

Annual Financial Report

Fiscal Year Ended June 30, 2012

WILLIAMSON & CO. CPA's

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CHEROKEE COUNTY SCHOOL DISTRICT

Annual Financial Report

Fiscal Year Ended June 30, 2012

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FINANCIAL SECTION



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CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

LLOYD WILLIAMSON
CHRISTIAN HATCH

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Cherokee County School District (the "School District"), as of and for the year ended June 30, 2012, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Cherokee County School District, as of June 30, 2012, and the respective changes in financial position thereof and the budgetary comparison of the General Fund 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 October 21, 2013, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Cherokee County School District's basic financial statements. The combining nonmajor fund financial statements and other supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Williamson and Company

Williamson and Company
Certified Public Accountants
October 21, 2013

BASIC FINANCIAL STATEMENTS



CHEROKEE COUNTY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2012

	Governmental Activities
Assets	
Cash and Cash Equivalents	$ 8,771,886
Restricted Cash	48,624,507
Investments	44,325,443
Receivables	
Taxes	2,444,740
State Government	27,402,791
Federal Government	2,807,046
Other	298,784
Inventory	604,408
Deferred Charges	3,591,705
Capital Assets, Nondepreciable	90,490,879
Capital Assets, Net	465,768,468
Total Assets	695,130,657
Liabilities	
Accounts Payable	4,983,225
Salaries and Benefits Payable	22,468,729
Accrued Interest Payable	7,297,946
Retainage Payable	2,264,166
Long-term Liabilities	
Due Within One Year	22,600,921
Due in More Than One Year	339,253,781
Total Liabilities	398,868,768
Net Assets	
Invested in Capital Assets, Net of Related Debt	198,889,424
Restricted For:	
Capital Projects	41,385,798
Debt Service	27,712,798
Other	44,019
Unrestricted	28,229,850
Total Net Assets	$ 296,261,889

The accompanying notes are an integral part of this financial statement.

CHEROKEE COUNTY SCHOOL DISTRICT

Statement of Activities

For the Fiscal Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Governmental Activities :					
Instruction	$ 224,253,725	$ 10,424,061	$ 139,196,631	$ 4,428,298	$ (70,204,735)
Support Services					
Pupil Services	12,632,830	-	3,625,181	-	(9,007,649)
Improvement of Instruction Services	17,786,353	-	2,626,660	-	(15,159,693)
Educational Media Services	4,952,041	-	3,425,485	-	(1,526,556)
General Administration	3,968,602	18,995	84,494	-	(3,865,113)
School Administration	19,865,744	-	5,898,041	-	(13,967,703)
Business Administration	1,873,681	416,051	-	-	(1,457,630)
Maintenance and Operations	31,471,536	-	9,074,988	-	(22,396,548)
Student Transportation Services	17,516,187	-	2,394,802	304,878	(14,816,507)
Central Support Services	3,176,410	-	3,393,829	-	217,419
Other Support Services	4,246,668	-	186,884	-	(4,059,784)
Operations of Noninstructional Services:					
Community Service Operations	1,890,012	-	15,000	-	(1,875,012)
Food Services Operations	15,726,874	6,639,408	8,893,919	-	(193,547)
Interest on Long-term Debt	14,370,208	-	-	-	(14,370,208)
Total Governmental Activities	$ 373,730,871	$ 17,498,515	$ 178,815,914	$ 4,733,176	(172,683,266)

General Revenues:	
Taxes:	
Property Tax, Levied for General Purposes	125,631,535
Property Tax, Levied for Debt Service	2,530,486
Educational Local Option Sales Tax	30,332,685
Intangible Tax	55,369
Grants and Contributions Not Restricted to Specific Programs	837,491
Investment Earnings	144,910
Total General Revenues	159,532,476
Change in Net Assets	(13,150,790)
Net Assets - Beginning of Year	316,601,643
Prior Period Adjustment	(7,188,964)
Net Assets - End of Year	$ 296,261,889

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

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CHEROKEE COUNTY SCHOOL DISTRICT
Balance Sheet
Governmental Funds
June 30, 2012

	General Fund	District-Wide Capital Projects	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and Cash Equivalents	$ 3,745,216	$ -	$ -	$ 5,026,670	$ 8,771,886
Restricted Cash	-	45,512,476	3,112,031	-	48,624,507
Investments	12,878,015	-	28,619,678	2,827,750	44,325,443
Receivables					
Taxes	2,603,789	-	54,013	-	2,657,802
State Government	22,907,482	1,660,027	2,622,220	-	27,189,729
Federal Government	59,459	-	-	2,747,587	2,807,046
Other	137,243	-	98,288	63,252	298,783
Inventory	304,619	-	-	299,790	604,409
Due From Other Funds	9,276,100	95,907	753,224	-	10,125,231
Total Assets	$ 51,911,923	$ 47,268,410	$ 35,259,454	$ 10,965,049	$ 145,404,836
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	$ 1,050,223	$ 3,618,446	$ -	$ 314,556	$ 4,983,225
Salaries and Benefits Payable	21,334,549	-	-	1,134,180	22,468,729
Retainage Payable	-	2,264,166	-	-	2,264,166
Due To Other Funds	731,194	-	7,504,975	1,889,062	10,125,231
Deferred Revenue	2,021,206	-	41,681	-	2,062,887
Total Liabilities	25,137,172	5,882,612	7,546,656	3,337,798	41,904,238
Fund Balances					
Nonspendable					
Inventory	304,618	-	-	299,790	604,408
Restricted					
Debt Service	-	-	27,712,798	-	27,712,798
Capital Projects	-	41,385,798	-	-	41,385,798
Continuation of Federal Program	-	-	-	44,019	44,019
Committed					
School Food Services	-	-	-	3,600,435	3,600,435
School Activities	-	-	-	3,683,007	3,683,007
Unassigned	26,470,133	-	-	-	26,470,133
Total Fund Balances	26,774,751	41,385,798	27,712,798	7,627,251	103,500,598
Total Liabilities and Fund Balances	$ 51,911,923	$ 47,268,410	$ 35,259,454	$ 10,965,049	$ 145,404,836

Total Fund Balances Governmental Funds			$ 103,500,598
Amounts reported for governmental activities in the Statement of Net Assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			
Cost	717,756,964		
Less Accumulated Depreciation	(161,497,617)		556,259,347
Other long-term assets are not available to pay for current- period expenditures and therefore, are deferred in the funds.			
Property Taxes			2,062,887
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.			
Bonds	(350,705,000)		
Bond Premium, Net of Amortization	(7,998,523)		
Loss on Bond Refunding, Net of Amortization	1,333,600		
Bond Issuance Costs, Net of Amortization	2,258,105		
Claims Payable	(1,180,433)		
Accrued Interest	(7,297,946)		
Compensated Absences	(1,970,746)		(365,560,943)
Net Assets Of Governmental Activities			$ 296,261,889

The accompanying notes are an integral part of this financial statement.

CHEROKEE COUNTY SCHOOL DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2012

	General Fund	District Wide Capital Projects	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
Revenues					
Local Sources	$ 136,030,182	$ 30,302	$ 32,863,172	$ 17,792,049	$ 186,715,705
State Funds	148,542,910	4,321,110	-	959,994	153,824,014
Federal Funds	1,398,449	-	-	20,200,746	21,599,195
Investment Earnings	912	76,886	143,515	483	221,796
Total Revenues	285,972,453	4,428,298	33,006,687	38,953,272	362,360,710
Expenditures					
Current					
Instruction	203,371,946	9,652,269	-	7,424,136	220,448,351
Support Services:					
Pupil Services	9,549,306	-	-	3,083,524	12,632,830
Improvement of Instructional Services	5,493,684	-	-	12,292,669	17,786,353
Educational Media Services	4,947,135	-	-	4,906	4,952,041
General Administration	2,156,312	-	-	87,286	2,243,598
School Administration	19,778,055	-	-	29,538	19,807,593
Business Administration	1,829,533	-	-	-	1,829,533
Maintenance and Operations	22,004,331	-	-	11,417	22,015,748
Student Transportation Services	14,033,451	-	-	478,384	14,511,835
Central Supports Services	3,176,410	-	-	-	3,176,410
Other Support Services	3,971,137	-	-	275,531	4,246,668
Community Services Operations	1,890,012	-	-	-	1,890,012
Food Services Operation	298,894	-	-	15,417,251	15,716,145
Capital Outlay	512,689	31,829,288	-	1,355	32,343,332
Debt Service					
Principal Retirement	-	-	17,505,000	-	17,505,000
Interest and Fees	28,599	-	15,308,386	-	15,336,985
Total Expenditures	293,041,494	41,481,557	32,813,386	39,105,997	406,442,434
Excess (Deficiency) of Revenues Over (Under) Expenditures	(7,069,041)	(37,053,259)	193,301	(152,725)	(44,081,724)
Other Financing Sources (Uses)					
Proceeds From Sale of Capital Assets	94,985	-	-	-	94,985
Transfers In	-	1,100,443	-	528,237	1,628,680
Transfers Out	(1,628,680)	-	-	-	(1,628,680)
Total Other Financing Sources (Uses)	(1,533,695)	1,100,443	-	528,237	94,985
Net Change in Fund Balances	(8,602,736)	(35,952,816)	193,301	375,512	(43,986,739)
Fund Balance, Beginning of Year	35,377,487	77,338,614	27,519,497	7,251,739	147,487,337
Fund Balance, End of Year	$ 26,774,751	$ 41,385,798	$ 27,712,798	$ 7,627,251	$ 103,500,598

The accompanying notes are an integral part of this financial statement.

CHEROKEE COUNTY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities

For the Year Ended June 30, 2012

Net Change in Fund Balances - Total Governmental Funds		$ (43,986,739)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The amount by which capital outlays exceeded depreciation expense is as follows:		
Capital Outlay	$ 32,343,332	
Depreciation Expense	(16,733,877)	15,609,455
The net effect of various miscellaneous transactions involving capital assets during the fiscal year decreased net assets.		(869,463)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property Taxes		(956,833)
Intergovernmental Grants		(918,759)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Principal Payments - Bonds		17,505,000
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		
Change in Compensated Absences	59,606	
Amortization of Bond Premium	901,791	
Amortization of Deferred Charge on Refunding	(273,508)	
Amortization of Bond Issuance Costs	(236,520)	
Change in Claims Payable	(323,313)	
Change in Accrued Interest	338,494	466,550
Change in Net Assets of Governmental Activities		$ (13,150,789)

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

CHEROKEE COUNTY SCHOOL DISTRICT

General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual

For the Fiscal Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues				
Local Sources	$ 131,408,437	$ 131,408,437	$ 136,030,182	$ 4,621,745
State Funds	154,205,052	154,205,052	148,542,910	(5,662,142)
Federal Funds	192,600	192,600	1,398,449	1,205,849
Investment Earnings	-	-	912	912
Total Revenues	285,806,089	285,806,089	285,972,453	166,364
Expenditures				
Instruction	202,301,460	202,301,460	203,371,946	(1,070,486)
Support Services:				
Pupil Services	8,456,409	8,456,409	9,549,306	(1,092,897)
Improvement of Instructional Services	5,914,070	5,914,070	5,493,684	420,386
Educational Media Services	5,341,908	5,341,908	4,947,135	394,773
General Administration	2,245,194	2,245,194	2,156,312	88,882
School Administration	20,489,288	20,489,288	19,778,055	711,233
Business Administration	2,024,019	2,024,019	1,829,533	194,486
Maintenance and Operations	23,399,313	23,399,313	22,004,331	1,394,982
Student Transportation Services	13,908,775	13,908,775	14,033,451	(124,676)
Central Supports Services	3,483,718	3,483,718	3,176,410	307,308
Other Support Services	286,291	286,291	3,971,137	(3,684,846)
Community Services Operations	-	-	1,890,012	(1,890,012)
Food Services Operation	-	-	298,894	(298,894)
Capital Outlay	235,250	235,250	512,689	(277,439)
Debt Service				
Interest and Fees	50,000	50,000	28,599	21,401
Total Expenditures	288,135,695	288,135,695	293,041,494	(4,905,799)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,329,606)	(2,329,606)	(7,069,041)	(4,739,435)
Other Financing Sources				
Proceeds From Sale of Capital Assets	-	-	94,985	94,985
Transfers Out	(1,875,500)	(1,875,500)	(1,628,680)	246,820
Total Other Financing Sources	(1,875,500)	(1,875,500)	(1,533,695)	341,805
Net Change In Fund Balance	(4,205,106)	(4,205,106)	(8,602,736)	(4,397,630)
Fund Balance, Beginning of Year	35,377,487	35,377,487	35,377,487	-
Fund Balance, End of Year	$ 31,172,381	$ 31,172,381	26,774,751	$ (4,397,630)

The accompanying notes are an integral part of this financial statement.

CHEROKEE COUNTY SCHOOL DISTRICT
Agency Fund
Statement of Fiduciary Assets and Liabilities
June 30, 2012

	Agency Fund
Assets	
Cash	$ 111,924
Total Assets	$ 111,924
Liabilities	
Due to Others	$ 111,924
Total Liabilities	$ 111,924

The accompanying notes are an integral part of this financial statement.

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Note 1 – Description of School District and Reporting Entity

Reporting Entity

The Cherokee County School District (the "School District") was established under the laws of the State of Georgia and operates under the guidance of an elected seven member 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 the notes to the basic financial statements of the Cherokee County School District.

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.

The School District reports the following major governmental funds:

- The 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.

- The District-wide Capital Projects Fund accounts for financial resources including Educational Local Option Sales Tax (ELOST), bond proceeds, and grants from the Georgia State Financing and Investment Commission to be used for the acquisition, construction, or renovation of major capital facilities.

- The Debt Service Fund accounts for transactions and resources for the payment of general long-term principal, interest, and paying agent's fees.

The School District reports the following fiduciary fund type:

- Agency Fund accounts for assets of the school activity funds held by the School District in an agency capacity.

Basis of Accounting

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

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

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

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

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. Official Code of Georgia Annotated §45-8-14 authorizes the School District to deposit its funds in one or more solvent banks, insured Federal savings and loan associations, or insured chartered building and loan associations.

Investments

Composition of Investments: Investments made by the School District in nonparticipating interest-earning contracts (such as certificates of deposits) 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 §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:

- Obligations issued by the State of Georgia or by other states,
- Obligations issued by the United States Government,
- Obligations fully insured or guaranteed by the United States government or a United States government agency,
- Obligations of any corporation of the United States government,
- Prime banker's acceptances,
- The Georgia Fund 1 investment pool administered by the State of Georgia, Office of Treasury and Fiscal Services,
- Repurchase agreements
- Obligations of the other political subdivisions of the State of Georgia.

The School System does not have a formal policy regarding investments that addresses 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 Cherokee County Board of Commissioners fixed the property tax levy for the 2011 tax digest year on August 2, 2011 to be paid by December 20, 2011. Taxes collected within the current fiscal year or within 60 days after year-end on the 2011 tax digest are reported as revenue in the governmental funds for fiscal year 2012. The Cherokee 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, 2012, for maintenance and operations amounted to $107,083,041 and for school bonds amounted to $2,223,637.

Tax millage rates levied for the 2011 tax year for the Cherokee County School District were as follows (a mil equals $1 per thousand dollars of assessed value):

School Operations	19.45 mils
School Bonds	.4 mils

Sales Taxes

Educational Local Option Sales Tax revenue, at the fund reporting level, during the year amounted to $30,332,685 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 using the first-in, first-out method. 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 are recorded as the inventory items are used.

Supplies/Equipment Inventories: On the basic financial statements, inventories of stored supplies and equipment are reported at cost using the first-in, first-out method. The School District uses the consumption method to account for the inventories whereby items are recorded as an asset when purchased and expenses are recorded when the item is put into use.

Capital Assets

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

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

Description	Capitalization Policy	Estimated Useful Life
Land	Any Amount	N/A
Land Improvements	Any Amount	20
Buildings	Any Amount	50
Equipment	$ 10,000	5-10

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

Compensated Absences

Members of the Teachers Retirement System of Georgia (TRS) may apply unused sick leave toward early retirement. The liability for early retirement will be borne by TRS rather than by the individual school districts. Otherwise, sick leave does not vest with the employee, and no liability is reported in the School District's financial statements.

Vacation leave of 12 days is awarded on a fiscal year basis to all full time personnel employed on a twelve month basis. No other employees are eligible to earn vacation leave. Vacation leave not utilized during the fiscal year may be carried over to the next fiscal year, providing such vacation leave does not exceed 45 days. Vacation leave of 20 days is awarded on a fiscal year basis to the Superintendent and there are no limits on the amount that may be carried over.

General Obligation Bonds

The School System issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. In the District-wide financial statements, bond premiums and discounts, issuance costs, as well as gains or losses on bond refundings are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount and the loss on bond refunding.

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

Net Assets

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

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

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

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

Fund Balances

The School District's fund balances are classified as follows:

Nonspendable – Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – Constraints are placed on the use of resources and are either (1) externally imposed conditions by creditors, grantors, contributors, or laws and regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation.

Committed – Amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Education. The Board of Education is the School District's highest level of decision-making authority, and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution approved by the Board. Committed fund balance also should incorporate contractual obligations to the

extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – Amounts that are constrained by the School District's *intent* to be used for specific purposes, but are neither restricted nor committed. The intent should be expressed by (1) the Board of Education or (2) the budget or finance committee, or (3) the Superintendent, or designee, to assign amounts to be used for specific purposes.

Unassigned – The residual classification for the General Fund. This classification represents fund balances that have not been assigned to other funds and that have not been restricted, committed, or assigned to specific purposes within the General Fund.

When multiple categories of fund balance are available for expenditure, the School District will start with the most restricted category and spend those funds first before moving down to the next category with available funds.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note 3 – Budgetary Data

The School District adopts an annual budget for its General Fund, all Special Revenue Funds, and Debt Service Fund. The budget is prepared in accordance with the provision of the Official Code of Georgia Annotated §20-2-167 and in accordance with generally accepted accounting principles. After the Board has tentatively adopted the budget, the budget is advertised at least once in the local newspaper of general circulation. At the next regularly scheduled meeting after advertisement, the Board receives comment, makes revisions as necessary, and adopts the final budget. The approved budget is then submitted to the Georgia Department of Education.

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

The following functions had excesses of actual expenditures over appropriations in the amount shown for the fiscal year ended June 30, 2012.

Instruction	$ 1,070,486
Pupil Services	1,092,897
Student Transportation Services	124,676
Other Support Services	3,684,846
Community Services Operations	1,890,012
Food Services Operations	298,894
Capital Outlay	277,439

A portion of the budget overages were offset by less than anticipated expenditures in other functions and the use of a portion of the general fund's accumulated fund balance.

Note 4 - Deposits and Investments

Collateralization of Deposits

Official Code of Georgia Annotated §45-8-12 provides that there shall not be on deposit at any time in any depository for a time longer than ten days a sum of money which has not been secured by surety bond, by guarantee of insurance, or by collateral. The aggregate of the face value of such surety bond and the market value of securities pledged shall be equal to not less than 110 percent of the public funds being secured after the deduction of the amount of deposit insurance. If a depository elects the pooled method (O.C.G.A. §45-8-13.1) the aggregate of the market value of the securities pledged to secure a pool of public funds shall not be less than 110 percent of the daily pool balance. As of June 30, 2012, the School District's deposits were secured by surety bond, insurance, or collateral.

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

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

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

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

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

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

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

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

Categorization of Deposits

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a formal policy for managing custodial credit risk. At June 30, 2012, the bank balances were $46,442,249. The bank balances were entirely covered by Federal depository insurance or collateralized with securities held by the pledging financial institution's trust department or agent in the School District's name. The amounts exposed to custodial credit risk are classified into three categories as follows:

Category 1 – Uncollateralized

Category 2 – Cash collateralized with securities held by the pledging financial institution

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

The School District's deposits by custodial risk category at June 30, 2012 are as follows:

Credit Risk Category	Bank Balance
1	$ -
2	11,700,181
3	-
Total	$ 11,700,181

Categorization of Investments

At June 30, 2012 the School District's investments consisted of funds invested in the Georgia Fund 1, formerly referred to as the Local Government Investment Pool, Treasury/Agency Securities held through the Securities Service Network, and Certificates of Deposits at various financial institutions within the State of Georgia. The Georgia Fund 1 is administered by the State of Georgia, Office of Treasury and Fiscal Services which are not required to be categorized since the School District did not own any specific identifiable securities in the pool. The investment policy of the State of Georgia, Office of Treasury and Fiscal Services for the Georgia Fund 1 (Primary Liquidity Portfolio and Extended Asset Portfolio) does not provide for investment in derivatives or similar investments. Additional information on the Georgia Fund 1 is disclosed in the *State of Georgia* Comprehensive Annual Financial Report. This audit can be obtained from the Georgia Department of Audits and Accounts at http://www.audits.ga.gov/SGD/cafr.html.

The Primary Liquidity Portfolio consists of Georgia Fund 1 which is not registered with the SEC as an investment company but does operate in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940. The investment is valued at the pool's share price, $1.00 per share. The pool is an AAAm rated investment pool by Standard and Poor's. The weighted average maturity of Georgia Fund 1 may not exceed 60 days. The weighted average maturity for Georgia Fund 1 on June 30, 2012, was 48 days.

The School District's investments in the Georgia Fund 1, the agency/treasury securities, and the certificates of deposit as of June 30, 2012 are presented below. All investments are presented by investment type and debt securities are presented by maturity.

Investment Type	Fair Value	Maturity
Investment Pools		
Georgia Fund 1	$ 54,562,692	48 Days
Federal Home Loan		
Treasuries	148,144	1-5 Years
Certificates of Deposit	185,933	1-5 Years
Total	$ 54,896,769	

Interest Rate Risk

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

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the 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.

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.

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. Over 99% of the School District's investments are maintained by the Georgia Fund 1.

Note 5 - Nonmonetary 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.

Note 6 - Capital Assets

The following is a summary of changes in capital assets for the fiscal year ended June 30, 2012:

Governmental Activities:	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
Capital Assets Not Being Depreciated				
Land and Improvements	$ 30,570,254	$ -	$ -	$ 30,570,254
Construction in Progress	34,071,714	26,698,344	(849,433)	59,920,625
Total	64,641,968	26,698,344	(849,433)	90,490,879
Capital Assets Being Depreciated				
Buildings and Improvements	568,206,076	4,097,752	(147,217)	572,156,611
Equipment	42,242,428	1,167,867	(2,739,402)	40,670,893
Land and Improvements	14,059,212	379,369	-	14,438,581
Total	624,507,716	5,644,988	(2,886,619)	627,266,085
Less Accumulated Depreciation For:				
Buildings and Improvements	(108,993,734)	(12,933,744)	127,097	(121,800,381)
Equipment	(27,772,078)	(3,478,991)	2,739,402	(28,511,667)
Land and Improvements	(10,864,427)	(321,142)	-	(11,185,569)
Total	(147,630,239)	(16,733,877)	2,866,499	(161,497,617)
Capital Assets Being Depreciated, Net	476,877,477	(11,088,889)	(20,120)	465,768,468
Governmental Activities Capital Assets, Net	$ 541,519,445	$ 15,609,455	$ (869,553)	$ 556,259,347

Beginning equipment balances have been restated to reflect the adjustment to prior period net assets discussed in Note 18.

Depreciation expense by function:

Instruction	$ 13,193,937
General Administration	619,021
School Administration	58,151
Support Services - Business	44,148
Maintenance and Operation	108,417
Student Transportation Services	2,699,474
School Nutrition Program	10,729
Total Depreciation	$ 16,733,877

Note 7 - Interfund Assets and Liabilities

Due to and due from other funds are recorded for interfund receivables and payables which arise from interfund transactions. Interfund balances at June 30, 2012, consisted of the following:

	Due From Other Funds	Due To Other Funds
General Fund	9,276,100	731,194
Capital Projects Fund	95,907	-
Debt Service Fund	753,224	7,504,975
Nonmajor Governmental Funds	-	1,889,062
	10,125,231	10,125,231

Note 8 - Interfund Transfers

Interfund transfers for the fiscal year ended June 30, 2012, consisted of the following:

Transfer From	Transfer To	Amount
General Fund	Nonmajor Governmental Funds	$ 528,237
General Fund	Capital Projects Fund	1,100,443
		$ 1,628,680

Transfers are used to move funds from the General Fund to the Capital Projects fund and various nonmajor governmental funds to help fund capital projects and provide local support to federal programs.

Note 9 - 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; natural disaster.

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

Workers Compensation Claims

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

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

Fiscal Year	Beginning Of Year Liability	Claims and Changes in Estimates	Claims Paid	End Of Year Liability
2012	$ 857,220	$ 1,263,689	$ (940,476)	$ 1,180,433
2011	-	1,940,578	(1,083,358)	857,220

Unemployment Claims

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

Fiscal Year	Beginning Of Year Liability	Claims and Changes in Estimates	Claims Paid	End Of Year Liability
2012	$ -	$ 57,823	$ (57,823)	$ -
2011	48,278	220,639	(268,917)	-

Note 10 – Operating Leases

The Cherokee County School District has entered into various lease agreements for equipment. These leases are considered for accounting purposes to be operating leases. Lease expenditures for the year ended June 30, 2012 amounted to $325,055.

Future minimum lease payments for these leases are as follows:

Year Ending	Lease Payments
2013	$ 315,197
2014	23,167
Total	$ 338,364

Note 11 – Short-term Debt

During fiscal 2012, the School District issued tax anticipation notes in advance of property tax collections, depositing the proceeds in its General Fund. This short-term debt was to provide cash for operations until property tax collections are received by the School District. Article IX, Section V, Paragraph V of the Constitution of the State of Georgia limits the aggregate amount of short-term debt to 75 percent of the total gross income from taxes collected in the preceding year and requires all short-term debt to be repaid no later than December 31 of the calendar year in which the debt was incurred.

Short-term debt activity for the fiscal year is as follows:

	Beginning Balance	Issued	Redeemed	Ending Balance
Tax Anticipation Notes	$ -	$ 17,000,000	$ (17,000,000)	$ -

Note 12 - 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:

General Obligation Bonds:	Balance July 30, 2012
1999 Series, 3.85%-5.00%, Matures 2/1/2014	$ 7,930,000
2001 Series, 3.00%-5.25%, Matures 8/1/2012	4,175,000
2003 Series, 2.00%-5.00%, Matures 8/1/2014	13,455,000
2006 Series, 3.50%-4.75%, Matures 8/1/2017	21,995,000
2007A Series, 3.50%-5.00%, Matures 8/1/2028	116,500,000
2007B Series, 4.00%-5.00%, Matures 8/1/2017	41,915,000
2009A Series, 4.00%-5.00%, Matures 8/1/2023	52,880,000
2009B Series, 5.87%, Matures 8/1/2028	48,375,000
2010A Series, 2.00%-4.00%, Maturing 8/1/2015	3,425,000
2010B Series, 5.63%, Maturing 8/1/2028	40,055,000
Total General Obligation Bonds	$ 350,705,000

The changes in general long-term debt during the year ended June 30, 2012, were as follows:

Governmental Activities:	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Bonds	$ 368,210,000	$ -	$ (17,505,000)	$ 350,705,000	$ 19,770,000
Bond Premiums	8,900,313	-	(901,790)	7,998,523	837,288
Loss on Bond Refunding	(1,607,109)	-	273,509	(1,333,600)	(275,508)
Claims Payable	857,220	1,263,689	(940,476)	1,180,433	1,131,562
Compensated Absences	2,030,352	1,077,973	(1,137,579)	1,970,746	1,137,579
Total	$ 378,390,776	$ 2,341,662	$ (20,211,336)	$ 360,521,102	$ 22,600,921

Beginning balances have been restated to reflect the prior period adjustment to capital leases payable discussed in Note 18.

At June 30, 2012, principal and interest payments due by fiscal year for general obligation bonds are as follows:

Payments Due in Fiscal Year Ending June 30	Principal	Interest	Amortization of Bond Premium
2013	$ 19,770,000	$ 17,695,270	$ 837,288
2014	16,150,000	17,350,126	780,702
2015	16,230,000	15,955,507	371,831
2016	17,635,000	14,696,633	718,314
2017	19,210,000	13,845,694	666,340
2018-2022	60,500,000	59,736,930	3,021,150
2023-2027	80,550,000	40,470,533	1,395,606
2028-2029	120,660,000	4,573,866	207,292
Total	$ 350,705,000	$ 184,324,559	$ 7,998,523

Note 13 - On-Behalf Payments

The School District has recognized revenues and costs in the approximate amount of $25,382,496 for health insurance and retirement contributions paid on the School District's behalf by the following state agencies:

- The Georgia Department of Education paid to the State Health Benefit Plan $24,912,878 for public employee health insurance coverage cost.
- Georgia Department of Education paid to the Teachers Retirement System of Georgia (TRS) employer's cost in the approximate amount of $109,516.
- Office of Treasury and Fiscal Services paid to the Public School Employees Retirement System (PSERS) for public school employees retirement employer's cost in the approximate amount of $360,102.

Note 14 – Significant Commitments

The following is an analysis of significant outstanding construction or renovation contracts executed by the School District as of June 30, 2012, together with funding available:

Project	Unearned Executed Contracts	Funding Available From State
Clark Creek Elementary	$ 658,042	$ -
Sewer Project	1,176,266	-
ET Booth Middle	12,398,711	-
Teasley Middle	30,883,059	14,026,449
Total	$ 45,116,078	$ 14,026,449

Note 15 - Postemployment Benefits

Georgia School Personnel Employees Postemployment Health Benefit Fund

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

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

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

The combined rates for the active and retiree contribution rates established by the Board for employers participating in the School OPEB Fund were as follows for the fiscal year ended June 30, 2012:

Certified Employees	
June 2011	1.429% of covered payroll for July coverage
July 2011	18.534% of covered payroll for August coverage
August 2011- March 2012	24.00% of covered payroll for September-April coverage
April 2012 - June 2012	3.958% of covered payroll for May-July coverage
Non-Certified Employees	
July 2011 - August 2011	$246.20 per member per month
September 2011 - June 2012	$296.20 per membr per month

No additional contribution was required by the Board for fiscal year 2012 nor contributed to the State OPEB Fund to prefund retiree benefits. Such additional contribution amounts are determined annually by the Board in accordance with the State plan for other postemployment benefits and are subject to appropriation.

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

Fiscal Year	Percentage Contributed	Required Contribution
2012	100%	$ 29,519,600
2011	100%	28,610,970
2010	100%	26,705,216

Note 16 - Retirement Plans

1) Teachers Retirement System of Georgia (TRS)

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

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

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

years of service and attainment of age 60. A member is eligible for early retirement after 25 years of creditable service.

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

Funding Policy. TRS is funded by member and employer contributions as adopted and amended by the Board of Trustees. Members become fully vested after 10 years of service. If a member terminates with less than 10 years of service, no vesting of employer contributions occurs, but the member's contributions may be refunded with interest. Member contributions are limited by State law to not less than 5% or more than 6% of a member's earnable compensation. Member contributions as adopted by the Board of Trustees for the fiscal year ended June 30, 2012, were 5.53% of annual salary. The member contribution rate will increase to 6.00% effective July 1, 2012. Employer contributions required for fiscal year 2012 were 10.28% of annual salary as required by the June 30, 2009, actuarial valuation. The employer contribution rate increased to 11.41% effective July 1, 2012.

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

Fiscal Year	Percentage Contributed	Required Contribution
2012	100%	$ 19,919,520
2011	100%	20,289,601
2010	100%	19,230,374

2) Public School Employees Retirement System (PSERS)

Plan Description: Full time employees not eligible to participate in the Teachers Retirement System may participate in the Public School Employees Retirement System (PSERS). The PSERS is a cost sharing, multiple-employer, defined benefit pension plan established by the Georgia Assembly in 1969. Upon retirement, the participating member will receive a monthly benefit of $12.00 multiplied by the number of years of creditable service. Death, disability, and spousal benefits are also available through PSERS. Additionally, PSERS makes periodic cost-of-living adjustments to the monthly benefits. Plan members are required to contribute $4.00 per month for nine months each year. The School System makes no contribution to PSERS.

Funding Policy: The State of Georgia, although not the employer of PSERS members, is required by statute to make employer contributions actuarially determined and approved and certified by the Board of the Employee's Retirement System of Georgia. The Board of Employees Retirement System of Georgia issues a publicly available financial report that includes financial statements and required supplementary information for PSERS. That report

may be obtained by writing Public School Employees Retirement System, Two Northside 75, Suite 300, Atlanta, Georgia 30318-7778, or by calling 1-800-805-4609.

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

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

Note 17 – Contingencies

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 18 – Adjustment to Prior Period Net Assets

Beginning capital assets have been restated to remove equipment additions from the previous fiscal year that did not meet the School District's capitalization threshold for capital assets. This adjustment decreased beginning net assets by $7,747,210.

Beginning capital lease payable balances have been restated to remove the School District's bus lease that matured in fiscal 2011. The effect of this adjustment increased beginning net assets by $558,246.

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COMBINING STATEMENTS AND SUPPLEMENTARY SCHEDULES



CHEROKEE COUNTY SCHOOL DISTRICT
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2012

	Special Revenue					
	Title I Federal Fund	Title II Federal Fund	Title III Federal Fund	Title IV Federal Fund	Special Education Federal Fund	Vocational Education Federal Fund
Assets						
Cash	$ -	$ -	$ -	$ 1,172	$ -	$ -
Investments	-	-	-	-	-	-
Receivables						
Intergovernmental	834,386	466,471	36,236	22,801	1,098,499	41,820
Accounts	-	-	-	-	-	-
Inventory	-	-	-	-	-	-
Total Assets	$ 834,386	$ 466,471	$ 36,236	$ 23,973	$ 1,098,499	$ 41,820
Liabilities and Fund Balances						
Liabilities						
Accounts Payable	$ 27,943	$ 89,394	$ 6,344	$ 23,973	$ 27,382	$ 500
Salaries and Benefits Payable	275,089	-	5,806	-	303,848	-
Due To Other Funds	531,354	377,077	24,086	-	767,269	41,320
Total Liabilities	834,386	466,471	36,236	23,973	1,098,499	41,820
Fund Balances						
Nonspendable						
Inventory	-	-	-	-	-	-
Restricted						
Continuation of Federal Programs	-	-	-	-	-	-
Committed						
School Food Services	-	-	-	-	-	-
School Activities	-	-	-	-	-	-
Total Fund Balance	-	-	-	-	-	-
Total Liabilities and Fund Balances	$ 834,386	$ 466,471	$ 36,236	$ 23,973	$ 1,098,499	$ 41,820

CHEROKEE COUNTY SCHOOL DISTRICT

Combining Balance Sheet

Nonmajor Governmental Funds (Continued)

June 30, 2012

	Special Revenue Fund					
	Headstart Federal Fund	Race To The Top Federal Fund	Pre-K Lottery	School Activities	School Food Service	Total Nonmajor Governmental Funds
Assets						
Cash and Cash Equivalents	$ 44,019	$ -	$ 42,653	$ 3,497,074	$ 1,441,752	$ 5,026,670
Investments	-	-	-	185,933	2,641,817	2,827,750
Receivables						
Intergovernmental Receivable	-	247,374	-	-	-	2,747,587
Accounts Receivable	-	-	-	-	63,252	63,252
Inventory	-	-	-	-	299,790	299,790
Total Assets	$ 44,019	$ 247,374	$ 42,653	$ 3,683,007	$ 4,446,611	$ 10,965,049
Liabilities and Fund Balances						
Liabilities						
Accounts Payable	$ -	$ 99,418	$ 73	$ -	$ 39,529	$ 314,556
Salaries and Benefits Payable	-	-	42,580	-	506,857	1,134,180
Due To Other Funds	-	147,956	-	-	-	1,889,062
Total Liabilities	-	247,374	42,653	-	546,386	3,337,798
Fund Balances						
Nonspendable						
Inventory	-	-	-	-	299,790	299,790
Restricted						
Continuation of Federal Programs	44,019	-	-	-	-	44,019
Committed						
School Food Services	-	-	-	-	3,600,435	3,600,435
School Activities	-	-	-	3,683,007	-	3,683,007
Total Fund Balance	44,019	-	-	3,683,007	3,900,225	7,627,251
Total Liabilities and Fund Balances	$ 44,019	$ 247,374	$ 42,653	$ 3,683,007	$ 4,446,611	$ 10,965,049

CHEROKEE COUNTY SCHOOL DISTRICT

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

For the Fiscal Year Ended June 30, 2012

	Special Revenue					
	Title I Federal Fund	Title II Federal Fund	Title III Federal Fund	Title IV Federal Fund	Special Education Federal Fund	Vocational Education Federal Fund
Revenues						
Local Sources	$ -	$ -	$ -	$ -	$ -	$ -
State Sources	-	-	-	-	-	-
Federal Sources	3,943,509	656,969	329,743	22,801	5,687,984	209,647
Interest Income	-	-	-	-	-	-
Total Revenues	3,943,509	656,969	329,743	22,801	5,687,984	209,647
Expenditures						
Current						
Instruction	2,915,459	657,384	231,160	6,304	2,269,253	178,440
Support Services						
Pupil Services	241	-	-	-	3,083,283	-
Improvement of Instructional Services	683,447	-	85,627	16,205	169,944	36,985
Educational Media Services	4,906	-	-	-	-	-
General Administration	84,494	-	-	-	1,003	1,789
School Administration	-	-	-	-	29,538	-
Maintenance and Operation	-	-	-	-	11,417	-
Student Transportation Service	68,079	-	12,956	292	396,139	332
Other Support Services	275,531	-	-	-	-	-
Food Services Operation	-	-	-	-	-	-
Capital Outlay	-	-	-	-	-	-
Total Expenditures	4,032,157	657,384	329,743	22,801	5,960,577	217,546
Excess (Deficiency) of Revenues Over (Under) Expenditures	(88,648)	(415)	-	-	(272,593)	(7,899)
Other Financing Sources (Uses)						
Operating Transfers In	153,926	415	-	36,068	287,463	7,899
Total Other Financing Sources (Uses)	153,926	415	-	36,068	287,463	7,899
Net Change in Fund Balances	65,278	-	-	36,068	14,870	-
Fund Balance - Beginning of Year	(65,278)	-	-	(36,068)	(14,870)	-
Fund Balance - End of Year	$ -	$ -	$ -	$ -	$ -	$ -

CHEROKEE COUNTY SCHOOL DISTRICT

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds (Continued)
For the Fiscal Year Ended June 30, 2012

	Special Revenue					
	Headstart Federal Fund	Race To The Top Federal Fund	Pre-K Lottery	School Activities	School Food Service	Total Nonmajor Governmental Funds
Revenues						
Local Sources	$ -	$ -	$ -	$ 11,152,641	$ 6,639,408	$ 17,792,049
State Sources		-	506,442	-	453,552	959,994
Federal Sources	430,000	399,657	80,069	-	8,440,367	20,200,746
Interest Income	-	-	-	-	483	483
Total Revenues	430,000	399,657	586,511	11,152,641	15,533,810	38,953,272
Expenditures						
Current:						
Instruction	407,049	153,777	605,310	-	-	7,424,136
Support Services						
Pupil Services	-	-	-	-	-	3,083,524
Improvement of Instructional Services	-	245,880	658	11,053,923	-	12,292,669
Educational Media Services	-	-	-	-	-	4,906
General Administration	-	-	-	-	-	87,286
School Administration	-	-	-	-	-	29,538
Maintenance and Operation	-	-	-	-	-	11,417
Student Transportation Service	-	-	586	-	-	478,384
Other Support Services	-	-	-	-	-	275,531
Food Services Operation	-	-	-	-	15,417,251	15,417,251
Capital Outlay	1,355	-	-	-	-	1,355
Total Expenditures	408,404	399,657	606,554	11,053,923	15,417,251	39,105,997
Excess (Deficiency) of Revenues Over (Under) Expenditures	21,596	-	(20,043)	98,718	116,559	(152,725)
Other Financing Sources (Uses)						
Operating Transfers In	22,423	-	20,043	-	-	528,237
Total Other Financing Sources (Uses)	22,423	-	20,043	-	-	528,237
Net Change in Fund Balances	44,019	-	-	98,718	116,559	375,512
Fund Balance - Beginning of Year	-	-	-	3,584,289	3,783,666	7,251,739
Fund Balance - End of Year	$ 44,019	$ -	$ -	$ 3,683,007	$ 3,900,225	7,627,251

CHEROKEE COUNTY SCHOOL DISTRICT
Schedule of State Revenue
For the Fiscal Year Ended June 30, 2012

Agency/Funding	Governmental Fund Types: General Fund	Governmental Fund Types: Other Funds	Total
Grants			
Bright from the Start:			
Georgia Department of Early Care and Learning			
Pre-Kindergarten Program	$ -	$ 506,442	$ 506,442
Education, Georgia Department of			
Quality Basic Education			
Direct Instructional Cost			
Kindergarten Program	10,620,118	-	10,620,118
Kindergarten Program - Early Intervention Program	577,040	-	577,040
Primary Grades (1-3) Program	23,761,841	-	23,761,841
Primary Grades - Early Intervention (1-3) Program	1,571,841	-	1,571,841
Upper Elementary Grades (4-5) Program	11,551,909	-	11,551,909
Upper Elementary Grades - Early Intervention (4-5) Program	849,415	-	849,415
Middle School (6-8) Program	16,851,898	-	16,851,898
High School General Education (9-12) Program	17,611,256	-	17,611,256
Vocational Laboratory (9-12) Program	2,422,353	-	2,422,353
Students with Disabilities			
Category I	1,698,986	-	1,698,986
Category II	540,292	-	540,292
Category III	11,314,837	-	11,314,837
Category IV	5,271,038	-	5,271,038
Category V	1,000,443	-	1,000,443
Gifted Student - Category VI	11,262,169	-	11,262,169
Remedial Education Program	1,415,444	-	1,415,444
Alternative Education Program	1,391,183	-	1,391,183
English Speakers of Other Languages (ESOL)	1,713,701	-	1,713,701
Special Education - Itinerant Program	51,108	-	51,108
Special Education - Supplemental Speech	50,746	-	50,746
Media Center Program	3,420,579	-	3,420,579
20 Days Additional Instruction	989,060	-	989,060
Staff and Professional Development	737,381	-	737,381
Indirect Cost			
Central Administration	3,393,829	-	3,393,829
School Administration	5,898,041	-	5,898,041
Facility Maintenance and Operations	9,074,988	-	9,074,988
Amended Formula Adjustment	(26,707,305)	-	(26,707,305)
Categorical Grants			
Pupil Transportation			
Regular	2,023,123	-	2,023,123
Education Equalization Funding Grant	404,592	-	404,592
Food Services	-	453,552	453,552
Nursing Services	541,657	-	541,657
State Health Reimbursement	24,912,878	-	24,912,878
Other State Programs			
Agriculture Extended Year and Day Grants	12,520	-	12,520
CTAE Grants	44,141	-	44,141
Dual Enrollment Funding	117,178	-	117,178
Equalization Grant	471,328	-	471,328
Math and Science Supplements	71,368	-	71,368
Preschool Handicapped Program	834,188	-	834,188
Pupil Transportation - State Bonds	304,878	-	304,878
Teachers' Retirement	109,516	-	109,516
Virtual Schools Grant	1,250	-	1,250
Georgia State Financing and Investment Commission			
Reimbursement on Construction Projects	-	4,321,110	4,321,110
Office of the State Treasurer			
Public School Employees Retirement	360,102	-	360,102
Total State Revenues	$ 148,542,910	$ 5,281,104	$ 153,824,014

CHEROKEE COUNTY SCHOOL DISTRICT

Schedule of Quality Basic Education Program (QBE)
Allotments and Expenditures by Program
For the Fiscal Year Ended June 30, 2012

Description	Allotments From Georgia Department of Education[1][2]	Salaries	Operations	Total
Kindergarten	$ 13,432,187	$ 14,715,223	$ 367,923	$ 15,083,146
Kindergarten Early Intervention	732,911	559,779	7,719	567,498
Primary Grades 1-3	30,180,434	30,372,311	728,308	31,100,619
Primary Grades 1-3 Early Intervention	1,996,430	1,988,195	24,608	2,012,803
Upper Elementary Grades 4-5	14,672,333	18,938,916	464,479	19,403,395
Upper Elementary 4-5 Early Intervention	1,078,861	1,326,939	13,148	1,340,087
Middle School 6-8	21,403,964	22,721,832	632,383	23,354,215
High School Grades 9-12	22,368,442	29,168,830	1,254,783	30,423,613
Vocational Laboratory 9-12	3,076,684	3,414,926	287,787	3,702,713
Students With Disabilities	25,180,923	29,058,753	316,222	29,374,975
Gifted Program	14,304,327	10,321,523	194,543	10,516,066
Remedial Education Program	1,797,786	1,315,046	18,861	1,333,907
Alternative Education Program	1,766,972	2,944,908	15,944	2,960,852
English Speakers of Other Languages (ESOL)	2,176,609	2,051,183	7,702	2,058,885
Total Direct Instructional Funds	154,168,863	168,898,364	4,334,410	173,232,774
Media Center Program	4,344,552	3,624,235	969,575	4,593,810
Staff and Professional Development	936,564	205,397	316,728	522,125
Total QBE Formula Funds	$ 159,449,979	$ 172,727,996	$ 5,620,713	$ 178,348,709

(1) Comprised of State funds plus local 5 mil share.

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

CHEROKEE COUNTY SCHOOL DISTRICT
Schedule of Expenditures of Educational Local Option Sales Tax Proceeds
For the Fiscal Year Ended June 30, 2012

2007 ELOST

Project	Original Estimated Cost [1]	Current Estimated Costs [2]	Amount Expended In Prior Year [3][4]	Amount Expended In Current Years [3][4]	Total	Project Status
Acquisition, Construction, Renovation, and Equipping of Schools	$ 464,000,000	$ 281,442,815	$ 239,961,258	$ 41,481,557	$ 281,442,815	Ongoing
Debt Service	176,000,000	142,193,731	67,274,333	33,855,961	101,130,294	Ongoing
Totals	$ 640,000,000	$ 423,636,546	$ 307,235,591	$ 75,337,518	$ 382,573,109	
			Debt Service Payments on Bonds Not Funded with ELOST		562,510	
			Total Fiscal 2012 ELOST Expenditures		$ 75,900,028	

(1) The School District's original cost estimate as specified in the resolution calling for the imposition of the Educatonal 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 Cherokee 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) The 2009 A and B Series bonds were issued to advance fund a portion of the construction, renovation, and equipping of schools within the district

COMPLIANCE SECTION



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CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

LLOYD WILLIAMSON
CHRISTIAN HATCH

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Cherokee County School District (the "School District") as of and for the year ended June 30, 2012, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated October 21, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2012-1 to be a material weakness.

MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS AND GEORGIA SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

Compliance and Other Matters

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

We noted certain matters that we reported to management of the School District in a separate letter dated October 21, 2013.

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

Williamson and Company

Williamson and Company
Certified Public Accountants
October 21, 2013

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LLOYD WILLIAMSON
CHRISTIAN HATCH

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

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

Compliance

We have audited the Cherokee County School District's (the "School District") compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the School District's major federal programs for the year ended June 30, 2012. The School District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

In our opinion, The School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS AND GEORGIA SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

Internal Control Over Compliance

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

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness* in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying Schedule of Findings and Questioned Costs, as item 2012-2. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

Williamson and Company

Williamson and Company
Certified Public Accountants
October 21, 2013

CHEROKEE COUNTY SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2012

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	$ 1,319,087	
National School Lunch Program		10.555	N/A	7,111,575	(1)
After School Snack Program		10.555	N/A	9,705	
Total Child Nutrition Cluster				$ 8,440,367	
Total U. S. Department of Agriculture				$ 8,440,367	
Education, U.S. Department of					
Special Education Cluster					
Pass-Through From Georgia Department of Education					
Special Education					
High Cost Fund Pool	*	84.027	N/A	$ 75,481	
Special Education Flow Through	*	84.027	N/A	5,335,025	
Special Education Preschool	*	84.173	N/A	277,478	
Total Special Education Cluster				$ 5,687,984	
Title I, Part A Cluster					
Pass-Through From Georgia Department of Education					
Title I - Improving Academic Achievement	*	84.010	N/A	$ 3,922,763	
Title I - Rewards School Awards	*	84.010	N/A	1,530	
Total Title I, Part A Cluster				$ 3,924,293	
Other Programs					
Pass-Through From Georgia Department of Education					
Title I, Part C - Migrant Education		84.011	N/A	$ 19,216	
Career and Technical Education - Program Improvement		84.048	N/A	192,679	
Career and Technical Education - Basic Grants to States		84.048	N/A	16,968	
Title III, Part A Limited English Proficient		84.365	N/A	329,743	
Title II, Improving Teacher Quality State Grants	*	84.367	N/A	649,969	
Title II, Advance Placement	*	84.367	N/A	7,000	
Title IV, Safe and Drug Free Communities		84.196	N/A	22,801	
Race to the Top - ARRA	*	84.395	N/A	399,657	
Education Jobs Fund		84.410	N/A	92,711	
Total U. S. Department of Education				$ 1,730,744	
Environmental Protection Agency					
Pass-Through From Georgia Department of Natural Resources					
National Clean Diesel Grant - ARRA		66.04	N/A	$ 124,848	
Health and Human Services, U. S. Department of					
Pass-Through From Ninth District Opportunity, Inc.					
Georgia Prekindergarten Transition Program		93.575	N/A	$ 80,069	
Headstart		93.600	N/A	430,000	
Total U.S. Department of Health and Human Services				$ 510,069	
Defense, U. S. Department of					
Direct					
Department of the Air Force					
R.O.T.C. Program		12.000	N/A	$ 325,525	
Total Federal Financial Assistance				$ 20,743,830	

Notes to the Schedule of Expenditures of Federal Awards

(1) Includes the federally assigned value of donated commodities for the Food Donation Program in the amount of $1,497,717.

N/A - Not Applicable

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 Cherokee County School District 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.

Total federal revenues presented in the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds on page 8 differ from total federal expenditures presented in this schedule due to federal payments received in lieu of property taxes and federal reimbursements that were not associated with a specific federal program. Those amounts totaled $855,365.

CHEROKEE COUNTY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2012

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: *Unqualified*

Internal control over financial reporting:

Material weakness(es) identified?	X Yes	___ No
Significant deficiencies identified not considered to be material weaknesses.	___ Yes	X None Reported
Noncompliance material to financial statements noted?	___ Yes	X No

Federal Awards

Internal Control over major programs:

Material weakness (es) identified?	___ Yes	X No
Significant deficiency(ies) identified not considered to be material weaknesses?	X Yes	___ None Reported

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

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? X Yes ___ No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.010	Title I, Part A Cluster
84.027, 84.173	Special Education Cluster
84.367	Title II
84.395	Race to the Top

Dollar threshold used to distinguish between Type A and Type B programs: $ 622,315

Auditee qualified as low-risk auditee? ___ Yes X No

Section II – Financial Statement Findings

Finding 2012-1 Reconciliation of Cash Accounts (Repeat of Prior Year Finding 2011-2)

Criteria: Bank reconciliations should be performed on all School District cash accounts on a monthly basis in order to properly record all cash transactions that are taking place within the School District's accounting system.

Condition: Although bank reconciliations were performed by someone independent of receipts and disbursements, they were not always performed on a timely monthly basis. We also noted some bank reconciliations were carrying transactions that were not recorded in the general ledger as of the year end date of June 30, 2012.

Effect: Increased risk of improper revenue/expenditure recognition along with an increase in the risk of materially misstating cash in the financial statements.

Cause: As of fiscal year ended June 30, 2012, internal controls were not in place to facilitate timely bank reconciliations or to ensure that reconciled cash accounts were updated monthly in the general ledger so that amounts recorded in the School District's accounting system matched actual amounts per the bank reconciliation.

Recommendation: In order to properly account for the financial activity of a School District, bank reconciliations should be performed on every cash account as close to the end of the statement date as possible. Once reconciled, the reviewer should check each account and verify that it agrees to amounts reported in the general ledger. If variances exist, they should be investigated and resolved.

Auditee Response: The School District implemented a corrective action plan in fiscal year 2013 reducing the amount of time between the bank statement date and the date of reconciliation.

Section III – Federal Award Findings and Questioned Costs

Finding 2012-2 Procurement and Suspension and Debarment (Repeat of Prior Year Finding 2011-6)

Programs: U.S. Department of Education - CFDA Numbers: 84.173, 84.027, 84.010, 84.367, 84.395

CFDA Program Titles: Special Education Cluster, Title I, Part A Cluster, Title II, and Race to the Top

Pass Through Agency: Georgia Department of Education

Pass Through Number: Not Applicable

Criteria: Grant requirements state nonfederal entities are prohibited from contracting with or making sub-awards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Covered ransactions include those procurement contracts for goods and services awarded under a non-procurement transaction that are expected to equal or exceed $25,000 or meet certain other specified criteria. The School District is required to have the vendors specifically confirm their exclusion from the database for contracts funded by general programs or the School District may elect to check the online database.

Condition: For the fiscal year under audit, the School District did not maintain supporting documentation to show that vendors with covered transactions were confirming that they were not included on the excluded parties database or that School District personnel checked the database before entering into the covered transaction.

Effect: Noncompliance with the requirements for the procurement of goods and services with federal funds.

Cause: For the fiscal year, the School District did not require vendors to confirm that they were not on the excluded parties database. The Federal Program director checked the Excluded Parties List System when entering into a covered transaction in order to ensure that federal funds were being disbursed properly. However, the documentation showing when it was checked was not maintained. For questioned costs determination, we tested a sample of covered transactions of the four major programs. No tested transactions were conducted with suspended or debarred parties.

Questioned Costs: None noted.

Recommendation: We recommend the School District design and implement specific procedures to assure that federal funds are not being disbursed to individuals or entities that are suspended or debarred.

Auditee Response: During fiscal 2013, the School District adopted a policy that requires prospective vendors to confirm that it is not suspended or debarred. The confirmations are then cross checked with the online SAM database.

Section IV – Status of Prior Year Findings and Questioned Costs

Finding 2011-6 Procurement and Suspension and Debarment

Programs: U.S. Department of Education - CFDA Numbers: 84.010 and 84.389; 84.027, 84.173, 84.391, 84.392

CFDA Program Titles: Title I, Part A Cluster; Special Education Cluster

Pass Through Agency: Georgia Department of Education

Pass Through Number: Not Applicable

Condition: Predecessor auditor noted that documentation was not maintained to confirm that contractors paid with federal funds were not suspended or debarred at the time of the execution of the contract.

Status: Corrective action implemented in fiscal 2013. No fiscal 2012 expenditures for ARRA programs 84.389, 84.391, 84.392. See federal award findings and questioned costs 2012-2.