686,982</u>	\$ <u>1,198,918</u>	\$ <u>4,831,965</u>	\$ <u>53,717,865</u>
Excess of Revenues over (under) Expenditures	\$ <u>104,954</u>	\$ <u>1,133,604</u>	\$ <u>-869,603</u>	\$ <u>368,955</u>
OTHER FINANCING SOURCES (USES)				
Capital Leases	\$ 498,675	\$ 1,410,896		\$ 1,909,571
Transfers In		989,872		989,872
Transfers Out	<u>-989,872</u>			<u>-989,872</u>
Total Other Financing Sources (Uses)	\$ <u>-491,197</u>	\$ <u>2,400,768</u>		\$ <u>1,909,571</u>
Net Change in Fund Balances	\$ <u>-386,243</u>	\$ <u>3,534,372</u>	\$ <u>-869,603</u>	\$ <u>2,278,526</u>
Fund Balances - Beginning	<u>2,798,053</u>	<u>696,227</u>	<u>3,422,928</u>	<u>6,917,208</u>
Fund Balances - Ending	\$ <u>2,411,810</u>	\$ <u>4,230,599</u>	\$ <u>2,553,325</u>	\$ <u>9,195,734</u>

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

CITY OF GAINESVILLE BOARD OF EDUCATION - HALL COUNTY
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
 REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2006

EXHIBIT "F"

Total Net Change in Fund Balances - Governmental Funds (Exhibit "E") \$ 2,278,526

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Capital Outlays are reported as expenditures in Governmental Funds. However, in the Statement of Activities, the cost of Capital Assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital Outlay	\$	2,202,065	
Depreciation Expense		<u>-2,264,048</u>	
Excess of Capital Outlay over Depreciation Expense			-61,983

Because some property taxes will not be collected for several months after the School District's fiscal year ends, they are not considered "available" revenues. 340,254

In the Statement of Activities, capital asset adjustments are reported, whereas in the Governmental Funds, capital asset adjustments are not reflected. Thus, the change in net assets differs from the change in fund balances by the necessary adjustment to balance capital assets. 1,826,946

In the Statement of Activities, only the gain on the sale of the equipment is reported, whereas in the Governmental Funds, the entire proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balances by the cost of the equipment sold. -503,514

Some of the Capital Assets acquired this year were financed with capital leases. In Governmental Funds, a capital lease arrangement is considered a source of financing, but in the Statement of Net Assets, the lease obligation is reported as a Long-Term Liability. -1,909,571

Some of the Capital Assets acquired this year were donated. In Governmental Funds, these assets, as well as, the associated revenue are not recognized, but in the Statement of Activities, the contribution is recognized as a capital contribution. 300,000

Repayment of Long-Term Debt is reported as an expenditure in Governmental Funds, but the repayment reduces Long-Term Liabilities in the Statement of Net Assets. In the current year, these amounts consist of:

Bond Principal Retirements	\$	3,435,000	
Long-Term Debt Agreement		720,000	
Capital Lease Payments		<u>494,020</u>	
Total Long-Term Debt Repayments			<u>4,649,020</u>

Change in Net Assets of Governmental Activities (Exhibit "B") \$ 6,919,678

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

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CITY OF GAINESVILLE BOARD OF EDUCATION - HALL COUNTY
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006

EXHIBIT "G"

	<u>AGENCY FUNDS</u>
 <u>ASSETS</u>	
Cash and Cash Equivalents	\$ <u>69,046</u>
 <u>LIABILITIES</u>	
Funds Held for Others	\$ <u>69,046</u>

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

Note 1: DESCRIPTION OF SCHOOL DISTRICT AND REPORTING ENTITY

REPORTING ENTITY

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

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

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

District-wide Statements:

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

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

- Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expenses (expenses of the School District related to the administration and support of the School District's programs, such as office and maintenance personnel and accounting) are not allocated to programs.
- Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements:

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

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The School District reports the following major governmental funds:

- General Fund is the School District's primary operating fund. It accounts for all financial resources of the School District, except those resources required to be accounted for in another fund.
- District-wide Capital Projects Fund accounts for financial resources including Special Purpose Local Option Sales Tax (SPLOST) to be used for the acquisition, construction or renovation of major capital facilities.
- Debt Service Fund accounts for taxes (property and sales) legally restricted for the payment of general long-term principal, interest and paying agent's fees.

The School District reports the following fiduciary fund type:

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

BASIS OF ACCOUNTING

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

Capital assets records for accumulated depreciation and depreciation expense are not reported in the Statement of Net Assets and the Statement of Activities properly. The listing utilized for the accumulated depreciation and depreciation expense calculations is incomplete. Also, an analysis of construction in progress is not maintained. To conform to generally accepted accounting principles, these deviations should be corrected.

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

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

CASH AND CASH EQUIVALENTS

COMPOSITION OF DEPOSITS

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

INVESTMENTS

COMPOSITION OF INVESTMENTS

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

- (1) Obligations issued by the State of Georgia or by other states,
- (2) Obligations issued by the United States government,
- (3) Obligations fully insured or guaranteed by the United States government or a United States government agency,

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- (4) Obligations of any corporation of the United States government,
- (5) Prime banker's acceptances,
- (6) The Local Government Investment Pool administered by the State of Georgia, Office of Treasury and Fiscal Services,
- (7) Repurchase agreements, and
- (8) Obligations of other political subdivisions of the State of Georgia.

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

RECEIVABLES

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

PROPERTY TAXES

The City of Gainesville fixed the property tax levy for the 2005 tax digest year (calendar year) on November 1, 2005 (levy date). Taxes were due on January 2, 2006 (lien date). Taxes collected within the current fiscal year or within 60 days after year-end on the 2005 tax digest are reported as revenue in the governmental funds for fiscal year 2006. The Gainesville City Clerk bills and collects the property taxes for the School District, withholds 1% of taxes collected as a fee for tax collection and remits the balance of taxes collected to the School District. Property tax revenues, at the fund reporting level, during the fiscal year ended June 30, 2006, for maintenance and operations amounted to \$19,236,890 and for school bonds amounted to \$1,654,832.

Tax millage rates levied for the 2005 tax year (calendar year) for the City of Gainesville Board of Education were as follows (a mill equals \$1 per thousand dollars of assessed value):

School Operations	7.45 mills
School Bonds	<u>0.47</u> mills
	<u>7.92</u> mills

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

SALES TAXES

Special Purpose Local Option Sales Tax, at the fund reporting level, during the year amounted to \$4,516,309 and is to be used for capital outlay for educational purposes or debt service. This sales tax was authorized by local referendum and the sales tax must be re-authorized at least every five years.

INVENTORIES

FOOD INVENTORIES

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

CAPITAL ASSETS

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

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

	Capitalization Policy	Estimated Useful Life
Land	All	N/A
Land Improvements	\$ 500	20 years
Buildings and Improvements	\$ 500	10 to 50 years
Equipment	\$ 500	5 to 14 years

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

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

GENERAL OBLIGATION BONDS

The School District issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. Bond issuance costs are recognized in the financial statements during the fiscal year bonds are issued. General obligation bonds are direct obligations and pledge the full faith and credit of the government. The outstanding amount of these bonds is recorded in the Statement of Net Assets.

Note 3: DEPOSITS AND INVESTMENTS

COLLATERALIZATION OF DEPOSITS

Official Code of Georgia Annotated (OCGA) Section 45-8-12 provides that there shall not be on deposit at any time in any depository for a time longer than ten days a sum of money which has not been secured by surety bond, by guarantee of insurance, or by collateral. The aggregate of the face value of such surety bond and the market value of securities pledged shall be equal to not less than 110 percent of the public funds being secured after the deduction of the amount of deposit insurance. If a depository elects the pooled method (OCGA 45-8-13.1) the aggregate of the market value of the securities pledged to secure a pool of public funds shall be not less than 110 percent of the daily pool balance. At June 30, \$56,869 of deposits were not secured by surety bond, insurance or collateral as specified above. The School District is working with the affected financial institutions to ensure appropriate levels of collateral are maintained for all of the School District's deposits.

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

- (1) Surety bond signed by a surety company duly qualified and authorized to transact business within the State of Georgia,
- (2) Insurance on accounts provided by the Federal Deposit Insurance Corporation,
- (3) Bonds, bills, notes, certificates of indebtedness or other direct obligations of the United States or of the State of Georgia,
- (4) Bonds, bills, notes, certificates of indebtedness or other obligations of the counties or municipalities of the State of Georgia,
- (5) Bonds of any public authority created by the laws of the State of Georgia, providing that the statute that created the authority authorized the use of the bonds for this purpose,
- (6) Industrial revenue bonds and bonds of development authorities created by the laws of the State of Georgia, and

Note 3: DEPOSITS AND INVESTMENTS

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

CATEGORIZATION OF DEPOSITS

At June 30, 2006, the bank balances were \$9,271,831. The amounts of the total bank balances are classified into four categories of custodial credit risk:

- Category 1 - Cash that is insured (e.g., Federal Deposit Insurance) or collateralized with securities held by the School District or by the School District's agent in the School District's name.
- Category 2 - Cash collateralized with securities held by the pledging financial institution's trust department or agent in the School District's name.
- Category 3 - Cash collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the School District's name.
- Category 4 - Uncollateralized.

The School District's deposits are classified by custodial credit risk category at June 30, 2006, as follows:

<u>Custodial Credit Risk Category</u>	<u>Bank Balance</u>
1	\$ 390,121
2	8,824,841
3	0
4	<u>56,869</u>
Total	<u>\$ 9,271,831</u>

CATEGORIZATION OF INVESTMENTS

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, the School District will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The School District does not have a formal policy for managing custodial credit risk.

Investments are classified as to custodial credit risk by the categories described below:

Note 3: DEPOSITS AND INVESTMENTS

- Category 1 - Insured or registered, or securities held by the School District or the School District's agent in the School District's name.
- Category 2 - Uninsured or unregistered, with securities held by the counterparty's trust department or agent in the School District's name.
- Category 3 - Uninsured or unregistered, with securities held by the counterparty's trust department or agent, but not in the School District's name.

At June 30, 2006, the carrying value of the School District's investments was \$143,816 which is materially the same as fair value. Fair value is based on quoted market prices, unless otherwise noted. The investments are classified as to custodial credit risk categories as follows:

Type of Investment	Risk Categories			Carrying Amount	Fair Value
	1	2	3		
Debt Securities					
U. S. Agencies	\$ 0	\$ 0	\$ 143,816	\$ 143,816	\$ 148,000
Other Investments					
U. S. Treasury Money Market Mutual Funds (Open-End)					942
Total Investments				\$ 143,816	\$ 148,942

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investment will adversely affect the fair value of an investment. The School District does not have a formal policy for managing interest rate risk.

Investments are classified as to investment maturity as follows:

Investment Type	Fair Value	Investment Maturity
		Less than 1 Year
Debt Securities		
U. S. Agencies	\$ 148,000	\$ 148,000
Money Market Mutual Fund	942	942
Totals by Maturity	\$ 148,942	\$ 148,942

Credit Quality Risk

Credit quality risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The School District does not have a formal policy for managing credit quality risk.

Note 3: DEPOSITS AND INVESTMENTS

Investments are classified as to quality ratings as follows:

<u>Rated Debt Investments</u>	<u>Fair Value</u>	<u>Quality Ratings</u>
		AAA
U. S. Agencies	\$ 148,000	\$ 148,000
Money Market Mutual Fund	<u>942</u>	<u>942</u>
Totals by Quality Ratings	<u>\$ 148,942</u>	<u>\$ 148,942</u>

Note 4: NON-MONETARY TRANSACTIONS

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

Note 5: CAPITAL ASSETS

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

	<u>Balances</u> <u>July 1, 2005</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balances</u> <u>June 30, 2006</u>
Governmental Activities				
Capital Assets, Not Being Depreciated:				
Land	\$ <u>5,405,102</u>	\$ <u>-73,396</u>	\$ <u>0</u>	\$ <u>5,331,706</u>
Capital Assets Being Depreciated				
Buildings and Improvements	\$ 56,901,527	\$ 1,535,283	\$ 2,389	\$ 58,434,421
Equipment	8,569,141	966,782	503,514	9,032,409
Land Improvements	0	73,396		73,396
Less Accumulated Depreciation for:				
Buildings and Improvements	17,583,167	1,112,227	1,474,852	17,220,542
Equipment	5,192,698	1,147,481	355,845	5,984,334
Land Improvements	<u>0</u>	<u>4,340</u>	<u>-1,362</u>	<u>5,702</u>
Total Capital Assets, Being Depreciated, Net	\$ <u>42,694,803</u>	\$ <u>311,413</u>	\$ <u>-1,323,432</u>	\$ <u>44,329,648</u>
Governmental Activity Capital Assets - Net	\$ <u>48,099,905</u>	\$ <u>238,017</u>	\$ <u>-1,323,432</u>	\$ <u>49,661,354</u>

Note 5: CAPITAL ASSETS

Capital assets being acquired under capital leases as of June 30, 2006, are as follows:

	<u>Governmental Funds</u>
Buildings and Improvements	\$ 3,081,558
Equipment	489,243
Less: Accumulated Depreciation	<u>875,154</u>
	<u>\$ 2,695,647</u>

Current year depreciation expense by function is as follows:

Instruction		\$ 1,453,120
Support Services		
Pupil Services	\$ 8,761	
Improvement of Instructional Services	23,714	
Educational Media Services	80,607	
General Administration	1,921	
School Administration	206,251	
Business Administration	10,178	
Maintenance and Operation of Plant	51,917	
Student Transportation Services	120,481	
Central Support Services	29,858	
Other Support Services	<u>256</u>	533,944
Food Services		<u>276,984</u>
		<u>\$ 2,264,048</u>

Note 6: RESTRICTED ASSETS

Special Purpose Local Option Sales Tax (SPLOST) and Qualified Zone Academy Bonds (QZAB) escrow account and property tax levied specifically for retirement of outstanding bond principal, interest and paying agent's fees (Debt Service Funds) are reported as restricted assets in the Statement of Net Assets because their use is limited by applicable statutory provisions. Restricted assets at June 30, 2006, were as follows:

Note 6: RESTRICTED ASSETS

	<u>District-wide Capital Projects SPLOST</u>	<u>Debt Service Funds</u>
Restricted Cash and Cash Equivalents:		
Debt Services		\$ 2,074,930
Capital Acquisitions	\$ 3,481,235	
Restricted Investments:		
Debt Services		\$ 143,816

Note 7: INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2006, consisted of the following:

<u>Transfer to</u>	<u>Transfers From General Fund</u>
District-wide Capital Projects	\$ <u>989,872</u>

Transfers are used to move property tax revenues collected by the General Fund to the District-wide Capital Projects Fund as supplemental funding source for capital construction projects.

Note 8: RISK MANAGEMENT

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

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

Note 8: RISK MANAGEMENT

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

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

	<u>Beginning of Year Liability</u>	<u>Claims and Changes in Estimates</u>	<u>Claims Paid</u>	<u>End of Year Liability</u>
2005	\$ 0	\$ 16,989	\$ 16,989	\$ 0
2006	\$ 0	\$ 0	\$ 0	\$ 0

The School District participates in the Georgia School Boards Association Workers' Compensation Fund, a public entity risk pool organized on July 1, 1992, to develop, implement, and administer a program of workers' compensation self-insurance for its member organizations. The School District pays an annual premium to the Fund for its general insurance coverage. Additional insurance coverage is provided through an agreement by the Fund with the Safety National Casualty Corporation to provide coverage for potential losses sustained by the Fund in excess of \$400,000 loss per occurrence, up to \$1,000,000.

The School District has established a limited risk management program for dental insurance claims. A premium is charged by the General Fund to each user fund on the basis of employee participation in order to cover estimated claims budgeted by management based on known claims and prior experience. The School District accounts for claims with expenditures and liability being reported when it is probable that a loss has occurred, and the amount of that loss can be reasonably estimated.

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

	<u>Beginning of Year Liability</u>	<u>Claims and Changes in Estimates</u>	<u>Claims Paid</u>	<u>End of Year Liability</u>
2005	\$ 0	\$ 340,328	\$ 340,328	\$ 0
2006	\$ 0	\$ 340,223	\$ 340,223	\$ 0

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

<u>Position Covered</u>	<u>Amount</u>
Superintendent	\$ 50,000
All Employees	\$ 100,000

Note 9: LONG-TERM DEBT

CAPITAL LEASES

The City of Gainesville Board of Education has entered into various lease agreements as lessee for computers, portable classrooms, facilities, air/heat management system and a Qualified Zone Academy Bond lease for renovation projects and equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception.

GENERAL OBLIGATION DEBT OUTSTANDING

General Obligation Bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
General Government - Series 2001	2.55% - 3.50%	\$ 3,565,000
General Government - Series 2002	3.125% - 3.60%	<u>3,660,000</u>
		<u>\$ 7,225,000</u>

The changes in Long-Term Debt during the fiscal year ended June 30, 2006, were as follows:

	<u>Governmental Funds</u>			<u>Total</u>
	<u>Capital Leases</u>	<u>Long-Term Debt Agreement</u>	<u>General Obligation Bonds</u>	
Balance July 1, 2005	\$ 2,530,801	\$ 4,970,000	\$ 10,660,000	\$ 18,160,801
Additions				
Capital Leases	1,909,571			1,909,571
Deductions				
Debt Retired	<u>494,020</u>	<u>720,000</u>	<u>3,435,000</u>	<u>4,649,020</u>
Balance June 30, 2006	<u>\$ 3,946,352</u>	<u>\$ 4,250,000</u>	<u>\$ 7,225,000</u>	<u>\$ 15,421,352</u>
Portion of Long-Term Debt Due within One Year	<u>\$ 370,794</u>	<u>\$ 760,000</u>	<u>\$ 3,550,000</u>	<u>\$ 4,680,794</u>

At June 30, 2006, payments due by fiscal year which includes principal and interest for these items are as follows:

CITY OF GAINESVILLE BOARD OF EDUCATION - HALL COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2006

EXHIBIT "H"

Note 9: LONG-TERM DEBT

Fiscal Year Ended June 30	Capital Leases		Long-Term Debt Agreement	
	Principal	Interest	Principal	Interest
2007	\$ 370,794	\$ 59,059	\$ 760,000	\$ 226,888
2008	233,267	44,504	800,000	186,987
2009	245,622	32,148	850,000	144,587
2010	117,968	22,378	895,000	98,900
2011	124,364	15,982	945,000	50,794
2012 - 2016	234,084	11,522		
2017 - 2021	1,209,357			
2022	1,410,896			
Total Principal and Interest	\$ 3,946,352	\$ 185,593	\$ 4,250,000	\$ 708,156

Fiscal Year Ended June 30	General Obligation Debt	
	Principal	Interest
2007	\$ 3,550,000	\$ 249,436
2008	3,675,000	130,486
Total Principal and Interest	\$ 7,225,000	\$ 379,922

Note 10: SIGNIFICANT COMMITMENTS

The following is an analysis of significant outstanding construction or renovation contracts executed by the School District as of June 30, 2006:

<u>Project</u>	<u>Unearned Executed Contracts</u>
Gainesville High School Cafeteria Renovation	\$ 370,591

The amount described in this note is not reflected in the basic financial statements.

Note 11: SIGNIFICANT CONTINGENT LIABILITIES

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

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

Note 12: SUBSEQUENT EVENTS

On July 18, 2006, the voters of Hall County voted in favor of a Special Purpose Local Option Sales Tax Referendum for educational purposes. The imposition of the tax approved by the voters, as stated on the Official Ballot of Hall County, is as follows:

"Shall a one percent sales and use tax for educational purposes be continued in Hall County for a period of time not to exceed five years, beginning with the calendar quarter following the calendar quarter in which the sales and use tax for educational purposes presently in effect expires, and for the raising of not more than \$197,000,000 to be distributed between the Hall County School District, the City of Gainesville School District and the City of Buford School District according to the FTE count, as provided in the Georgia Constitution, or such other local law as may be agreed to by the parties (provided, however, that in no event shall the City of Buford School District receive more nor less than \$3,000,000), for the following purposes: For the City of Gainesville School District, (i) paying a portion of the payments, including principal and interest, due on the City of Gainesville School District's Series 1991 and 1993 Bonds, with a maximum payment amount of \$2,000,000; (ii) acquiring, constructing and equipping a new middle school, acquiring, constructing and equipping additional classrooms and instructional and support space, remodeling, renovating and equipping existing classrooms and instructional and support space at existing schools, acquiring and conducting site preparation of real estate for School District purposes, and acquiring furnishing, equipment and fixtures for new and existing facilities system-wide, including technology equipment, with the estimated cost of such projects to be financed from funds raised by the Sales Tax being \$32,000,000; and (iii) payment of any general obligation debt of the City of Gainesville School District issued in conjunction with the imposition of the Sales Tax.

If the imposition of the tax is approved by the voters in the City of Gainesville School District, such vote shall also constitute approval of the issuance of general obligation debt of the City of Gainesville School District in the maximum aggregate principal amount of \$25,000,000 for the purposes set forth in item (ii) above, for the City of Gainesville School District and for the purpose of payment of a portion of the interest on such debt."

On December 14, 2006, the City of Gainesville Board of Education issued bonds in the amount of \$20,160,000 for the purposes set forth in item (ii) above, for the City of Gainesville School District and for the purpose of payment of a portion of the interest on such debt.

Note 13: RETIREMENT PLANS

TEACHERS RETIREMENT SYSTEM OF GEORGIA (TRS)

TRS PLAN DESCRIPTION

Substantially all teachers, administrative and clerical personnel employed by local school systems are covered by the Teachers Retirement System of Georgia (TRS), which is a cost-sharing multiple employer defined benefit pension plan. TRS provides service retirement, disability retirement and

Note 13: RETIREMENT PLANS

survivors benefits for its members in accordance with State statute. 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.

TRS CONTRIBUTIONS REQUIRED AND MADE

Employees of the School District who are covered by TRS are required by State statute to contribute 5% of their gross earnings to TRS. The School District makes monthly employer contributions to TRS at rates adopted by the TRS Board of Trustees in accordance with State statute and as advised by their independent actuary. The required employer contribution rate is 9.24% and employer contributions for the current fiscal year and the preceding two fiscal years are as follows:

<u>Fiscal Year</u>	<u>Percentage Contributed</u>	<u>Required Contribution</u>
2006	100%	\$ 2,432,618
2005	100%	\$ 2,227,934
2004	100%	\$ 2,072,393

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CITY OF GAINESVILLE BOARD OF EDUCATION - HALL COUNTY
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2006

SCHEDULE "1"

	NONAPPROPRIATED BUDGETS		ACTUAL AMOUNTS
	ORIGINAL (1)	FINAL	
REVENUES			
Property Taxes	\$ 20,300,000	\$ 20,300,000	\$ 19,236,890
Sales Taxes		90,528	92,220
State Funds	17,075,398	18,818,451	19,189,018
Federal Funds	98,413	7,376,440	6,835,209
Charges for Services	112,500	1,098,505	1,098,505
Investment Earnings		278,014	228,022
Miscellaneous	25,014	703,230	1,112,072
	\$ 37,611,325	\$ 48,665,168	\$ 47,791,936
EXPENDITURES			
Current			
Instruction	\$ 27,201,849	\$ 28,845,292	\$ 29,411,060
Support Services			
Pupil Services	1,567,552	1,864,205	1,839,959
Improvement of Instructional Services	1,645,448	1,938,996	1,670,398
Educational Media Services	839,489	923,556	868,075
General Administration	669,718	682,518	900,050
School Administration	2,451,964	2,411,733	2,750,921
Business Administration	416,124	416,124	758,018
Maintenance and Operation of Plant	2,644,367	2,641,668	3,940,447
Student Transportation Services	1,796,581	1,822,252	1,772,259
Central Support Services	58,536	66,008	225,910
Other Support Services	176,992	183,977	281,415
Enterprise Operations			390,695
Community Services			30,497
Food Services Operation	19,469	19,469	2,333,271
Capital Outlay	450,429	503,143	61,500
Debt Service			452,507
	\$ 39,938,518	\$ 42,318,941	\$ 47,686,982
Excess of Revenues over (under) Expenditures	\$ -2,327,193	\$ 6,346,227	\$ 104,954
OTHER FINANCING SOURCES (USES)			
Other Sources		\$ 146,773	\$ 498,675
Other Uses		-12,702	-989,872
Total Other Financing Sources (Uses)		\$ 134,071	\$ -491,197
Net Change in Fund Balances	\$ -2,327,193	\$ 6,480,298	\$ -386,243
Fund Balances - Beginning	1,780,403	909,018	2,798,053
Fund Balances - Ending	\$ -546,790	\$ 7,389,316	\$ 2,411,810

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

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

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

See notes to the basic financial statements.

CITY OF GAINESVILLE BOARD OF EDUCATION - HALL COUNTY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2006

SCHEDULE "2"

FUNDING AGENCY PROGRAM/GRANT	<u>CFDA NUMBER</u>	<u>PASS- THROUGH ENTITY ID NUMBER</u>	<u>EXPENDITURES IN PERIOD</u>
Agriculture, U. S. Department of			
Child Nutrition Cluster			
Pass-Through From Georgia Department of Education			
Food Services			
School Breakfast Program	* 10.553	N/A	(2)
National School Lunch Program	* 10.555	N/A	\$ <u>2,150,036</u>
Total Child Nutrition Cluster			\$ 2,150,036
Other Programs			
Pass-Through From Georgia Department of Education			
Food Donation (1)	10.550	N/A	<u>75,003</u>
Total U. S. Department of Agriculture			\$ <u>2,225,039</u>
Corporation for National and Community Service			
Pass-Through From Georgia Department of Education			
Learn and Serve America			
School and Community Based Programs	94.004	N/A	\$ <u>17,841</u>
Education, U. S. Department of			
Special Education Cluster			
Pass-Through From Georgia Department of Education			
Special Education			
Grants to States	* 84.027	N/A	\$ 741,217
Preschool Grants	* 84.173	N/A	<u>27,674</u>
Total Special Education Cluster			\$ 768,891
Direct			
Even Start Migrant Education	84.214		208,804
Other Programs			
Pass-Through From Georgia Department of Education			
Education for Homeless Children and Youth			
	84.196	N/A	73,000
English Language Acquisition Grant			
	84.365	N/A	235,420
Enhancing Education Through Technology Program			
	84.318	N/A	87,251
Even Start			
	* 84.213	N/A	376,978
Hurricane Education Recovery			
	* 84.938	N/A	(3)
Improving Teacher Quality State Grants			
	84.367	N/A	198,603
Migrant Education			
	84.011	N/A	278,549
Rural Education			
	84.358	N/A	1,945
Safe and Drug-Free Schools and Communities - National Programs			
	84.184	N/A	55,357
Safe and Drug-Free Schools and Communities			
	84.186	N/A	38,570
State Grants for Innovative Programs			
	84.298	N/A	21,036
Title I Grants to Local Educational Agencies			
	* 84.010	N/A	1,791,393
Vocational Education - Basic Grants to States			
	84.048	N/A	58,277
Pass-Through From Pioneer Regional Educational Service Agency			
Safe and Drug-Free Schools and Communities	84.186	N/A	<u>56,832</u>
Total U. S. Department of Education			\$ <u>4,250,906</u>
Total Federal Financial Assistance			\$ <u><u>6,493,786</u></u>

N/A = Not Available

CITY OF GAINESVILLE BOARD OF EDUCATION - HALL COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006

SCHEDULE "2"

Notes to the Schedule of Expenditures of Federal Awards

- (1) The amount shown for the Food Donation Program represents the Federally assigned value of nonmonetary assistance for donated commodities received and/or consumed by the School District during the current fiscal year.
- (2) Expenditures for the funds earned on the School Breakfast Program (\$634,444) were not maintained separately and are included in the 2006 National School Lunch Program.
- (3) Funds earned on the Hurricane Education Recovery program, in the amount of \$207,033, do not require reporting of expenditures.

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

The School District did not provide Federal Assistance to any Subrecipient.

The accompanying schedule of expenditures of Federal awards includes the Federal grant activity of the City of Gainesville Board of Education and is presented on the modified accrual basis of accounting which is the basis of accounting used in the presentation of the fund financial statements.

CITY OF GAINESVILLE BOARD OF EDUCATION - HALL COUNTY
SCHEDULE OF STATE REVENUE
YEAR ENDED JUNE 30, 2006

SCHEDULE "3"

<u>AGENCY/FUNDING</u>	<u>GOVERNMENTAL FUND TYPE</u>
	<u>GENERAL FUND</u>
GRANTS	
Bright From the Start:	
Georgia Department of Early Care and Learning	
Pre-Kindergarten Program	\$ 418,142
Education, Georgia Department of	
Quality Basic Education	
Direct Instructional Cost	
Kindergarten Program	2,048,132
Kindergarten Program - Early Intervention Program	40,286
Primary Grades (1-3) Program	3,689,482
Primary Grades - Early Intervention (1-3) Program	218,625
Upper Elementary Grades (4-5) Program	1,700,003
Upper Elementary Grades - Early Intervention (4-5) Program	180,664
Middle School (6-8) Program	2,476,262
High School General Education (9-12) Program	1,760,615
Vocational Laboratory (9-12) Program	545,334
Students with Disabilities	
Category I	68,968
Category II	87,164
Category III	701,442
Category IV	246,080
Category V	68,242
Gifted Student - Category VI	196,377
Alternative Education Program	174,693
English Speakers of Other Languages (ESOL)	1,347,386
Media Center Program	450,530
20 Days Additional Instruction	139,155
Staff and Professional Development	88,611
Indirect Cost	
Central Administration	563,340
School Administration	843,013
Facility Maintenance and Operations	1,246,160
Categorical Grants	
Pupil Transportation	
Regular	312,696
Bus Replacement	51,852
Sparsity	20,000
Nursing Services	112,129
Principal Supplements	18,588
Vocational Supervisors	9,092
Migrant Education	6,488
Food Services	108,232
Vocational Education	48,869
Austerity Reduction	-1,059,484
Other State Programs	
K-8 Statewide Reading and Math Program	89,651
National Teacher Certification	53,570
Preschool Handicapped Program	88,709
Special Education Low Incidence Grant	29,920
	<u>\$ 19,189,018</u>

See notes to the basic financial statements.

CITY OF GAINESVILLE BOARD OF EDUCATION - HALL COUNTY
 SCHEDULE OF APPROVED LOCAL OPTION SALES TAX PROJECTS
 YEAR ENDED JUNE 30, 2006

SCHEDULE "4"

<u>PROJECT</u>	<u>ORIGINAL ESTIMATED COST (1)</u>	<u>CURRENT ESTIMATED COSTS (2)</u>	<u>AMOUNT EXPENDED IN CURRENT YEAR (3)</u>	<u>AMOUNT EXPENDED IN PRIOR YEARS (3)</u>	<u>PROJECT STATUS</u>
Paying a portion of the payments, including principal and interest, due on the School District's Series 1991 and 1993 Bonds.	\$ 2,000,000	\$ 2,000,000			Ongoing
Acquiring, constructing and equipping of two new elementary schools, additional classrooms, instructional and support space, remodeling, renovating and equipping of existing classrooms, instructional and support spaces, acquiring furnishings, equipment and fixtures for new and existing facilities and acquiring and conducting site preparation of real estate for School District purposes. In addition, the resolution authorized the issuance of \$16,100,000 in general obligation debt. These bonds have been issued and the proceeds of the bonds will be used for the purposes set forth in the resolution. As a result, a portion of the SPLOST proceeds will be used to service these bonds.	<u>23,462,770</u>	<u>24,660,375</u>	<u>\$ 762,388</u>	<u>\$ 23,898,525</u>	Ongoing
	<u>\$ 25,462,770</u>	<u>\$ 26,660,375</u>	<u>\$ 762,388</u>	<u>\$ 23,898,525</u>	

- (1) The School District's original cost estimate as specified in the resolution calling for the imposition of the Local Option Sales Tax.
- (2) The School District's current estimate of total cost for the projects. Includes all cost from project inception to completion.
- (3) The voters of Hall County approved the imposition of a 1% sales tax to fund the above projects and retire associated debt. Amounts expended for these projects may include sales tax proceeds, state, local property taxes and/or other funds over the life of the projects.

See notes to the basic financial statements.

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CITY OF GAINESVILLE BOARD OF EDUCATION - HALL COUNTY
 GENERAL FUND - QUALITY BASIC EDUCATION PROGRAM (QBE)
 ALLOTMENTS AND EXPENDITURES BY PROGRAM
 YEAR ENDED JUNE 30, 2006

SCHEDULE "5"

DESCRIPTION	ALLOTMENTS FROM GEORGIA DEPARTMENT OF EDUCATION (1) (2)	ELIGIBLE QBE PROGRAM COSTS		
		SALARIES	OPERATIONS	TOTAL
Direct Instructional Programs				
Kindergarten Program	\$ 2,586,849	\$ 2,544,497	\$ 90,540	\$ 2,635,037
Kindergarten Program-Early Intervention Program	57,754	55,450	6,287	61,737
Primary Grades (1-3) Program	4,742,041	4,868,843	317,894	5,186,737
Primary Grades-Early Intervention (1-3) Program	303,514	224,138	10,405	234,543
Upper Elementary Grades (4-5) Program	2,165,269	2,374,372	115,649	2,490,021
Upper Elementary Grades-Early Intervention (4-5) Program	229,570	124,326	6,873	131,199
Middle School (6-8) Program	3,166,917	3,140,949	222,950	3,363,899
High School General Education (9-12) Program	2,297,729	3,815,308	374,129	4,189,437
Vocational Laboratory (9-12) Program	713,815	709,683	71,490	781,173
Students with Disabilities	1,510,255			
Category I			4,512	4,512
Category II		495,576	4,739	500,315
Category III		1,379,202	51,506	1,430,708
Category IV		183,061	718	183,779
Gifted Student - Category VI	247,046	403,711	5,584	409,295
Alternative Education Program	226,100	205,637	9,404	215,041
English Speakers of Other Languages (ESOL)	<u>1,725,624</u>	<u>1,326,432</u>	<u>5,993</u>	<u>1,332,425</u>
TOTAL DIRECT INSTRUCTIONAL PROGRAMS	\$ 19,972,483	\$ 21,851,185	\$ 1,298,673	\$ 23,149,858
Media Center Program	578,850	666,726	78,604	745,330
Staff and Professional Development	<u>115,994</u>	<u>152,170</u>	<u>59,045</u>	<u>211,215</u>
TOTAL QBE FORMULA FUNDS	\$ <u>20,667,327</u>	\$ <u>22,670,081</u>	\$ <u>1,436,322</u>	\$ <u>24,106,403</u>

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

(2) Allotments do not include the impact of the State budget austerity reduction.

SECTION II
COMPLIANCE AND INTERNAL CONTROL REPORTS



DEPARTMENT OF AUDITS AND ACCOUNTS

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

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

July 11, 2007

Honorable Sonny Perdue, Governor
Members of the General Assembly
Members of the State Board of Education
and
Superintendent and Members of the
City of Gainesville Board of Education

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

Ladies and Gentlemen:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Gainesville Board of Education as of and for the year ended June 30, 2006, which collectively comprise City of Gainesville Board of Education's basic financial statements and have issued our report thereon dated July 11, 2007. This report was qualified for a departure from generally accepted accounting principles, as identified in the auditor's report on the basic financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Gainesville Board of Education's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect City of Gainesville Board of Education's ability to record, process, summarize and

report financial data consistent with assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items FS-7761-06-01, FS-7761-06-02, FS-7761-06-03, FS-7761-06-04 and FS-7761-06-05.

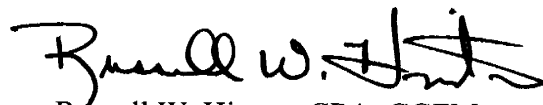
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items FS-7761-06-02, FS-7761-06-03 and FS-7761-06-05 to be material weaknesses.

Compliance and Other Matters

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

This report is intended solely for the information and use of the audit committee, management and members of the City of Gainesville Board of Education and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Russell W. Hinton, CPA, CGFM
State Auditor

RWH:as
2006YB-40



DEPARTMENT OF AUDITS AND ACCOUNTS

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

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

July 11, 2007

Honorable Sonny Perdue, Governor
Members of the General Assembly
Members of the State Board of Education
and
Superintendent and Members of the
City of Gainesville Board of Education

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133

Ladies and Gentlemen:

Compliance

We have audited the compliance of City of Gainesville Board of Education with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2006. City of Gainesville 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 City of Gainesville Board of Education's management. Our responsibility is to express an opinion on City of Gainesville 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 City of Gainesville Board of Education's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on City of Gainesville Board of Education's compliance with those requirements.

In our opinion, the City of Gainesville Board of Education complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2006. The results of our auditing procedures disclosed an instance of nonmaterial noncompliance with those requirements which is described in the accompanying Schedule of Findings and Questioned Costs as item FA-7761-06-03.

Internal Control Over Compliance

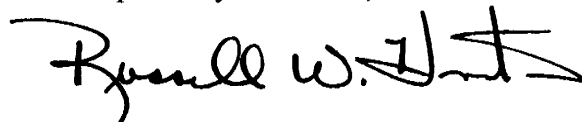
The management of City of Gainesville Board of Education is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered City of Gainesville Board of Education's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City of Gainesville Board of Education's ability to administer a major Federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items FA-7761-06-01 and FA-7761-06-02.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level of risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above are material weaknesses.

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

Respectfully submitted,



Russell W. Hinton, CPA, CGFM
State Auditor

SECTION III

AUDITEE'S RESPONSE TO PRIOR YEAR FINDINGS AND QUESTIONED COSTS

CITY OF GAINESVILLE BOARD OF EDUCATION - HALL COUNTY
AUDITEE'S RESPONSE
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

PRIOR YEAR FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

FINDING CONTROL NUMBER AND STATUS

FS-7761-05-01	Unresolved - See Corrective Action/Responses
FS-7761-05-02	Partially Resolved - See Corrective Action/Responses
FS-7761-05-03	Unresolved - See Corrective Action/Responses
FS-7761-05-04	Unresolved - See Corrective Action/Responses
FS-7761-05-05	Partially Resolved - See Corrective Action/Responses
FS-7761-05-06	Unresolved - See Corrective Action/Responses

CORRECTIVE ACTION/RESPONSES

CASH AND CASH EQUIVALENTS
EXPENDITURES/LIABILITIES/DISBURSEMENTS
Inadequate Controls over Principal Accounts
Finding Control Number: FS-7761-05-01

Cash and Cash Equivalents:

Discussed issue with bookkeepers. They must reconcile bank to books and have the principal sign off on the reconciliation.

The CD's were locked at GHS. CD's were faxed to auditors after fieldwork was complete when bookkeeper was able to unlock cabinet where CD's were stored. In order to avoid issue, all bank statements and CD's are filed quarterly with the Finance Department and a backup of QuickBooks is available for each school.

Expenditures/Liabilities/Disbursements:

Deficiencies discussed with bookkeepers. PO/requisitions must be done at the schools' level before services are rendered. Approval must be obtained prior to goods or services. Payment is to be made from original invoice. Only deviation that should occur is if item is billed and is not received. Reconciliation of payment amount should accompany payment not matching the invoice. All payments are to be made from original invoice. This helps not doubling payments to vendors. Bi-annual internal review will be conducted.

CITY OF GAINESVILLE BOARD OF EDUCATION - HALL COUNTY
AUDITEE'S RESPONSE
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

PRIOR YEAR FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

CORRECTIVE ACTION/RESPONSES

EXPENDITURES/LIABILITIES/DISBURSEMENTS
EMPLOYEE COMPENSATION

Salary Overpayments

Underpayment of Health Insurance

Finding Control Number: FS-7761-05-02

During fiscal year 2005, employee pay was calculated manually for each employee. There was not a review procedure in place. Pay was calculated based on prior year information by Finance Director and given to payroll department. Human Resources/Finance did not compare pay sheets to contracts issued. During fiscal year 2007, payroll calculations are prepared by Finance Clerk and reviewed by Finance Director. Copies of contract revisions were not obtainable by HR. Since HR changes and reorganization of HR, HR is communicating to Finance all certificate upgrades and contract/pay changes.

Payroll software, PC Genesis, automatically calculates State Health insurance premiums for employer and employee share for certified and classified staff. If an employee holds a valid certificate but is in a classified position, the classified rate is paid. The insurance premiums are based on position not employee.

EXPENDITURES/LIABILITIES/DISBURSEMENTS
GENERAL LEDGER

Inadequate Internal Control Procedures

Finding Control Number: FS-7761-05-03

A review of subsequent period checks will be reviewed for correct period reporting. Capital projects are managed by the Assistant Superintendent of Administrative Services. Finance Director will work with Assistant Superintendent of Administrative Services to identify contracts that extend past the fiscal year in order to properly record contracts payable. Personnel changes in the Administrative Department have occurred. Reorganization of duties is currently underway.

INVESTMENTS
GENERAL LEDGER

Escrow Account Not Recorded on General Ledger

Finding Control Number: FS-7761-05-04

QZAB debt service was recorded in prior year with an audit adjustment. Finance Director will provide auditor information to record the escrow account held by the Gainesville Redevelopment Authority. Finance Director will research and record in fiscal year 2007.

CITY OF GAINESVILLE BOARD OF EDUCATION - HALL COUNTY
AUDITEE'S RESPONSE
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

PRIOR YEAR FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

CORRECTIVE ACTION/RESPONSES

GENERAL LEDGER

Incomplete General Ledger/DE046 Financial Report
Finding Control Number: FS-7761-05-05

Accumulated depreciation and long-term debt were recorded as audit adjustments in the prior year. Accumulated depreciation has been recorded in fiscal year 2006. We are in the process of implementing the Munis financial software. Capital Assets is the next module to go live. All depreciation and assets will be in one system.

CAPITAL ASSETS

Failure to Adequately Maintain Capital Assets
Finding Control Number: FS-7761-05-06

The School District will implement financial software that contains a fixed asset module. Currently the fixed asset database is cumbersome and does not calculate depreciation. Staff must calculate this item by item for 8000+ assets listed. In order to record assets, a quarterly review of each asset expense account is reviewed and entries are made to record on Genesis and on the database. New software will allow the requisition to be marked as an asset and recorded more accurately. Depreciation will be calculated based on tables loaded. Implementation of Munis asset module will correct.

CITY OF GAINESVILLE BOARD OF EDUCATION - HALL COUNTY
AUDITEE'S RESPONSE
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING CONTROL NUMBER AND STATUS

FA-7761-05-01	Previously Reported Corrective Action Implemented
FA-7761-05-02	Unresolved - See Corrective Action/Responses

CORRECTIVE ACTION/RESPONSES

SPECIAL TESTS AND PROVISIONS

Fiscal Requirements of Schoolwide Program Not Fully Implemented

U. S. Department of Education

Through Georgia Department of Education

Finding Control Number: FA-7761-05-02

The Special Program Director, Grants Administrator and Finance Director will combine two or more Federal programs after the consolidated application has been approved with Title I funds to meet the Schoolwide program requirements. Currently all funds are combined with local and state for budgeting purposes. However, they are accounted for separately. Implementing during fiscal year 2007 toward end of year after Munis conversion.

SECTION IV
FINDINGS AND QUESTIONED COSTS

CITY OF GAINESVILLE BOARD OF EDUCATION - HALL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

I SUMMARY OF AUDITOR'S RESULTS

1. Type of Report Issued on the Financial Statements

The auditor's opinion on the City of Gainesville Board of Education's financial statements was qualified for a departure from generally accepted accounting principles.

2. Reportable Conditions in Internal Control Disclosed by the Audit of the Financial Statements

The audit report for the City of Gainesville Board of Education disclosed financial statement reportable conditions related to the following control categories.

Cash and Cash Equivalents	Expenditures/Liabilities/Disbursements
Investments	General Ledger
Revenues/Receivables/Receipts	Capital Assets

Of the reportable conditions described above, Investments, Revenues/Receivables/Receipts, Expenditures/Liabilities/Disbursements, General Ledger and Capital Assets are considered to be material weaknesses.

3. Noncompliance Material to the Financial Statements

The audit of the City of Gainesville Board of Education disclosed no instances of noncompliance that were deemed to be material to the financial statements.

4. Reportable Conditions in Internal Control Over Major Programs

The audit report for the City of Gainesville Board of Education disclosed reportable conditions in internal control over major programs for the following compliance requirements.

Activities Allowed or Unallowed	Eligibility
---------------------------------	-------------

The reportable conditions described above are not considered to be material weaknesses.

5. Type of Report Issued on Compliance for Major Programs

The auditor's opinion on the City of Gainesville Board of Education's report on compliance with requirements applicable to major programs was unqualified.

6. Audit Findings Required to be Reported by Section .510(a) of OMB Circular A-133

The City of Gainesville Board of Education's audit disclosed audit findings required to be reported by section .510(a) of OMB Circular A-133. These audit findings are included in section IV of this report.

CITY OF GAINESVILLE BOARD OF EDUCATION - HALL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

I SUMMARY OF AUDITOR'S RESULTS

7. Major Programs

Federal awards audited as major programs are as follows:

- 10.553 Food Services - School Breakfast Program
- 10.555 Food Services - National School Lunch Program
- 84.010 Title I Grants to Local Educational Agencies
- 84.027 Special Education - Grants to States
- 84.173 Special Education - Preschool Grants
- 84.213 Even Start
- 84.938 Hurricane Education Recovery

8. Type "A" Program Dollar Threshold

The dollar threshold for type "A" programs was \$300,000.

9. Low Risk Auditee

The City of Gainesville Board of Education did not qualify as a low risk auditee as defined by Section .530 of OMB Circular A-133.

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

CASH AND CASH EQUIVALENTS

REVENUES/RECEIVABLES/RECEIPTS

EXPENDITURES/LIABILITIES/DISBURSEMENTS

Inadequate Internal Controls Over Principal Accounts

Reportable Condition

Finding Control Number: FS-7761-06-01

Condition: This is a repeat finding (FS-7761-05-01) from the year ended June 30, 2005. The accounting procedures of the School District were insufficient to provide for adequate internal controls over the school activity accounts.

Criteria: The School District's management is responsible for designing and maintaining internal controls that provide reasonable assurance that transactions are properly processed and reported in accordance with State law, procedures established by the Georgia Department of Education and School District policies and procedures.

Questioned Cost: N/A

CITY OF GAINESVILLE BOARD OF EDUCATION - HALL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

CASH AND CASH EQUIVALENTS
REVENUES/RECEIVABLES/RECEIPTS
EXPENDITURES/LIABILITIES/DISBURSEMENTS
Inadequate Internal Controls Over Principal Accounts
Reportable Condition
Finding Control Number: FS-7761-06-01

Information: Cash and Cash Equivalents

- Four bank accounts were not reconciled to the total cash listed on the general ledger as presented for audit.
- Two certificates of deposit were not recorded on the general ledger as presented for audit.
- One demand deposit account was not recorded on the general ledger as presented for audit.
- The bank reconciliation process was not separated from the record keeping functions.

 Revenues/Receivables/Receipts

- Deposit preparation was not separated from the receipt collection process and the record keeping functions.
- Seventeen of the twenty-four receipt items tested were not adequately documented.

 Expenditures/Liabilities/Disbursements

- The check writing function was not separated from the record keeping or processing of signed checks function.
- Twenty-two of the twenty-four vouchers tested contained no purchase order or equivalent and ten of the twenty-four vouchers tested contained no supervisory approval.
- Eleven of the twenty-four vouchers tested contained no documentation of receipt of goods.

Cause: These deficiencies were a result of management's failure to ensure that internal controls were established, implemented and functioning at the school level.

Effect: Errors and/or irregularities may not be detected in a timely manner.

Recommendation: Management should revise and monitor controls to provide reasonable assurance that transactions are processed according to established procedures.

CITY OF GAINESVILLE BOARD OF EDUCATION - HALL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

INVESTMENTS

EXPENDITURES/LIABILITIES/DISBURSEMENTS

GENERAL LEDGER

Escrow Account not Recorded on General Ledger

Reportable Condition - Material Weakness

Finding Control Number: FS-7761-06-02

Condition: This is a repeat finding (FS-7761-05-04) from the year ended June 30, 2005. The School District failed to include all fiscal year activity in the DE046 financial report submitted to the Georgia Department of Education.

Criteria: Chapter 22 *Annual Financial Reporting* of the Financial Management for Georgia Local Units of Administration indicates that School Districts must prepare their financial statements in accordance with generally accepted accounting principles.

Questioned Cost: N/A

Information: The following adjustments were proposed and made to present the financial statements in accordance with generally accepted accounting principles:

- The 2003 Qualified Zone Academy Bond (QZAB) escrow account was not recorded on the general ledger. An audit adjustment for \$143,816 was necessary to record this account in the School District's governmental activities.
- The 2005 Qualified Zone Academy Bond (QZAB) issuance costs were not recorded on the general ledger. An audit adjustment for \$46,512 was necessary to record this expenditure in the School District's governmental activities.

Cause: Management failed to comply with the requirements of the Georgia Department of Education regarding financial reporting.

Effect: The failure of the School District to maintain a complete and accurate general ledger can lead to inaccurate internal and external reporting.

Recommendation: The School District should implement controls to ensure that Georgia Department of Education's policies and procedures are followed and established procedures to ensure that all financial data is properly recorded in the general ledger and reported in the DE046.

CITY OF GAINESVILLE BOARD OF EDUCATION - HALL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

REVENUES/RECEIVABLES/RECEIPTS
EXPENDITURES/LIABILITIES/DISBURSEMENTS
GENERAL LEDGER

Incomplete General Ledger/DE046 Financial Report
Reportable Condition - Material Weakness
Finding Control Number: FS-7761-06-03

Condition: This is a repeat finding (FS-7761-05-03 and FS-7761-05-05) from the year ended June 30, 2005. The School District failed to include all fiscal year activity in the DE046 financial report submitted to the Georgia Department of Education.

Criteria: Chapter 22 *Annual Financial Reporting* of the Financial Management for Georgia Local Units of Administration indicates that School Districts must prepare their financial statements in accordance with generally accepted accounting principles.

Questioned Cost: N/A

Information: An audit adjustment in the amount of \$2,225,537 was proposed and made to transfer Special Purpose Local Option Sales Tax (SPLOST) revenues from Capital Projects Fund to Debt Service Fund to eliminate a fund deficit.

Audit adjustments totaling \$1,040,148 were proposed and made to transfer cash from General Fund to Capital Projects Fund and within Capital Projects Fund to eliminate fund deficits.

The School District failed to provide an analysis of significant commitments for construction projects.

Our examination of the subsequent period general ledger revealed expenditures totaling \$55,228 that should have been recorded in the year under review. An audit adjustment was proposed and made to record these expenditures in the School District's governmental activities.

Audit adjustments totaling \$15,374,839 were proposed and made to record long-term debt and capital lease activity to present the financial statements in accordance with generally accepted accounting principles and Georgia Department of Education policies and procedures.

Cause: Management failed to comply with the requirements of the Georgia Department of Education regarding financial reporting.

CITY OF GAINESVILLE BOARD OF EDUCATION - HALL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

REVENUES/RECEIVABLES/RECEIPTS
EXPENDITURES/LIABILITIES/DISBURSEMENTS
GENERAL LEDGER

Incomplete General Ledger/DE046 Financial Report
Reportable Condition - Material Weakness
Finding Control Number: FS-7761-06-03

Effect: The failure of the School District to maintain a complete and accurate general ledger can lead to inaccurate internal and external reporting.

Recommendation: The School District should implement controls to ensure that Georgia Department of Education's policies and procedures are followed and establish procedures to ensure that all financial data is properly recorded in the general ledger and reported in the DE046.

EXPENDITURES/LIABILITIES/DISBURSEMENTS
GENERAL LEDGER

Inadequate Accounting Controls
Reportable Condition
Finding Control Number: FS-7761-06-04

Condition: The School District failed to implement internal controls to ensure that general ledger balances are properly reconciled to the subsidiary ledgers and to ensure that general ledger balances are monitored and appropriately adjusted.

Criteria: Chapter 22 *Annual Financial Reporting of the Financial Management for Georgia Local Units of Administration* indicates the School Districts must prepare their financial statements in accordance with generally accepted accounting principles.

Questioned Cost: N/A

Information: Our examination of the accounting records revealed the following deficiencies:

- The open accounts payable listing for June 30, 2006, did not agree with the general ledger accounts payable balance by \$24,842.
- Numerous Federal Program funds had deficit balances at June 30, 2006.

CITY OF GAINESVILLE BOARD OF EDUCATION - HALL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

EXPENDITURES/LIABILITIES/DISBURSEMENTS

GENERAL LEDGER

Inadequate Accounting Controls

Reportable Condition

Finding Control Number: FS-7761-06-04

Cause: Management failed to reconcile subsidiary ledgers to the general ledger and failed to properly monitor program expenditures, request appropriate funds from Federal agencies and/or post operating transfers between funds where appropriate.

Effect: The failure of the School District to maintain an accurate general ledger can lead to inaccurate internal and external reporting.

Recommendation: The School District should implement controls to ensure that all financial data is properly recorded in the general ledger.

CAPITAL ASSETS

Failure to Adequately Maintain Capital Assets

Reportable Condition - Material Weakness

Finding Control Number: FS-7761-06-05

Condition: This is a repeat finding (FS-7761-05-06) from the year ended June 30, 2005. The School District failed to adequately maintain capital assets listing.

Criteria: Chapter 37 *Fixed Assets* of the Financial Management for Georgia Local Units of Administration indicates that School Districts must establish fixed asset policies, define system requirements, implement a fixed asset system and maintain fixed asset inventory records.

Questioned Cost: N/A

Information: No reconciliation was provided to tie the capital asset accumulated depreciation listing to the general ledger. Capital asset records for accumulated depreciation and depreciation expense were incomplete. A variance of \$843,638 was noted between the accumulated depreciation listing provided for audit purposes and the accumulated depreciation balance on the general ledger.

A variance of \$6,139,987 was noted between the formal capital assets listing and the capital asset balance on which accumulated depreciation and depreciation expense were calculated.

CITY OF GAINESVILLE BOARD OF EDUCATION - HALL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

CAPITAL ASSETS

Failure to Adequately Maintain Capital Assets
Reportable Condition - Material Weakness
Finding Control Number: FS-7761-06-05

An analysis of Construction in Progress (CIP) was not completed for the year under review; therefore, no construction in progress was included on the capital assets listing subsidiary ledger or general ledger.

Cause: The School District failed to properly maintain its capital assets records in accordance with the School District's approved capital assets policy.

Effect: The failure of the School District to maintain a complete and accurate capital assets listing can lead to inaccurate internal and external reporting, as well as noncompliance with generally accepted accounting principles.

Recommendation: The School District should review its capital assets records and make appropriate adjustments to ensure that the capital assets records conform to the School District's approved capital assets policy and generally accepted accounting principles.

III FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

ACTIVITIES ALLOWED OR UNALLOWED

Inadequate Internal Control Procedures
Reportable Condition
U. S. Department of Education
Through Georgia Department of Education
Hurricane Education Recovery (CFDA No. 84.938)
Finding Control Number: FA-7761-06-01

Condition: The School District did not have procedures in place to ensure that Hurricane Education Recovery Act (HERA) funds provided for displaced students reported as having disabilities were used for the excess costs of providing special education and related services to students with disabilities.

Criteria: The following guidance applied to the management of Emergency Impact Aid for displaced Students to include funds made available for displaced students:

CITY OF GAINESVILLE BOARD OF EDUCATION - HALL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

III FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

ACTIVITIES ALLOWED OR UNALLOWED

Inadequate Internal Control Procedures

Reportable Condition

U. S. Department of Education

Through Georgia Department of Education

Hurricane Education Recovery (CFDA No. 84.938)

Finding Control Number: FA-7761-06-01

1. Section 107(e)(4) of HERA,
2. Volumes "I" and "II" of U. S. Department of Education (USED) guidelines included in "Frequently Asked Questions, Emergency Impact Aid for Displaced Students", and
3. State of Georgia issued publication titled "Georgia Guidance on Federal Emergency Hurricane Act" (GDOE Guidelines).

Provisions of HERA, USED and GDOE Guidelines state that HERA funds for students with disabilities may only be used to pay for special education and related service consistent with the Individuals with Disabilities Education Act (IDEA). Both Volumes "I" and "II" of USED guidance state that the funds provided for students with disabilities must be recorded and tracked separately from those HERA funds provided for non-disabled students. This Federal requirement was not specifically included in GDOE Guidelines.

Provisions of HERA and GDOE guidelines state that these funds may become a part of a School District's special education budget to ensure that they are only used to pay for special education and related service consistent with IDEA. The guidelines further state that since these funds are to be applied and used in a similar manner as funds made available under Part B of IDEA, it was also advised to consult with State and local staff who are cognizant of IDEA requirements.

Questioned Cost: \$7,425

Information: HERA funds received by the School District included \$7,425 for students with disabilities. Although required by Federal guidelines, the receipt and expenditure of these funds were not maintained separately.

We further noted that the budget for special education was not modified for the increase in HERA funds designated for special education and related purposes. There was no evidence that State of or local special education staff were consulted about the use of these funds.

CITY OF GAINESVILLE BOARD OF EDUCATION - HALL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

III FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

ACTIVITIES ALLOWED OR UNALLOWED

Inadequate Internal Control Procedures

Reportable Condition

U. S. Department of Education

Through Georgia Department of Education

Hurricane Education Recovery (CFDA No. 84.938)

Finding Control Number: FA-7761-06-01

Cause: The School District relied solely on GDOE Guidelines which did not require that the School District provide separate accountability of HERA funds provided for students with disabilities. Consideration had not been given to consulting with local and State special education staff or revising its special education budget to ensure that these HERA funds were applied in line with IDEA.

Effect: We were unable to verify if the \$7,425 of HERA funds earmarked for students with disabilities were used for special education and related purposes.

Recommendation: Management should ensure that procedures are in place to comply with both Federal and State guidelines when administering HERA funds for special education purposes. GDOE should review this matter and determine if these funds were used properly or if a refund is appropriate.

ELIGIBILITY

Failure to Properly Document Displaced Students

Reportable Condition

U. S. Department of Education

Through Georgia Department of Education

Hurricane Education Recovery (CFDA No. 84.938)

Finding Control Number: FA-7761-06-02

Condition: A review of the School District's eligibility procedures for the Hurricane Education Recovery Act (HERA) (CFDA 84.938) indicated that inadequate eligibility determinations were maintained.

CITY OF GAINESVILLE BOARD OF EDUCATION - HALL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

III FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

ELIGIBILITY

Failure to Properly Document Displaced Students

Reportable Condition

U. S. Department of Education

Through Georgia Department of Education

Hurricane Education Recovery (CFDA No. 84.938)

Finding Control Number: FA-7761-06-02

Criteria: School Districts are required to keep records to show compliance with program requirements as included in (34 CFR section 76.731). Therefore, School Districts must document that, on August 22, 2005, each reported displaced student was enrolled, or eligible to be enrolled, in a public or non-public school within the disaster areas covered by Hurricane Katrina or Rita. Examples of documentation include, but not limited to:

- A transcript from the student's former school,
- student registration form with former address,
- verification of enrollment from an SEA,
- a utility bill, and
- a copy of a parent's driver license.

Questioned Cost: \$9,000

Information: A review of twenty-three displaced student files resulted in two students being classified as not eligible for inclusion in the School District's displaced students FTE counts. Insufficient documentation was available to support the criteria of a displaced student.

Cause: Management failed to implement appropriate procedures to ensure compliance in accordance with Federal guidelines.

Effect: Failure to ensure appropriate documentation was provided and maintained can result in noncompliance with the requirements of the Federal grant.

Recommendation: Procedures should be implemented to ensure that eligibility determinations for displaced student applications are performed in accordance with eligibility requirements. The Georgia Department of Education should evaluate the School District's compliance with program requirements and determine amounts to be reclaimed, if any.

CITY OF GAINESVILLE BOARD OF EDUCATION - HALL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

III FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

SPECIAL TESTS AND PROVISIONS

Fiscal Requirements of Schoolwide Program Not Fully Implemented

Nonmaterial Noncompliance

U. S. Department of Education

Through Georgia Department of Education

Title I Grants to Local Educational Agencies (CFDA No. 84.010)

Finding Control Number: FA-7761-06-03

Condition: This is a repeat finding (FA-7761-05-02) from the year ended June 30, 2005. The School District identified seven schools that participated in a schoolwide program funded with Title I Grants to Local Educational Agencies (CFDA 84.010); however, the School District did not consolidate the different Federal funds for each of those schools that participated in a schoolwide program.

Criteria: In accordance with provisions of U. S. Department of Education instructions and OMB Circular A-133, Compliance Supplement provisions, eligible schools are able to use their Title I, Part A funds, in combination with other Federal, State and local funds, in order to upgrade the entire educational program of the school and to raise academic achievements. By combining funds from Title I and other eligible U. S. Department of Education funded programs in support of a schoolwide program, U. S. Department of Education instructions provide that specific schoolwide program costs lose their identity but, only in those circumstances when funds are combined in a schoolwide program.

In line with OMB Circular A-87 requirements, schoolwide expenditures should be charged to those Federal funding sources supporting the schoolwide program in a reasonable manner. When more than one Federal program supports a schoolwide program, then schoolwide program expenditures may be allocated to specific Federal funds in proportion to the different Federal funds provided in support of the schoolwide program. To distribute such costs, provisions of OMB Circular A-87, Attachment E, F.3 state that a cost allocation plan should be developed, documented, and maintained for audit.

In July 2004, Georgia Department of Education issued accounting guidelines to the school Districts so that the Districts would be able to properly consolidate funds from the different Federal programs and allocate schoolwide expenditures in line with Federal requirements.

Questioned Cost: N/A

CITY OF GAINESVILLE BOARD OF EDUCATION - HALL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

III FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

SPECIAL TESTS AND PROVISIONS

Fiscal Requirements of Schoolwide Program Not Fully Implemented

Nonmaterial Noncompliance

U. S. Department of Education

Through Georgia Department of Education

Title I Grants to Local Educational Agencies (CFDA No. 84.010)

Finding Control Number: FA-7761-06-03

Information: Although required by U. S. Department of Education and OMB A-133 Compliance Supplement provisions, we found the School District had not combined the various Federal programs that supported each of the seven schoolwide programs. Furthermore, we noted that the School District arbitrarily charged each Federal fund with individual schoolwide expenditures rather than using a prescribed cost allocation plan to distribute schoolwide program expenditures to each funding source.

Cause: School District personnel were not fully aware of these requirements and the School District believed that schoolwide program expenditures lose their identity, therefore; any schoolwide program cost can be charged to Title I and other Federally funded programs.

Effect: Failure to appropriately consolidate Federal program funds in support of a schoolwide program costs can result in noncompliance with Federal and State requirements.

Recommendation: The School District should implement procedures to (1) combine such funds as prescribed by U. S. Department of Education and (2) in line with OMB Circular A-87 provisions, allocate such schoolwide program costs to the respective Federal funds in a reasonable manner. The School District should seek additional guidance from the Georgia Department of Education to implement procedures for combining and allocating schoolwide program expenditures.

SECTION V
MANAGEMENT'S RESPONSES

CITY OF GAINESVILLE BOARD OF EDUCATION - HALL COUNTY
SCHEDULE OF MANAGEMENT'S RESPONSES
YEAR ENDED JUNE 30, 2006

Finding Control Number: FS-7761-06-01

We concur with this finding.

Finding Control Number: FS-7761-06-02

We concur with this finding.

Finding Control Number: FS-7761-06-03

We concur with this finding.

Finding Control Number: FS-7761-06-04

We concur with this finding.

Finding Control Number: FS-7761-06-05

We concur with this finding.

Finding Control Number: FA-7761-06-01

We concur with this finding.

Finding Control Number: FA-7761-06-02

We concur with this finding.

Finding Control Number: FA-7761-06-03

We concur with this finding.

Contact Person: Dr. Steven E. Ballowe, Superintendent

E-mail Address: steven.ballowe@gcssk12.net