

TALBOT COUNTY
BOARD OF EDUCATION
TALBOTTON, GEORGIA

ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2012
(Including Independent Auditor's Reports)

TALBOT COUNTY BOARD OF EDUCATION

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FINANCIAL

DEPARTMENT OF AUDITS AND ACCOUNTS

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

Greg S. Griffin
STATE AUDITOR
(404) 656-2174

June 28, 2013

Honorable Nathan Deal, Governor
Members of the General Assembly
Members of the State Board of Education
and
Superintendent and Members of the
Talbot County Board of Education

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

Ladies and Gentlemen:

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 Talbot County Board of Education, as of June 30, 2012, 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.

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an

essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2013, on our consideration of the Talbot County Board of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

The Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual, as presented page 25, is not a required part of the basic financial statements but is 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 to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Talbot County 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 accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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,



Greg S. Griffin
State Auditor

GSG:as
2012ARL-11

TALBOT COUNTY BOARD OF EDUCATION

TALBOT COUNTY BOARD OF EDUCATION
STATEMENT OF NET ASSETS
JUNE 30, 2012

EXHIBIT "A"

	GOVERNMENTAL ACTIVITIES
ASSETS	
Cash and Cash Equivalents	$ 3,907,671.91
Investments	2,537,371.97
Accounts Receivable, Net	
Taxes	213,095.40
State Government	269,401.80
Federal Government	49,478.50
Inventories	18,197.33
Capital Assets, Non-Depreciable	354,857.93
Capital Assets, Depreciable (Net of Accumulated Depreciation)	2,520,104.78
Total Assets	$ 9,870,179.62
LIABILITIES	
Accounts Payable	$ 88,733.56
Salaries and Benefits Payable	598,309.07
Payroll Withholdings Payable	72,989.56
Interest Payable	39,583.33
Deferred Revenues	159,867.47
Long-Term Liabilities	
Due Within One Year	310,000.00
Due in More Than One Year	2,190,000.00
Total Liabilities	$ 3,459,482.99
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	$ 2,730,476.01
Restricted for	
Bus Replacement	39,451.00
Continuation of Federal Programs	104,451.98
Debt Service	317,916.67
Capital Projects	3,326,013.95
Unrestricted (Deficit)	-107,612.98
Total Net Assets	$ 6,410,696.63
Total Liabilities and Net Assets	$ 9,870,179.62

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

TALBOT COUNTY BOARD OF EDUCATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

	EXPENSES	CHARGES FOR SERVICES
GOVERNMENTAL ACTIVITIES		
Instruction	$ 3,966,544.88	
Support Services		
Pupil Services	415,583.58	
Improvement of Instructional Services	467,354.08	
Educational Media Services	142,576.85	
General Administration	448,930.11	
School Administration	517,685.89	
Business Administration	71,130.63	
Maintenance and Operation of Plant	515,885.41	
Student Transportation Services	413,292.27	
Other Support Services	30,499.61	
Operations of Non-Instructional Services		
Enterprise Operations	46,580.78	$ 43,235.87
Community Services	16,634.77	
Food Services	546,765.34	31,291.41
Interest on Short-Term and Long-Term Debt	95,918.33	
Total Governmental Activities	$ 7,695,382.53	$ 74,527.28
General Revenues		
Taxes		
Property Taxes		
For Maintenance and Operations		
Railroad Cars		
Sales Taxes		
Special Purpose Local Option Sales Tax		
For Capital Projects		
Other Sales Tax		
Investment Earnings		
Miscellaneous		
Total General Revenues		
Change in Net Assets		
Net Assets - Beginning of Year		
Net Assets - End of Year		

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

PROGRAM REVENUES		NET (EXPENSES)
OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	REVENUES AND CHANGES IN NET ASSETS
$ 2,176,281.14	$ 106,979.93	$ -1,683,283.81
79,217.95		-336,365.63
387,703.36		-79,650.72
63,307.22		-79,269.63
356,078.21		-92,851.90
242,431.64		-275,254.25
1,902.36		-69,228.27
170,432.07		-345,453.34
234,280.78	228,803.50	49,792.01
7,056.72		-23,442.89
		-3,344.91
555.00		-16,079.77
347,768.90		-167,705.03
		-95,918.33
$ 4,067,015.35	$ 335,783.43	$ -3,218,056.47
		$ 2,968,209.06
		23,252.73
		520,699.07
		31,600.24
		56,628.65
		108,556.04
		$ 3,708,945.79
		$ 490,889.32
		5,919,807.31
		$ 6,410,696.63

TALBOT COUNTY BOARD OF EDUCATION
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012

EXHIBIT "C"

	GENERAL FUND	DISTRICT-WIDE CAPITAL PROJECTS FUND	DEBT SERVICE FUND	TOTAL
ASSETS				
Cash and Cash Equivalents	$ 263,759.55	$ 3,298,645.96	$ 345,266.40	$ 3,907,671.91
Investments	79,024.61	2,458,347.36		2,537,371.97
Accounts Receivable, Net				
Taxes	138,521.71	74,573.69		213,095.40
State Government	269,401.80			269,401.80
Federal Government	49,478.50			49,478.50
Inventories	18,197.33			18,197.33
Total Assets	$ 818,383.50	$ 5,831,567.01	$ 345,266.40	$ 6,995,216.91
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	$ 88,733.56			$ 88,733.56
Salaries and Benefits Payable	598,309.07			598,309.07
Payroll Withholdings Payable	72,989.56			72,989.56
Deposits and Deferred Revenue	265,294.64			265,294.64
Total Liabilities	$ 1,025,326.83			$ 1,025,326.83
FUND BALANCES				
Nonspendable	$ 18,197.33			$ 18,197.33
Restricted	125,705.65	$ 5,693,760.85	$ 345,266.40	6,164,732.90
Assigned		137,806.16		137,806.16
Unassigned (Deficit)	-350,846.31			-350,846.31
Total Fund Balances	$ -206,943.33	$ 5,831,567.01	$ 345,266.40	$ 5,969,890.08
Total Liabilities and Fund Balances	$ 818,383.50	$ 5,831,567.01	$ 345,266.40	$ 6,995,216.91

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

TALBOT COUNTY BOARD OF EDUCATION
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012

EXHIBIT "D"

Total Fund Balances - Governmental Funds (Exhibit "C")		$ 5,969,890.08
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 as assets in governmental funds. These assets consist of:		
Land	$ 354,857.93	
Land Improvements	558,998.55	
Buildings	3,507,218.42	
Equipment	1,732,400.23	
Accumulated Depreciation	-3,278,512.42	
Total Capital Assets		2,874,962.71
Taxes that are not available to pay for current period expenditures are deferred in the governmental funds.		
Property Taxes		105,427.17
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	$ -2,500,000.00	
Accrued Interest	-39,583.33	
Total Long-Term Liabilities		-2,539,583.33
Net Assets of Governmental Activities (Exhibit "A")		$ 6,410,696.63

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

TALBOT COUNTY BOARD OF EDUCATION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2012

EXHIBIT "E"

	GENERAL FUND	DISTRICT-WIDE CAPITAL PROJECTS FUND	DEBT SERVICE FUND	TOTAL
REVENUES				
Property Taxes	$ 2,980,468.63			$ 2,980,468.63
Sales Taxes	31,600.24	$ 520,699.07		552,299.31
State Funds	2,840,653.31			2,840,653.31
Federal Funds	1,455,165.54			1,455,165.54
Charges for Services	74,527.28			74,527.28
Investment Earnings	631.49	55,456.77	$ 540.39	56,628.65
Miscellaneous	108,556.04			108,556.04
Total Revenues	$ 7,491,602.53	$ 576,155.84	$ 540.39	$ 8,068,298.76
EXPENDITURES				
Current				
Instruction	$ 3,850,280.08	$ 38,274.50		$ 3,888,554.58
Support Services				
Pupil Services	415,583.58			415,583.58
Improvement of Instructional Services	467,354.08			467,354.08
Educational Media Services	142,576.85			142,576.85
General Administration	445,331.18			445,331.18
School Administration	517,685.89			517,685.89
Business Administration	73,018.13			73,018.13
Maintenance and Operation of Plant	589,423.33	38,774.22		628,197.55
Student Transportation Services	581,163.60			581,163.60
Other Support Services	30,499.61			30,499.61
Enterprise Operations	46,580.78			46,580.78
Community Services	16,634.77			16,634.77
Food Services Operation	525,822.77			525,822.77
Debt Services				
Principal			$ 290,000.00	290,000.00
Interest			100,510.00	100,510.00
Total Expenditures	$ 7,701,954.65	$ 77,048.72	$ 390,510.00	$ 8,169,513.37
Excess of Revenues over (under) Expenditures	$ -210,352.12	$ 499,107.12	$ -389,969.61	$ -101,214.61
OTHER FINANCING SOURCES				
Insurance Proceeds	115,736.62			115,736.62
Net Change in Fund Balances	$ -94,615.50	$ 499,107.12	$ -389,969.61	$ 14,522.01
Fund Balances - Beginning	$ -112,327.83	5,332,459.89	735,236.01	$ 5,955,368.07
Fund Balances - Ending	$ -206,943.33	$ 5,831,567.01	$ 345,266.40	$ 5,969,890.08

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

TALBOT COUNTY BOARD OF EDUCATION
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2012

EXHIBIT "F"

Total Net Change in Fund Balances - Governmental Funds (Exhibit "E")		$ 14,522.01
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	$ 482,785.48	
Depreciation Expense - Equipment	-218,999.50	
Depreciation Expense - Buildings and Building Improvements	-61,928.81	
Depreciation Expense - Land Improvements	-17,954.00	
Excess of Capital Outlay over Depreciation Expense		183,903.17
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, donations, and disposals) is to decrease net assets.		-13,120.69
Taxes reported in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		10,993.16
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		290,000.00
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:		
Net Increase (Decrease) in Accrued Interest		4,591.67
Change in Net Assets of Governmental Activities (Exhibit "B")		$ 490,889.32

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

TALBOT COUNTY BOARD OF EDUCATION
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2012

EXHIBIT "G"

	PRIVATE PURPOSE TRUSTS	AGENCY FUNDS
ASSETS		
Cash and Cash Equivalents	$ 2,763.01	$ 4,096.26
LIABILITIES		
Funds Held for Others		$ 4,096.26
NET ASSETS		
Held in Trust for Private Purposes	$ 2,763.01	
Total Liabilities and Net Assets	$ 2,763.01	$ 4,096.26

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

TALBOT COUNTY BOARD OF EDUCATION
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2012

EXHIBIT "H"

	PRIVATE PURPOSE TRUSTS
ADDITIONS	
None Reported	$ 0.00
DEDUCTIONS	
None Reported	$ 0.00
Change in Net Assets	$ 0.00
Net Assets - Beginning	2,763.01
Net Assets - Ending	$ 2,763.01

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

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

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

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

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

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

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) and Bond Proceeds 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 taxes (property) legally restricted for the payment of general long-term principal and interest.

The School District reports the following fiduciary fund types:

- Private Purpose Trust fund reports trust arrangements under which principal and income are used to provide scholarships to business administration and business education students with junior standing at an accredited college or university.
- 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 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, except for reimbursable grants. 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 claims and judgments, which is 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 are reported as other financing sources.

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

CASH AND CASH EQUIVALENTS

Composition of Deposits

Cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition in authorized financial institutions. 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 the 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 Talbot County Board of Commissioners fixed the property tax levy for the 2011 tax digest year (calendar year) on October 20, 2011 (levy date). Taxes were due on December 20, 2011 (lien date). Taxes collected within the current fiscal year or within 60 days after year-end on the 2011 tax digest are reported as revenue in the governmental funds for fiscal year 2012. The Talbot County Tax Commissioner bills and collects the property taxes for the School District, withholds 2.50% of taxes collected as a fee for tax collection and remits the balance of taxes collected to the School District. Property tax revenues, at the fund reporting level, during the fiscal year ended June 30, 2012, for maintenance and operations amounted to $2,957,215.90.

The tax millage rate levied for the 2011 tax year (calendar year) for the Talbot County Board of Education was as follows (a mill equals $1 per thousand dollars of assessed value):

School Operations	14.11 mills

SALES TAXES

Special Purpose Local Option Sales Tax, at the fund reporting level, during the year amounted to $520,699.07 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, Central Elementary/High School band room sustained water damage in the amount of $23,995.78 and the gym suffered fire damage in the amount of $89,400.00, which resulted in an impairment of $8,113.28 and $643.41, respectively. The School District received insurance proceeds in the amount of $19,076.62 to cover the cost of the repairs related to the band room and $96,660.00 to cover the cost of the repairs related to the gym. No other 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	$ 10,000.00	20 to 50 years
Buildings and Improvements	$ 20,000.00	up to 50 years
Equipment	$ 5,000.00	5 to 50 years

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

GENERAL OBLIGATION BONDS

The School District issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. In the District-wide and 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. To conform to generally accepted accounting principles, bond premiums and discounts, as well as bond issuance costs should be amortized over the life of the bonds on the

District-wide statements. The effect of this deviation is deemed to be immaterial to the fair presentation of the basic financial statements. 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 bus replacement, continuation of Federal Programs, debt service and capital projects in accordance with restrictions imposed by external third parties.

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

FUND BALANCES

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

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

Restricted – Constraints are placed on the use of resources 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, 2012, are as follows:

Nonspendable		
Inventories		$ 18,197.33
Restricted		
Bus Replacement	$ 39,451.00	
Continuation of Federal Programs	86,254.65	
Capital Projects	5,681,527.25	
Debt Service	357,500.00	6,164,732.90
Assigned		
Capital Projects		137,806.16
Unassigned		
General Fund		-350,846.31
Fund Balance, June 30, 2012		$ 5,969,890.08

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

DEFICIT FUND BALANCES

The fund reporting a deficit fund balance at June 30, 2012, is as follows:

Fund Type/Fund Name	Deficit Balance
General Fund	$ 350,846.31

The School District plans to eliminate the deficit through a reduction in spending and an increase in millage rate.

USE OF ESTIMATES

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

NOTE 3: BUDGETARY DATA

The budget is a complete financial plan for the School District's fiscal year, and is based upon careful estimates of expenditures together with probable funding sources. The budget is legally adopted each year for the general, debt service, and capital projects funds. There is no statutory prohibition regarding over expenditure of the budget at any level. The budget for all governmental funds, except the various school activity (principal) accounts, is prepared and adopted by fund, function and object. The legal level of budgetary control was established by the Board at the aggregate level. The budget for the General Fund was prepared in accordance with accounting principles generally accepted in the United States of America.

The budgetary process begins with the School District's administration presenting an initial budget for the Board's review. The administration makes revisions as necessary based on the Board's guidelines and a tentative budget is approved. After approval of this tentative budget by the Board, such budget is advertised at least once in a newspaper of general circulation in the locality, as well as the School District's website. At the next regularly scheduled meeting of the Board after advertisement, the Board receives comments on the tentative budget, makes revisions as necessary and adopts a final budget. The approved budget is then submitted, in accordance with provisions of

Official Code of Georgia Annotated section 20-2-167(c), to the Georgia Department of Education. The Board may increase or decrease the budget at any time during the year. All unexpended budget authority lapses at fiscal year-end.

The Superintendent is authorized by the Board to approve adjustments of no more than five percent of the amount budgeted for expenditures in any budget function for any fund. The Superintendent shall report any such adjustments to the Board. If expenditure of funds in any budget function for any fund is anticipated to be more than five percent of the budgeted amount, the Superintendent shall request Board approval for the budget amendment. In such case, the expenditure shall be reported to the Board at its regularly scheduled meeting. Under no circumstance is the Superintendent or other staff person authorized to spend funds that exceed the total budget without approval by the Board.

See Schedule 1 – General Fund Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget to Actual for a detail of any over/under expenditures during the fiscal year under review.

NOTE 4: 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, 2012, the bank balances were $6,964,692.55. The bank balances were entirely covered by Federal depository insurance or collateralized with securities held by the pledging financial institution's trust department or agent in the School District's name.

CATEGORIZATION OF INVESTMENTS

At June 30, 2012, the carrying value of the School District's total investments was $98,677.12, which is materially the same as fair value. This investment consisted entirely of funds invested in the Georgia Fund 1, formerly referred to as LGIP, administered by the State of Georgia, Office of the State Treasurer which are not required to be categorized since the School District did not own any specific identifiable securities in the pool. The investment policy of the State of Georgia, Office of the State Treasurer for the Georgia Fund 1 (Primary Liquidity Portfolio) does not provide for investment in derivatives or similar investments. Additional information on the Georgia Fund 1 is disclosed in the *State of Georgia* Comprehensive Annual Financial Report. This audit can be obtained from the Georgia Department of Audits and Accounts at http://www.audits.ga.gov/SGD/CAFR.html.

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

NOTE 5: 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 6: CAPITAL ASSETS

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

	Balances July 1, 2011	Increases	Decreases	Balances June 30, 2012
Governmental Activities				
Capital Assets, Not Being Depreciated:				
Land	$ 354,857.93	$ 0.00	$ 0.00	$ 354,857.93
Capital Assets, Being Depreciated:				
Buildings and Improvements	$ 3,411,016.28	$ 113,395.78	$ 17,193.64	$ 3,507,218.42
Equipment	1,812,094.78	369,389.70	449,084.25	1,732,400.23
Land Improvements	558,998.55			558,998.55
Less: Accumulated Depreciation:				
Buildings and Improvements	1,688,287.27	61,928.81	8,436.85	1,741,779.23
Equipment	1,383,977.78	218,999.50	444,720.35	1,158,256.93
Land Improvements	360,522.26	17,954.00		378,476.26
Total Capital Assets, Being Depreciated, Net	$ 2,349,322.30	$ 183,903.17	$ 13,120.69	$ 2,520,104.78
Governmental Activity Capital Assets - Net	$ 2,704,180.23	$ 183,903.17	$ 13,120.69	$ 2,874,962.71

Current year depreciation expense by function is as follows:

Instruction		$ 112,613.69
Support Services		
General Administration	$ 2,788.01	
Maintenance and Operation of Plant	1,765.31	
Student Transportation Services	109,375.10	113,928.42
Food Services		72,340.20
		$ 298,882.31

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, and errors or omissions. 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 has elected to self-insure for all losses related to acts of God. The School District has not experienced any losses related to this risk in 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 two fiscal years are as follows:

	Beginning of Year Liability	Claims and Changes in Estimates	Claims Paid	End of Year Liability
2011	$ 0.00	$ 65,459.12	$ 65,459.12	$ 0.00
2012	$ 0.00	$ 23,907.97	$ 23,907.97	$ 0.00

The School District participates in the Georgia Education Workers' Compensation Trust, a public entity risk pool organized on December 1, 1991, to develop, implement and administer a program of workers' compensation self-insurance for its member organizations. The School District pays an annual premium to the Trust for its general insurance coverage. Additional insurance coverage is provided through an agreement by the Trust with the Safety National Casualty Company to provide coverage for potential losses sustained by the Trust in excess of $1 million loss per occurrence, up to the statutory limit. Employers' Liability insurance coverage is also provided by Safety National Casualty Company with a loss fund percentage of 100%, based on the Fund's annual normal premium, up to a maximum limit of indemnity of aggregate limit of $2 million.

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

Position Covered	Amount
Superintendent	$ 30,000.00
Bookkeeper	$ 10,000.00
Payroll Clerk	$ 10,000.00
School Food Director	$ 10,000.00
All Employees	$ 100,000.00

NOTE 8: OPERATING LEASES

Talbot County Board of Education has entered into various leases as lessee for copiers and a postage meter. These leases are considered for accounting purposes to be operating leases. Lease expenditures for the year ended June 30, 2012, for governmental funds amounted to $9,627.59.

NOTE 9: SHORT-TERM DEBT

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

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

	Beginning Balance	Issued	Redeemed	Ending Balance
Temporary Loans	$ 250,000.00	$ 650,000.00	$ 900,000.00	$ 0.00

NOTE 10: LONG-TERM DEBT

GENERAL OBLIGATION DEBT OUTSTANDING

General Obligation Bonds currently outstanding are as follows:

Purpose	Interest Rate	Amount
General Government - Series 2003	3.80%	$ 2,500,000.00

The changes in Long-Term Debt during the fiscal year ended June 30, 2012, were as follows:

	Governmental Funds				
	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012	Due Within One Year
G. O. Bonds	$ 2,790,000.00	$ 0.00	$ 290,000.00	$ 2,500,000.00	$ 310,000.00

At June 30, 2012, payments due by fiscal year which includes principal and interest for these items are as follows:

	General Obligation Debt	
	Principal	Interest
Fiscal Year Ended June 30:		
2013	$ 310,000.00	$ 89,110.00
2014	325,000.00	77,045.00
2015	340,000.00	64,410.00
2016	355,000.00	51,205.00
2017	370,000.00	37,430.00
2018 - 2019	800,000.00	30,780.00
Total Principal and Interest	$ 2,500,000.00	$ 349,980.00

NOTE 11: ON-BEHALF PAYMENTS

The School District has recognized revenues and costs in the amount of $448,997.00 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 Certificated Personnel
In the amount of $439,212.00

Office of the State Treasurer
Paid to the Public School Employees' Retirement System
For Public School Employees' Retirement (PSERS) Employer's Cost
In the amount of $9,785.00

NOTE 12: SIGNIFICANT CONTINGENT LIABILITIES

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

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

NOTE 13: RELATED PARTY TRANSACTIONS

The School District receives local tax receipts from the Talbot County Tax Commissioner's office. The Tax Commissioner is the spouse of the Interim Superintendent who served during the fiscal year until March 2012.

NOTE 14: 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 Benefit Plan administered by the Department of Community Health. The Official Code of Georgia Annotated (O.C.G.A.) 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 (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 Board in accordance with the current Appropriations Act and may be amended by the Board. Contributions of plan members or beneficiaries receiving benefits vary based on plan election, dependent coverage, and Medicare eligibility and election. For members with fewer than five years of service as of January 1, 2012, contributions also vary based on years of service. On average, members with five years or more of service as of January 1, 2012, pay approximately 25 percent of the cost of the health insurance coverage. In accordance with the Board resolution dated December 8, 2011, for members with fewer than five years of service as of January 1, 2012, the State provides a premium subsidy in retirement that ranges from 0% for fewer than 10 years of service to 75% (but no greater than the subsidy percentage offered to active employees) for 30 or more years of service. The subsidy for eligible dependents ranges from 0% to 55% (but no greater than the subsidy percentage offered to dependents of active employees minus 20%). No subsidy is available to Medicare eligible members not enrolled in a Medicare Advantage Option. The Board of Community Health sets all member premiums by resolution and in accordance with the law and applicable revenue and expense projections. Any subsidy policy adopted by the Board may be changed at any time by Board resolution and does not constitute a contract or promise of any amount of subsidy.

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

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

For certificated teachers, librarians and regional educational service agencies and certain other eligible participants:

June 2011	1.429%	of covered payroll for July coverage
July 2011	18.534%	of covered payroll for August coverage
August 2011 - March 2012	24.000%	of covered payroll for September - April coverage
April 2012 - June 2012	3.958%	of covered payroll for May - July coverage

For non-certificated school personnel:

July 2011 - August 2011	$246.20	per member per month
September 2011 - June 2012	$296.20	per member per month

No additional contribution was required by the Board for fiscal year 2012 nor contributed to the School OPEB Fund to prefund retiree benefits. Such additional contribution amounts are determined annually by the Board in accordance with the School 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 preceding two fiscal years were as follows:

Fiscal Year	Percentage Contributed	Required Contribution
2012	100%	$ 740,616.54
2011	100%	$ 577,548.76
2010	100%	$ 667,167.09

NOTE 15: 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, 2012, were 5.53% of annual salary. The member contribution rate will increase to 6.00% effective July 1, 2012. Employer contributions required for fiscal year 2012 were 10.28% of annual salary as required by the June 30, 2009, actuarial valuation. The employer contribution rate 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
2012	100%	$	386,730.40
2011	100%	$	419,130.30
2010	100%	$	444,832.43

PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (PSERS)

Bus drivers, lunchroom personnel, and maintenance and custodial 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 this plan.

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TALBOT COUNTY BOARD OF EDUCATION
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2012

SCHEDULE "1"

	NONAPPROPRIATED BUDGETS		ACTUAL	VARIANCE
	ORIGINAL (1)	FINAL (1)	AMOUNTS	OVER/UNDER
REVENUES				
Property Taxes	$ 2,974,803.00	$ 2,974,803.00	$ 2,980,468.63	$ 5,665.63
Sales Taxes		342.68	31,600.24	31,257.56
State Funds	2,758,953.55	2,916,108.62	2,840,653.31	-75,455.31
Federal Funds	740,803.00	1,537,932.76	1,455,165.54	-82,767.22
Charges for Services	55,000.00	55,000.00	74,527.28	19,527.28
Investment Earnings	8,261.00	8,261.00	631.49	-7,629.51
Miscellaneous	61,000.00	67,385.00	108,556.04	41,171.04
Total Revenues	$ 6,598,820.55	$ 7,559,833.06	$ 7,491,602.53	$ -68,230.53
EXPENDITURES				
Current				
Instruction	$ 3,663,139.13	$ 4,059,573.64	$ 3,850,280.08	$ 209,293.56
Support Services				
Pupil Services	319,023.66	329,439.66	415,583.58	-86,143.92
Improvement of Instructional Services	296,481.97	494,508.01	467,354.08	27,153.93
Educational Media Services	145,765.00	145,765.00	142,576.85	3,188.15
General Administration	407,086.64	421,346.44	445,331.18	-23,984.74
School Administration	431,339.20	507,028.20	517,685.89	-10,657.69
Business Administration	75,782.00	75,782.00	73,018.13	2,763.87
Maintenance and Operation of Plant	548,363.33	548,361.60	589,423.33	-41,061.73
Student Transportation Services	377,601.00	618,335.72	581,163.60	37,172.12
Central Support Services	11,000.00	11,000.00		11,000.00
Other Support Services	30,304.19	35,477.19	30,499.61	4,977.58
Enterprise Operations			46,580.78	-46,580.78
Community Services			16,634.77	-16,634.77
Food Services Operation	511,500.00	511,500.00	525,822.77	-14,322.77
Debt Service	3,652.20	16,634.77		16,634.77
Total Expenditures	$ 6,821,038.32	$ 7,774,752.23	$ 7,701,954.65	$ 72,797.58
Excess of Revenues over (under) Expenditures	$ -222,217.77	$ -214,919.17	$ -210,352.12	$ 4,567.05
OTHER FINANCING SOURCES (USES)				
Insurance Proceeds			$ 115,736.62	$ 115,736.62
Operating Transfers From Other Funds	$ 95,000.00	$ 137,756.17		-137,756.17
Operating Transfers To Other Funds	-95,000.00	-137,756.17		137,756.17
Total Other Financing Sources (Uses)	$ 0.00	$ 0.00	$ 115,736.62	$ 115,736.62
Net Change in Fund Balances	$ -222,217.77	$ -214,919.17	$ -94,615.50	$ 120,303.67
Fund Balances - Beginning	297,774.00	297,774.00	-112,327.83	-410,101.83
Adjustments	1,618.44	266,545.27		-266,545.27
Fund Balances - Ending	$ 77,174.67	$ 349,400.10	$ -206,943.33	$ -556,343.43

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

(1) Original and Final Budget amounts do not include actual revenues ($70,345.42) or expenditures ($77,835.91) 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.

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	$ 484,005.45	(1)
Total Child Nutrition Cluster				$ 484,005.45	
Other Programs					
Pass-Through From Georgia Department of Education					
Food Services					
Fresh Fruit and Vegetable Program		10.582	N/A	30,213.32	
Total U. S. Department of Agriculture				$ 514,218.77	
Education, U. S. Department of					
Special Education Cluster					
Pass-Through From Georgia Department of Education					
Special Education					
Grants to States	*	84.027	N/A	$ 122,990.16	
Preschool Grants	*	84.173	N/A	18,909.00	
Total Special Education Cluster				$ 141,899.16	
Title I, Part A Cluster					
Pass-Through From Georgia Department of Education					
ARRA - Title I Grants to Local Educational Agencies	*	84.389	N/A	$ 27,419.06	
Title I Grants to Local Educational Agencies	*	84.010	N/A	632,922.18	
Total Title I, Part A Cluster				$ 660,341.24	
Other Programs					
Pass-Through From Georgia Department of Education					
Career and Technical Education - Basic Grants to States		84.048	N/A	$ 11,381.19	
Education Jobs Fund		84.410	N/A	1,636.00	
Even Start - State Educational Agencies		84.213	N/A	141,558.92	
Improving Teacher Quality State Grants		84.367	N/A	56,039.34	
Safe and Drug-Free Schools and Communities - State Grants		84.186	N/A	5,777.55	
Total Other Programs				$ 216,393.00	
Total U. S. Department of Education				$ 1,018,633.40	
Health and Human Services, U. S. Department of					
Child Care and Development Fund Cluster					
Pass-Through From Georgia Department of Human Services					
Child Care and Development Block Grant		93.575	N/A	$ 16,634.77	
Justice, U. S. Department of					
Pass-Through From Children and Youth Coordinating Council					
Juvenile Justice and Delinquency Prevention		16.540	N/A	$ 7,410.96	
Defense, U. S. Department of					
Direct					
Department of the Army					
R.O.T.C. Program				$ 57,068.76	
Total Expenditures of Federal Awards				$ 1,613,966.66	

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 $30,064.05.
(2) Expenditures for the funds earned on the School Breakfast Program ($103,051.44) were not maintained separately and are included in the 2012 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 Talbot County Board of Education and is presented on the modified accrual basis of accounting which is the basis of accounting used in the presentation of the fund financial statements.

See notes to the basic financial statements.

TALBOT COUNTY BOARD OF EDUCATION
SCHEDULE OF STATE REVENUE
YEAR ENDED JUNE 30, 2012

SCHEDULE "3"

AGENCY/FUNDING	GOVERNMENTAL FUND TYPE GENERAL FUND
GRANTS	
Bright From the Start:	
Georgia Department of Early Care and Learning	
Pre-Kindergarten Program	$ 54,804.84
Education, Georgia Department of	
Quality Basic Education	
Direct Instructional Cost	
Kindergarten Program	102,970.00
Kindergarten Program - Early Intervention Program	3,139.00
Primary Grades (1-3) Program	276,202.00
Primary Grades - Early Intervention (1-3) Program	43,782.00
Upper Elementary Grades (4-5) Program	149,692.00
Upper Elementary Grades - Early Prevention (4-5) Program	23,016.00
Middle School (6-8) Program	54,265.00
High School General Education (9-12) Program	441,630.00
Vocational Laboratory (9-12) Program	137,851.00
Students with Disabilities	233,233.00
Remedial Education Program	27,626.00
Alternative Education Program	24,382.00
Media Center Program	43,655.00
20 Days Additional Instruction	14,324.00
Staff and Professional Development	7,974.00
Indirect Cost	
Central Administration	214,483.00
School Administration	103,258.00
Facility Maintenance and Operation	103,424.00
Mid-term Adjustment Hold-Harmless	111,003.00
Categorical Grants	
Pupil Transportation	
Regular	213,961.00
Sparsity	121,368.00
Food Services	11,604.00
Nursing Services	27,682.00
State Health Reimbursement	439,212.00
Vocational Supervisors	7,047.00
Amended Formula Adjustment	-424,305.00
Other State Programs	
Math and Science Supplements	3,289.17
Preschool Handicapped Program	18,054.00
Pupil Transportation - State Bonds	228,803.50
Vocational Education	13,438.80
Office of State Treasurer	
Public School Employees Retirement	9,785.00
	$ 2,840,653.31

See notes to the basic financial statements.

TALBOT COUNTY BOARD OF EDUCATION
SCHEDULE OF APPROVED LOCAL OPTION SALES TAX PROJECTS
YEAR ENDED JUNE 30, 2012

SCHEDULE "4"

PROJECT	ORIGINAL ESTIMATED COST (1)	CURRENT ESTIMATED COSTS (2)	AMOUNT EXPENDED IN CURRENT YEAR (3)	AMOUNT EXPENDED IN PRIOR YEARS (3)	TOTAL COMPLETION COST	EXCESS PROCEEDS NOT EXPENDED	ESTIMATED COMPLETION DATE
Acquiring, constructing and equipping one new elementary school; adding to, renovating, repairing, improving, and equipping existing school buildings and other buildings and facilities useful or desirable in connection therewith; payment of capitalized interest on the bonds through and including August 1, 2003; and the costs of issuing the bonds.	$ 2,500,000.00	$ 3,025,086.98	$ 177,558.72	$ 2,847,528.26	$ 0.00	$ 0.00	September 2014

(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 project. Includes all cost from project inception to completion.

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

See notes to the basic financial statements.

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TALBOT COUNTY BOARD OF EDUCATION
GENERAL FUND - QUALITY BASIC EDUCATION PROGRAMS (QBE)
ALLOTMENTS AND EXPENDITURES - BY PROGRAM
YEAR ENDED JUNE 30, 2012

SCHEDULE "5"

DESCRIPTION	ALLOTMENTS FROM GEORGIA DEPARTMENT OF EDUCATION (1) (2)	ELIGIBLE QBE PROGRAM COSTS SALARIES	OPERATIONS	TOTAL
Direct Instructional Programs				
Kindergarten Program	$ 152,119.00	$ 174,924.61	$ 4,606.70	$ 179,531.31
Kindergarten Program-Early Intervention Program	14,111.00	30,528.76		30,528.76
Primary Grades (1-3) Program	414,181.00	352,268.11	20,143.39	372,411.50
Primary Grades-Early Intervention (1-3) Program	72,089.00	39,164.88		39,164.88
Upper Elementary Grades (4-5) Program	225,368.00	182,676.49	9,101.09	191,777.58
Upper Elementary Grades-Early Intervention (4-5) Program	45,766.00	57,473.24		57,473.24
Middle Grades (6-8) Program	66,525.00	634,625.57	6,323.50	640,949.07
Middle School (6-8) Program	402,611.00	593.16	18,449.29	19,042.45
High School General Education (9-12) Program	352,645.00	491,440.04	24,356.03	515,796.07
Vocational Laboratory (9-12) Program	124,363.00	315,388.11	24,107.24	339,495.35
Students with Disabilities	373,013.00			
Category II		67,079.24	3,158.00	70,237.24
Category III		248,623.59		248,623.59
Category IV		83,630.27	88.24	83,718.51
Remedial Education Program	50,208.00	41,322.04		41,322.04
Alternative Education Program	36,707.00	21,875.78		21,875.78
TOTAL DIRECT INSTRUCTIONAL PROGRAMS	$ 2,329,706.00	$ 2,741,613.89	$ 110,333.48	$ 2,851,947.37
Media Center Program	66,662.00	109,464.01	5,189.11	114,653.12
Staff and Professional Development	12,063.00		9,573.58	9,573.58
TOTAL QBE FORMULA FUNDS	$ 2,408,431.00	$ 2,851,077.90	$ 125,096.17	$ 2,976,174.07

(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

Greg S. Griffin
STATE AUDITOR
(404) 656-2174

June 28, 2013

Honorable Nathan Deal, Governor
Members of the General Assembly
Members of the State Board of Education
and
Superintendent and Members of the
Talbot County 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 Talbot County Board of Education as of and for the year ended June 30, 2012, which collectively comprise Talbot County Board of Education's basic financial statements and have issued our report thereon dated June 28, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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 and therefore, there can be no assurances that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We consider items FS-7301-12-01 and FS-7301-12-05 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider items FS-7301-12-02, FS-7301-12-03, FS-7301-12-04 and FS-7301-12-06 in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

Compliance and Other Matters

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

We noted certain matters that we have reported to management of Talbot County Board of Education in a separate letter dated June 28, 2013.

Talbot County Board of Education's response to the findings identified in our audit is described in the accompanying Schedule of Management's Responses. We did not audit Talbot County Board of Education's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of management, members of the Talbot County 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,



Greg S. Griffin
State Auditor

GSG:as
2012YB-40

DEPARTMENT OF AUDITS AND ACCOUNTS

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

Greg S. Griffin
STATE AUDITOR
(404) 656-2174

June 28, 2013

Honorable Nathan Deal, Governor
Members of the General Assembly
Members of the State Board of Education
and
Superintendent and Members of the
Talbot County 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 Talbot County 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, 2012. Talbot County Board of Education's major Federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of Talbot County Board of Education's management. Our responsibility is to express an opinion on Talbot County Board of Education's compliance based on our audit.

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

As described in item FA-7301-12-02, in the accompanying Schedule of Findings and Questioned Costs, Talbot County Board of Education did not comply with requirements regarding Reporting that are applicable to its Title 1, Part A Cluster. Compliance with such requirements is necessary, in our opinion, for Talbot County Board of Education to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Talbot County Board of Education complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

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

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

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. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item FA-7301-12-02 to be a material weakness.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal controls over compliance described in the accompanying Schedule of Findings and Questioned Costs as item FA-7301-12-01 to be a significant deficiency.

Talbot County Board of Education's responses to the findings identified in our audit are described in the accompanying Schedule of Management's Responses. We did not audit Talbot County Board of Education's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, members of the Talbot County 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,



Greg S. Griffin
State Auditor

GSG:as
2012SA-65

SECTION III

AUDITEE'S RESPONSE TO PRIOR YEAR FINDINGS AND QUESTIONED COSTS

TALBOT COUNTY BOARD OF EDUCATION
AUDITEE'S RESPONSE
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012

PRIOR YEAR FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

FINDING CONTROL NUMBER	AUDITEE'S RESPONSE/STATUS	SEE AUDITOR'S COMMENTS
FS-7301-10-01	Further Action Not Warranted	
FS-7301-10-02	Further Action Not Warranted	
FS-7301-10-03	Further Action Not Warranted	
FS-7301-10-04	Further Action Not Warranted	
FS-7301-10-05	Further Action Not Warranted	
FS-7301-11-01	Unresolved - See Corrective Action/Responses	
FS-7301-11-02	Unresolved - See Corrective Action/Responses	
FS-7301-11-03	Unresolved - See Corrective Action/Responses	
FS-7301-11-04	Further Action Not Warranted	(1)
FS-7301-11-05	Unresolved - See Corrective Action/Responses	
FS-7301-11-06	Unresolved - See Corrective Action/Responses	
FS-7301-11-07	Unresolved - See Corrective Action/Responses	

AUDITOR'S COMMENTS

(1) Findings/internal control deficiencies of this nature, that are not deemed significant deficiencies or material weaknesses and do not require reporting in the audit report in accordance with *Statements on Auditing Standards* (SAS) 115 or *Governmental Auditing Standards* (Yellow Book), will be communicated in a management letter.

CORRECTIVE ACTION/RESPONSES

BUDGET PREPARATION/EXECUTION
Deficit Fund Balance
Finding Control Number: FS-7301-11-01

The Board will establish policies and procedures designed to ensure that in the future the School District does not report a deficit balance.

CASH AND CASH EQUIVALENTS
Inadequate Internal Control Procedures
Finding Control Number: FS-7301-11-02

The Board will implement controls over cash to ensure that cash is properly reconciled to general ledger and cash activity is maintained in the proper fund. Additional staff will be assigned the duty of monthly bank reconciliations and will monitor as well as review with signatures from the Superintendent.

TALBOT COUNTY BOARD OF EDUCATION
AUDITEE'S RESPONSE
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012

PRIOR YEAR FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

CORRECTIVE ACTION/RESPONSES

CASH AND CASH EQUIVALENTS
REVENUES/RECEIVABLES/RECEIPTS
ACCOUNTING CONTROLS (OVERALL)
FINANCIAL REPORTING
Inadequate Internal Controls over School Activity Accounts
Finding Control Number: FS-7301-11-03

The Board will revise and implement internal controls to ensure that proper separation of duties are established. Accounting procedures will be accurately monitored and financial statement amounts will be reconciled to the general ledger balances.

EMPLOYEE COMPENSATION
Inadequate Internal Controls over Employee Compensation Process
Finding Control Number: FS-7301-11-05

The Board will implement policies and procedures to ensure that business procedures are followed for all salaries, ensuring that salaries are paid according to approved salary schedules and adequate documentation will be maintained to support the salary payments.

CAPITAL ASSETS
Failure to Adequately Maintain Capital Assets
Finding Control Number: FS-7301-11-06

The Board will implement procedures to ensure capital assets records conform to the approved capital assets policy.

FINANCIAL REPORTING
Inadequate Controls over Financial Reporting
Finding Control Number: FS-7301-11-07

The Board will implement procedures to ensure that all required activity in the form of journal entries are in the financial statements. Management will ensure that the financial statements are in accordance with Chapter 22A *Annual Financial Reporting* of the Financial Management for Georgia Local Units of Administration. Additionally, financial statements will be prepared in accordance with generally accepted accounting principles.

TALBOT COUNTY BOARD OF EDUCATION
AUDITEE'S RESPONSE
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012

PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING CONTROL NUMBER	AUDITEE'S RESPONSE/STATUS
FA-7301-10-01	Partially Resolved – See Corrective Action/Responses
FA-7301-11-01	Partially Resolved – See Corrective Action/Responses
FA-7301-11-02	Unresolved - See Corrective Action/Responses
FA-7301-11-03	Unresolved - See Corrective Action/Responses
FA-7301-11-04	Previously Reported Corrective Action Implemented

CORRECTIVE ACTION/RESPONSES

ALLOWABLE COSTS/COST PRINCIPLES
Salaries Not Properly Supported
U. S. Department of Education
Through Georgia Department of Education
Title 1, Part A Cluster (CFDA 84.010 and 84.389)
Special Education Cluster (CFDA 84.027, 84.173, 84.391 and 84.392)
Questioned Cost:
$2,163.55 Special Education Cluster (CFDA 84.027, 84.173, 84.391 and 84.392)
$36,290.87 Title 1, Part A Cluster (CFDA 84.010 and 84.389)
Finding Control Number: FA-7301-10-01

The School District has implemented policies and procedures to ensure that normal business procedures are followed for all salaries, which includes ensuring that Federal funded salaries are paid according to approved salary schedules.

ALLOWABLE COSTS/COST PRINCIPLES
Non-Title I Personnel Paid with Title I Funds
U. S. Department of Education
Through Georgia Department of Education
Title I, Part A Cluster (CFDA 84.010 and 84.389)
Questioned Cost: $52,150.50
Finding Control Number: FA-7301-11-01

The Board is awaiting a review from Georgia Department of Education.

CASH MANAGEMENT
Excessive Cash Balances
U. S. Department of Education
Through Georgia Department of Education
Title I, Part A Cluster (CFDA 84.010 and 84.389)
Finding Control Number: FA-7301-11-02

The Board will implement procedures to accurately forecast the cash needs. Management will maintain supporting documentation for the drawdowns and procedures to minimize lapsing time between transfers.

TALBOT COUNTY BOARD OF EDUCATION
AUDITEE'S RESPONSE
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012

PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

CORRECTIVE ACTION/RESPONSES

REPORTING
Failure to File Accurate Completion Reports
U. S. Department of Education
Through Georgia Department of Education
Title I, Part A Cluster (CFDA 84.010 and 84.389)
Finding Control Number: FA-7301-11-03

The Board will implement procedures to ensure that accounting records for completion reports agree with actual expenditures.

SECTION IV

FINDINGS AND QUESTIONED COSTS

TALBOT COUNTY BOARD OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012

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 weaknesses identified? — Yes
- Significant deficiencies identified? — Yes

Noncompliance material to financial statements noted: — No

Federal Awards

Internal Control over major programs:
- Material weakness identified? — Yes
- Significant deficiency identified? — Yes

Type of auditor's report issued on compliance for major programs:
Unqualified for all major programs, except for Title I, Part A Cluster which is qualified.

Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section 510(a)? — Yes

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
10.553, 10.555	Child Nutrition Cluster
84.010, 84.389	Title I, Part A Cluster
84.027, 84.173	Special Education Cluster

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

BUDGET PREPARATION/EXECUTION
Deficit Fund Balance
Failure to Adopt a Balanced Budget
Material Weakness
Finding Control Number FS-7301-12-01

Condition:
This is a repeat finding (FS-7301-11-01, FS-7301-10-01, and FS-7301-09-01) from the years ended June 30, 2011, June 30, 2010 and June 30, 2009, respectively. The General Fund of the School District reported a deficit fund balance.

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

Criteria:
Chapter 25 *Reporting for LUAs with Governmental Fund Deficit Balances* of the Financial Management for Georgia Local Units of Administration states in part: "The seriousness of fund balance deficits cannot be overstated. The Georgia Department of Education requires those LUAs with deficit governmental fund balances to meet certain reporting requirements".

Questioned Cost:
N/A

Information:
The School District's General Fund reported a deficit fund balance in the amount of $350,846.31.

Cause:
The School District's General Fund incurred expenditures in excess of revenues during the previous years. In addition, management failed to use effective budgeting techniques and continued charging expenditures to state and Federal programs after the award amounts had been depleted.

Effect:
A financial statement irregularity in accordance with Official Code of Georgia Annotated §20-2-67.

Recommendation:
The School District should establish policies and procedures designed to ensure that in future period the School District does not report a deficit fund balance.

CASH AND CASH EQUIVALENTS
Inadequate Internal Control Procedures
Significant Deficiency
Finding Control Number: FS-7301-12-02

Condition:
This is a repeat finding (FS-7301-11-02, FS-7301-10-02 and FS 7301-09-02) from the years ended June 30, 2011, June 30, 2010, and June 30, 2009, respectively. The accounting procedures of the School District were insufficient to provide adequate internal controls over the Cash and Cash Equivalents function.

Criteria:
The School District's management is responsible for designing and maintaining internal controls over Cash and Cash Equivalents.

Questioned Cost:
N/A

Information:
Weaknesses in internal controls relating to Cash and Cash Equivalents were noted as follows:

- An administrative review of monthly bank reconciliations, to determine that bank reconciliations were correct and that all required adjustments had been made, was not performed.

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

- Processes were not in place to ensure cash activity was maintained in the proper fund in the general ledger. A review of bank account activity by fund noted Private Purpose Trust Fund cash was recorded in the General Fund and Special Purpose Local Option Sales Tax cash was recorded in the General Fund.
- Bank reconciliations were not performed by someone independent of the general ledger function.

Cause:
The School District did not design internal controls to properly reconcile and maintain cash activity on the general ledger.

Effect:
Failure to maintain adequate internal controls over cash activity increases the risk significant misstatements could occur in the financial statements due to error or fraud.

Recommendation:
The School District should design and implement controls over cash to ensure (1) monthly bank reconciliations are adequately reviewed, (2) cash activity is maintained in the proper funds, and (3) bank reconciliations are performed by someone independent of the general ledger.

CASH AND CASH EQUIVALENTS
REVENUES/RECEIVABLES/RECEIPTS
ACCOUNTING CONTROLS (OVERALL)
FINANCIAL REPORTING
Inadequate Internal Controls over School Activity Accounts
Significant Deficiency
Finding Control Number: FS-7301-12-03

Condition:
This is a repeat finding (FS 7301-11-03, FS-7301-10-03 and FS-7301-09-04) from the years ended June 30, 2011, June 30, 2010, and June 30, 2009, respectively. The accounting procedures of the School District were insufficient to provide adequate internal controls over school activity accounts.

Criteria:
The School District's management is responsible for designing and maintaining internal controls that provide proper separation of duties and provide reasonable assurance transactions are processed according to established procedures.

Questioned Cost:
N/A

Information:
Cash and Cash Equivalents

- The CSS Internal School Fund account was not reconciled to the general ledger resulting in an unidentified variance.

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

Revenues/Receivables/Receipts

- The deposit preparation function was not separated from the bank reconciliations and general ledger functions.
- Gate receipts were not kept in a secured location prior to depositing in the bank.
- Dues/Fees collected from students were not receipted by the teachers.
- The depositing of funds to the bank was not a standard process for all school activity accounts.

Accounting Controls (Overall)

- An administrative review of the bank reconciliation process, cash receipt process, and cash disbursement process to determine if established accounting procedures were being followed was not performed.
- The School District did not have a formal process for documenting agency funds sponsors, purpose of accounts, allowable activities of accounts, sources of funds, and final disposition of funds related to individual agency fund accounts.

Financial Reporting

- School activity account balances used for financial statements reporting did not agree with school activity general ledgers.
- Several school activity accounts were misclassified as governmental accounts instead of agency accounts.
- Several beginning fund balances reported on the consolidation worksheet used to record School Activity Accounts to the central office's general ledger did not agree to the prior year ending balances.

Cause:

These deficiencies were a result of management's failure to ensure internal controls were properly designed and functioning at the school level.

Effect:

Failure to maintain adequate internal controls over school activity accounts increases the risk misstatements could occur in the financial statements due to error or fraud.

Recommendation:

The School District should revise and implement internal controls to ensure proper separation of duties is established, accounting processes are adequately monitored, school activity accounts are properly classified, financial statement amounts are reconciled to general ledger balances, standard procedures are implemented over the depositing of funds, amounts reported in consolidation spreadsheet for school activity accounts is accurate, and agency fund accounts are properly documented.

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

EMPLOYEE COMPENSATION
Inadequate Internal Controls over Employee Compensation Process
Significant Deficiency
Finding Control Number: FS-7301-12-04

Condition:
This is a repeat finding (FS-7301-11-05, FS-7301-10-05, and FS-7301-09-08) from the years ended June 30, 2011, June 30, 2010, and June 30 2009, respectively. The accounting procedures of the School District were insufficient to provide for adequate internal controls over employee compensation.

Criteria:
The School District's management is responsible for designing and maintaining internal controls that provide reasonable assurance employees are paid according to approved salary schedules and documentation is maintained to support the salary payments.

Questioned Cost:
N/A

Information:
- A review of employee compensation revealed several instances where salaries were not properly approved, supported by signed contracts and/or Board approved salary schedules.
- During review of the Board minutes, it was noted that all employees should be furloughed. During employee compensation testing, it was noted that furloughs were not taken for all employees, resulting in an overpayment of $8,147.07.
- One employee's salary totaling $7,628.37 was excluded from the salary information reported to the Georgia Department of Audits and Accounts.
- A review of purchased professional and technical service expenditures revealed additional compensation paid to employees of the School District in the amount of $17,996.00 that did not flow though the normal business process for salaries as established by the School District.

Cause:
The School District's management did not implement appropriate procedures to ensure salary amounts are supported by adequate documentation.

Effect:
Failure to maintain adequate internal controls over Employee Compensation increases the risk misstatements could occur in the financial statements due to error or fraud.

Recommendation:
The School District should implement policies and procedures to ensure normal business procedures are followed for all salaries, which includes ensuring salaries are paid according to approved salary schedules and adequate documentation is maintained to support the salary payments.

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

CAPITAL ASSETS
Failure to Adequately Maintain Capital Assets
Material Weakness
Finding Control Number: FS-7301-12-05

Condition:
This is a repeat finding (FS-7301-11-06) from the year ended June 30, 2011. The School District failed to adequately maintain a capital assets listing.

Criteria:
The School District's management is responsible for designing and maintaining internal controls that provide reasonable assurance capital assets inventory records are properly maintained.

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

Questioned Cost:
N/A

Information:
A review of the School District's capital assets records revealed the following exceptions:

- During our physical inspection of inventory items, we identified items (1) not tagged, (2) not included on the asset listing, and (3) impaired or obsolete.
- The School District does not have policies and procedures in place to identify the possible impairments of assets. The auditor's prepared and the entity accepted an entry to correctly present impaired assets on the entity's financial statements.
- The School District has not conducted a proper annual physical inventory.
- A reconciliation of current year expense to fixed assets additions to identify unrecorded assets was not performed.
- The capital assets listing does not have adequate descriptions and/or inventory numbers assigned to assets.

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

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

Recommendation:
The School District's management should review the capital assets records and make appropriate adjustments to ensure the capital assets records conform to the School District's approved capital assets policy.

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

FINANCIAL REPORTING
Inadequate Controls over Financial Reporting
Significant Deficiency
Finding Control Number: FS-7301-12-06

Condition:
This is a repeat finding (FS-7301-11-07) from the year ended June 30, 2011. The School District did not have adequate controls in place to ensure that all required activity was included in the financial statement information presented for audit.

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

Questioned Cost:
N/A

Information:
The Governmental Accounting Standards Board (GASB) Statement 34 reporting model requires the presentation of both fund level and entity-wide level statements in the School District's financial statements. During the audit, numerous correcting entries were proposed by the auditors and accepted by the client to properly present the entity's fund level and entity-wide level financial statements, including note disclosures. In addition, the auditors identified numerous immaterial uncorrected misstatements which management determined that their effects were immaterial, both individually and in the aggregate, to the financial statements as a whole.

Cause:
The School District did not implement an adequate system of internal control over the financial reporting process.

Effect:
The School District did not have adequate controls in place to ensure the financial statements were properly prepared in accordance with generally accepted accounting principles.

Recommendation:
The School District should implement internal controls over the financial reporting process to ensure all required activity is included in the financial statement information.

III FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

CASH MANAGEMENT
Excessive Cash Balances
Significant Deficiency
U. S. Department of Education
Through Georgia Department of Education
Title I, Part A Cluster (CFDA 84.010 and 84.389)
Finding Control Number: FA-7301-12-01

Condition:
This is a repeat finding (FA-7301-11-02) from the year ended June 30, 2011. The School District made cash drawdowns that were in excess of immediate cash needs.

Criteria:
In accordance with 34 CFR 80.21, when funds are advanced, School Districts must follow procedures to minimize the time lapsing between the transfer of funds from the Georgia Department of Education and disbursement

Questioned Cost:
N/A

Information:
- The School District maintained excessive cash balances for eight months.
- A review of several cash drawn downs revealed the supporting documentation did not tie to the amounts drawn down.

Cause:
The School District did not accurately forecast the actual cash needs of the programs resulting in noncompliance with grant requirements.

Effect:
Failure to monitor the cash needs of the programs can result in material noncompliance with requirements of the Federal grants.

Recommendation:
The School District should implement procedures to accurately forecast the actual cash needs of the Title I programs and maintain supporting documentation for the cash draw downs. Management should implement procedures to minimize the time lapsing between the transfer of funds from the Georgia Department of Education and disbursement.

III FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

REPORTING
Failure to File Accurate Completion Reports
Material Weakness
Material Noncompliance
U. S. Department of Education
Through Georgia Department of Education
Title I, Part A Cluster (CFDA 84.010)
Finding Control Number: FA-7301-12-02

Condition:

This is a repeat finding (FA-7301-11-03) from the year ended June 30, 2011. The School District failed to file accurate completion reports for the Title I, Part A Cluster (CFDA 84.010).

Criteria:

In accordance with provisions of OMB Circular A-133, Part 3 Compliance Supplement, Subpart L – *Reporting*, states in part, "Each recipient must report program outlays and program income…as prescribed by the Federal awarding agency. The reporting requirements for sub recipients are as specified by the pass-through entity."

Chapter 41, *State and Federal Fiscal Rules and Procedures* of the Financial Management for Georgia Local Unit of Administration states, "This chapter sets forth the principal requirements that a School District must meet to account for and externally report its budget and financial operations relating to state and Federally-funded programs administered by the Georgia Department of Education."

Questioned Cost:

N/A

Information:

A review of the School District's accounting records revealed the following:

1. Actual Title I, Part A Cluster expenditures for the School Improvement grant period ending September 30, 2012, totaled $107,207.48 while expenditures were reported on the completion report as $81,385.00, resulting in a variance of $25,822.48.

2. Actual Title I, Part A Cluster expenditures for Improving the Academic Achievement of the Disadvantaged grant period ending September 30, 2012, totaled $551,119.50 while expenditures were reported on the completion reports as $523,028.92, resulting in a variance of $28,090.58.

Cause:

Management failed to implement procedures to ensure amounts on the completion reports agreed with actual expenditures.

III FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Effect:

Failure to accurately report Federal expenditures can result in inaccurate and incomplete disclosures for Federal grant reporting purposes and can result in excessive claims for reimbursement.

Recommendation:

Management should implement procedures to ensure completion reports, submitted to the Georgia Department of Education, (1) include all activity of the reporting period, (2) are supported by applicable accounting records and (3) are properly presented in accordance with program requirements.

SECTION V

MANAGEMENT'S RESPONSES

TALBOT COUNTY BOARD OF EDUCATION
SCHEDULE OF MANAGEMENT'S RESPONSES
YEAR ENDED JUNE 30, 2012

Finding Control Number: FS-7301-12-01

We concur with this finding. The Board will establish policies and procedures designed to ensure that the School District does not report a deficit balance in the future.

Finding Control Number: FS-7301-12-02

We concur with this finding. The Board will implement control over cash to ensure that cash is properly reconciled to general ledger and cash activities.

Finding Control Number: FS-7301-12-03

We concur with this finding. Management will ensure that transactions are processed according to procedures and accurately monitored and reconciled to the general ledger.

Finding Control Number: FS-7301-12-04

We concur with this finding. Management will implement policies and procedures to ensure that business procedures are followed for all salaries, ensuring that salaries are paid according to approved salary schedules and adequate documentation will be maintained to support the salary payments.

Finding Control Number: FS-7301-12-05

We concur with this finding. Management will implement procedures to ensure capital assets records conform to approved capital assets policy.

Finding Control Number: FS-7301-12-06

We concur with the finding. Management will monitor and ensure the financial statements are properly prepared in accordance with generally accepted accounting principles.

Finding Control Number: FA-7301-12-01

We concur with the finding. Management will implement procedures to accurately forecast the cash needs. Management will maintain supporting documentation for the draw downs and procedures to minimize lapsing time between transfers.

Finding Control Number: FA-7301-12-02

We concur with the finding. Management will implement procedures to ensure that accounting records for completion reports agree with actual expenditures.

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