

**PAULDING COUNTY BOARD OF EDUCATION
DALLAS, 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**

PAULDING COUNTY BOARD OF EDUCATION

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PAULDING COUNTY BOARD OF EDUCATION

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SECTION I
FINANCIAL



DEPARTMENT OF AUDITS AND ACCOUNTS

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

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

June 15, 2007

Honorable Sonny Perdue, Governor
Members of the General Assembly
Members of the State Board of Education
and
Superintendent and Members of the
Paulding County Board of Education

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

Ladies and Gentlemen:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information (Exhibits A through H) of the Paulding County 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 Paulding County Board of Education's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Paulding County 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.

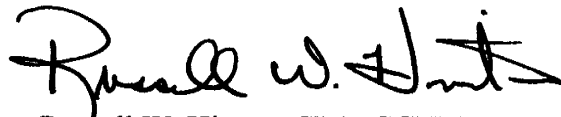
In accordance with Government Auditing Standards, we have also issued our report dated June 15, 2007, on our consideration of the Paulding County Board of Education's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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 viii 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 Paulding County 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", with a stylized flourish at the end.

Russell W. Hinton, CPA, CGFM
State Auditor

RWH:gp
2006ARL-11

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

The discussion and analysis of the Paulding County Board of Education's financial performance provides an overall review of the Board's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the Board's financial performance as a whole. Readers should also review the financial statements and the notes to the basic financial statements to enhance their understanding of the Board's financial performance.

This is the fourth year the Paulding County School District has prepared the annual financial report to comply with the new reporting model for financial statements (GASB Statement 34).

Financial Highlights

Key financial highlights for fiscal year 2006 are as follows:

- ✓ The Board's financial status continued to improve during fiscal year 2006. In total, net assets increased \$21.5 million, which represents a 14.9 percent increase from the fiscal year 2005 balance. This total increase was due to governmental activities since Board has no business-type activities.
- ✓ General revenues accounted for \$89.7 million in revenue or 43 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$119.0 million or 57 percent of total revenues. Total revenues were \$208.7 million.
- ✓ The Board had \$187.2 million in expenses related to governmental activities; only \$119.0 million of these expenses were offset by program specific charges for services, grants or contributions. General revenues, primarily taxes, of \$89.7 million were adequate to provide for these programs.
- ✓ Among major funds, the general fund had \$180.1 million in revenues and \$178.7 million in expenditures. The general fund's balance increased to \$20.2 million from \$19.8 million.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Paulding County Board of Education as a financial whole, or as an entire operating entity.

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the Board as a whole, presenting both an aggregate view of the Board's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Board's most significant funds. In the case of the Paulding County Board of Education, the general fund is by far the most significant fund.

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

Reporting the Board as a Whole

Statement of Net Assets and Statement of Activities

While these documents contain the large number of funds used by the Board to provide programs and activities, the view of the Board as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2006?" The *Statement of Net Assets* and the *Statement of Activities* answer this question. These statements include *all assets and all liabilities* using 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 Board's *net assets* and changes in those assets. This change in net assets is important because it tells the reader whether, for the Board as a whole, the *financial position* of the Board has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Nonfinancial factors include the Board's property tax base, facility conditions, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the Board has one distinct type of activity:

- Governmental Activities - All of the Board's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation, food service, after school program, school activity accounts and various others.

Reporting the Board's Most Significant Funds

Fund Financial Statements

Fund financial reports provide detailed information about the Board's major funds. The Board uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Board's most significant funds. The Board's major governmental funds are the General Fund, the District-wide Capital Projects Fund, and the Debt Service Fund.

Governmental Funds Most of the Board'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 an accounting method called *modified accrual* 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 Board's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the financial statements.

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

Fiduciary Funds The Board is the trustee, or *fiduciary*, for assets that belong to others, such as school clubs and organizations within the school activity accounts. The Board 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 Board excludes these activities from the district-wide financial statements because it cannot use these assets to finance its operations.

The Board as a Whole

The perspective of the Statement of Net Assets is of the Board as a whole. Table 1 provides a summary of the Board's net assets for fiscal year 2006.

**Table 1
Net Assets
(in Thousands)**

| | <u>Governmental Activities</u> | |
|---|--------------------------------|-----------------------------|
| | <u>Fiscal Year 2006</u> | <u>Fiscal Year 2005</u> |
| Assets | | |
| Current and Other Assets | \$ 90,666 | \$ 105,566 |
| Capital Assets, Net | <u>193,348</u> | <u>161,599</u> |
| Total Assets | \$ <u>284,014</u> | \$ <u>267,165</u> |
| Liabilities | | |
| Current and Other Liabilities | \$ 28,188 | \$ 25,026 |
| Long-Term Liabilities | <u>89,464</u> | <u>97,313</u> |
| Total Liabilities | \$ <u>117,652</u> | \$ <u>122,339</u> |
| Net Assets | | |
| Invested in Capital Assets, Net of Related Debt | \$ 130,330 | \$ 120,570 |
| Restricted | 23,276 | 10,199 |
| Unrestricted | <u>12,756</u> | <u>14,057</u> |
| Total Net Assets | \$ <u>166,362</u> | \$ <u>144,826</u> |

Total net assets increased \$21.5 million.

Table 2 shows the changes in net assets for fiscal year 2006 compared to the changes in net assets in fiscal year 2005.

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

**Table 2
Change in Net Assets
(in Thousands)**

| | <u>Governmental Activities</u> | |
|--|--------------------------------|-------------------|
| | <u>Fiscal</u> | <u>Fiscal</u> |
| | <u>Year 2006</u> | <u>Year 2005</u> |
| Revenues | | |
| Program Revenues: | | |
| Charges for Services and Sales | \$ 8,476 | \$ 7,245 |
| Operating Grants and Contributions | 101,598 | 87,035 |
| Capital Grants and Contributions | <u>8,959</u> | <u>9,813</u> |
| Total Program Revenues | \$ <u>119,033</u> | \$ <u>104,093</u> |
| General Revenues: | | |
| Taxes | | |
| Property Taxes | | |
| For Maintenance and Operations | \$ 47,831 | \$ 41,759 |
| For Debt Service | 3,331 | 2,915 |
| Sales Taxes | | |
| Special Purpose Local Option Sales Tax | | |
| For Debt Service | 6,859 | 1,606 |
| For Capital Projects | 7,480 | 12,323 |
| Intangible Recording Tax | 2,777 | 3,716 |
| Real Estate | 1,043 | 159 |
| Grants and Contributions not Restricted to | | |
| Specific Programs | 13,523 | 14,676 |
| Investment Earnings | 2,878 | 1,278 |
| Miscellaneous | <u>3,940</u> | <u>7,304</u> |
| Total General Revenues | \$ <u>89,662</u> | \$ <u>85,736</u> |
| Total Revenues | \$ <u>208,695</u> | \$ <u>189,829</u> |
| Program Expenses | | |
| Instruction | \$ 125,678 | \$ 108,673 |
| Support Services | | |
| Pupil Services | 3,245 | 2,547 |
| Improvement of Instructional Services | 4,564 | 7,885 |
| Educational Media Services | 3,036 | 2,584 |
| General Administration | 1,263 | 1,214 |
| School Administration | 10,547 | 9,067 |
| Business Administration | 1,527 | 1,591 |
| Maintenance and Operation of Plant | 11,180 | 10,118 |
| Student Transportation Services | 8,777 | 7,292 |
| Central Support Services | 914 | 505 |
| Other Support Services | 281 | 236 |
| Operations of Non-Instructional Services | | |
| Enterprise Operations | 1,456 | 1,222 |
| Community Services | 1,927 | 1,565 |
| Food Services | 8,543 | 7,644 |
| Interest on Short-Term and Long-Term Debt | <u>4,221</u> | <u>2,650</u> |
| Total Expenses | \$ <u>187,159</u> | \$ <u>164,793</u> |
| Increase in Net Assets | \$ <u>21,536</u> | \$ <u>25,036</u> |

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

Governmental Activities

Instruction comprises 67.2 percent of governmental program expenses. Interest expense comprises 2.3 percent of governmental program expenses. Interest expense was attributable to capital leases and the outstanding bonds for capital projects.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services comparing fiscal year 2006 with fiscal year 2005. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

**Table 3
Governmental Activities
(in Thousands)**

| | <u>Total Cost of Services</u> | | <u>Net Cost of Services</u> | |
|---|-------------------------------|-------------------|-----------------------------|------------------|
| | <u>Fiscal</u> | <u>Fiscal</u> | <u>Fiscal</u> | <u>Fiscal</u> |
| | <u>Year 2006</u> | <u>Year 2005</u> | <u>Year 2006</u> | <u>Year 2005</u> |
| Instruction | \$ 125,678 | \$ 108,673 | \$ 40,315 | \$ 33,861 |
| Support Services | | | | |
| Pupil Services | 3,245 | 2,547 | 1,968 | 1,538 |
| Improvement of Instructional Services | 4,564 | 7,885 | 2,502 | 6,462 |
| Educational Media Services | 3,036 | 2,584 | 837 | 670 |
| General Administration | 1,263 | 1,214 | -933 | -795 |
| School Administration | 10,547 | 9,067 | 6,223 | 5,390 |
| Business Administration | 1,527 | 1,591 | 1,418 | 1,546 |
| Maintenance and Operation of Plant | 11,180 | 10,118 | 4,655 | 4,361 |
| Student Transportation Services | 8,777 | 7,292 | 6,936 | 5,011 |
| Central Support Services | 914 | 505 | 887 | 492 |
| Other Support Services | 281 | 236 | 40 | -13 |
| Operations of Non-Instructional Services | | | | |
| Enterprise Operation | 1,456 | 1,222 | -39 | -64 |
| Community Services | 1,927 | 1,565 | -53 | 11 |
| Food Services | 8,543 | 7,644 | -852 | -421 |
| Interest on Short-Term and Long-Term Debt | <u>4,221</u> | <u>2,650</u> | <u>4,221</u> | <u>2,650</u> |
| Total Expenses | <u>\$ 187,159</u> | <u>\$ 164,793</u> | <u>\$ 68,125</u> | <u>\$ 60,699</u> |

Although program revenues make up a majority of the revenues, the Board is still dependent upon tax revenues for governmental activities. About 32.1 percent of instruction activities are supported through taxes and other general revenues; for all governmental activities general revenue support is 36.4 percent.

The Board's Funds

The Board's governmental funds are accounted for using the modified accrual basis of accounting. Total governmental funds had revenues and other financing sources of \$209.5

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

million and expenditures and other financing uses of \$227.7 million. There was a decrease of \$19.0 million in the capital projects fund due to the construction of facilities during the current year. The general fund had an increase of \$0.4 million and the debt service fund had a decrease of \$0.6 million. The positive change in the fund balance of the general fund for the year indicates that the Board was able to meet current costs from current revenues.

General Fund Budgeting Highlights

The Board'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 Board amended its general fund budget as needed. The Board uses site-based budgeting. The budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the General Fund, the final budgeted revenues of \$169.7 million exceeded the original budgeted amount of \$167.7 million by \$2.0 million. This difference was primarily due to increases in Federal revenues budgeted of \$1.9 million. The actual revenues of \$180.1 million exceeded the final budgeted amount by \$10.4 million. Shortfalls in other revenue categories were offset by the conservative budgeting for real estate sales and intangible taxes, and investment earnings.

The final budgeted expenditures of \$173.2 million exceeded the original budgeted amount of \$170.5 million by \$2.7 million. This difference was primarily due to an increase in instruction of \$1.5 million, in pupil services of \$0.6 million, and in improvement of instructional services of \$0.5 million. The actual expenditures of \$178.7 million exceeded the final budgeted amount by \$5.5 million.

General Fund revenues exceeded expenditures by \$1.4 million. The Board has made a concerted effort to maintain an appropriate fund balance for current operations and anticipated austerity reductions.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2006, the Board had \$193.3 million invested in capital assets, all in governmental activities. Table 4 shows fiscal year 2006 balances compared with fiscal year 2005 balances.

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

**Table 4
Capital Assets at June 30
(Net of Depreciation, in Thousands)**

| | <u>Governmental Activities</u> | |
|-------------------------------------|--------------------------------|-------------------|
| | <u>Fiscal</u> | <u>Fiscal</u> |
| | <u>Year 2006</u> | <u>Year 2005</u> |
| Land | \$ 5,175 | \$ 4,993 |
| Construction in Progress | 35,132 | 33,516 |
| Buildings and Building Improvements | 141,109 | 113,062 |
| Equipment | 10,297 | 8,869 |
| Land Improvements | <u>1,635</u> | <u>1,159</u> |
| Total | <u>\$ 193,348</u> | <u>\$ 161,599</u> |

The primary increases occurred in Building and Improvements as a result of a new high school being constructed and completed. Due to the ongoing growth in the county, the Board has numerous construction projects including new buildings, additions and renovations.

Debt

At June 30, 2006, the Board had \$87.2 million in bonds outstanding with \$7.3 million due within one year. The Board's legal debt limit is 10 percent of the net assessed valuation of \$3,002.9 million for bond purposes, or a maximum bonded debt of \$300.3 million. The total current bonded restricted debt of \$87.2 million is well below the legal limit.

Current Issues

With almost 26,000 students, the Paulding County School District is one of the largest and most rapidly growing districts in the state. Growth of approximately 2,000 additional students each year requires an extensive building program and ongoing recruitment of highly qualified staff. The Paulding County School District works closely with the community to generate support for both SPLOST and bond referendums. The impact of September 11, 2001 and the resulting impact on the economy coupled with a tax base that is 80% residential has made it impossible for SPLOST revenues to meet the demands of this student population growth. Voters approved a \$125 million bond referendum in March 2007. Although this will not eliminate the need for portable classrooms, this financing source will allow us to begin construction of needed facilities identified in our newly developed five year facility plan. The economy of the county continues to improve at a modest rate. Completion of the regional airport in the last quarter of 2008 is expected to be an economic engine for our county with the potential for significantly increasing available revenues.

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

Contacting the Board's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Board's finances and to show the Board's accountability for the money it receives. If you have questions about this report or need additional information, contact Gayle W. Blalock, CPA, Chief Financial Officer at the Paulding County Board of Education, 3236 Atlanta Highway, Dallas, Georgia 30132.

PAULDING COUNTY BOARD OF EDUCATION

PAULDING COUNTY BOARD OF EDUCATION
STATEMENT OF NET ASSETS
JUNE 30, 2006

EXHIBIT "A"

GOVERNMENTAL
ACTIVITIES

ASSETS

| | |
|--------------------------------|---------------------------|
| Cash and Cash Equivalents | \$ 30,628,135 |
| Investments | 40,087,601 |
| Accounts Receivable, Net | |
| Taxes | 5,236,510 |
| State Government | 12,579,601 |
| Federal Government | 1,745,495 |
| Other | 101,623 |
| Prepaid Items | 18,869 |
| Inventories | 267,586 |
| Capital Assets | |
| Land | 5,174,836 |
| Construction in Progress | 35,132,225 |
| Land Improvements | 2,897,936 |
| Buildings | 170,623,488 |
| Equipment | 22,185,760 |
| Less: Accumulated Depreciation | <u>-42,665,866</u> |
| Total Assets | \$ <u>284,013,799</u> |

LIABILITIES

| | |
|---------------------------|---------------------------|
| Accounts Payable | \$ 406,977 |
| Salaries Payable | 20,336,394 |
| Contracts Payable | 5,044,613 |
| Retainages Payable | 2,399,572 |
| Long-Term Liabilities | |
| Due Within One Year | 8,249,273 |
| Due in More Than One Year | <u>81,214,901</u> |
| Total Liabilities | \$ <u>117,651,730</u> |

NET ASSETS

| | |
|---|---------------------------|
| Invested in Capital Assets, Net of Related Debt | \$ 130,330,319 |
| Restricted for | |
| Continuation of Federal Programs | 2,300,584 |
| Debt Service | 5,646,025 |
| Capital Projects | 15,329,666 |
| Unrestricted | <u>12,755,475</u> |
| Total Net Assets | \$ <u>166,362,069</u> |

| | |
|----------------------------------|-----------------------|
| Total Liabilities and Net Assets | \$ <u>284,013,799</u> |
|----------------------------------|-----------------------|

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

PAULDING COUNTY BOARD OF EDUCATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

| | <u>EXPENSES</u> | <u>CHARGES FOR SERVICES</u> |
|--|-----------------------|---------------------------------|
| <u>GOVERNMENTAL ACTIVITIES</u> | | |
| Instruction | \$ 125,678,434 | |
| Support Services | | |
| Pupil Services | 3,244,749 | |
| Improvement of Instructional Services | 4,563,790 | |
| Educational Media Services | 3,035,845 | |
| General Administration | 1,263,443 | |
| School Administration | 10,546,968 | |
| Business Administration | 1,527,360 | |
| Maintenance and Operation of Plant | 11,180,187 | |
| Student Transportation Services | 8,776,944 | |
| Central Support Services | 913,720 | |
| Other Support Services | 281,000 | |
| Operations of Non-Instructional Services | | |
| Enterprise Operations | 1,455,597 | \$ 1,494,225 |
| Community Services | 1,926,874 | 1,978,136 |
| Food Services | 8,542,819 | 5,003,949 |
| Interest on Short-Term and Long-Term Debt | <u>4,220,940</u> | |
| Total Governmental Activities | <u>\$ 187,158,670</u> | <u>\$ 8,476,310</u> |
| General Revenues | | |
| Taxes | | |
| Property Taxes | | |
| For Maintenance and Operations | | |
| For Debt Services | | |
| Sales Taxes | | |
| Special Purpose Local Option Sales Tax | | |
| For Debt Services | | |
| For Capital Projects | | |
| Intangible Recording Tax | | |
| Real Estate | | |
| Grants and Contributions not Restricted to Specific Programs | | |
| Investment Earnings | | |
| Miscellaneous | | |
| Total General Revenues | | |
| Change in Net Assets | | |
| Net Assets - Beginning of Year | | |
| Net Assets - End of Year | | |

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

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> |
| \$ 77,398,714 | \$ 7,964,542 | \$ -40,315,178 |
| 1,275,383 | 1,777 | -1,967,589 |
| 2,035,182 | 26,190 | -2,502,418 |
| 2,188,704 | 10,620 | -836,521 |
| 2,160,360 | 35,588 | 932,505 |
| 4,270,752 | 53,619 | -6,222,597 |
| 21,300 | 87,656 | -1,418,404 |
| 6,377,252 | 148,467 | -4,654,468 |
| 1,597,063 | 244,248 | -6,935,633 |
| 20,278 | 6,029 | -887,413 |
| 157,846 | 83,228 | -39,926 |
| | | 38,628 |
| 1,369 | | 52,631 |
| 4,094,168 | 296,667 | 851,965 |
| | | <u>-4,220,940</u> |
| <u>\$ 101,598,371</u> | <u>\$ 8,958,631</u> | <u>\$ -68,125,358</u> |

\$ 47,831,220
3,330,813

6,858,899
7,480,135
2,777,130
1,042,668
13,522,649
2,878,052
3,939,849

\$ 89,661,415

\$ 21,536,057

144,826,012

\$ 166,362,069

PAULDING COUNTY BOARD OF EDUCATION
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 | \$ 23,231,946 | \$ 5,252,419 | \$ 2,143,770 | \$ 30,628,135 |
| Investments | 1,104,454 | 38,946,597 | 36,550 | 40,087,601 |
| Accounts Receivable, Net | | | | |
| Taxes | 1,894,823 | 2,688,432 | 134,456 | 4,717,711 |
| State Government | 12,579,601 | | | 12,579,601 |
| Federal Government | 1,745,495 | | | 1,745,495 |
| Other | 101,623 | | | 101,623 |
| Prepaid Items | 18,869 | | | 18,869 |
| Inventories | <u>267,586</u> | | | <u>267,586</u> |
| Total Assets | <u>\$ 40,944,397</u> | <u>\$ 46,887,448</u> | <u>\$ 2,314,776</u> | <u>\$ 90,146,621</u> |
| <u>LIABILITIES AND FUND BALANCES</u> | | | | |
| <u>LIABILITIES</u> | | | | |
| Accounts Payable | \$ 397,234 | \$ 9,743 | | \$ 406,977 |
| Salaries Payable | 20,336,394 | | | 20,336,394 |
| Contracts Payable | | 5,044,613 | | 5,044,613 |
| Retainages Payable | | <u>2,399,572</u> | | <u>2,399,572</u> |
| Total Liabilities | <u>\$ 20,733,628</u> | <u>\$ 7,453,928</u> | | <u>\$ 28,187,556</u> |
| <u>FUND BALANCES</u> | | | | |
| Reserved for: | | | | |
| Continuation of Federal Programs | \$ 2,032,998 | | | \$ 2,032,998 |
| Debt Service | | \$ 3,325,776 | \$ 2,314,776 | 5,640,552 |
| Inventories | 267,586 | | | 267,586 |
| Capital Projects | | 36,107,744 | | 36,107,744 |
| Unreserved | | | | |
| Undesignated Reported in: | | | | |
| General Fund | <u>17,910,185</u> | | | <u>17,910,185</u> |
| Total Fund Balances | <u>\$ 20,210,769</u> | <u>\$ 39,433,520</u> | <u>\$ 2,314,776</u> | <u>\$ 61,959,065</u> |
| Total Liabilities and Fund Balances | <u>\$ 40,944,397</u> | <u>\$ 46,887,448</u> | <u>\$ 2,314,776</u> | <u>\$ 90,146,621</u> |

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

PAULDING COUNTY BOARD OF EDUCATION
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") \$ 61,959,065

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 | \$ | 5,174,836 | |
| Construction in Progress | | 35,132,225 | |
| Land Improvements | | 2,897,936 | |
| Buildings | | 170,623,488 | |
| Equipment | | 22,185,760 | |
| Accumulated Depreciation | | <u>-42,665,866</u> | |
| Total Capital Assets | | | 193,348,379 |

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. 518,799

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 | \$ | -87,200,000 | |
| Capital Leases | | -1,931,355 | |
| Compensated Absences | | <u>-332,819</u> | |
| Total Long-Term Liabilities | | | <u>-89,464,174</u> |

Net Assets of Governmental Activities (Exhibit "A") \$ 166,362,069

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

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

EXHIBIT "E"

| | GENERAL FUND | DISTRICT- WIDE CAPITAL PROJECTS FUND | DEBT SERVICE FUND | TOTAL |
|--|-----------------|--|-------------------------|----------------|
| REVENUES | | | | |
| Property Taxes | \$ 47,689,275 | | \$ 3,325,340 | \$ 51,014,615 |
| Sales Taxes | 3,565,779 | \$ 7,480,135 | 7,112,918 | 18,158,832 |
| State Funds | 105,198,217 | 8,714,383 | | 113,912,600 |
| Federal Funds | 10,167,051 | | | 10,167,051 |
| Charges for Services | 8,476,310 | | | 8,476,310 |
| Investment Earnings | 1,027,225 | 1,773,589 | 77,238 | 2,878,052 |
| Miscellaneous | 3,942,724 | | | 3,942,724 |
| Total Revenues | \$ 180,066,581 | \$ 17,968,107 | \$ 10,515,496 | \$ 208,550,184 |
| EXPENDITURES | | | | |
| Current | | | | |
| Instruction | \$ 119,863,472 | | | \$ 119,863,472 |
| Support Services | | | | |
| Pupil Services | 3,243,368 | | | 3,243,368 |
| Improvement of Instructional Services | 4,548,768 | | | 4,548,768 |
| Educational Media Services | 3,027,904 | | | 3,027,904 |
| General Administration | 1,235,500 | | | 1,235,500 |
| School Administration | 10,506,725 | | | 10,506,725 |
| Business Administration | 1,453,138 | \$ 4,175 | \$ 7,258 | 1,464,571 |
| Maintenance and Operation of Plant | 11,982,920 | | | 11,982,920 |
| Student Transportation Services | 8,037,676 | | | 8,037,676 |
| Central Support Services | 939,189 | | | 939,189 |
| Other Support Services | 216,720 | | | 216,720 |
| Enterprise Operations | 1,455,597 | | | 1,455,597 |
| Community Services | 1,926,684 | | | 1,926,684 |
| Food Services Operation | 8,437,315 | | | 8,437,315 |
| Capital Outlay | 790,605 | 36,962,393 | | 37,752,998 |
| Debt Services | | | | |
| Principal | 859,175 | | 7,040,000 | 7,899,175 |
| Interest | 162,708 | | 4,058,232 | 4,220,940 |
| Total Expenditures | \$ 178,687,464 | \$ 36,966,568 | \$ 11,105,490 | \$ 226,759,522 |
| Excess of Revenues over (under) Expenditures | \$ 1,379,117 | \$ -18,998,461 | \$ -589,994 | \$ -18,209,338 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers In | | \$ 983,327 | | \$ 983,327 |
| Transfers Out | \$ -983,327 | | | \$ -983,327 |
| Total Other Financing Sources (Uses) | \$ -983,327 | \$ 983,327 | | \$ 0 |
| Net Change in Fund Balances | \$ 395,790 | \$ -18,015,134 | \$ -589,994 | \$ -18,209,338 |
| Fund Balances - Beginning | 19,814,979 | 57,448,654 | 2,904,770 | 80,168,403 |
| Fund Balances - Ending | \$ 20,210,769 | \$ 39,433,520 | \$ 2,314,776 | \$ 61,959,065 |

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

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

EXHIBIT "F"

Total Net Change in Fund Balances - Governmental Funds (Exhibit "E") \$ -18,209,338

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 | \$ | 36,311,994 | |
| Depreciation Expense | | <u>-4,559,834</u> | |
| Excess of Capital Outlay over Depreciation Expense | | | 31,752,160 |

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. 147,418

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 carrying value of the equipment sold. -2,875

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 | \$ | 7,040,000 | |
| Capital Lease Payments | | <u>859,175</u> | |
| Total Long-Term Debt Repayments | | | 7,899,175 |

Some items reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in Governmental Funds. These activities consist of:

| | | |
|----------------------------------|--|----------------|
| Increase in Compensated Absences | | <u>-50,483</u> |
|----------------------------------|--|----------------|

Change in Net Assets of Governmental Activities (Exhibit "B") \$ 21,536,057

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

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PAULDING COUNTY BOARD OF EDUCATION
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006

EXHIBIT "G"

AGENCY
FUNDS

ASSETS

Cash and Cash Equivalents

\$ 198,122

LIABILITIES

Funds Held for Others

\$ 198,122

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

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 Paulding County Board of Education.

District-wide Statements:

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

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

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

Fund Financial Statements:

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

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), Bond Proceeds and grants from Georgia State Financing and Investment Commission to be used for the acquisition, construction or renovation of major capital facilities.
- Debt Service Fund accounts for taxes (property and sales) legally restricted for the payment of general long-term principal, interest and paying agent's fees.

The School District reports the following fiduciary fund 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 and grants. 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 is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The School District considers all revenues reported in the governmental funds to be available if they are collected within sixty days after year-end. Property taxes, sales taxes and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term liabilities and acquisitions under capital leases are reported as other financing sources.

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

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,
- (4) Obligations of any corporation of the United States government,
- (5) Prime banker's acceptances,

PAULDING COUNTY BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

EXHIBIT "H"

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- (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 Paulding County Board of Commissioners fixed the property tax levy for the 2005 tax digest year (calendar year) on August 9, 2005 (levy date). Taxes were due on November 15, 2005 (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 Paulding County Tax Commissioner bills and collects the property taxes for the School District, withholds 2.5% of taxes collected as a fee for tax collection and remits the balance of taxes collected to the School District. Property tax revenues, at the fund reporting level, during the fiscal year ended June 30, 2006, for maintenance and operations amounted to \$47,689,275 and for school bonds amounted to \$3,325,340.

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

| | |
|-------------------|--------------------|
| School Operations | 16.41 mills |
| School Bonds | <u>1.12</u> mills |
| | <u>17.53</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 \$14,339,034 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.

PREPAID ITEMS

Payments made to vendors for services that will benefit periods subsequent to June 30, 2006, are recorded as prepaid items.

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:

PAULDING COUNTY BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

EXHIBIT "H"

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

| | <u>Capitalization Policy</u> | <u>Estimated Useful Life</u> |
|----------------------------|----------------------------------|----------------------------------|
| Land | All | N/A |
| Land Improvements | \$ 5,000 | 20 years |
| Buildings and Improvements | \$ 5,000 | 50 years |
| Equipment | \$ 5,000 | 5 to 25 years |

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

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. In addition, general obligation bonds have been issued to refund existing general obligation bonds. 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, \$4,542 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,

PAULDING COUNTY BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

EXHIBIT "H"

Note 3: DEPOSITS AND INVESTMENTS

- (4) Bonds, bills, notes, certificates of indebtedness or other obligations of the counties or municipalities of the State of Georgia,
- (5) Bonds of any public authority created by the laws of the State of Georgia, providing that the statute that created the authority authorized the use of the bonds for this purpose,
- (6) Industrial revenue bonds and bonds of development authorities created by the laws of the State of Georgia, and
- (7) Bonds, bills, notes, certificates of indebtedness, or other obligations of a subsidiary corporation of the United States government, which are fully guaranteed by the United States government both as to principal and interest or debt obligations issued by 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 \$38,651,360. 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 | \$ 2,715,553 |
| 2 | 0 |
| 3 | 35,931,265 |
| 4 | <u>4,542</u> |
| Total | <u>\$ 38,651,360</u> |

Note 3: DEPOSITS AND INVESTMENTS

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.

Funds invested in an investment pool managed by another government are not required to be categorized unless the investing entity owns specific, identifiable investment securities in the pool.

At June 30, 2006, the carrying value of the School District's total investments was \$39,974,744 which is materially the same as fair value. These investments included funds in the amount of \$14,594,110 invested in the Local Government Investment Pool administered by the State of Georgia, Office of Treasury and Fiscal Services which are not required to be categorized since the School District did not own any specific identifiable securities in the pool. The investment policy of the State of Georgia, Office of Treasury and Fiscal Services for the Local Government Investment Pool (Primary Liquidity Portfolio) does not provide for investment in derivatives or similar investments. A description of the Primary Liquidity Portfolio is as follows:

The Primary Liquidity Portfolio consists of Georgia Fund 1, which is a combination local and state government investment pool. Georgia Fund 1 is a stable net asset value investment pool which follows Standard and Poor's criteria for AAAM rated money market funds. The pool is not registered with the SEC as an investment company but does operate Georgia Fund 1 in a manner consistent with Rule 2a-7 of the Investment Company Act of 1940. The pool's primary objectives are safety of capital, investment income, liquidity and diversification while maintaining principal (\$1.00 per share value). Net asset value is calculated daily and reported to the rating agency weekly to ensure stability. The pool distributes earnings (net of management fees) on a monthly basis and values participant's shares sold and redeemed at the pool's share price, \$1.00 per share. Pooled cash and cash equivalents and investments are reported at cost. The pool does not issue any legally binding guarantees to support the value of the shares. Participation in the pool is voluntary and deposits consist of funds from local governments; operating and trust funds of Georgia's state agencies, colleges and universities; and current operating funds of the State of Georgia's General Fund.

Note 3: DEPOSITS AND INVESTMENTS

Investments in Georgia Fund 1 are directed toward short-term instruments such as U. S. Treasury obligations, securities issued or guaranteed as to principal and interest by the U. S. Government or any of its agencies or instrumentalities, banker's acceptances and repurchase agreements. The weighted average maturity of Georgia Fund 1 may not exceed 60 days. The weighted average maturity for Georgia Fund 1 on June 30, 2006, was 28 days.

Funds invested in U. S. Treasury Money Market Mutual Funds (open-end mutual funds) in the amount of \$25,380,634 are not required to be classified by categories of custodial credit risk.

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.

At June 30, 2006, the School District's investments consisted of U. S. Treasury Money Market Mutual Funds (open-end mutual funds) and Local Government Investment Pool administered by the State of Georgia, for which Investment Maturities are not required to be categorized.

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.

The U. S. Treasury Money Market Mutual Funds have a credit quality rating of AAA by Standard and Poor's.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The School District does not have a formal policy for managing concentration of credit risk.

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:

PAULDING COUNTY BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

EXHIBIT "H"

Note 5: CAPITAL ASSETS

| | Balances July 1, 2005 | Increases | Decreases | Balances June 30, 2006 |
|--|--------------------------|----------------------|----------------------|---------------------------|
| Governmental Activities | | | | |
| Capital Assets, Not Being Depreciated: | | | | |
| Land | \$ 4,992,716 | \$ 182,120 | | \$ 5,174,836 |
| Construction in Progress | <u>33,516,193</u> | <u>32,493,544</u> | <u>\$ 30,877,512</u> | <u>35,132,225</u> |
| Total Capital Assets Not Being Depreciated | <u>\$ 38,508,909</u> | <u>\$ 32,675,664</u> | <u>\$ 30,877,512</u> | <u>\$ 40,307,061</u> |
| Capital Assets Being Depreciated | | | | |
| Buildings and Improvements | \$ 139,596,901 | \$ 31,026,587 | | \$ 170,623,488 |
| Equipment | 19,640,426 | 2,898,482 | \$ 353,148 | 22,185,760 |
| Land Improvements | 2,309,163 | 588,773 | | 2,897,936 |
| Less Accumulated Depreciation for: | | | | |
| Buildings and Improvements | 26,534,688 | 2,979,684 | | 29,514,372 |
| Equipment | 10,770,930 | 1,468,251 | 350,273 | 11,888,908 |
| Land Improvements | <u>1,150,687</u> | <u>111,899</u> | | <u>1,262,586</u> |
| Total Capital Assets, Being Depreciated, Net | <u>\$ 123,090,185</u> | <u>\$ 29,954,008</u> | <u>\$ 2,875</u> | <u>\$ 153,041,318</u> |
| Governmental Activity Capital Assets - Net | <u>\$ 161,599,094</u> | <u>\$ 62,629,672</u> | <u>\$ 30,880,387</u> | <u>\$ 193,348,379</u> |

Current year depreciation expense by function is as follows:

| | |
|--|---------------------|
| Instruction | \$ 3,137,176 |
| Support Services | |
| Pupil Services | \$ 700 |
| Improvements of Instructional Services | 10,316 |
| Educational Media Services | 4,183 |
| General Administration | 14,018 |
| School Administration | 21,120 |
| Business Administration | 34,527 |
| Maintenance and Operation of Plant | 58,480 |
| Student Transportation Services | 1,127,301 |
| Central Support Services | 2,375 |
| Other Support Services | <u>32,783</u> |
| Food Services | <u>1,305,803</u> |
| | <u>116,855</u> |
| | <u>\$ 4,559,834</u> |

PAULDING COUNTY BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

EXHIBIT "H"

Note 6: RESTRICTED ASSETS

Special Purpose Local Option Sales Tax (SPLOST), general obligation bond proceeds, 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 bond covenants or statutory provisions. Restricted assets at June 30, 2006, were as follows:

| | <u>District-wide Capital Projects</u> | | <u>Debt Service Funds</u> |
|---------------------------------------|---------------------------------------|----------------------|---------------------------|
| | <u>SPLOST</u> | <u>Bond Proceeds</u> | |
| Restricted Cash and Cash Equivalents: | | | |
| Debt Services | | | \$ 2,143,770 |
| Capital Acquisitions | \$ 5,250,419 | | |
| Restricted Investments: | | | |
| Debt Services | \$ 3,325,776 | | \$ 36,550 |
| Capital Acquisitions | \$ 8,437,694 | \$ 27,183,127 | |

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>983,327</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 and unemployment compensation.

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

PAULDING COUNTY BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

EXHIBIT "H"

Note 8: RISK MANAGEMENT

claims brought against members of the system. The School District pays an annual premium to the system for its general insurance coverage. Additional coverage is provided through agreements by the system with other companies according to their specialty for property, boiler and machinery (including coverage for flood and earthquake), general liability (including coverage for sexual harassment, molestation and abuse), errors and omissions, crime and automobile risks. Payment of excess insurance for the system varies by line of coverage.

The School District 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 | \$ 7,613 | \$ 7,613 | \$ 0 |
| 2006 | \$ 0 | \$ 12,815 | \$ 12,815 | \$ 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 purchased surety bonds to provide additional insurance coverage as follows:

| <u>Position Covered</u> | <u>Amount</u> |
|-------------------------|---------------|
| Superintendent | \$ 100,000 |
| All Other Employees | \$ 250,000 |

Note 9: LONG-TERM DEBT

CAPITAL LEASES

The Paulding County Board of Education has entered into various lease agreements as lessee for computer 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.

PAULDING COUNTY BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

EXHIBIT "H"

Note 9: LONG-TERM DEBT

COMPENSATED ABSENCES

Compensated absences represent obligations of the School District relating to employees' rights to receive compensation for future absences based upon service already rendered. This obligation relates only to vesting accumulating leave in which payment is probable and can be reasonably estimated. Typically, the General Fund is the fund used to liquidate this long-term debt. The School District uses the vesting method to compute compensated absences.

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 2004 | 2.50% - 5.00% | \$ 59,000,000 |
| General Government - Refunding - Series 2003 | 2.87% | 7,500,000 |
| General Government - Series 2000 | 4.72% | 4,365,000 |
| General Government - Series 1995 | 4.60% - 5.50% | 10,595,000 |
| General Government - Series 1992A | 6.40% - 6.625% | <u>5,740,000</u> |
| | | <u>\$ 87,200,000</u> |

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

| | <u>Governmental Funds</u> | | | |
|--|---------------------------|-------------------------------------|---|----------------------|
| | <u>Capital Leases</u> | <u>Compensated Absences (1)</u> | <u>General Obligation Bonds</u> | <u>Total</u> |
| Balance July 1, 2005 | \$ 2,790,530 | \$ 282,336 | \$ 94,240,000 | \$ 97,312,866 |
| Additions | | | | |
| Annual Leave Earned | | 414,586 | | 414,586 |
| Deductions | | | | |
| Annual Leave Utilized | | 364,103 | | 364,103 |
| Debt Retired | <u>859,175</u> | | <u>7,040,000</u> | <u>7,899,175</u> |
| Balance June 30, 2006 | <u>\$ 1,931,355</u> | <u>\$ 332,819</u> | <u>\$ 87,200,000</u> | <u>\$ 89,464,174</u> |
| Portion of Long-Term Debt Due within One Year | <u>\$ 909,273</u> | <u>\$ 0</u> | <u>\$ 7,340,000</u> | <u>\$ 8,249,273</u> |

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

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

PAULDING COUNTY BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

EXHIBIT "H"

Note 9: LONG-TERM DEBT

| <u>Fiscal Year</u> <u>Ended June 30</u> | <u>Capital Leases</u> | |
|--|-----------------------|-------------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2007 | \$ 909,273 | \$ 112,610 |
| 2008 | 962,292 | 59,591 |
| 2009 | <u>59,790</u> | <u>3,481</u> |
| Total Principal and Interest | <u>\$ 1,931,355</u> | <u>\$ 175,682</u> |

| <u>Fiscal Year</u> <u>Ended June 30</u> | <u>General Obligation Debt</u> | |
|--|--------------------------------|----------------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2007 | \$ 7,340,000 | \$ 3,679,314 |
| 2008 | 13,525,000 | 3,260,435 |
| 2009 | 13,525,000 | 2,670,322 |
| 2010 | 13,430,000 | 2,030,859 |
| 2011 | 14,730,000 | 1,425,464 |
| 2012 - 2015 | <u>24,650,000</u> | <u>1,334,450</u> |
| Total Principal and Interest | <u>\$ 87,200,000</u> | <u>\$ 14,400,844</u> |

Note 10: ON-BEHALF PAYMENTS

The School District has recognized revenues and costs in the amount of \$3,168,408 for health insurance and retirement contributions paid on the School District's behalf by the following State Agencies.

Georgia Department of Education

Paid to the Georgia Department of Community Health
For Health Insurance of Non-Certified Personnel
In the amount of \$3,145,042

Office of Treasury and Fiscal Services

Paid to the Public School Employees Retirement System
For Public School Employees Retirement (PSERS) Employer's Cost
In the amount of \$23,366

PAULDING COUNTY BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

EXHIBIT "H"

Note 11: SIGNIFICANT COMMITMENTS

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

| <u>Project</u> | <u>Unearned Executed Contracts</u> | <u>Funding Available From State</u> |
|--|--|---|
| Austin Middle School | \$ 65,645 | \$ 638,339 |
| East Paulding High School | 2,361,170 | |
| Herschel Jones Middle School Roof | 213,788 | |
| Hiram High School | 1,965,570 | |
| HVAC Phase II | 1,196,860 | |
| McGarity Elementary School HVAC | 140,113 | |
| North Paulding Middle School | 18,348,091 | 8,134,039 |
| Paulding County High School | 3,969,185 | |
| Paulding County High School Modification | 273,173 | |
| South Paulding High School | <u>2,765,038</u> | <u>1,063,405</u> |
| | <u>\$ 31,298,633</u> | <u>\$ 9,835,783</u> |

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

Note 12: 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 13: SUBSEQUENT EVENTS

On March 20, 2007, the voters of Paulding County voted and authorized the issuance of General Obligation Bonds in the amount of \$125,000,000. On June 4, 2007, the School District issued General Obligation Bonds in the amount of \$62,500,000 for the purpose of financing (a) the payment of a portion of the costs of (i) the acquisition, construction and equipping of new schools, and the purchase of land to be used as sites for future educational facilities, and (ii) the acquisition, construction and equipping of classroom additions, physical education facilities, and renovations and modifications to existing educational facilities (together, the "Projects"); and (b) the payment of capitalized interest on the Bonds through and including February 1, 2008; and (c) the cost of issuing the Bonds.

PAULDING COUNTY BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

EXHIBIT "H"

Note 14: 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 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% | \$ 8,847,988 |
| 2005 | 100% | \$ 7,779,411 |
| 2004 | 100% | \$ 7,098,212 |

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

SCHEDULE "1"

| | NONAPPROPRIATED BUDGETS | | ACTUAL |
|--|-------------------------|----------------|----------------|
| | ORIGINAL | FINAL | AMOUNTS |
| REVENUES | | | |
| Property Taxes | \$ 48,630,326 | \$ 48,630,326 | \$ 47,689,275 |
| Sales Taxes | 398,189 | 398,189 | 3,565,779 |
| State Funds | 98,963,422 | 99,089,398 | 105,198,217 |
| Federal Funds | 9,479,124 | 11,330,053 | 10,167,051 |
| Charges for Services | 3,728,810 | 3,728,810 | 8,476,310 |
| Investment Earnings | 384,528 | 384,528 | 1,027,225 |
| Miscellaneous | 6,133,116 | 6,133,116 | 3,942,724 |
| Total Revenues | \$ 167,717,515 | \$ 169,694,420 | \$ 180,066,581 |
| EXPENDITURES | | | |
| Current | | | |
| Instruction | \$ 117,360,349 | \$ 118,816,964 | \$ 119,863,472 |
| Support Services | | | |
| Pupil Services | 2,521,966 | 3,080,235 | 3,243,368 |
| Improvement of Instructional Services | 4,181,096 | 4,671,230 | 4,548,768 |
| Educational Media Services | 3,234,906 | 3,242,597 | 3,027,904 |
| General Administration | 1,633,905 | 1,520,644 | 1,235,500 |
| School Administration | 9,632,396 | 9,596,064 | 10,506,725 |
| Business Administration | 1,994,524 | 1,994,524 | 1,453,138 |
| Maintenance and Operation of Plant | 11,524,450 | 11,524,450 | 11,982,920 |
| Student Transportation Services | 8,450,071 | 8,708,183 | 8,037,676 |
| Central Support Services | 792,328 | 781,783 | 939,189 |
| Other Support Services | 179,033 | 182,608 | 216,720 |
| Enterprise Operations | | | 1,455,597 |
| Community Services | 1,625,434 | 1,625,434 | 1,926,684 |
| Food Services Operation | 7,373,036 | 7,444,656 | 8,437,315 |
| Capital Outlay | | | 790,605 |
| Debt Service | | | 1,021,883 |
| Total Expenditures | \$ 170,503,494 | \$ 173,189,372 | \$ 178,687,464 |
| Excess of Revenues over (under) Expenditures | \$ -2,785,979 | \$ -3,494,952 | \$ 1,379,117 |
| OTHER FINANCING SOURCES (USES) | | | |
| Other Sources | \$ 446,669 | \$ 446,669 | |
| Other Uses | -446,669 | -446,669 | \$ -983,327 |
| Total Other Financing Sources (Uses) | \$ 0 | \$ 0 | \$ -983,327 |
| Net Change in Fund Balances | \$ -2,785,979 | \$ -3,494,952 | \$ 395,790 |
| Fund Balances - Beginning | 19,843,121 | 19,843,121 | 19,814,979 |
| Adjustments | -37,028 | -37,028 | |
| Fund Balances - Ending | \$ 17,020,114 | \$ 16,311,141 | \$ 20,210,769 |

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

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.

PAULDING COUNTY BOARD OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006

SCHEDULE "2"

| FUNDING AGENCY PROGRAM/GRANT | CFDA NUMBER | PASS- THROUGH ENTITY ID NUMBER | EXPENDITURES IN PERIOD |
|---|----------------|--|---------------------------|
| Agriculture, U. S. Department of | | | |
| Child Nutrition Cluster | | | |
| Pass-Through From Georgia Department of Education | | | |
| Food Services | | | |
| School Breakfast Program | * 10.553 | N/A | (2) |
| National School Lunch Program | * 10.555 | N/A | \$ 7,550,103 |
| Total Child Nutrition Cluster | | | \$ 7,550,103 |
| Other Programs | | | |
| Pass-Through From Georgia Department of Education | | | |
| Food Donation (1) | 10.550 | N/A | 365,546 |
| Total U. S. Department of Agriculture | | | \$ 7,915,649 |
| Education, U. S. Department of | | | |
| Special Education Cluster | | | |
| Pass-Through From Georgia Department of Education | | | |
| Special Education | | | |
| Grants to States | * 84.027 | N/A | \$ 3,478,288 |
| Preschool Grants | * 84.173 | N/A | 129,372 |
| Total Special Education Cluster | | | \$ 3,607,660 |
| Other Programs | | | |
| Pass-Through From Georgia Department of Education | | | |
| English Language Acquisition Grants | 84.365 | N/A | 22,514 |
| Enhancing Education Through Technology Program | 84.318 | N/A | 35,933 |
| Hurricane Education Recovery | * 84.938 | N/A | (3) |
| Improving Teacher Quality State Grants | * 84.367 | N/A | 596,836 |
| Mathematics and Science Partnerships | 84.366 | N/A | 78,796 |
| State Grants for Innovative Programs | 84.298 | N/A | 58,964 |
| Title I Grants to Local Educational Agencies | * 84.010 | N/A | 2,113,025 |
| Vocational Education - Basic Grants to States | 84.048 | N/A | 145,011 |
| Total U. S. Department of Education | | | \$ 6,658,739 |
| Defense, U. S. Department of | | | |
| Direct | | | |
| U. S. Marine Corps | | | |
| R.O.T.C. Program | | | \$ 266,132 |
| Total Federal Financial Assistance | | | \$ 14,840,520 |

N/A = Not Available

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 (\$601,563) 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 \$350,026, 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 Paulding County 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.

See notes to the basic financial statements.

PAULDING COUNTY BOARD OF EDUCATION
SCHEDULE OF STATE REVENUE
YEAR ENDED JUNE 30, 2006

SCHEDULE "3"

| AGENCY/FUNDING | GOVERNMENTAL FUND TYPES | | TOTAL |
|--|-------------------------|-----------------------|-----------------------|
| | GENERAL FUND | CAPITAL PROJECTS FUND | |
| GRANTS | | | |
| Education, Georgia Department of | | | |
| Quality Basic Education | | | |
| Direct Instructional Cost | | | |
| Kindergarten Program | \$ 7,323,500 | | \$ 7,323,500 |
| Kindergarten Program - Early Intervention Program | 65,648 | | 65,648 |
| Primary Grades (1-3) Program | 16,273,950 | | 16,273,950 |
| Primary Grades - Early Intervention (1-3) Program | 1,429,164 | | 1,429,164 |
| Upper Elementary Grades (4-5) Program | 7,414,462 | | 7,414,462 |
| Upper Elementary Grades - Early Intervention (4-5) Program | 1,105,226 | | 1,105,226 |
| Middle School (6-8) Program | 13,493,432 | | 13,493,432 |
| High School General Education (9-12) Program | 11,111,627 | | 11,111,627 |
| Vocational Laboratory (9-12) Program | 2,215,622 | | 2,215,622 |
| Students with Disabilities | | | |
| Category I | 953,096 | | 953,096 |
| Category II | 811,652 | | 811,652 |
| Category III | 5,757,366 | | 5,757,366 |
| Category IV | 2,003,077 | | 2,003,077 |
| Category V | 783,847 | | 783,847 |
| Gifted Student - Category VI | 1,476,153 | | 1,476,153 |
| Remedial Education Program | 8,003 | | 8,003 |
| Alternative Education Program | 988,351 | | 988,351 |
| English Speakers of Other Languages (ESOL) | 166,367 | | 166,367 |
| Media Center Program | 2,110,488 | | 2,110,488 |
| 20 Days Additional Instruction | 677,288 | | 677,288 |
| Staff and Professional Development | 437,260 | | 437,260 |
| Indirect Cost | | | |
| Central Administration | 1,964,019 | | 1,964,019 |
| School Administration | 3,915,041 | | 3,915,041 |
| Facility Maintenance and Operations | 6,233,719 | | 6,233,719 |
| Categorical Grants | | | |
| Pupil Transportation | | | |
| Regular | 1,495,474 | | 1,495,474 |
| Bus Replacement | 244,248 | | 244,248 |
| Nursing Services | 419,534 | | 419,534 |
| Principal Supplements | 79,322 | | 79,322 |
| Education Equalization Funding Grant | 13,522,649 | | 13,522,649 |
| Food Services | 446,822 | | 446,822 |
| Austerity Reduction | -3,979,118 | | -3,979,118 |
| Other State Programs | | | |
| Agriculture - Extended Day | 8,341 | | 8,341 |
| Agriculture - Extended Year | 6,886 | | 6,886 |
| Health Insurance | 3,145,042 | | 3,145,042 |
| K-8 Statewide Reading and Mathematics Program | 335,565 | | 335,565 |
| National Teacher Certification | 124,699 | | 124,699 |
| Preschool Handicapped Program | 193,543 | | 193,543 |
| Residential and Reintegration Services | 34,130 | | 34,130 |
| Technology/Career Education - Apprenticeship | 38,000 | | 38,000 |
| Technology/Career Education - Extended Day | 52,015 | | 52,015 |
| Technology/Career Education - Extended Year | 2,465 | | 2,465 |
| Technology/Career Education - High Schools That Work | 6,000 | | 6,000 |
| Technology/Career Education - Industry Certification | 13,981 | | 13,981 |
| Technology/Career Education - Supervision | 36,366 | | 36,366 |
| Unpaid Sales Tax (1) | 121,220 | | 121,220 |
| Virtual Schools Grant | 150 | | 150 |
| Vocational Construction Related Equipment | 109,159 | | 109,159 |
| Georgia State Financing and Investment | | | |
| Commission | | | |
| Reimbursement on Construction Projects | | \$ 8,714,383 | 8,714,383 |
| Office of Treasury and Fiscal Services | | | |
| Public School Employees Retirement | 23,366 | | 23,366 |
| | <u>\$ 105,198,217</u> | <u>\$ 8,714,383</u> | <u>\$ 113,912,600</u> |

(1) The purpose of the funds are to reimburse local school systems for taxes charged on the purchase of materials for infrastructure.

See notes to the basic financial statements.

PAULDING COUNTY BOARD OF EDUCATION
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) (4)</u> | <u>AMOUNT EXPENDED IN PRIOR YEAR (3) (4)</u> | <u>PROJECT STATUS</u> |
|--|--|--|--|--|---------------------------|
| Acquiring, constructing and equipping of four new elementary schools, one new middle school, one new high school, a performing arts center, improving system-wide technology, renovations, repairs, improvements and equipping of existing schools and the acquisition of related facilities including all necessary properties. | \$ 76,500,000 | \$ 76,864,921 | \$ 9,976,478 | \$ 66,888,443 | Ongoing |
| Paying a portion of the principal and interest on the School District's general obligation bonds maturing August 1, 2001 through and including February 1, 2006. | 3,500,000 | 3,500,000 | 2,399,875 | 1,100,125 | Completed |
| Acquisition, construction and equipping of three new elementary schools, three new middle schools, one new high school, renovation, completion and expansion of the new and existing school facilities, acquisition of any property necessary or desirable therefor, both real and personal. | 86,500,000 | 86,500,000 | 25,863,467 | 7,996,793 | Ongoing |
| Payment of a portion of the principal and interest of the School District's outstanding general obligation bonds coming due August 1, 2006 through and including February 1, 2011. | <u>3,500,000</u> | <u>3,500,000</u> | | | Ongoing |
| | <u>\$ 170,000,000</u> | <u>\$ 170,000,000</u> | <u>\$ 38,239,820</u> | <u>\$ 75,985,361</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 Paulding 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.
- (4) In addition to the expenditures shown above, the School District has incurred interest to provide advance funding for the above projects as follows:

| | |
|--------------|---------------------|
| Prior Years | \$ 3,697,221 |
| Current Year | <u>2,649,161</u> |
| Total | <u>\$ 6,346,382</u> |

See notes to the basic financial statements.

PAULDING COUNTY BOARD OF EDUCATION
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 | \$ 8,142,607 | \$ 7,374,760 | \$ 556,520 | \$ 7,931,280 |
| Kindergarten Program-Early Intervention Program | 95,067 | 368,705 | 4,441 | 373,146 |
| Primary Grades (1-3) Program | 18,135,458 | 20,815,998 | 1,148,510 | 21,964,508 |
| Primary Grades-Early Intervention (1-3) Program | 1,578,834 | 1,560,944 | 7,012 | 1,567,956 |
| Upper Elementary Grades (4-5) Program | 8,278,177 | 8,122,117 | 635,492 | 8,757,609 |
| Upper Elementary Grades-Early Intervention (4-5) Program | 1,221,978 | 1,360,060 | 67,682 | 1,427,742 |
| Middle School (6-8) Program | 15,080,475 | 17,349,779 | 701,684 | 18,051,463 |
| High School General Education (9-12) Program | 12,356,870 | 14,269,675 | 998,867 | 15,268,542 |
| Vocational Laboratory (9-12) Program | 2,449,626 | 2,952,005 | 263,139 | 3,215,144 |
| Students with Disabilities | 11,603,203 | | | |
| Category I | | 21,678 | 2,060 | 23,738 |
| Category II | | 854,322 | 381 | 854,703 |
| Category III | | 14,004,333 | 150,005 | 14,154,338 |
| Category IV | | 625,867 | 3,509 | 629,376 |
| Category V | | | 5,394 | 5,394 |
| Gifted Student - Category VI | 1,640,786 | 1,646,734 | 32,293 | 1,679,027 |
| Remedial Education Program | 42,138 | | | |
| Alternative Education Program | 1,101,802 | 1,286,286 | 18,488 | 1,304,774 |
| English Speakers of Other Languages (ESOL) | 178,163 | 373,781 | 10,627 | 384,408 |
| TOTAL DIRECT INSTRUCTIONAL PROGRAMS | \$ 81,905,184 | \$ 92,987,044 | \$ 4,606,104 | \$ 97,593,148 |
| Media Center Program | 2,357,704 | 2,557,839 | 380,818 | 2,938,657 |
| Staff and Professional Development | 496,217 | 151,237 | 345,118 | 496,355 |
| TOTAL QBE FORMULA FUNDS | \$ 84,759,105 | \$ 95,696,120 | \$ 5,332,040 | \$ 101,028,160 |

(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

June 15, 2007

Honorable Sonny Perdue, Governor
Members of the General Assembly
Members of the State Board of Education
and
Superintendent and Members of the
Paulding County 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 Paulding County Board of Education as of and for the year ended June 30, 2006, which collectively comprise Paulding County Board of Education's basic financial statements and have issued our report thereon dated June 15, 2007. 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 Paulding County 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 Paulding County 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-7101-06-01, FS-7101-06-02 and FS-7101-06-03.

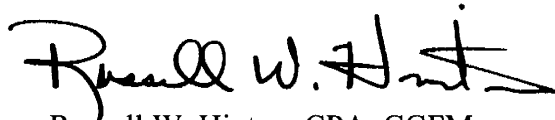
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being 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 item FS-7101-06-02 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Paulding County 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 management and members of the Paulding County Board of Education and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Russell W. Hinton", with a stylized flourish at the end.

Russell W. Hinton, CPA, CGFM
State Auditor

RWH:gp
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

June 15, 2007

Honorable Sonny Perdue, Governor
Members of the General Assembly
Members of the State Board of Education
and
Superintendent and Members of the
Paulding County 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 Paulding County 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. Paulding County Board of Education's major Federal programs are identified in the Summary of Auditor's Results Section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of Paulding County Board of Education's management. Our responsibility is to express an opinion on Paulding County Board of Education's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the Paulding County Board of Education's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Paulding County Board of Education's compliance with those requirements.

In our opinion, the Paulding County 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-7101-06-03.

Internal Control Over Compliance

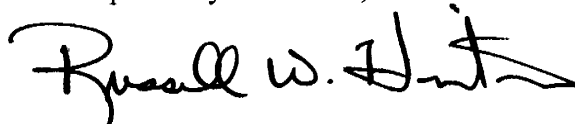
The management of Paulding County Board of Education is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered Paulding County 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 Paulding County 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-7101-06-01 and FA-7101-06-02.

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 management, members of the Paulding County 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,

A handwritten signature in black ink, appearing to read "Russell W. Hinton", with a stylized flourish at the end.

Russell W. Hinton, CPA, CGFM
State Auditor

SECTION III

AUDITEE'S RESPONSE TO PRIOR YEAR FINDINGS AND QUESTIONED COSTS

PAULDING COUNTY BOARD OF EDUCATION
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-7101-04-01 | Further Action Not Warranted |
| FS-7101-04-02 | Further Action Not Warranted |
| FS-7101-05-01 | Previously Reported Corrective Action Implemented |
| FS-7101-05-02 | Unresolved - See Corrective Action/Responses |

CORRECTIVE ACTION/RESPONSES

REVENUES/RECEIVABLES/RECEIPTS
EXPENDITURES/LIABILITIES/DISBURSEMENTS
Inadequate Controls over School Activity Accounts
Finding Control Number: FS-7101-05-02

The Procedures Manual was reviewed with the school bookkeepers to reinforce the policies and procedures of the School District. Principals continue to send in monthly assurances of tasks completed. Monthly monitoring and periodic checks of receipt books are conducted by the Staff Accountant over Local School Accounting.

PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING CONTROL NUMBER AND STATUS

| | |
|---------------|--|
| FA-7101-04-01 | Further Action Not Warranted |
| FA-7101-05-01 | Unresolved - See Corrective Action/Responses |

CORRECTIVE ACTION/RESPONSES

SPECIAL TESTS AND PROVISIONS
Federal Reimbursement Transfers Not Timely
Finding Control Number: FA-7101-05-01

The corrective action plan that was implemented failed to meet management's expectations in controls. Since Food Service is not notified of the expected date of ACH deposit the School District office goes in daily to verify ACH activity and verify receipt of deposit. Once the deposit is received the School District transfers funds in a timely manner (within three business days).

SECTION IV
FINDINGS AND QUESTIONED COSTS

PAULDING COUNTY BOARD OF EDUCATION
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 Paulding County Board of Education's financial statements was unqualified.

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

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

Revenues/Receivables/Receipts
General Ledger

Expenditures/Liabilities/Disbursements
Capital Assets

Of the reportable conditions described above, Expenditures/Liabilities/Disbursements and General Ledger are considered to be material weaknesses.

3. Noncompliance Material to the Financial Statements

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

Activities Allowed or Unallowed

Special Tests and Provisions

None of the reportable conditions described above are considered to be material weaknesses.

5. Type of Report Issued on Compliance for Major Programs

The auditor's opinion on the Paulding County 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 Paulding County 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.

PAULDING COUNTY BOARD OF EDUCATION
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 |
| 84.367 | Improving Teacher Quality State Grants |
| 84.938 | Hurricane Education Recovery |

8. Type "A" Program Dollar Threshold

The dollar threshold for type "A" programs was \$455,717.

9. Low Risk Auditee

The Paulding County Board of Education qualified as a low risk auditee as defined by Section .530 of OMB Circular A-133.

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

REVENUES/RECEIVABLES/RECEIPTS

EXPENDITURES/LIABILITIES/DISBURSEMENTS

Inadequate Internal Controls over School Activity Accounts

Reportable Condition

Finding Control Number: FS-7101-06-01

Condition: This is a repeat finding (FS-7101-05-02 and FS-7101-04-02) from the years ended June 30, 2005, and June 30, 2004, respectively. 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 processed according to established procedures.

Questioned Cost: N/A

Information: Revenues/Receivables/Receipts

- Based on a review of 25 items, the following deficiencies were noted:
 1. Five receipts were not supported by adequate documentation,
 2. Seven receipts were not deposited in a timely manner,
 3. Three receipts were not reconciled to the amount deposited,

PAULDING COUNTY BOARD OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

REVENUES/RECEIVABLES/RECEIPTS

EXPENDITURES/LIABILITIES/DISBURSEMENTS

Inadequate Internal Controls over School Activity Accounts

Reportable Condition

Finding Control Number: FS-7101-06-01

4. Three receipts could not be reconciled to the accounting records, and
5. Three receipts could not be traced to the accounting records.

Expenditures/Liabilities/Disbursements

- Based on a review of 27 vouchers, the following deficiencies were noted:
 1. Four vouchers did not have proper prior approval, and
 2. One voucher was not supported by adequate documentation.

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 ensure that controls are in place and operating effectively to provide reasonable assurance that transactions are processed according to established procedures.

EXPENDITURES/LIABILITIES/DISBURSEMENTS

GENERAL LEDGER

Inadequate Accounting Procedures

Reportable Condition - Material Weakness

Finding Control Number: FS-7101-06-02

Condition: The accounting procedures of the School District were insufficient to provide for adequate controls over (1) Expenditures/Liabilities/Disbursements and (2) General Ledger.

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

PAULDING COUNTY BOARD OF EDUCATION
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 Procedures

Reportable Condition - Material Weakness

Finding Control Number: FS-7101-06-02

Information: A review of current year activity disclosed the following weaknesses:

Expenditures/Liabilities/Disbursements

- Based on a review of significant commitments, it was noted that the School District failed to record material contract payables of \$523,363 and retainage payables of \$563,434. Audit adjustments were proposed and made to correct this deficiency.

General Ledger

- Based on a review of the accounting records, as presented for audit, it was noted that the Capital Projects Regular fund had a deficit fund balance in the amount of \$983,327. An audit adjustment was proposed and made to correct this deficiency.
- Our testing also revealed that several Federal programs reporting deficits totaling \$635,770 had funding available from grantors to fund these deficits.

Cause: School District management failed to implement adequate controls and procedures to (1) ensure proper recognition of revenues when measurable and available and (2) ensure proper recording of expenditures when the liability was incurred in accordance with generally accepted accounting principles.

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 review the accounting procedures in place and implement additional procedures necessary to ensure that financial transactions are recorded properly and in accordance with generally accepted accounting principles.

PAULDING COUNTY BOARD OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

CAPITAL ASSETS

Inadequate Controls over Capital Assets

Reportable Condition

Finding Control Number: FS-7101-06-03

Condition: The School District has not formally adopted a Capital Assets policy and failed to adequately maintain Capital Asset records.

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: The School District has not formally adopted a Capital Assets policy. A review of the District-wide Capital Projects Fund transactions revealed expenditures for additions or replacements/betterments that should be capitalized. Additionally, the School District did not record certain Construction in Progress activity.

Cause: These deficiencies were a result of management's failure to formally adopt a Capital Assets policy. Additionally, management recorded amounts for Construction in Progress based on information obtained from a contracted party. However, management did not ensure that amounts for all projects were included in the general ledger.

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

Recommendation: Management should adopt a formal Capital Assets policy. In addition, the School District should review its Capital Asset records and make appropriate adjustments to ensure that all Capital Assets are complete, accurately valued and properly recorded on the Capital Assets inventory records.

PAULDING COUNTY BOARD OF EDUCATION
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-7101-06-01

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:

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 provide 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 Board'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 stated that since these funds are to be applied and used in a 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: \$50,625

PAULDING COUNTY BOARD OF EDUCATION
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-7101-06-01

Information: HERA funds received by the School District included \$50,625 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.

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 determine if the \$50,625 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 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.

PAULDING COUNTY BOARD OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

III FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

SPECIAL TESTS AND PROVISIONS

Federal Reimbursement Transfers Not Timely

Reportable Condition

U. S. Department of Agriculture

Through Georgia Department of Education

Food Services - School Breakfast Program (CFDA 10.553)

Food Services - National School Lunch Program (CFDA 10.555)

Finding Control Number: FA-7101-06-02

Condition: This is a repeat finding (FA-7101-05-01 and FA-7101-04-01) from the years ended June 30, 2005, and 2004, respectively. Federal reimbursement payments for the Food Services - School Breakfast Program (CFDA 10.553) and the Food Services - National School Lunch Program (CFDA 10.555) have not been credited to the food service account in a timely manner.

Criteria: USDA policy 210.14(a) states in part: "Revenues received by the nonprofit school food service are to be used only for the operation or improvement of such food service...."

Questioned Cost: N/A

Information: Testing revealed that in September 2005, the Federal reimbursement was held up to 8 days before being credited to the School Food Service account; in December 2005, the Federal reimbursement was held up to 8 days; in February 2006, the Federal reimbursement was held up to 5 days; and in May 2006, the Federal reimbursement was held up to 4 days.

Cause: The School District failed to implement appropriate internal controls for monitoring compliance in accordance with Federal guidelines.

Effect: Federal reimbursements received by the School District and not transferred timely to the School Food Service account may have earned interest which should be used solely for the benefit of the Food Services Program.

Recommendation: Management should implement policies and procedures to ensure compliance with Federal requirements over the process for the transfer of Federal reimbursement payments. In addition, any interest earned on the Federal reimbursements by the School District prior to crediting the School Food Service account should be transferred to the School Food Service account.

PAULDING COUNTY BOARD OF EDUCATION
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 84.010)

Finding Control Number: FA-7101-06-03

Condition: The School District did not fully implement the fiscal requirements of its 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 for all students. 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 illustrating a method to properly consolidate funds from the different Federal programs in line with Federal requirements.

Questioned Cost: N/A

PAULDING COUNTY BOARD OF EDUCATION
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 84.010)

Finding Control Number: FA-7101-06-03

Information: The School District identified one school that participated in the schoolwide program. While Federal provisions prescribe that multiple funding sources are required to support a schoolwide program, we noted that the Title I program was identified as the only funding source supporting the schoolwide program.

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

Effect: Failure to appropriately consolidate Federal funds and allocate costs can result in material noncompliance with requirements of the Federal 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

PAULDING COUNTY BOARD OF EDUCATION
SCHEDULE OF MANAGEMENT'S RESPONSES
YEAR ENDED JUNE 30, 2006

Finding Control Number: FS-7101-06-01

We concur with this finding. Principals and bookkeepers have been furnished a Policy and Procedures manual as well as other financial procedures to be reviewed. Interim controls for compliance were established by financial services requiring the principal to submit monthly assurances of tasks completed. Compliance failures will be addressed and appropriate action taken. Additional training will be provided to the bookkeepers and internal audits will be conducted on a more frequent basis.

Finding Control Number: FS-7101-06-02

We concur with this finding. Procedures have been implemented to ensure that fiscal year end financial transactions relating to capital projects and Federal programs are recorded in compliance with generally accepted accounting principals.

Finding Control Number: FS-7101-06-03

We concur with this finding. A Capital Assets policy has been written and will be submitted to the Board for approval in the month of August 2007.

Finding Control Number: FA-7101-06-01

We concur with this finding. Georgia Department of Education guidelines will be followed in addition to Federal guidelines when administering Federal Funds.

Finding Control Number: FA-7101-06-02

We concur with this finding. Procedures that require management of food services to notify the Board of requested grant draws and expected date of ACH deposit have been implemented. The Board office is monitoring daily ACH activity to verify receipt of deposit. Any interest earned on Federal reimbursements that are received by the Board office and not transferred within 3 business days will be paid to the Food Service Department.

Finding Control Number: FA-7101-06-03

We concur with this finding. Procedures to combine funds as prescribed by the U. S. Department of Education and allocate schoolwide program costs to the respective funds in a reasonable manner were implemented in July 2006.

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