

CITY OF GAINESVILLE BOARD OF EDUCATION
HALL COUNTY, GEORGIA

ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2011
(Including Independent Auditor's Reports)

CITY OF GAINESVILLE BOARD OF EDUCATION - HALL COUNTY

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FINANCIAL

DEPARTMENT OF AUDITS AND ACCOUNTS

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Atlanta, Georgia 30334-8400

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

April 19, 2012

Honorable Nathan Deal, Governor
Members of the General Assembly
Members of the State Board of Education
and
Superintendent and Members of the
City of Gainesville Board of Education

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

Ladies and Gentlemen:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information (Exhibits A through H) of the City of Gainesville Board of Education, as of and for the year ended June 30, 2011, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Gainesville Board of Education's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Gainesville Board of Education, as of June 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

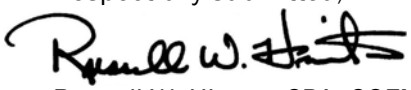
In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2012, on our consideration of the City of Gainesville Board of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and the Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual, as presented on pages i through ix and page 29 respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

Respectfully submitted,



Russell W. Hinton, CPA, CGFM
State Auditor

RWH:as
2011ARL-11

CITY OF GAINESVILLE BOARD OF EDUCATION – HALL COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

INTRODUCTION

The School District's financial statements for the fiscal year ended June 30, 2011, includes a series of basic financial statements that report financial information for the School District as a whole, its funds, and its fiduciary responsibilities. The Statement of Net Assets and the Statement of Activities provide financial information about all of the School District's activities and present both a short-term and long-term view of the School District's finances on a global basis. The fund financial statements provide information about all of the School District's funds. Information about these funds, such as the School District's General Fund, is important in its own right, but will also give insight into the School District's overall soundness as reported in the Statement of Net Assets and the Statement of Activities.

FINANCIAL HIGHLIGHTS

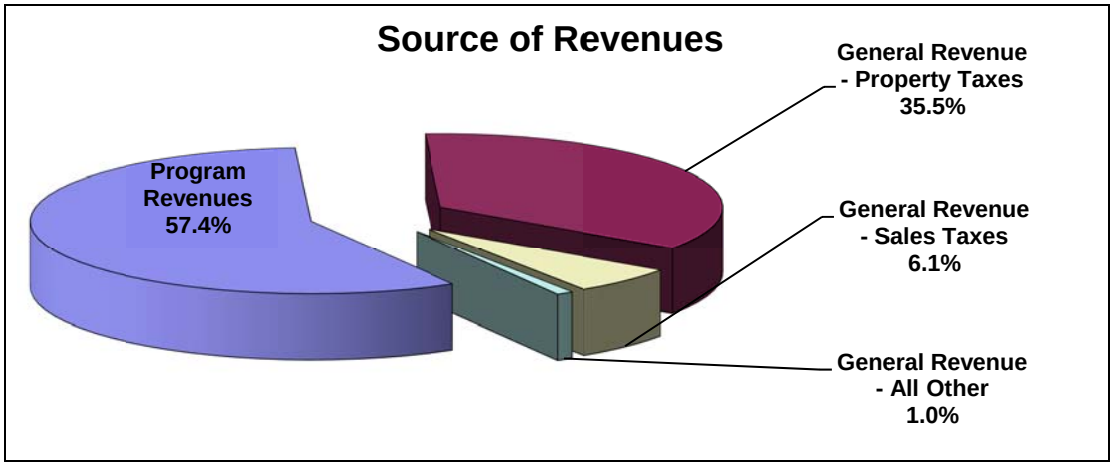
Key financial highlights for FY 2011 are as follows:

On the District-wide financial statements:

- District-wide net assets at June 30, 2011, were $74.8 million. Net assets reflect the difference between all assets of the District (including capital assets, net of depreciation) and all liabilities, both short-term and long-term. The net assets at June 30, 2011, of $74.8 million represented an increase of over $11.0 million in net assets when compared to the prior year as restated.

- The School District had $61.7 million in expenses relating to governmental activities; only $41.8 million of these expenses were offset by program specific charges for services, grants and contributions. However, general revenues (primarily property and sales taxes) of nearly $31.0 million were adequate to provide for these programs.

- As stated above, general revenues accounted for nearly $31.0 million or about 42.6% of all revenues totaling just over $72.8 million. Program specific revenues in the form of charges for services, grants, and contributions accounted for the balance of these revenues.



On the fund financial statements:

- Among major funds, the General Fund had over $66.4 million in revenues and $60.3 million in expenditures and other financing uses. The General Fund's net change in fund balance of $6.1 million allowed the District to increase its beginning fund balance of $3.6 million and end the fiscal year with a General Fund balance of over $9.7 million at June 30, 2011.

OVERVIEW OF THE FINANCIAL STATEMENTS

These financial Statements consists of three parts; management's discussion and analysis (this section), the basic financial statements including notes to the financial statements and required supplementary information. The basic financial statements include two levels of statements that present different views of the School District. These include the District-wide and fund financial statements.

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

The fund financial statements focus on individual parts of the School District, reporting the School District's operation in more detail. The 'Governmental Funds' statements disclose how basic services are financed in the short-term as well as what remains for future spending. The 'Fiduciary Funds' statements provide information about the financial relationships in which the School District acts solely as a trustee or agent for the benefit of others. In the case of the City of Gainesville School District, the General Fund, Capital Projects Funds, and Debt Service Funds are all considered to be major funds. The District has no nonmajor funds as defined by GASB Statement 34 for the purposes of this report.

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

District-Wide Statements

Since the City of Gainesville School District has no operations that have been classified as "Business Activities", the District-Wide financial statements are basically a consolidation of all of the District's operating funds into one column called governmental activities. In reviewing the District-wide financial statements, a reader might ask the question, are we in a better financial position now than last year? The 'Statement of Net Assets' and the 'Statement of Activities' provides the basis for answering this question. These financial statements include all the School District's assets and liabilities, and use the **accrual basis of accounting** similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's net assets and any changes in those assets. The change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change

may be the results of many factors, including those not under the School District's control, such as the property tax base, facility conditions, required educational programs, student-teacher ratios, and other factors.

When analyzing District-wide financial statements, it is important to remember these statements are prepared using an economic resources measurement focus (accrual accounting) and involve the following steps to format the Statement of Net Assets:

- Capitalize current outlays for capital assets
- Depreciate capital assets
- Report long-term debt as a liability
- Calculate revenue and expense using the economic resources measurement focus and the accrual basis of accounting
- Allocate net assets as follows:
    - *Net Assets invested in capital assets, net of related debt*
    - *Restricted net assets* are those with constraints placed on the use by external sources such as creditors, grantors, contributors or laws and regulations.
    - *Unrestricted net assets* are net assets that do not meet any of the above restrictions.

Fund Financial Statements

The School District uses many funds or sub-funds to account for a multitude of financial transactions during the fiscal year. The fund financial statements presented in this report provide detail information about the School District's significant or major funds. As discussed previously, the District has no nonmajor Funds as defined by generally accepted accounting principles.

The District has two kinds of funds as discussed below:

Governmental Funds – Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the **modified accrual method of accounting** which measures cash and all other financial assets that can be readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The differences between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds are reconciled in the financial statements.

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

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

Net assets, which is the difference between total assets and total liabilities, is one indicator of the financial condition of the District. When revenues exceed expenses, the result is an increase in net assets. When expenses exceed revenues, the result is a decrease in net assets. The relationship between revenues and expenses can be thought of as the District's operating results. The District's net assets, as measured in the Statement of Net Assets, can be one way to measure the District's

financial health, or financial position. Over time, increases or decreases in the District's net assets - as measured in the Statement of Activities - are one indicator of whether its financial health is improving or deteriorating. However, the District's goal and mission is to provide success for each child's education, not to generate profits as private corporations do. For this reason, many other nonfinancial factors should be considered in assessing the overall health of the District.

In the case of the City of Gainesville School District, assets exceeded liabilities by $74.8 million at June 30, 2011. To better understand the District's actual financial position and ability to deliver services in future periods, it is necessary to review the various components of the net asset category. For example, of the $74.8 million of net assets, about $6.60 million was restricted for continuation of Federal programs, debt service and ongoing capital projects. Accordingly, these funds were not available to meet the District's ongoing obligations to citizens and creditors.

In addition, the District had nearly $59.8 million (net of related debt) invested in capital assets (e.g., land, buildings, and equipment). The District uses these capital assets to provide educational services to students within geographic boundaries served by the District. Because of the very nature and on-going use of the assets being reported in this component of net assets, it must be recognized that this portion of the net assets is *not* available for future spending.

The remaining balance of *unrestricted net assets* of slightly over $8.46 million may be used to meet the District's ongoing obligations to citizens and creditors.

Table 1 provides a summary of the School District's net assets for this fiscal year as compared to the prior fiscal year as restated.

Table 1
Net Assets

	Governmental Activities	
	Fiscal Year 2011	Fiscal Year 2010
Assets		
Current and Other Assets	$ 23,948,145	$ 19,423,509
Capital Assets, Net	75,859,588	76,827,100
Total Assets	$ 99,807,733	$ 96,250,609
Liabilities		
Current and Other Liabilities	$ 8,797,906	$ 9,901,554
Long-Term Liabilities	16,160,967	22,476,866
Total Liabilities	$ 24,958,873	$ 32,378,420
Net Assets		
Invested in Capital Assets, Net of Related Debt	$ 59,785,485	$ 54,457,861
Restricted	6,599,377	6,411,927
Unrestricted	8,463,998	3,002,401
Total Net Assets	$ 74,848,860	$ 63,872,189

Total net assets increased $11.0 million in fiscal year 2011 from the prior year net assets. This change in net assets is detailed in Table 2 as presented below. Table 2 also shows the changes in net assets as compared to the prior fiscal year.

Table 2
Change in Net Assets

	Governmental Activities	
	Fiscal Year 2011	Fiscal Year 2010
Revenues		
Program Revenues:		
Charges for Services and Sales	$ 1,226,658	$ 1,417,250
Operating Grants and Contributions	39,544,615	35,879,905
Capital Grants and Contributions	1,000,000	1,101,830
Total Program Revenues	$ 41,771,273	$ 38,398,985
General Revenues:		
Taxes		
Property Taxes	$ 25,853,393	$ 26,859,356
Sales Taxes	4,418,917	4,269,051
Investment Earnings	40,490	24,814
Miscellaneous	655,166	671,139
Total General Revenues	$ 30,967,966	$ 31,824,360
Total Revenues	$ 72,739,239	$ 70,223,345
Program Expenses:		
Instruction	$ 39,723,987	$ 39,419,143
Support Services		
Pupil Services	1,908,772	2,292,711
Improvement of Instructional Services	1,188,840	1,291,231
Educational Media Services	987,774	1,053,057
General Administration	745,107	943,135
School Administration	3,764,146	3,951,806
Business Administration	730,202	613,127
Maintenance and Operation of Plant	4,471,401	3,969,710
Student Transportation Services	2,175,407	1,969,186
Central Support Services	1,222,460	479,534
Other Support Services	691,991	587,372
Operations of Non-Instructional Services		
Enterprise Operations	336,215	514,932
Food Services	3,050,878	2,941,734
Interest on Short-Term and Long-Term Debt	719,127	1,242,444
Total Expenses	$ 61,716,307	$ 61,269,122
Increase in Net Assets	$ 11,022,932	$ 8,954,223

The District increased expenditures in fiscal year 2011 by $447 thousand which maintained expenditures at about the same level as in fiscal year 2010.

Cost of Providing Services

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

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	Fiscal Year 2011	Fiscal Year 2010	Fiscal Year 2011	Fiscal Year 2010
Instruction	$ 39,723,987	$ 39,419,143	$ 10,426,141	$ 13,552,772
Support Services:				
Pupil Services	1,908,772	2,292,711	1,608,766	1,577,413
Improvement of Instructional Services	1,188,840	1,291,231	-134,777	-17,291
Educational Media Services	987,774	1,053,057	62,746	219,234
General Administration	745,107	943,135	-345,238	-297,589
School Administration	3,764,146	3,951,806	2,161,329	2,491,967
Business Administration	730,202	613,127	726,048	577,333
Maintenance and Operation of Plant	4,471,401	3,969,710	2,169,086	1,801,559
Student Transportation Services	2,175,407	1,969,186	1,741,809	1,537,648
Central Support Services	1,222,460	479,534	1,078,704	443,913
Other Support Services	691,991	587,372	257,938	193,489
Operations of Non-Instructional Services:				
Enterprise Operations	336,215	514,932	-53,350	-42,266
Food Services	3,050,878	2,941,734	-473,295	-410,489
Interest on Short-Term and Long-Term Debt	719,127	1,242,444	719,127	1,242,444
Total Expenses	$ 61,716,307	$ 61,269,122	$ 19,945,034	$ 22,870,137

Expenses for fiscal year 2011 increased slightly over the prior year, while the net cost of services decreased by over $2.9 million. Even though total expenses remained level in fiscal year 2011, the District was able to achieve a decrease in its net costs of services because State revenues increased by $4.6 million primarily due to increased enrollment, Federal revenues expectedly decreased from the prior fiscal year by over $2.0 million, local tax revenues were down nearly $850,000 as expected, and other revenues and capital grants and contributions were up over $800,000 due primarily to a donation of land valued at $1.0 million received by the District. These changes in revenues were the reason for the decrease in the net cost of services. The School District does not expect to sustain this level of State funding revenues in the future and anticipates a further reduction in local tax revenues.

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S FUNDS

Information about the School District's governmental funds is presented starting on Exhibit "C" of this report. Governmental funds are accounted for using the modified accrual basis of accounting. As reflected on Exhibit "E", the governmental funds had total revenues of nearly $71.8 million and total expenditures of over $66.1 million in fiscal year 2011. Total governmental fund balances of $14.5 million at June 30, 2011, increased $5.6 million from the prior year. This increase in fund balance resulted primarily from the District's cost cutting measures implemented in prior fiscal years and continued into the current fiscal year.

General Fund Budget Highlights

The School District's budget is prepared according to Georgia Law. The most significant budgeted fund is the General Fund. During the course of fiscal year 2011, the School District amended its general fund budget as needed.

The School District budget is adopted at the aggregate level and maintained at the program, function, object, and site levels to facilitate budgetary control. The budgeting systems are designed to control the total budget, but provide flexibility to meet the ongoing programmatic needs. The budgeting systems are also designed to control total site budgets but provide flexibility for site management as well.

For the General Fund, the final actual revenues of over $66.4 million were over the final budgeted revenues of $63.4 million by $3.0 million. The School District traditionally estimates revenues on a conservative basis to avoid shortfalls in actual revenues. Additionally, the District did not include revenues for school activity accounts (included in miscellaneous revenues) in the final budget nor does it budget for investment income.

The General Fund's final actual expenditures of $59.5 million were less than the final budget amount of $61.0 million by $1.5 million. This difference (final vs. budget) was primarily attributable to expenditures in nearly every functional category being less than the final budget. This budget under expenditure indicates again the efforts of the School District to reduce costs and demonstrates how effectively the School District used its budget to manage its financial affairs during fiscal year 2011 in the face of the current economic situation.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At fiscal year ended June 30, 2011, the School District had in excess of $75.8 million invested in capital assets, net of accumulated depreciation, all in governmental activities. These assets are made up of a broad range of items including buildings; land; land improvements; and food service, transportation and maintenance equipment. Table 4 reflects a summary of these balances, net of accumulated depreciation, as compared to the prior fiscal year.

Table 4
Capital Assets
(Net of Depreciation)

	Governmental Activities	
	Fiscal Year 2011	Fiscal Year 2010
Land	$ 10,607,247	$ 9,607,246
Construction In Progress		631,262
Land Improvements	3,628,518	3,800,131
Building and Improvements	59,486,889	61,337,771
Equipment	2,136,934	1,450,690
Total	$ 75,859,588	$ 76,827,100

Additional information about the School District's Capital Assets can be found in the Notes to the Financial Statements.

Long-Term Debt

At June 30, 2011, the School District had $16.16 million in total debt outstanding which consisted of $8.54 million in bond debt, $2.62 million in capital lease debt, $4.55 million in an Installment Sales Agreement, $86 thousand in compensated absences debt, and over $368 thousand in unamortized bond premiums on bonds sold. Table 5 summarizes the School District's debt as compared to the prior fiscal year.

Table 5
Change in Long-Term Debt

	Governmental Activities	
	Fiscal Year 2011	Fiscal Year 2010
Bonds Payable	$ 8,540,000	$ 12,730,000
Capital Leases	2,620,253	3,595,964
Installment Sales Agreement	4,545,000	4,545,000
Long-Term Debt Agreement		945,000
Compensated Absences	86,865	107,627
Unamortized Premiums on Bonds Sold	368,849	553,274
Total	$ 16,160,967	$ 22,476,865

The Board's issuer credit rating (ICR) assigned by Standard and Poor's is "BBB+" which is an increase from the prior year rating of "BBB". The most recent bond issue, the 2011 GO Bonds, is rated "AA+" as determined by Standard and Poor's. Additional information about the School District's debt can be found in the Notes to the Financial Statements.

FACTORS BEARING ON THE DISTRICT'S FUTURE

Currently known circumstances that are expected to have a significant effect on financial position or results of operations in future years are as follows:

- The District has returned to financial stability showing a positive financial position at the end of fiscal year 2011 with an unrestricted fund balance of over $7.8 million. The School District's operating millage for fiscal year 2011 was 7.39, which produced approximately $3.4 million per mill. The School District's student population grew at a rate of nearly 8% in fiscal year 2011 from fiscal year 2010 which is based on an increase of over 500 full-time equivalent students.

- In March of 2011 the voters approved a one percent local sales tax revenue for five years. Based on this approval, the District issued bonds subsequent to June 30, 2011, from which the proceeds, when combined with state capital outlay grants, will be used to construct a new Fair Street Elementary School and to fund other capital outlay projects.

- The School District is financially challenged by the State's continuing reduction of revenue estimates and subsequent reduction of state revenue appropriations to local school districts known as "austerity reductions". The District experienced an increase in State funding for fiscal year 2011 of $4.6 million but this was due to student enrollment being up by nearly 8% over fiscal year 2010. Still the District has suffered from these "austerity reductions" in state funding of $5.8 million in fiscal year 2010 and $4.4 million in fiscal year 2011. A similar reduction in this range is expected in fiscal year 2012 and has been included in budgetary projections.

- Revenues from local property taxes decreased in fiscal year 2011 from fiscal year 2010 and are expected to decrease in future years based on the millage rate staying the same. The gross property digest for the City of Gainesville dropped from $4.04 billion in fiscal year 2010 to $3.81 in fiscal year 2011. Further decreases in the digest are anticipated in future years.

- Reductions due to economic conditions in the collections of sales tax revenues have leveled off but collections are lower than were initially projected when the SPLOST III referendum was approved in 2006. This has negatively affected both operating and construction revenues provided through these sources. In spite of these reductions, the School District has budgeted for and will have adequate funds to completely pay off the Series 2006 bonds as they become due.

- In the midst of these challenges, the District remains confident in the ability to maximize resources to provide the best possible educational experience for all of our students.

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. Those who have questions about this report or need additional financial information should contact Ms. Janet L. Allison, CPA, Chief Financial Officer, 508 Oak Street, Gainesville, Georgia 30501. Questions also may be emailed to Ms. Allison at janet.allison@gcssk12.net.

CITY OF GAINESVILLE BOARD OF EDUCATION - HALL COUNTY

CITY OF GAINESVILLE BOARD OF EDUCATION - HALL COUNTY
STATEMENT OF NET ASSETS
JUNE 30, 2011

EXHIBIT "A"

	GOVERNMENTAL ACTIVITIES
ASSETS	
Cash and Cash Equivalents	$ 14,942,327.91
Investments	999,844.13
Accounts Receivable, Net	
Taxes	1,376,701.74
State Government	3,940,132.38
Federal Government	2,491,622.01
Other	130,383.79
Inventories	67,133.84
Capital Assets, Non-Depreciable	10,607,246.67
Capital Assets, Depreciable (Net of Accumulated Depreciation)	65,252,340.91
Total Assets	$ 99,807,733.38
LIABILITIES	
Accounts Payable	$ 391,753.89
Salaries and Benefits Payable	6,944,106.82
Payroll Liabilities	1,103,446.31
Interest Payable	343,990.63
Deposits and Deferred Revenues	14,608.30
Long-Term Liabilities	
Due Within One Year	4,806,289.65
Due in More Than One Year	11,354,677.00
Total Liabilities	$ 24,958,872.60
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	$ 59,785,485.58
Restricted for	
Continuation of Federal Programs	2,072,309.05
Debt Service	3,849,292.57
Capital Projects	677,775.28
Unrestricted	8,463,998.30
Total Net Assets	$ 74,848,860.78
Total Liabilities and Net Assets	$ 99,807,733.38

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

CITY OF GAINESVILLE BOARD OF EDUCATION - HALL COUNTY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

	EXPENSES	CHARGES FOR SERVICES
GOVERNMENTAL ACTIVITIES		
Instruction	$ 39,723,988.12	$ 235,662.45
Support Services		
Pupil Services	1,908,771.73	
Improvement of Instructional Services	1,188,840.32	
Educational Media Services	987,774.45	
General Administration	745,106.97	
School Administration	3,764,145.83	
Business Administration	730,201.72	
Maintenance and Operation of Plant	4,471,400.73	144,502.56
Student Transportation Services	2,175,406.89	78,284.55
Central Support Services	1,222,459.58	
Other Support Services	691,990.74	142,660.99
Operations of Non-Instructional Services		
Enterprise Operations	336,215.20	389,565.67
Food Services	3,050,878.23	235,981.59
Interest on Short-Term and Long-Term Debt	719,126.83	
Total Governmental Activities	$ 61,716,307.34	$ 1,226,657.81
General Revenues		
Taxes		
Property Taxes		
For Maintenance and Operations		
For Bond Debt		
Sales Taxes		
Special Purpose Local Option Sales Tax		
For Capital Projects/Debt Services		
Other Sales Tax		
Investment Earnings		
Miscellaneous		
Total General Revenues		
Change in Net Assets		
Net Assets - Beginning of Year (Restated)		
Net Assets - End of Year		

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

PROGRAM REVENUES		NET (EXPENSES)
OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	REVENUES AND CHANGES IN NET ASSETS
$ 28,345,229.82	$ 716,954.47	$ -10,426,141.38
300,005.32		-1,608,766.41
1,323,381.73	235.65	134,777.06
884,963.34	40,064.86	-62,746.25
1,089,366.77	978.21	345,238.01
1,536,086.68	66,730.33	-2,161,328.82
3,894.39	259.76	-726,047.57
2,140,333.77	17,478.78	-2,169,085.62
355,312.93		-1,741,809.41
88,331.03	55,424.07	-1,078,704.48
289,636.74	1,755.07	-257,937.94
		53,350.47
3,188,073.20	100,118.80	473,295.36
		-719,126.83
$ 39,544,615.72	$ 1,000,000.00	$ -19,945,033.81
		$ 24,837,240.72
		1,016,152.16
		4,317,262.85
		101,654.45
		40,489.67
		655,165.83
		$ 30,967,965.68
		$ 11,022,931.87
		63,825,928.91
		$ 74,848,860.78

CITY OF GAINESVILLE BOARD OF EDUCATION - HALL COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011

EXHIBIT "C"

	GENERAL FUND	DISTRICT-WIDE CAPITAL PROJECTS FUND	DEBT SERVICE FUND	TOTAL
ASSETS				
Cash and Cash Equivalents	$ 11,389,905.68	$ 3,137,497.72	$ 414,924.51	$ 14,942,327.91
Investments	46,304.01		953,540.12	999,844.13
Accounts Receivable, Net				
Taxes	936,120.02	398,303.18	42,278.54	1,376,701.74
State Government	3,940,132.38			3,940,132.38
Federal Government	2,491,622.01			2,491,622.01
Other	130,383.79			130,383.79
Inventories	67,133.84			67,133.84
Total Assets	$ 19,001,601.73	$ 3,535,800.90	$ 1,410,743.17	$ 23,948,145.80
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	$ 316,268.30	$ 74,541.38	$ 944.21	$ 391,753.89
Salaries and Benefits Payable	6,944,106.82			6,944,106.82
Payroll Withholdings Payable	1,103,446.31			1,103,446.31
Deposits and Deferred Revenue	899,372.73		40,180.77	939,553.50
Total Liabilities	$ 9,263,194.16	$ 74,541.38	$ 41,124.98	$ 9,378,860.52
FUND BALANCES				
Nonspendable	$ 67,133.84			$ 67,133.84
Restricted	2,005,175.21	$ 3,461,259.52	$ 1,369,618.19	6,836,052.92
Committed	349,574.04			349,574.04
Unassigned	7,316,524.48			7,316,524.48
Total Fund Balances	$ 9,738,407.57	$ 3,461,259.52	$ 1,369,618.19	$ 14,569,285.28
Total Liabilities and Fund Balances	$ 19,001,601.73	$ 3,535,800.90	$ 1,410,743.17	$ 23,948,145.80

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

CITY OF GAINESVILLE BOARD OF EDUCATION - HALL COUNTY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011

EXHIBIT "D"

Total Fund Balances - Governmental Funds (Exhibit "C")		$ 14,569,285.28
Amounts reported for Governmental Activities in the Statement of Net Assets are different because:		
Capital Assets used in Governmental Activities are not financial resources and therefore are not reported in the funds. These assets consist of:		
Land	$ 10,607,246.67	
Land Improvements	4,224,538.73	
Buildings	87,456,687.14	
Equipment	5,823,573.01	
Accumulated Depreciation	-32,252,457.97	
Total Capital Assets		75,859,587.58
Taxes that are not available to pay for current period expenditures are deferred in the funds.		924,945.20
Long-Term Liabilities, including Bonds Payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-Term Liabilities at year-end consist of:		
Bonds Payable	$ -8,540,000.00	
Accrued Interest	-343,990.63	
Capital Leases Payable	-2,620,253.00	
Compensated Absences Payable	-86,864.65	
Installment Sales Agreement	-4,545,000.00	
Unamortized Bond Premiums	-368,849.00	
Total Long-Term Liabilities		-16,504,957.28
Net Assets of Governmental Activities (Exhibit "A")		$ 74,848,860.78

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

CITY OF GAINESVILLE BOARD OF EDUCATION - HALL COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2011

EXHIBIT "E"

	GENERAL FUND	DISTRICT-WIDE CAPITAL PROJECTS FUND	DEBT SERVICE FUND	TOTAL
REVENUES				
Property Taxes	$ 24,894,897.92		$ 1,016,152.16	$ 25,911,050.08
Sales Taxes	101,654.45	$ 4,317,262.85		4,418,917.30
State Funds	29,301,613.81			29,301,613.81
Federal Funds	10,243,001.91			10,243,001.91
Charges for Services	1,226,657.81			1,226,657.81
Investment Earnings	3,489.88	1,832.28	35,167.51	40,489.67
Miscellaneous	655,165.83			655,165.83
Total Revenues	$ 66,426,481.61	$ 4,319,095.13	$ 1,051,319.67	$ 71,796,896.41
EXPENDITURES				
Current				
Instruction	$ 37,790,841.16			$ 37,790,841.16
Support Services				
Pupil Services	1,911,122.52			1,911,122.52
Improvement of Instructional Services	1,188,538.98			1,188,538.98
Educational Media Services	877,601.75			877,601.75
General Administration	744,676.70			744,676.70
School Administration	3,588,225.48			3,588,225.48
Business Administration	729,064.60			729,064.60
Maintenance and Operation of Plant	4,476,109.71			4,476,109.71
Student Transportation Services	2,082,644.02			2,082,644.02
Central Support Services	1,349,727.70			1,349,727.70
Other Support Services	686,496.10			686,496.10
Enterprise Operations	336,215.20			336,215.20
Food Services Operation	2,784,639.05			2,784,639.05
Capital Outlay		$ 571,048.28		571,048.28
Debt Services				
Principal	975,711.46		$ 5,135,000.00	6,110,711.46
Dues and Fees			14,881.86	14,881.86
Interest	37,716.44		876,371.24	914,087.68
Total Expenditures	$ 59,559,330.87	$ 571,048.28	$ 6,026,253.10	$ 66,156,632.25
Excess of Revenues over (under) Expenditures	$ 6,867,150.74	$ 3,748,046.85	$ -4,974,933.43	$ 5,640,264.16
OTHER FINANCING SOURCES (USES)				
Transfers In		$ 750,000.00	$ 5,018,200.72	$ 5,768,200.72
Transfers Out	$ -750,000.00	-5,018,200.72		-5,768,200.72
Total Other Financing Sources (Uses)	$ -750,000.00	$ -4,268,200.72	$ 5,018,200.72	$ 0.00
Net Change in Fund Balances	$ 6,117,150.74	$ -520,153.87	$ 43,267.29	$ 5,640,264.16
Fund Balances - Beginning	3,621,256.83	3,981,413.39	1,326,350.90	8,929,021.12
Fund Balances - Ending	$ 9,738,407.57	$ 3,461,259.52	$ 1,369,618.19	$ 14,569,285.28

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

CITY OF GAINESVILLE BOARD OF EDUCATION - HALL COUNTY
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2011

EXHIBIT "F"

Total Net Change in Fund Balances - Governmental Funds (Exhibit "E")		$ 5,640,264.16
Amounts reported for Governmental Activities in the Statement of Activities are different because:		
Capital Outlays are reported as expenditures in Governmental Funds. However, in the Statement of Activities, the cost of Capital Assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:		
Capital Outlay Expense	$ 930,806.13	
Depreciation Expense - Current Year	-2,852,057.57	
Excess of Capital Outlay over Depreciation Expense		-1,921,251.44
Donated Capital Assets are not reported in Governmental Funds. However in the Statement of Activities, the donation is shown as Capital Grants and Contributions.		1,000,000.00
Taxes reported in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		-57,657.20
Repayment of Long-Term Debt is reported as an expenditure in Governmental Funds, but the repayment reduces Long-Term Liabilities in the Statement of Net Assets. In the current year, these amounts consist of:		
Bond Principal Retirements	$ 4,190,000.00	
Capital Lease Payments	975,711.46	
Long-Term Debt Retirements	945,000.00	
Total Long-Term Debt Repayments		6,110,711.46
Some items reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in Governmental Funds. These activities consist of:		
Amortization of Bond Premiums	$ 184,425.00	
Net Decrease in Accrued Interest	25,417.71	
Decrease in Claims Incurred but not Reported	20,259.40	
Decrease in Compensated Absences	20,762.78	
Total Additional Expenditures		250,864.89
Change in Net Assets of Governmental Activities (Exhibit "B")		$ 11,022,931.87

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

CITY OF GAINESVILLE BOARD OF EDUCATION - HALL COUNTY
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2011

EXHIBIT "G"

	AGENCY FUNDS
ASSETS	
Cash and Cash Equivalents	$ 166,957.65
LIABILITIES	
Funds Held for Others	$ 166,957.65

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

Note 1: DESCRIPTION OF SCHOOL DISTRICT AND REPORTING ENTITY

REPORTING ENTITY

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

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

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

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

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

- Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expenses (expenses of the School District related to the administration and support of the School District's programs, such as office and maintenance personnel and accounting) are not allocated to programs.

- Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

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

The School District reports the following major governmental funds:

- General Fund is the School District's primary operating fund. It accounts for and reports all financial resources not accounted for and reported in another fund.

- District-wide Capital Projects Fund accounts for and reports financial resources including Special Purpose Local Option Sales Tax (SPLOST), proceeds from an installment sales agreement and grants from Georgia State Financing and Investment Commission that are restricted, committed or assigned to the expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

- Debt Service Fund accounts for and reports financial resources that are restricted, committed, or assigned including property taxes legally restricted for the payment of general long-term principal and interest.

The School District reports the following fiduciary fund type:

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

BASIS OF ACCOUNTING

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

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

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

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

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 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 System 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, consistent with symmetrical recognition.

NEW ACCOUNTING PRONOUNCEMENTS

The School District adopted the Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The provisions of this Statement establish accounting and financial reporting standards for all governments that report governmental funds. It establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental funds.

RESTATEMENT OF PRIOR YEAR NET ASSETS

For fiscal year 2011, the School District restated various Capital Assets due to errors or omissions. The School District made adjustments, net of accumulated depreciation, to decrease Land Improvements by $30,837.72, and Buildings and Improvements by $619,028.24, and to increase Equipment by $603,605.32. The result is a decrease in Net Assets at July 1, 2010, of $46,260.64. These changes are in accordance with generally accepted accounting principles.

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

(1) Obligations issued by the State of Georgia or by other states,

(2) Obligations issued by the United States government,

(3) Obligations fully insured or guaranteed by the United States government or a United States government agency,

(4) Obligations of any corporation of the United States government,

(5) Prime banker's acceptances,

(6) The Georgia Fund 1 administered by the State of Georgia, Office of State Treasurer,

(7) Repurchase agreements, and

(8) Obligations of other political subdivisions of the State of Georgia.

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

RECEIVABLES

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

PROPERTY TAXES

The City of Gainesville fixed the property tax levy for the 2010 tax digest year (calendar year) on October 19, 2010 (levy date). Taxes were due on December 20, 2010 (lien date) and could be paid in two installments on September 1, 2010 and December 20, 2010. Taxes due and collected within the current fiscal year or within 60 days after year-end on the 2010 tax digest are reported as revenue in the governmental funds for fiscal year 2011. The Gainesville City Clerk bills and collects the property taxes for the School District, withholds 1% of taxes collected as a fee for tax collection and remits the balance of taxes collected to the School District. During the fiscal year the School District remitted $208,234.00 of its 2010 tax digest collections to the Hall County Board of Education as part of a tax sharing agreement that relates to the cost of educating students in areas annexed into the city. These property tax revenues, at the fund reporting level, during the fiscal year ended June 30, 2011, for maintenance and operations amounted to $24,894,897.92 and for school bonds amounted to $1,016,152.16.

Tax millage rates levied for the 2010 tax year (calendar year) for the City of Gainesville Board of Education were as follows (a mill equals $1 per thousand dollars of assessed value):

School Operations	7.39 mills
School Bonds	0.30 mills
	7.69 mills

SALES TAXES

Special Purpose Local Option Sales Tax, at the fund reporting level, during the year amounted to $4,317,262.85 and is to be used for capital outlay for educational purposes or debt service. This sales tax was authorized by local referendum and the sales tax must be re-authorized at least every five years.

INVENTORIES

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

CAPITAL ASSETS

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

	Capitalization Policy	Estimated Useful Life
Land	All	N/A
Land Improvements	$ 5,000.00	20 years
Buildings and Improvements	$ 5,000.00	10 to 50 years
Equipment	$ 5,000.00	5 to 14 years
Intangibles	$ 250,000.00	individually determined

Depreciation is used to allocate the actual or estimated historical cost of all capital assets over estimated useful lives, with the exception of intangible assets which are amortized.

Amortization of intangible assets such as water, timber, and mineral rights, easements, patents, trademarks, copyrights and internally generated software is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 20 years.

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 15 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 five days.

Information regarding the beginning of year liability, increases and decreases, and end of year liability for each of the three preceding years is as follows:

	Beginning of Year Liability	Increases	Decreases	End of Year Liability
2009	$ 0.00	$ 421,382.18	$ 268,599.01	$ 152,783.17
2010	$ 152,783.17	$ 230,818.29	$ 275,974.03	$ 107,627.43
2011	$ 107,627.43	$ 221,605.23	$ 242,368.01	$ 86,864.65

GENERAL OBLIGATION BONDS

The School District 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 are deferred and amortized over the life of the bonds using the straight-line method. To conform to generally accepted accounting principals, bond issuance costs should be deferred and amortized over the life of the bonds using the straight-line method. The effect of this deviation is deemed to be immaterial to the fair presentation of the basic financial statements.

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 government. 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 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 resources for 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, 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 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 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 has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund.

Fund Balances of the Governmental Funds at June 30, 2011, are as follows:

FUND BALANCES

Nonspendable		
Inventories		$ 67,133.84
Restricted		
Continuation of Federal Programs	$ 2,005,175.21	
Capital Projects	677,775.28	
Debt Service	4,153,102.43	6,836,052.92
Committed		
School Activity Accounts		349,574.04
Unassigned		7,316,524.48
Fund Balance, June 30, 2011		$ 14,569,285.28

When multiple categories of fund balance are available for authorized expenditure, the District will commence with the most restricted category and proceed in descending order 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: DEPOSITS AND INVESTMENTS

COLLATERALIZATION OF DEPOSITS

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

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 deposit policy for custodial credit risk. At June 30, 2011, the bank balances were $16,396,843.89. 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, or
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 credit risk category at June 30, 2011, are as follows:

Custodial Credit Risk Category	Bank Balance
1	$ 0.00
2	6,140,416.97
3	0.00
Total	$ 6,140,416.97

CATEGORIZATION OF INVESTMENTS

The School District's investments as of June 30, 2011, are presented below. All investments are presented by investment type and debt securities are presented by maturity.

Investment Type	Fair Value	Investment Maturity Less than 1 Year
Debt Securities		
U. S. Treasuries		
Implicitly Guaranteed	$ 953,145.31	$ 953,145.31
Other Investments		
U. S. Treasury		
Money Market Funds	394.82	
Total Investments	$ 953,540.13	

Interest Rate Risk

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

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.

At June 30, 2011, $953,540.13 of the School District's applicable investments were (1) uninsured and unregistered, with securities held by the counterparty's trust department or agent in the name of the School District and (2) uninsured or unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the School District's name.

Credit Quality Risk

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

The investments subject to credit quality risk are reflected below:

		Quality Ratings	
Rated Debt Investments	Fair Value	AAA	Unrated
Debt Securities			
U. S. Agencies			
Implicitly Guaranteed	$ 953,145.31		$ 953,145.31
Other Investments			
U. S. Treasury			
Money Market Funds	394.82	$ 394.82	
Totals by Quality Ratings	$ 953,540.13	$ 394.82	$ 953,145.31

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. More than 5% of the School District's investments are in Federal National Mortgage Association and Federal Home Loan Bank Debt Securities. These investments are 41% and 59%, respectively of the School District's total investments.

Note 4: NON-MONETARY TRANSACTIONS

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

Note 5: CAPITAL ASSETS

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

	Balances July 1, 2010 (Restated)	Increases	Decreases	Balances June 30, 2011
Governmental Activities				
Capital Assets, Not Being Depreciated:				
Land	$ 9,607,246.67	$ 1,000,000.00		$ 10,607,246.67
Construction Work In Progress	631,261.00		$ 631,261.00	0.00
Total Capital Assets, Not Being Depreciated	$ 10,238,507.67	$ 1,000,000.00	$ 631,261.00	$ 10,607,246.67
Capital Assets, Being Depreciated:				
Buildings and Improvements	$ 86,489,079.37	$ 967,607.77		$ 87,456,687.14
Equipment	5,348,476.06	524,858.69	$ 49,761.74	5,823,573.01
Land Improvements	4,154,938.06	69,600.67		4,224,538.73
Less: Accumulated Depreciation:				
Buildings and Improvements	25,770,337.17	2,199,461.39		27,969,798.56
Equipment	3,294,180.54	442,219.84	49,761.74	3,686,638.64
Land Improvements	385,644.43	210,376.34		596,020.77
Total Capital Assets, Being Depreciated, Net	$ 66,542,331.35	$ -1,289,990.44	$ 0.00	$ 65,252,340.91
Governmental Activity Capital Assets - Net	$ 76,780,839.02	$ -289,990.44	$ 631,261.00	$ 75,859,587.58

Capital assets being acquired under capital leases as of June 30, 2011, are as follows:

	Governmental Funds
Buildings and Improvements	$ 2,374,393.25
Equipment (School Buses)	378,130.00
Less: Accumulated Depreciation	1,503,895.68
	$ 1,248,627.57

Current year depreciation expense by function is as follows:

Instruction		$ 1,977,564.37
Support Services		
Improvement of Instructional Services	$ 650.00	
Educational Media Services	110,510.27	
General Administration	2,717.86	
School Administration	184,061.24	
Business Administration	716.50	
Maintenance and Operation of Plant	48,211.44	
Student Transportation Services	93,773.12	
Central Support Services	159,678.96	
Other Support Services	4,840.97	605,160.36
Food Services		269,332.84
		$ 2,852,057.57

Note 6: INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2011, consisted of the following:

	Transfers From	
Transfer to	General Fund	District-wide Capital Projects
District-wide Capital Projects	$ 750,000.00	
Debt Service Fund		$ 5,018,200.72
	$ 750,000.00	$ 5,018,200.72

Transfers are used to move revenues collected by the General Fund to the District-wide Capital Projects Fund to fund capital projects and to supplement the repayment of bond principal and interest. Transfers are used to move Special Purpose Local Option Sales Tax (SPLOST) revenue collected by the District-wide Capital Projects Fund plus funds transferred from the General Fund to the Debt Service Fund as needed for repayment of bond principal and interest.

Note 7: RISK MANAGEMENT

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

The School District has obtained commercial insurance for risk of loss associated with torts, assets, errors or omissions, job related illness or injuries to employees and acts of God. The School District has neither significantly reduced coverage for these risks nor incurred losses (settlements) which exceeded the School District's insurance coverage in any of the past three years.

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

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

	Beginning of Year Liability	Increases	Decreases	End of Year Liability
2009	$ 0.00	$ 1,980.00	$ 0.00	$ 1,980.00
2010	$ 1,980.00	$ 63,052.70	$ 65,032.70	$ 0.00
2011	$ 0.00	$ 71,908.19	$ 59,184.19	$ 12,724.00

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

Position Covered	Amount
Superintendent	$ 50,000.00
Principals	$ 50,000.00

Note 8: LONG-TERM DEBT

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

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.

INSTALLMENT SALES AGREEMENT
The City of Gainesville Board of Education entered into an agreement dated January 1, 2007, with the Gainesville Redevelopment Authority for the acquisition of land, by paying off the Board of Education's Tax Anticipation Note, Series 2006, dated October 5, 2006, incurred to acquire the land, and construction and installation of site improvements for new middle school facilities to be constructed thereon. Under the terms of the agreement, the Board of Education will purchase the project by making annual payments through February 1, 2018.

LONG-TERM DEBT AGREEMENT
Prior to January 1, 1994, the School District was a component unit of the City of Gainesville, Georgia (City) and was not legally authorized to issue debt instruments. Accordingly, the City issued general obligation debt on behalf of the School District to finance the cost of acquiring, constructing, renovating, modifying, improving, extending and equipping capital outlay projects of the School District.

The Georgia General Assembly passed legislation effective January 1, 1994, authorizing the separation of the School District and the City. Under the legislation, the School District possesses all powers granted to Boards of Education under general law, including the power to issue debt instruments. Although the City is legally liable for the general obligation bonds issued on the School District's behalf, the legislation specified that the School District would be responsible for the retirement of the bonds according to the terms of the debt instrument.

During the year ended June 30, 2011, the School District paid the remaining $945,000.00 in principal and $50,787.00 in interest on Series 1993 general obligation bonds issued by the City on the School District's behalf and has completely fulfilled its obligation regarding these bonds.

GENERAL OBLIGATION DEBT OUTSTANDING
General Obligation Bonds currently outstanding are as follows:

Purpose	Interest Rates	Amount
General Government - Series 2006	4.0% - 5.5%	$ 8,540,000.00

The changes in Long-Term Debt during the fiscal year ended June 30, 2011, were as follows:

	Governmental Funds				
	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011	Due Within One Year
G. O. Bonds	$ 12,730,000.00		$ 4,190,000.00	$ 8,540,000.00	$ 4,535,000.00
Capital Leases	3,595,964.46		975,711.46	2,620,253.00	
Compensated Absences (1)	107,627.43	$ 221,605.23	242,368.01	86,864.65	86,864.65
Long-Term Debt Agreement	945,000.00		945,000.00	0.00	
Installment Sales Agreement	4,545,000.00			4,545,000.00	
Bond Premium Amortized	553,274.00		184,425.00	368,849.00	184,425.00
	$ 22,476,865.89	$ 221,605.23	$ 6,537,504.47	$ 16,160,966.65	$ 4,806,289.65

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

At June 30, 2011, payments due by fiscal year which includes principal for these items are as follows:

	Capital Leases	General Obligation Debt		Unamortized
	Principal	Principal	Interest	Bond Premium
Fiscal Year Ended June 30:				
2012		$ 4,535,000.00	$ 440,050.00	$ 184,425.00
2013		4,005,000.00	218,800.00	184,424.00
2014 - 2016				
2017 - 2021	$ 1,209,357.00			
2022	1,410,896.00			
Total Principal and Interest	$ 2,620,253.00	$ 8,540,000.00	$ 658,850.00	$ 368,849.00

	Installment Sales Agreement	
	Principal	Interest
Fiscal Year Ended June 30:		
2012		$ 179,527.54
2013		179,527.54
2014	$ 840,000.00	179,527.54
2015	875,000.00	146,347.50
2016	905,000.00	111,785.00
2017 - 2018	1,925,000.00	114,747.50
Total Principal and Interest	$ 4,545,000.00	$ 911,462.62

Note 9: ON-BEHALF PAYMENTS

The School District has recognized revenues and costs in the amount of $149,202.85 for health insurance and retirement contributions paid on the School District's behalf by the following State Agencies.

Georgia Department of Education
Paid to the Georgia Department of Community Health
For Health Insurance of Non-Certified Personnel
In the amount of $81,935.23

Paid to the Teachers Retirement System of Georgia
For Teachers Retirement System (TRS) Employer's Cost
In the amount of $45,744.62

Office of State Treasurer
Paid to the Public School Employees Retirement System
For Public School Employees Retirement (PSERS) Employer's Cost
In the amount of $21,523.00

Note 10: SIGNIFICANT CONTINGENT LIABILITIES

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

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

Note 11: SUBSEQUENT EVENTS

On March 15, 2011, the voters of Hall County voted in favor of a Special Purpose Local Option Sales Tax referendum for education purposes as did the voters of the City of Gainesville. This tax will commence in October 2012 and be levied for a period of 5 years.

The imposition of the tax was approved by the City of Gainesville School District also constituted approval for the issuance of general obligation debt of the City of Gainesville School District in the maximum aggregate amount of $19,000,000.00 for the purposes as set forth in the referendum.

On November 7, 2011, the City of Gainesville School District issued $14,075,000.00 Par Amount of General Obligation Bonds, Series 2011, including a net premium of $1,109,932.80. The Project Fund received $14,500,000.00 and there was $569,120.00 of capitalized interest, $81,000.00 in costs of issuance, $33,076.25 in underwriter's discount, and additional proceeds of $1,736.55. These transactions will be reflected in subsequent financial statements of the School District.

Note 12: POST-EMPLOYMENT BENEFITS

Georgia School Personnel Post-employment Health Benefit Fund

Plan Description. The Georgia School Personnel Post-employment Health Benefit Fund (School OPEB Fund) is a cost-sharing multiple-employer defined benefit post-employment 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 (OCGA) assigns the authority to establish and amend the benefit provisions of the group health plans, including benefits for retirees, to the Board of Community Health (DCH Board). The Department of Community Health, which includes the School OPEB Fund, issues a separate stand alone financial audit report and a copy can be obtained from the Georgia Department of Audits and Accounts.

Funding Policy. The contribution requirements of plan members and participating employers are established by the DCH Board in accordance with the current Appropriations Act and may be amended by the DCH 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 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 DCH 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 active and retiree contribution rates established by the DCH Board for employers participating in the School OPEB Fund were as follows for the fiscal year ended June 30, 2011:

For certificated teachers, librarians and regional educational service agencies:

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

For non-certificated school personnel:

July 2010 - December 2010	$162.72	per member per month
January 2011 - May 2011	$218.20	per member per month
June 2011	$246.20	per member per month

No additional contribution was required by the DCH Board for fiscal year 2011 nor contributed to the State OPEB Fund to prefund retiree benefits. Such additional contribution amounts are determined annually by the DCH Board in accordance with the State plan for other post-employment 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 two preceding fiscal years were as follows:

Fiscal Year	Percentage Contributed	Required Contribution
2011	100%	$ 4,796,567.97
2010	100%	$ 4,543,897.86
2009	100%	$ 3,280,365.15

Note 13: RETIREMENT PLANS

TEACHERS RETIREMENT SYSTEM OF GEORGIA (TRS)

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

On October 25, 1996, the Board created the Supplemental Retirement Benefits Plan of the Georgia Teachers Retirement System (SRBP-TRS). SRBP-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 SRBP-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, 2011, 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 2011 were 10.28% of annual salary as required by the June 30, 2008, actuarial valuation. The employer contribution rate will increase 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
2011	100%	$	3,400,387.54
2010	100%	$	3,178,586.89
2009	100%	$	3,091,313.75

PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA (PSERS)

Bus drivers, lunchroom personnel and maintenance personnel are members of the Public School Employees Retirement System of Georgia. The System is funded by contributions by the employees and by the state of Georgia. The School District makes no contribution to the plan.

DEFINED CONTRIBUTION PLAN

In fiscal year ending June 30, 2007, the Gainesville City School District began an employer paid 403(b) annuity plan for the group of employees covered under the Public School Employees Retirement System (PSERS). Recognizing that PSERS was a limited defined contribution and defined benefit plan which did not provide for an adequate retirement for this group of employees, it was the Board's desire to supplement the retirement of this group.

The Board selected AIG Valic as the provider of this plan. For each employee covered under PSERS with five years or less of service, the Board contributes to the plan an amount equal to 2% percent of the employee's base pay. When the employee achieves six years of service, the Board contributes 4% of the employee's base pay.

The employee becomes vested in the plan with one year of experience. Employees who had already achieved one year of experience at the time the plan was implemented were vested upon enrollment.

Funds accumulated in the employer paid accounts are only available to the employee upon termination of employment and one year of service to Gainesville City School District.

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

Fiscal Year	Percentage Contributed		Required Contribution
2011	100%	$	51,240.38
2010	100%	$	52,133.45
2009	100%	$	54,132.98

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CITY OF GAINESVILLE BOARD OF EDUCATION - HALL COUNTY
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2011

SCHEDULE "1"

	NONAPPROPRIATED BUDGETS		ACTUAL
	ORIGINAL (1)	FINAL (1)	AMOUNTS
REVENUES			
Property Taxes	$ 23,087,476.00	$ 23,322,703.00	$ 24,894,897.92
Sales Taxes			101,654.45
State Funds	27,177,241.00	31,265,614.00	29,301,613.81
Federal Funds	6,338,043.00	8,111,024.42	10,243,001.91
Charges for Services	366,000.00	366,000.00	1,226,657.81
Investment Earnings			3,489.88
Miscellaneous	335,755.00	335,755.00	655,165.83
Total Revenues	$ 57,304,515.00	$ 63,401,096.42	$ 66,426,481.61
EXPENDITURES			
Current			
Instruction	$ 38,447,481.90	$ 38,377,370.94	$ 37,790,841.16
Support Services			
Pupil Services	1,920,141.82	2,002,866.16	1,911,122.52
Improvement of Instructional Services	892,022.71	1,311,884.70	1,188,538.98
Educational Media Services	969,953.46	917,869.26	877,601.75
General Administration	770,355.10	844,781.28	744,676.70
School Administration	3,274,716.86	3,378,689.34	3,588,225.48
Business Administration	519,621.76	756,847.35	729,064.60
Maintenance and Operation of Plant	4,985,299.66	5,056,705.17	4,476,109.71
Student Transportation Services	1,978,979.60	2,209,873.05	2,082,644.02
Central Support Services	1,087,057.47	1,449,950.54	1,349,727.70
Other Support Services	809,122.86	682,980.69	686,496.10
Food Services Operation	3,330,662.00	3,330,662.00	2,784,639.05
Enterprise Operations			336,215.20
Capital Outlay	380,401.80		
Debt Service	400,000.00	735,401.67	1,013,427.90
Total Expenditures	$ 59,765,817.00	$ 61,055,882.15	$ 59,559,330.87
Excess of Revenues over (under) Expenditures	$ -2,461,302.00	$ 2,345,214.27	$ 6,867,150.74
OTHER FINANCING SOURCES (USES)			
Other Sources		$ 218,127.38	
Operating Transfers From Other Funds		193,864.12	
Operating Transfers To Other Funds		-1,068,998.66	$ -750,000.00
Total Other Financing Sources (Uses)		$ -657,007.16	$ -750,000.00
Net Change in Fund Balances	$ -2,461,302.00	$ 1,688,207.11	$ 6,117,150.74
Fund Balances - Beginning	2,461,302.00	1,739,868.21	3,621,256.83
Fund Balances - Ending	$ 0.00	$ 3,428,075.32	$ 9,738,407.57

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

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

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

See notes to the basic financial statements.

CITY OF GAINESVILLE BOARD OF EDUCATION - HALL COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011

SCHEDULE "2"

FUNDING AGENCY PROGRAM/GRANT		CFDA NUMBER	PASS-THROUGH ENTITY ID NUMBER	EXPENDITURES IN PERIOD	
Agriculture, U. S. Department of					
Child Nutrition Cluster					
Pass-Through From Georgia Department of Education					
Food Services					
School Breakfast Program	*	10.553	N/A	(2)	
National School Lunch Program	*	10.555	N/A	$ 2,630,228.59	(1)
Total Child Nutrition Cluster				$ 2,630,228.59	
Other Programs					
Pass-Through From Georgia Department of Education					
Food Services					
Fresh Fruit and Vegetable Program		10.582	N/A	79,558.99	
Total U. S. Department of Agriculture				$ 2,709,787.58	
Education, U. S. Department of					
Education Technology State Grants Cluster					
Pass-Through From Georgia Department of Education					
Education Technology State Grants		84.318	N/A	$ 503.02	
Special Education Cluster					
Pass-Through From Georgia Department of Education					
Special Education					
ARRA - Grants to States	*	84.391	N/A	$ 257,829.61	
ARRA - Preschool Grants	*	84.392	N/A	43,988.02	
Grants to States	*	84.027	N/A	1,040,116.22	
Preschool Grants	*	84.173	N/A	62,779.00	
Total Special Education Cluster				$ 1,404,712.85	
Title I, Part A Cluster					
Pass-Through From Georgia Department of Education					
ARRA - Title I Grants to Local Educational Agencies		84.389	N/A	$ 628,141.69	
Title I Grants to Local Educational Agencies		84.010	N/A	2,884,880.31	
Total Title I, Part A Cluster				$ 3,513,022.00	
Other Programs					
Pass-Through From Georgia Department of Education					
ARRA - Race-to-the-Top Incentive Grants		84.395	N/A	$ 88,960.02	
Career and Technical Education - Basic Grants to States		84.048	N/A	78,765.02	
Education Jobs Fund	*	84.410	N/A	1,300,813.01	
English Language Acquisition Grants		84.365	N/A	250,986.92	
Improving Teacher Quality State Grants	*	84.367	N/A	322,765.21	
Migrant Education - State Grant Program		84.011	N/A	161,353.31	
Safe and Drug-Free Schools and Communities - State Grants		84.186	N/A	4,197.00	
Twenty-First Century Community Learning Centers		84.287	N/A	21,837.25	
Total Other Programs				$ 2,229,677.74	
Total U. S. Department of Education				$ 7,147,915.61	
Defense, U. S. Department of					
Direct					
Department of the Navy					
R.O.T.C. Program				$ 32,712.13	
Total Expenditures of Federal Awards				$ 9,890,415.32	

N/A = Not Available

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 $158,977.36.
(2) Expenditures for the funds earned on the School Breakfast Program ($743,133.96) were not maintained separately and are included in the 2011 National School Lunch Program.

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

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

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

See notes to the basic financial statements.

CITY OF GAINESVILLE BOARD OF EDUCATION - HALL COUNTY
SCHEDULE OF STATE REVENUE
YEAR ENDED JUNE 30, 2011

SCHEDULE "3"

AGENCY/FUNDING	GOVERNMENTAL FUND TYPE GENERAL FUND
GRANTS	
Bright From the Start:	
Georgia Department of Early Care and Learning	
Pre-Kindergarten Program	$ 728,148.65
Education, Georgia Department of	
Quality Basic Education	
Direct Instructional Cost	
Kindergarten Program	1,719,136.00
Kindergarten Program - Early Intervention Program	1,476,695.00
Primary Grades (1-3) Program	4,650,629.00
Primary Grades - Early Intervention (1-3) Program	1,383,258.00
Upper Elementary Grades (4-5) Program	2,124,163.36
Upper Elementary Grades - Early Intervention (4-5) Program	819,023.00
Middle School (6-8) Program	3,400,329.00
High School General Education (9-12) Program	2,987,622.00
Vocational Laboratory (9-12) Program	700,781.00
Students with Disabilities	2,413,703.00
Gifted Student - Category VI	1,343,587.00
Remedial Education Program	505,133.00
Alternative Education Program	242,745.00
English Speakers of Other Languages (ESOL)	2,794,370.00
Media Center Program	782,857.64
20 Days Additional Instruction	202,383.00
Staff and Professional Development	146,491.00
Indirect Cost	
Central Administration	830,376.00
School Administration	1,213,931.00
Facility Maintenance and Operations	1,717,499.00
Categorical Grants	
Pupil Transportation	
Regular	293,871.00
Nursing Services	118,458.00
Vocational Supervisors	14,635.00
Food Services	92,806.00
Vocational Education	27,084.00
Amended Formula Adjustment	-4,367,842.00
Other State Programs	
Charter Schools	645,434.00
Health Insurance	81,935.23
Math and Science Supplements	56,899.31
Preschool Handicapped Program	87,955.00
Teachers' Retirement	45,744.62
Virtual Schools Grant	250.00
Office of the State Treasurer	
Public School Employees Retirement	21,523.00
	$ 29,301,613.81

See notes to the basic financial statements.

CITY OF GAINESVILLE BOARD OF EDUCATION - HALL COUNTY
SCHEDULE OF APPROVED LOCAL OPTION SALES TAX PROJECTS
YEAR ENDED JUNE 30, 2011

SCHEDULE "4"

PROJECT	ORIGINAL ESTIMATED COST (1)	CURRENT ESTIMATED COSTS (2)	AMOUNT EXPENDED IN CURRENT YEAR (3)	AMOUNT EXPENDED IN PRIOR YEARS (3)	PROJECT STATUS
SPLOST III					
(ii). Acquiring, constructing and equipping a new middle school, acquiring, constructing and equipping additional classrooms and instructional and support space, remodeling, renovating and equipping existing classrooms and instructional and support space at existing schools, acquiring and conducting site preparation of real estate for School District purposes, and acquiring furnishing, equipment and fixtures for new and existing facilities system-wide, including technology equipment. In addition, the resolution authorized the issuance of $25,000,000.00 in general obligation debt. These bonds have been issued and the proceeds of the bonds will be used for the purposes set forth in the resolution. As a result, a portion of the SPLOST proceeds will be used to service these bonds.	$ 32,000,000.00	$ 38,661,700.47	$ 1,169,360.49	$ 37,316,558.06	Ongoing
SPLOST IV					
(i). Paying a portion of the purchase payments due on that certain Installment Sale Agreement between the Gainesville City School District and the Gainesville Redevelopment Authority, with a maximum payment amount of $5,200.000; and	5,200,000.00	5,200,000.00			Ongoing
(ii). Acquiring, constructing and equipping a new elementary school, acquiring, constructing and equipping additional classrooms, instructional and support facilities, and physical education facilities, remodeling, renovating and equipping existing classrooms and instructional and support facilities at existing schools, acquiring land and conducting site preparation of real estate for School District purposes, acquiring furnishings, equipment and fixtures for new and existing facilities system-wide, and acquiring technology equipment, text books, teaching software and school buses, with the estimated cost of such projects to be financed from funds raised by the Sales Tax being $34,717,000.00. In addition, the resolution authorized the issuance of general obligation debt in the maximum aggregate principal amount of $19,000,000.00. These bonds have been issued and the proceeds of the bonds will be used for the purposes set forth in the resolution. As a result, a portion of the SPLOST proceeds will be used to service these bonds.	34,717,000.00	34,717,000.00	9,685.00		Ongoing
	$ 71,917,000.00	$ 78,578,700.47	$ 1,179,045.49	$ 37,316,558.06	

(1) The School District's original cost estimate as specified in the resolution calling for the imposition of the Local Option Sales Tax.

(2) The School District's current estimate of total cost for the projects. Includes all cost from projects inception to completion.

(3) The voters of Hall County approved the imposition of a 1% sales tax to fund the above projects and retire associated debt. Amounts expended for these projects may include sales tax proceeds, state, local property taxes and/or other funds over the life of the projects.

See notes to the basic financial statements.

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CITY OF GAINESVILLE BOARD OF EDUCATION - HALL COUNTY
GENERAL FUND - QUALITY BASIC EDUCATION PROGRAM (QBE)
ALLOTMENTS AND EXPENDITURES - BY PROGRAM
YEAR ENDED JUNE 30, 2011

SCHEDULE "5"

DESCRIPTION	ALLOTMENTS FROM GEORGIA DEPARTMENT OF EDUCATION (1) (2)	ELIGIBLE QBE PROGRAM COSTS SALARIES	OPERATIONS	TOTAL
Direct Instructional Programs				
Kindergarten Program	$ 2,248,133.00	$ 3,071,719.23	$ 92,012.73	$ 3,163,731.96
Kindergarten Program-Early Intervention Program	1,636,674.00	48,009.26	7,963.26	55,972.52
Primary Grades (1-3) Program	5,749,013.00	6,073,725.90	432,656.41	6,506,382.31
Primary Grades-Early Intervention (1-3) Program	1,709,127.00	281,492.96	17,547.74	299,040.70
Upper Elementary Grades (4-5) Program	2,594,075.00	3,444,141.19	109,145.11	3,553,286.30
Upper Elementary Grades-Early Intervention (4-5) Program	987,514.00	234,221.88	21,033.52	255,255.40
Middle School (6-8) Program	4,187,601.00	3,723,143.96	547,563.44	4,270,707.40
High School General Education (9-12) Program	3,096,756.00	3,248,179.37	411,227.68	3,659,407.05
Vocational Laboratory (9-12) Program	859,514.00	757,150.88	47,140.86	804,291.74
Students with Disabilities	2,961,302.00			
Category I			7,419.64	7,419.64
Category II		169,272.20	4,993.80	174,266.00
Category III		2,303,465.41	182,898.83	2,486,364.24
Category IV		144,912.50	2,117.50	147,030.00
Category V			768.92	768.92
Gifted Student - Category VI	1,632,313.00	677,946.82	17,996.80	695,943.62
Remedial Education Program	611,486.00			
Alternative Education Program	297,105.00	154,508.49	6,044.88	160,553.37
English Speakers of Other Languages (ESOL)	3,421,433.00	1,609,945.77	15,723.91	1,625,669.68
TOTAL DIRECT INSTRUCTIONAL PROGRAMS	$ 31,992,046.00	$ 25,941,835.82	$ 1,924,255.03	$ 27,866,090.85
Media Center Program	873,548.00	764,975.08	67,229.09	832,204.17
Staff and Professional Development	182,294.00			11,226.53
TOTAL QBE FORMULA FUNDS	$ 33,047,888.00	$ 26,706,810.90	$ 1,991,484.12	$ 28,709,521.55

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

(2) Allotments do not include the impact of the State amended formula adjustment.

See notes to the basic financial statements.

SECTION II

COMPLIANCE AND INTERNAL CONTROL REPORTS

DEPARTMENT OF AUDITS AND ACCOUNTS

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

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

April 19, 2012

Honorable Nathan Deal, Governor
Members of the General Assembly
Members of the State Board of Education
and
Superintendent and Members of the
City of Gainesville Board of Education

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

Ladies and Gentlemen:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Gainesville Board of Education as of and for the year ended June 30, 2011, which collectively comprise City of Gainesville Board of Education's basic financial statements and have issued our report thereon dated April 19, 2012. 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 City of Gainesville Board of Education is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered City of Gainesville Board of Education's internal control over financial reporting 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 City of Gainesville Board of Education's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Gainesville Board of Education'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 did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

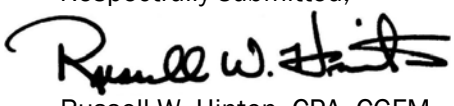
Compliance and Other Matters

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

We noted certain matters that we have reported to management of City of Gainesville Board of Education in a separate letter dated April 19, 2012.

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

Respectfully submitted,



Russell W. Hinton, CPA, CGFM
State Auditor

RWH:as
2011YB-10

DEPARTMENT OF AUDITS AND ACCOUNTS

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

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

April 19, 2012

Honorable Nathan Deal, Governor
Members of the General Assembly
Members of the State Board of Education
and
Superintendent and Members of the
City of Gainesville Board of Education

INDEPENDENT AUDITOR'S 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

Ladies and Gentlemen:

Compliance

We have audited City of Gainesville Board of Education's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2011. City of Gainesville Board of Education's major Federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of City of Gainesville Board of Education's management. Our responsibility is to express an opinion on City of Gainesville Board of Education's compliance based on our audit.

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

In our opinion, the City of Gainesville Board of Education complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

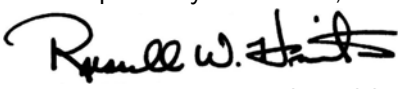
Management of City of Gainesville Board of Education is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered City of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

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is 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 weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above.

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

Respectfully submitted,



Russell W. Hinton, CPA, CGFM
State Auditor

RWH:as
2011SA-10

SECTION III

AUDITEE'S RESPONSE TO PRIOR YEAR FINDINGS AND QUESTIONED COSTS

CITY OF GAINESVILLE BOARD OF EDUCATION - HALL COUNTY
AUDITEE'S RESPONSE
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011

PRIOR YEAR FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

FINDING CONTROL NUMBER AND STATUS	
FS-7761-09-01	Further Action Not Warranted
FS-7761-09-02	Further Action Not Warranted
FS-7761-10-01	Previously Reported Corrective Action Implemented
FS-7761-10-02	Previously Reported Corrective Action Implemented

PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

SECTION IV

FINDINGS AND QUESTIONED COSTS

CITY OF GAINESVILLE BOARD OF EDUCATION - HALL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011

I SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issue:
Governmental Activities; General Fund; Capital Projects Fund; Debt Service Fund; Aggregate Remaining Fund Information — Unqualified

Internal control over financial reporting:
- Material weakness identified? — No
- Significant deficiency identified? — None Reported

Noncompliance material to financial statements noted: — No

Federal Awards

Internal Control over major programs:
- Material weakness identified? — No
- Significant deficiency identified? — None Reported

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

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

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
10.553, 10.555	Child Nutrition Cluster
84.027, 84.173, 84.391, 84.392	Special Education Cluster
84.410	Education Jobs Fund
84.367	Improving Teacher Quality State Grants

Dollar threshold used to distinguish between Type A and Type B programs: $300,000.00

Auditee qualified as low-risk auditee? — No

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

No matters were reported.

III FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.