



DISTRICT-WIDE FINANCIAL STATEMENTS

THE BOARD OF EDUCATION FOR THE CITY OF SAVANNAH
AND THE COUNTY OF CHATHAM, GEORGIA
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities
ASSETS	
Cash and investments	\$ 57,408,658
Receivables	56,287,012
Inventories	228,179
Other current assets	274,642
Note receivable	4,500,000
Restricted cash and investments	11,574,794
Capital assets:	
Land, improvements, and construction in progress	18,888,432
Other capital assets, net of accumulated depreciation	331,653,854
Total assets	<u>480,815,571</u>
LIABILITIES	
Accounts payable and contracts payable	3,543,468
Accrued interest	2,712,283
Unearned revenue	195,068
Salaries and benefits payable	44,104,531
Other liabilities	858,760
Payable from restricted assets - accounts and contracts payable	113,503
Noncurrent liabilities:	
Due within one year	16,915,546
Due in more than one year	131,813,029
Total liabilities	<u>200,256,188</u>
NET ASSETS	
Invested in capital assets, net of related debt	208,430,752
Restricted for:	
Capital projects	11,461,291
Debt service	4,049,781
Grant programs	4,665,839
Unrestricted	51,951,720
Total net assets	<u>\$ 280,559,383</u>

THE BOARD OF EDUCATION FOR THE CITY OF SAVANNAH
 AND THE COUNTY OF CHATHAM, GEORGIA
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2006

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (expense)</u> <u>revenue and</u> <u>changes in net</u> <u>assets</u>
		<u>Charges for</u> <u>Services</u>	<u>Operating</u> <u>Grants and</u> <u>Contributions</u>	<u>Capital</u> <u>Grants and</u> <u>Contributions</u>	<u>Total</u> <u>Governmental</u> <u>Activities</u>
Governmental activities:					
Instruction	\$ 195,656,892	\$ 298,662	\$ 118,279,259	\$ 2,913,926	\$ (74,165,045)
Support services:					
Pupil services	14,531,652	400,912	2,308,334	912	(11,821,494)
Instructional services	12,262,875	-	9,043,626	56,904	(3,162,345)
Educational media services	5,037,960	-	2,638,065	-	(2,399,895)
General administration	6,765,424	-	1,685,993	-	(5,079,431)
School administration	16,925,511	-	5,735,408	-	(11,190,103)
Business administration	2,757,252	-	42,583	-	(2,714,669)
Maintenance and operations	24,117,942	-	7,393,156	1,284	(16,723,502)
Pupil transportation	14,832,739	-	3,224,033	480,844	(11,127,862)
Central support services	4,451,437	-	2,917,214	7,704	(1,526,519)
Other support services	430,591	-	358,078	-	(72,513)
Food services	12,494,907	3,438,132	9,539,473	79,027	561,725
Interest on long-term debt	6,718,418	-	-	-	(6,718,418)
Total governmental activities	<u>\$ 316,983,600</u>	<u>\$ 4,137,706</u>	<u>\$ 163,165,222</u>	<u>\$ 3,540,601</u>	<u>(146,140,071)</u>
General revenues:					
Taxes:					
Property taxes, levied for general purposes					141,141,941
Property taxes, levied for debt service					14,353,983
Grants and contributions not restricted to specific programs					367,631
Unrestricted investment earnings					2,162,726
Miscellaneous					2,023,637
Total general revenues, special items, and transfers					<u>160,049,918</u>
Change in net assets					13,909,847
Net assets - beginning					266,649,536
Net assets - ending					<u>\$ 280,559,383</u>





FUND FINANCIAL STATEMENTS

THE BOARD OF EDUCATION FOR THE CITY OF SAVANNAH
AND THE COUNTY OF CHATHAM, GEORGIA
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2006

	<u>General Fund</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and investments	\$ 46,185,322	\$ -	\$ 8,270,000	\$ 54,455,322
Receivables	39,806,045	-	15,435,700	55,241,745
Due from other funds	3,754,913	-	-	3,754,913
Inventories	-	-	228,179	228,179
Other current assets	144,166	-	130,476	274,642
Restricted cash and investments	-	11,574,794	-	11,574,794
Notes receivable	-	4,500,000	-	4,500,000
Total assets	<u>\$ 89,890,446</u>	<u>\$ 16,074,794</u>	<u>\$ 24,064,355</u>	<u>\$ 130,029,595</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and contracts payable	\$ 2,019,102	\$ 81,216	\$ 1,435,957	\$ 3,536,275
Salaries and benefits payable	38,677,007	1,936	5,426,011	44,104,954
Due to other funds	-	-	3,754,913	3,754,913
Deferred revenue	11,313,671	4,500,000	1,398,034	17,211,705
Payable from restricted assets-				
Accounts and contracts payable	-	30,351	-	30,351
Total liabilities	<u>52,009,780</u>	<u>4,613,503</u>	<u>12,014,915</u>	<u>68,638,198</u>
Fund balances:				
Reserved for:				
Inventories	-	-	228,179	228,179
Debt service	-	-	5,197,484	5,197,484
Encumbrances	-	514,383	-	514,383
Unreserved:				
Designated for:				
Debt service (pooled lease program)	2,538,695	-	-	2,538,695
Next fiscal year, reported in:				
General fund	8,906,771	-	-	8,906,771
Capital projects funds	-	6,008,476	-	6,008,476
Special revenue funds	-	-	324,989	324,989
Undesignated, reported in:				
General fund	26,435,200	-	-	26,435,200
Capital projects funds	-	4,938,432	-	4,938,432
Special revenue funds	-	-	6,298,788	6,298,788
Total fund balances	<u>37,880,666</u>	<u>11,461,291</u>	<u>12,049,440</u>	<u>61,391,397</u>
Total liabilities and fund balances	<u>\$ 89,890,446</u>	<u>\$ 16,074,794</u>	<u>\$ 24,064,355</u>	<u>\$ 130,029,595</u>

THE BOARD OF EDUCATION FOR THE CITY OF SAVANNAH
AND THE COUNTY OF CHATHAM, GEORGIA
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2006

Total fund balance, governmental funds		\$ 61,391,397
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.		350,542,286
Other long-term assets are not available to pay for current period expenditures:		
Property taxes deferred in the funds	\$ 12,516,637	
Notes receivable deferred in the funds	4,500,000	
Interest receivable	<u>135,000</u>	17,151,637
The assets and liabilities of internal service funds are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets.		2,914,921
Some liabilities, (such as Notes Payable, Capital Lease Contract Payable, Long-term Compensated Absences, and Bonds Payable), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets. See the long-term debt note.		(148,728,575)
Interest payable on long-term obligations is not due and payable in the current period and is not included in the fund financial statements, but is included in the governmental activities of the Statement of Net Assets		(2,712,283)
Net Assets of Governmental Activities in the Statement of Net Assets		<u><u>\$ 280,559,383</u></u>

THE BOARD OF EDUCATION FOR THE CITY OF SAVANNAH
AND THE COUNTY OF CHATHAM, GEORGIA
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2006

	General Fund	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES				
Property taxes	\$ 140,671,006	\$ -	\$ 14,353,983	\$ 155,024,989
State sources	114,137,787	-	8,755,207	122,892,994
Federal sources	1,240,012	-	40,892,561	42,132,573
Charges for services	-	-	3,880,705	3,880,705
Local and other funds	3,545,366	825,659	2,506,475	6,877,500
Total revenues	<u>259,594,171</u>	<u>825,659</u>	<u>70,388,931</u>	<u>330,808,761</u>
EXPENDITURES				
Current:				
Instruction	155,659,519	-	28,235,854	183,895,373
Pupil services	12,370,285	-	2,050,609	14,420,894
Instructional services	3,628,414	-	8,433,417	12,061,831
Educational media services	4,932,484	-	33,269	4,965,753
General administration	4,447,215	-	1,647,241	6,094,456
School administration	16,598,948	-	192,935	16,791,883
Business administration	2,678,346	34,730	-	2,713,076
Maintenance and operations	22,937,375	294,578	312,685	23,544,638
Pupil transportation	12,237,499	-	255,999	12,493,498
Central support services	3,220,825	-	181,435	3,402,260
Other support services	-	-	359,078	359,078
Food service operations	-	-	12,267,760	12,267,760
Debt service:				
Principal	-	-	15,425,129	15,425,129
Interest and other charges	-	-	6,558,174	6,558,174
Capital outlay	1,885,614	1,382,436	3,041,336	6,309,386
Total expenditures	<u>240,596,524</u>	<u>1,711,744</u>	<u>78,994,921</u>	<u>321,303,189</u>
Excess (deficiency) of revenues over expenditures	<u>18,997,647</u>	<u>(886,085)</u>	<u>(8,605,990)</u>	<u>9,505,572</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	282,101	5,380,609	10,371,561	16,034,271
Transfers out	(16,817,170)	-	(282,101)	(17,099,271)
Capital leases	2,460,324	-	-	2,460,324
Total other financing sources (uses)	<u>(14,074,745)</u>	<u>5,380,609</u>	<u>10,089,460</u>	<u>1,395,324</u>
Net change in fund balances	4,922,902	4,494,524	1,483,470	10,900,896
Fund balances - beginning	32,957,764	6,966,767	10,565,970	50,490,501
Fund balances - ending	<u>\$ 37,880,666</u>	<u>\$ 11,461,291</u>	<u>\$ 12,049,440</u>	<u>\$ 61,391,397</u>

THE BOARD OF EDUCATION FOR THE CITY OF SAVANNAH
AND THE COUNTY OF CHATHAM, GEORGIA
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds: \$ 10,900,896

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

such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.

This is the amount by which capital outlays \$6,309,386 exceeded (were less than) depreciation \$14,935,578 in the current period. (8,626,192)

The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, donations) is to increase net assets. This is the amount of the net book value of the other asset dispositions. (159,909)

Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned:

Deferred property tax revenue	\$ 470,935	
Notes receivable and related interest	<u>(386,250)</u>	84,685

Governmental funds report debt proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of debt principal as an expenditure. In contrast, the statement of activities treats such repayments as a reduction in long-term liabilities. This is the amount by which payments exceeded proceeds. See long-term debt note. 12,964,805

In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds, an interest expenditure is reported when due. (162,213)

Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:

Compensated absences	(550,941)	
Amortization of deferred charge on refunding	(281,110)	
Amortization of bond issuance costs	(84,332)	
Amortization of bond premium	<u>367,412</u>	(548,971)

Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities. (543,254)

Change in net assets of governmental activities \$ 13,909,847

THE BOARD OF EDUCATION FOR THE CITY OF SAVANNAH
AND THE COUNTY OF CHATHAM, GEORGIA
PROPRIETARY FUNDS
STATEMENT OF FUND NET ASSETS
JUNE 30, 2006

	Governmental Activities- Internal Service Funds
ASSETS	
Current assets:	
Cash and investments	\$ 2,953,336
Other receivables	<u>910,267</u>
Total assets	<u><u>3,863,603</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable	88,655
Other liabilities	<u>860,027</u>
Total liabilities	<u><u>948,682</u></u>
NET ASSETS	
Unrestricted	<u>2,914,921</u>
Total net assets	<u><u>\$ 2,914,921</u></u>

THE BOARD OF EDUCATION FOR THE CITY OF SAVANNAH
AND THE COUNTY OF CHATHAM, GEORGIA
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2006

	Governmental Activities- Internal Service Funds
OPERATING REVENUES	
Risk management fees	\$ 614,565
Total operating revenues	<u>614,565</u>
OPERATING EXPENSES	
Risk management	<u>2,336,382</u>
Total operating expenses	<u>2,336,382</u>
Operating income (loss)	<u>(1,721,817)</u>
NON-OPERATING REVENUES	
Interest and investment revenue	<u>113,563</u>
Income (loss) before transfers	(1,608,254)
Transfers in	<u>1,065,000</u>
Change in net assets	(543,254)
Total net assets - beginning	<u>3,458,175</u>
Total net assets - ending	<u>\$ 2,914,921</u>

THE BOARD OF EDUCATION FOR THE CITY OF SAVANNAH
 AND THE COUNTY OF CHATHAM, GEORGIA
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2006

	Governmental Activities- Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received for services and fees	\$ 614,565
Cash paid for supplies and insurance	<u>(2,262,059)</u>
Net cash provided by (used in) operating activities	<u>(1,647,494)</u>
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers in	<u>1,065,000</u>
Net cash provided by (used in) noncapital financing activities	<u>1,065,000</u>
CASH FLOW FROM INVESTING ACTIVITIES	
Investment income	<u>113,563</u>
Net cash provided by (used in) investing activities	<u>113,563</u>
Increase (decrease) in cash and cash equivalents	(468,931)
Cash and cash equivalents, beginning of year	<u>3,422,267</u>
Cash and cash equivalents, end of year	<u>\$ 2,953,336</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income (loss)	\$ (1,721,817)
Increase (decrease) in accounts payable	14,899
Increase (decrease) in other liabilities	<u>59,424</u>
Net cash provided by (used in) operating activities	<u>\$ (1,647,494)</u>

THE BOARD OF EDUCATION FOR THE CITY OF SAVANNAH
AND THE COUNTY OF CHATHAM, GEORGIA
AGENCY FUNDS
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2006

	<u>Agency Funds</u>
ASSETS	
Cash and investments	\$ 894,600
Total assets	<u>\$ 894,600</u>
LIABILITIES	
Due to student groups	\$ 883,827
Other liabilities	10,773
Total liabilities	<u>\$ 894,600</u>



THE BOARD OF EDUCATION FOR
THE CITY OF SAVANNAH AND THE COUNTY
OF CHATHAM, GEORGIA

NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006

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I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Board of Public Education for the City of Savannah and the County of Chatham, Georgia (the "district") operates under a Board-Superintendent form of government and provides public educational services to the citizenry of the City of Savannah and the County of Chatham, Georgia. The district receives funding from local, state, and federal government sources and must comply with the accompanying requirements of these funding source entities.

The district's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Government Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the district are discussed below.

A. Reporting Entity

Generally accepted accounting principles defines the reporting entity for determining which potential component units should be included in a primary government's financial statements. Inclusion is based on financial accountability or the fact that exclusion would make the financial statements misleading or incomplete. The criteria for determining financial accountability includes appointing a voting majority of an organization's governing body and (1) the ability of the district to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the district.

Using the above criteria the district has no component units.

The district is a primary government since it meets the following criteria:

- a. It has a separately elected governing body.
- b. It is legally separate.
- c. It is fiscally independent of other state and local governments.

Since the district is a primary government, it is not a component unit of any other governmental reporting entity.

B. Basic Financial Statements

The district's basic financial statements include both district-wide (reporting the district as a whole) and fund financial statements (reporting the district's major funds). Both the district-wide and fund financial statements categorize its primary activities as governmental. Those activities (functions) are instruction, pupil services, instructional services, educational media services, general administration, business administration, school administration, pupil transportation, maintenance and operations, central support services, other support services, food service operations and interest on long-term debt.

1. District-wide Financial Statements

In the district-wide Statement of Net Assets, the governmental activity column (a) is presented on a consolidated basis (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The district's net assets are reported in three parts—invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The district first utilizes restricted resources to finance qualifying activities.

The district-wide Statement of Activities reports both the gross and net cost of each of the district's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, unrestricted investment earnings, and other revenues). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues that are directly associated with the function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

The district does not allocate indirect cost to functions in the statement of activities.

This district-wide focus is more on the sustainability of the district as an entity and the change in the district's net assets resulting from the current year's activities.

2. Fund Financial Statements

The financial transactions of the district are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, fund equity, revenues and expenditure/expenses. The various funds are reported by generic classification within the financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. The emphasis in fund financial statements is on the major funds in the governmental fund category.

The district reports the following major governmental funds:

- General Fund
- Capital Projects Fund

The district uses the following fund types:

a. Governmental Funds:

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses and balances of financial resources) rather than upon net income.

The following is a description of the governmental funds of the district:

- i. **The General fund** is the general operating fund of the district. It is used to account for all financial resources except those required to be accounted for in another fund.
- ii. **Special Revenue funds** are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.
- iii. **The Debt Service fund** is used to account for the accumulation of funds for the periodic payment of principal and interest on general long-term debt.
- iv. **The Capital Project fund** is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by business-type/proprietary funds). The Capital Projects fund accounts for grants and bond proceeds restricted to the renovation and construction of schools.

b. Proprietary Funds:

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The following is a description of the proprietary funds of the district:

Internal service funds are used to account for the financing of risk management services such as: self-insured risk pool, worker's compensation, and unemployment compensation that are charged to other departments or funds of the district on a cost-reimbursement basis. The principal users of the internal services are the district's governmental activities. The financial statement of the internal service fund is consolidated into the governmental column when presented in the district-wide financial statements. The cost of these services is reported in the appropriate functional activity, as disclosed at Note III.D.

c. Fiduciary Funds:

Fiduciary Funds are used to report assets held in an agency capacity for others, are not available to support district programs, and do not involve measurement of results of operations. The district has two fiduciary (agency) funds. The Flex-one fund accounts for employee withholdings for dependent care under section 125 of the IRS code and the Student Activity fund accounts for various student activities.

The district's fiduciary funds are presented in the fiduciary fund financial statements by type (agency). Since by definition these assets are being held for the benefit of third parties and cannot be used to address activities or obligations of the government, these funds are not incorporated into the district-wide statements.

C. Measurement Focus and Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures /expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied. The measurement focus relates to the types of transactions reported. The district-wide financial statements and the proprietary (internal service) fund are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities (whether current or non-current) are included on the statement of net assets. Governmental funds financial statements are accounted for on a flow of current financial resources measurement focus. With this measurement focus, generally only current assets and current liabilities are reported.

1. Accrual:

Governmental activities in the district-wide financial statements, the proprietary (internal service) fund financial statements, and the fiduciary (agency) fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

2. Modified Accrual:

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year end. Revenues considered susceptible to accrual are property taxes, intergovernmental revenues, and investment income. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt are recognized when due.

D. Assets, Liabilities and Equity

1. Deposits and Investments:

The district maintains a cash and investment pool that is available for all funds. Each fund's portion of this pool is displayed as "Cash & Investments." For purposes of the statement of cash flows, the district considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Official Code of Georgia Annotated (OCGA) Section 45-8-12 provides that there shall not be on deposit at any time in any depository for a time longer than ten days a sum of money which has not been secured by a surety bond, by guarantee of insurance, or by collateral. The aggregate of the face value of such surety bond and the market value of securities pledged shall be equal to not less than 110 percent of the public funds being secured after the deduction of the amount of deposit insurance. If a depository elects the pooled method (OCGA 45-8-13.1) the aggregate of the market value of the securities pledged to secure a pool of public funds shall be not less than 110 percent of the daily pool balance. OCGA Section 45-8-11(b) provides an officer

THE BOARD OF EDUCATION FOR
THE CITY OF SAVANNAH AND THE COUNTY
OF CHATHAM, GEORGIA

NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006

holding public funds may, in his discretion, waive the requirement for security in the case of operating funds placed in the demand deposit checking accounts.

The district has no custodial credit risk policy that would require additional collateral requirements.

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair values. Interest income on investments is accrued as earned.

The district is authorized by state statutes to invest in the obligations of the U.S. Treasury, agencies and instrumentalities, repurchase agreements, bank certificates of deposit, and the Georgia Fund 1 administered by the State of Georgia. Georgia Fund 1 was created under OCGA 36-83-8 and operates in a manner consistent with Rule 2a-7 of the Investment Company Act of 1940 and is considered to be a 2a-7 like pool. The pool is not registered with Securities Exchange Commission as an investment company. The fair value of the district's position in the pool is the same as the value of pool shares (\$1 per share value).

2. Receivables:

In the fund financial statements, material receivables in governmental funds include revenue accruals such as property taxes, grants and other similar intergovernmental revenues since they are usually both measurable and available. Non-exchange transactions collectible but not available are deferred in the fund financial statements in accordance with the modified accrual basis, but not deferred in the district-wide financial statements in accordance with the accrual basis. Accounts receivable comprise the majority of proprietary fund receivables. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

3. Inventory:

Inventories are stated at cost (principally first-in, first-out), which is not in excess of market. The district utilizes the consumption method to recognize inventory usage.

Under the consumption method, inventories are recorded as expenditures when used rather than when purchased. Reported inventories are equally offset by a reservation of fund balance, which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

The United States Department of Agriculture (USDA) commodity portion of the food services inventory consists of food donated by the USDA. It is valued at estimated market prices by the USDA. The amount of commodities on hand at year-end is reflected as deferred revenue.

4. Restricted Assets:

Restricted Assets represent amounts related to bond proceeds and tax levies whose use is limited to capital projects by applicable bond covenants or district action.

5. Capital Assets:

The accounting treatment over Capital Assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the district-wide or fund financial statements.

District-wide Statements

Capital assets, which include land, building, building improvements and equipment, are reported in the applicable governmental activities columns in the district-wide financial statements. Capital Assets are recorded at historical cost or estimated historical cost if purchased or constructed. The capitalization threshold is a unit cost of \$1,000 or more. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings and Improvements	20-50 years
Equipment	3-10 years

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in district-wide statements.

6. Long-term Debt:

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the district-wide or fund financial statements.

Long-term debt to be repaid from governmental resources is reported as a liability in the district-wide statements. The long-term debt consists primarily of general obligation bonds, contractual obligations, capital leases and accrued compensated absences. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using a straight-line method.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements. The face amount of the debt issued and premiums on the debt issuances are reported as other financing sources. Payment of principal and interest and issuance costs, whether or not withheld from the actual debt proceeds are reported as debt service expenditures.

7. Equity Classifications:

District-wide Statements

Equity is classified as net assets and displayed in three components:

- a. **Invested in capital assets, net of related debt-** Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. **Restricted net assets-** Consist of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. **Unrestricted net assets-** All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Fund balance designations are established to indicate tentative plans for financial resource utilization in a future period.

Proprietary fund equity is classified the same as in the district-wide statements.

E. Revenues, Expenditures, and Expenses

1. Operating Revenues and Expenses:

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the district's internal service funds are charges to funds for risk management services. The district's operating expenses for internal service funds include risk management expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

2. Expenditures/Expenses:

In the district-wide financial statements, expenses are classified by function for governmental activities.

In the fund financial statements, expenditures are classified as follows:

Governmental Funds - By Character: Current (further classified by function), Debt Service, and Capital Outlay.

Proprietary Fund - By Operating and Non-Operating

In the fund financial statements, governmental funds report expenditures of current financial resources. Proprietary funds report expenses relating to use of economic resources.

3. Interfund Activity and Internal Balances:

Interfund activities are reflected as either loans, services provided, reimbursement or transfers. Loans are reported as receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses and are eliminated from the statement of activities to remove the "doubling-up" effect of the activity. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. Permanent reallocation of resources between funds is classified as interfund transfers.

In the process of aggregating data for the statement of net assets and the statement of activities certain amounts reported as interfund activity and balances in the funds are eliminated or reclassified in the district-wide financial statements.

Exceptions to this general rule are charges between the districts internal service functions and other district functions. The amounts charged are reasonably equivalent in value to the services provided. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. See Note I.B.2.b for additional information on Internal Service Funds.

4. Compensated Absences:

Eligible district employees earn annual vacation based on length of service, to a maximum of 22 days after 20 years of service. Sick leave accrues based upon the following provisions:

- 1) All employees earn one and one-quarter days of sick leave with full pay each month.
- 2) Sick leave is cumulative up to one hundred twenty days.
- 3) Upon retirement or termination of employment with five or more years of service in the school system and at least thirty full days of unused sick leave, employees are paid a portion of their accumulated sick leave as severance pay based on a formula approved by the district.

All compensated absences and related benefits are accrued when incurred in the district-wide financial statements. A liability for these amounts is reported in

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governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

5. Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that may affect the amounts reported in the financial statements and the related notes. Accordingly, actual results could differ from these estimates.

F. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General, Special, and Debt Service Funds. Appropriations for capital projects are adopted by the district principally on an individual project basis, when the project is initially approved. All appropriations, both encumbered and unencumbered, lapse at June 30, except encumbrances in the Capital Projects Fund, which are continuing. The level of legal budgetary control (the level at which expenditures may not exceed appropriations) is at the fund level.

II. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

A. Deposits and Investments

Summary of the districts deposits and investments at June 30, 2006 is as follows:

Account Balances		Ownership of Funds	
Petty Cash/cash on hand	\$ 61,825	Governmental Funds:	
Demand Deposits	32,939,997	Cash and investments	\$ 54,455,322
Money Market Funds	19,244,640	Restricted cash and investments	11,574,794
Certificates of Deposit	600,000	Internal Service Funds	2,953,336
Investments	17,031,590	Agency Funds	894,600
	<u>\$ 69,878,052</u>		<u>\$ 69,878,052</u>

As of June 30, 2006, the district had the following investments:

Investment	Maturities	Fair Value
Georgia Fund I (investment pool)	24 day average	\$ 10,051,790
Federal Home Loan Bank System	July 7, 2006	4,998,000 *
Federal Home Loan Bank System	November 24, 2006	1,981,800 *
		<u>\$ 17,031,590</u>

* Debt securities are callable

Interest rate risk is the risk that changes in interest rates will adversely affect the value of an investment. The district's policy is to minimize interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity; and investing operating funds primarily in shorter-term securities, money market funds or similar investment pools and limiting the average maturity of the portfolio.

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Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The district minimizes credit risk by limiting the types of securities to those listed in Note 1.D.1, pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the district does business, and diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. As of June 30, 2006, the district's investment in Georgia Fund I (investment pool) was rated AAAM by Standards & Poor's. The district's investments in Federal Home Loan Bank System were rated AAA by Moody's Investors Service and the Standards and Poor's.

Concentration of credit risk is the risk of loss attributed to the magnitude of the district's investment in a single issuer. The district's policy allows 100% of its portfolio to be invested in U.S Treasury Obligations, Obligations of the U.S. Government agencies, or the State sponsored local government investment pool. The district limits its investment portfolio to 50% for investments in Repurchase Agreements collateralized by U.S. Government Securities, Certificates of Deposit and Money Market Mutual funds. No more than the greater of \$10 million or 25% of the total portfolio for Certificates of Deposit may be placed with any one financial institution and 100% of the investments in Repurchase Agreements may be placed with any one financial institution. Investments in the Federal Home Loan Bank System are 41% of the district's total investments. The Georgia Fund I (investment pool) investments are excluded from concentration of credit risk.

B. Receivables

Receivables as of year end for the district's individual major funds and nonmajor, and internal service in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General	Nonmajor Governmental	Internal Service Funds	Total
Receivables:				
Taxes	\$ 12,721,542	\$ 1,397,064	\$ -	\$ 14,118,606
Interest	84,917	-	-	84,917
Accounts	1,567,705	13,028,635	-	14,596,340
Intergovernmental	25,594,689	1,033,551	910,267	27,538,507
	<u>39,968,853</u>	<u>15,459,250</u>	<u>910,267</u>	<u>56,338,370</u>
Less: allowance for uncollectibles	(162,808)	(23,550)	-	(186,358)
Net total receivables	<u>\$ 39,806,045</u>	<u>\$ 15,435,700</u>	<u>\$ 910,267</u>	<u>\$ 56,152,012</u>

Receivables from taxes not expected to be collected within the subsequent fiscal year approximate \$1.9 million in General Fund and \$0.2 million in non-major governmental funds. Notes receivable not expected to be collected within the subsequent fiscal year approximates \$3.8 million.

In the General fund, significant components of intergovernmental receivables include \$16,011,762 from the State of Georgia for Quality Basic Education (QBE) formula grants and \$9,582,927 from the Chatham County Tax Commissioner. The non-major (debt

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service fund) intergovernmental receivable of \$1,033,551 is due from the Chatham County Tax Commissioner.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
Property tax receivable (General fund)	\$ 11,195,221	\$ -
Property tax receivable (Other governmental funds)	1,321,416	-
Lost & Damaged textbook deposits (General Fund)	-	118,450
Donated USDA commodities not yet consumed (Other governmental funds)	-	76,618
Note receivable (Capital Project fund)	<u>4,500,000</u>	<u>-</u>
Total deferred/unearned revenue for governmental funds	<u>\$ 17,016,637</u>	<u>\$ 195,068</u>

Grants and other receivables (reported in General and Non-major governmental funds) primarily represent funds due the district for reimbursement of expenditures/expenses incurred as of year-end under grant terms.

The note receivable, which bears 3 percent annual interest and annual principal payments of \$375,000 through the year 2017, represents the balance on the 1998 sale of Wilder Middle School property.

C. Property Taxes

Chatham County bills and collects property taxes for the Board of Education. Property taxes are levied (assessed) on all taxable real, public utility and personal property (including vehicles) located within the County as of January 1st of each year. Assessed values for property tax purposes are determined by the Chatham County Board of Tax Assessors for all property except public utilities and motor vehicles. Assessed value is set at 40% of market value. Public utility assessed values are established by the State of Georgia.

Property is appraised and a lien on such property becomes enforceable 60 days after final notification on delinquency of property taxes. Taxes are due and payable when billed by the Chatham County Tax Commissioner. Chatham County may place liens on property once the related tax payments become delinquent.

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The property tax calendar is as follows:

<u>Event</u>	<u>Date</u>
Beginning of fiscal year for taxes	January 1, 2006
Vehicle personal property tax bills rendered	January 1, 2006
First installment real property tax bills rendered (based on prior year tax digest)	April 1, 2006
Delinquency date - vehicle personal property taxes	Taxpayer's birthday
First installment real property tax payment due date	June 1, 2006
Millage rate approved	June 29, 2006
Second installment real property tax bills and personal property tax bills rendered	September 15, 2006
Second installment real property tax and personal property tax payments due date	November 15, 2006
Tax sales - delinquent real property taxes and other assessments	Various

D. Capital Assets

	<u>Balance July 1, 2005</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2006</u>
Capital assets, not being depreciated:				
Land	\$ 17,784,106	\$ 100,000	\$ -	\$ 17,884,106
Construction in progress	986,038	1,382,436	(1,364,148)	1,004,326
Total capital assets, not being depreciated	<u>18,770,144</u>	<u>1,482,436</u>	<u>(1,364,148)</u>	<u>18,888,432</u>
Capital assets, being depreciated:				
Buildings and improvements	393,999,167	1,077,095	-	395,076,262
Equipment	78,015,267	5,114,004	(6,325,270)	76,804,001
Total capital assets, being depreciated	<u>472,014,434</u>	<u>6,191,099</u>	<u>(6,325,270)</u>	<u>471,880,263</u>
Less accumulated depreciation for:				
Buildings and improvements	(74,327,943)	(8,032,327)	-	(82,360,270)
Equipment	(57,128,249)	(6,903,251)	6,165,361	(57,866,139)
Total accumulated depreciation	<u>(131,456,192)</u>	<u>(14,935,578)</u>	<u>6,165,361</u>	<u>(140,226,409)</u>
Total capital asset, being depreciated, net	<u>340,558,242</u>	<u>(8,744,479)</u>	<u>(159,909)</u>	<u>331,653,854</u>
Governmental activities capital assets, net	<u>\$ 359,328,386</u>	<u>\$ (7,262,043)</u>	<u>\$ (1,524,057)</u>	<u>\$ 350,542,286</u>

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Depreciation expense was charged to functions/activities of the primary government as follows:

Governmental activities:	
Instruction	\$ 9,993,913
Pupil services	27,719
Institutional services	130,708
Educational media services	43,748
General administration	639,357
School administration	36,983
Business administration	30,485
Maintenance and operations	439,314
Pupil transportation	2,339,241
Central support services	1,098,851
Food service operations	<u>155,259</u>
Total Depreciation expense - governmental activities	<u>\$ 14,935,578</u>

E. Capital Leases

The district has entered into several capital lease agreements as lessee for financing the acquisition of buses and certain other equipment. Principal and interest payments under capital leases having remaining terms in excess of one year as of June 30, 2006 are as follows:

	Fiscal Year Ending June 30,	Capital Leases
	2007	\$ 2,779,266
	2008	2,433,417
	2009	1,957,850
	2010	1,287,056
	2011	1,229,528
	2012-2013	<u>1,140,624</u>
Total minimum lease payments		10,827,741
Less: amount representing interest		<u>(1,178,326)</u>
Present value of future minimum lease payments		<u>\$ 9,649,415</u>

The following schedule shows the book value of these assets.

	Capital Assets Under Capital Leases
Equipment	\$ 16,569,774
Less: accumulated depreciation	<u>(7,048,923)</u>
Total	<u>\$ 9,520,851</u>

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F. Long-term Debt

The following schedule summarizes the district's long-term debt issues, including interest rates, original debt, and balance at year end.

	Interest Rates	Original Debt	Balance June 30, 2006
General Obligation Bonds:			
Series 1997	4.5% - 5.0%	\$ 7,380,000	\$ 3,150,000
Refunded Series 1998A	3.0% - 4.4%	24,025,000	13,935,000
Refunded Series 1998B	3.0% - 5.0%	25,990,000	15,750,000
Refunded Series 2002	2.5% - 5.25%	39,950,000	39,600,000
Refunded Series 2004	5.0% - 5.25%	45,525,000	43,650,000
Total General Obligation Bonds		<u>142,870,000</u>	<u>116,085,000</u>
Contractual Obligations:			
Series 1997	variable (1)	11,150,000	7,430,000
Refunding Series 2002	2.2% - 3.25%	12,110,000	7,810,000
Total Contractual Obligations		<u>23,260,000</u>	<u>15,240,000</u>
Capital leases:			
GMA Lease Supplement L	variable (2)	1,396,661	418,999
GMA Lease Supplement M	variable (2)	2,382,413	1,058,850
GMA Lease Supplement N	variable (2)	1,240,437	1,089,164
GMA Lease Supplement O	variable (2)	693,119	639,802
GMA Lease Supplement 300-3	variable (2)	2,387,201	341,027
GMA Lease Supplement 300-5	variable (2)	1,194,083	341,168
GMA Lease Supplement 300-6	variable (2)	2,869,324	2,049,517
GMA Lease Supplement 300-7	variable (2)	1,239,000	743,400
GMA Lease Supplement 300-8	variable (2)	1,474,032	1,200,283
GMA Lease Supplement 300-9	variable (2)	1,767,205	1,767,205
Total Capital leases		<u>16,643,475</u>	<u>9,649,415</u>
Total Debt Issues		<u>\$ 182,773,475</u>	<u>\$ 140,974,415</u>

Interest rate note (1) - weekly interest rate determined by remarketing agent

Interest rate note (2) - interest rate based on current market rate

The general obligation bonds and contractual obligations were issued for the construction and major renovation of the district's facilities.

In prior years the district defeased certain general obligation bonds and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the district's basic financial statements. At June 30, 2006, \$23,025,000 of bonds are outstanding and are considered defeased.

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Requirements to Maturity - General Obligation Debt

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 8,790,000	\$ 5,322,243
2008	9,380,000	4,924,764
2009	10,030,000	4,508,111
2010	10,655,000	4,054,001
2011	11,375,000	3,551,717
2012-2016	33,250,000	12,783,311
2017-2021	<u>32,605,000</u>	<u>3,389,663</u>
Total	<u>\$ 116,085,000</u>	<u>\$ 38,533,810</u>

Requirements to Maturity - Contractual Obligations

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 5,200,000	\$ 417,883
2008	5,235,000	286,816
2009	1,555,000	124,584
2010	1,600,000	78,025
2011	<u>1,650,000</u>	<u>26,812</u>
Total	<u>\$ 15,240,000</u>	<u>\$ 934,120</u>

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Changes in Long-term Debt

	Balance July 1, 2005	Additions	Retirements	Balance June 30, 2006	Due Within One Year
General Obligation Bonds	\$ 124,350,000	\$ -	\$ 8,265,000	\$ 116,085,000	\$ 8,790,000
Contractual Obligations	20,415,000	-	5,175,000	15,240,000	5,200,000
Capital leases payable	9,174,219	2,460,324	1,985,128	9,649,415	2,365,796
Compensated Absences	6,066,100	3,303,308	2,752,367	6,617,041	559,750
Sub total	160,005,319	5,763,632	18,177,495	147,591,456	16,915,546
Deferred Amounts:					
Deferred charges on refunding	(2,765,660)	-	(281,110)	(2,484,550)	-
Bond issuance costs	(913,580)	-	(84,332)	(829,248)	-
Bond premium	4,818,329	-	367,412	4,450,917	-
Total	<u>\$ 161,144,408</u>	<u>\$ 5,763,632</u>	<u>\$ 18,179,465</u>	<u>\$ 148,728,575</u>	<u>\$ 16,915,546</u>

In prior years, compensated absences have been typically liquidated with General Fund resources.

G. Interfund Receivables, Payables and Transfers

The composition of interfund balances as of June 30, 2006, is as follows:

Due to / from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Other governmental	<u>\$ 3,754,913</u>
Total due to / from other funds		<u>\$ 3,754,913</u>

These balances represent loans between the borrower fund and the lender fund. These balances resulted from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made. Interfund receivables and payables are reported in the fund financial statements. However, they are eliminated in the district-wide financial statements if the interfund loan is between governmental funds. Interfund receivables and payables are expected to be repaid within one year.

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Transfer out:	Transfer In:				Total
	General Fund	Capital Projects Fund	Non-major Governmental	Internal Service	
General Fund	\$ -	\$ 5,380,609	\$ 10,371,561	\$ 1,065,000	\$ 16,817,170
Nonmajor governmental funds	282,101	-	-	-	282,101
Total transfers out	<u>\$ 282,101</u>	<u>\$ 5,380,609</u>	<u>\$ 10,371,561</u>	<u>\$ 1,065,000</u>	<u>\$ 17,099,271</u>

Interfund transfers are used to 1) move revenues from the fund that statute or budget requires collecting them to the fund that statute or budget requires to expend them, 2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and 3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Transfers of this type are recorded as other financing uses and other financing sources in the governmental funds financial statements. However, they are eliminated in the district-wide financial statements if the interfund transfer is within the governmental fund group.

III. OTHER NOTES

A. Other Postretirement Benefits

The district provides certain postretirement health care and life insurance for retired employees through the Teachers Retirement System of Georgia. The cost of providing such benefits to the district's retirees is not separable from the cost of providing benefits to all retirees covered by Teachers Retirement System.

B. Retirement Plans

Teachers' Retirement System

Plan Description. The district contributes to the Teachers' Retirement System of Georgia (TRS), a cost-sharing multiple-employer defined benefit pension plan administered by the TRS Board of Trustees. TRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Title 47, Chapter 3 of the Official Code of Georgia Annotated, assigns the authority to establish and amend benefit provisions to the TRS Board of Trustees. The TRS Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for TRS. That report may be obtained by writing to TRS of Georgia, Two Northside 75, Suite 400, Atlanta GA 30331, or by calling 1-800-352-0650.

Funding Policy. Plan members are required to contribute 5% of their annual covered salary and the district is required to contribute at an actuarially determined rate. The current rate is 9.24% of annual covered payroll. The contribution requirements of plan members and the district are established and may be amended by the TRS Board of Trustees. The district's contributions to TRS for the years ended June 30, 2006, 2005 and 2004 were \$14,965,189, \$14,532,366, and \$14,032,234, respectively, equal to the required contributions for each year.

Employees' Retirement System

Bus drivers, lunchroom personnel, and maintenance and custodial personnel are covered by the Public Employees' Retirement System of Georgia (ERS), a defined contribution plan. The district is not legally required and did not contribute to ERS, which is fully funded by the State and by employee contributions. The State contribution to the school system was \$21,987, which represents 0.23% of covered payroll. The employees made the required contribution of \$19,128, which is statutorily determined at \$4 per employee per month. The contribution represented 0.20% of covered payroll.

All full-time bus drivers, lunchroom personnel, and maintenance and custodial personnel are covered and must participate in ERS as mandated by the State. Under the pension plan, benefits vest after 10 years of full-time employment. An employee with 10 years of service may retire at age 65 and receive full retirement benefits. Employees covered by the pension plan must contribute a fixed monthly amount to the pension plan. The State is required to make actuarially determined contributions that maintain the financial integrity of the retirement system. See Note III.E. for information related to the recognition of revenues and expenditures during the period.

The district's total fiscal year 2006 payroll for all of its employees was \$187,627,482. The amount of its fiscal year 2006 payroll covered by the pension plan was \$9,597,791.

C. Contingencies and Commitments

The district is involved in a number of legal matters, which either have or could result in litigation. In the opinion of district management after consultation with legal counsel, the ultimate outcome of these contingencies will not have a material impact on the financial position of the district.

The district participates in a number of Federal financial assistance programs including the National School Lunch Program and the School Breakfast Program, the Title VIB Special Education, and the Title I Part A Improving the Academic Achievement of the Disadvantaged Program, Title II Part A Improving Teacher Quality, the Assistance for Education of All Children with Disabilities Program. Although the district's grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through June 30, 2006, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the district expects such amounts, if any, to be immaterial.

The district is committed under outstanding construction contracts in the Capital Projects fund in the amount of \$514,383. Construction contracts include new school construction and expansion or renovation of existing facilities. These commitments are included in the Capital Projects fund reserve for encumbrances at June 30, 2006.

D. Risk Management

The district is exposed to various risks of loss for claims associated with torts, theft of, damage to and destruction of assets, errors and omissions, injuries to employees, natural disasters and unemployment compensation.

There were no significant reductions in insurance coverage from coverage in the prior year. Settled claims have not exceeded the commercial excess coverage in any of the past three fiscal years.

Self Insurance

The district is self-insured for the risks associated with unemployment compensation and workers compensation. The district has established a separate fund for accounting for workers compensation risk financing. A contribution to the fund is calculated on the basis of .25% of each salary dollar. Liabilities of this fund are reported when it is probable a loss has occurred and the amounts can be reasonably estimated including amounts for claims incurred but not yet reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claims liability estimate. An excess coverage insurance policy covers individual claims up to statutory limits.

The district also self-insures unemployment claims. These liabilities were immaterial at June 30, 2006.

Changes in the balances of claims liabilities for the workers' compensation fund during fiscal years 2004, 2005 and 2006 were as follows:

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability</u>	<u>Claims and Changes in Current Year Liability</u>	<u>Claim Payments</u>	<u>Balance at Fiscal Year End</u>
2004	\$ 750,818	\$ 910,530	\$ 852,159	\$ 809,189
2005	809,189	875,196	926,688	757,697
2006	757,697	1,203,015	1,137,952	822,760

The fiscal year-end liability is calculated by a third party administrator considering the effects of inflation and recent claim settlement trends including frequency and amount of pay-outs as previously described.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006

Risk Pool

The district has elected to be a member of the Georgia School Boards Association Risk Management Fund (GSBA-RMF), an interlocal risk management agency created under Georgia law. Coverage for losses arising from certain liability and property risks to the district is provided through a group self-insurance plan. For accounting purposes, this plan is considered to be a Risk Transfer Pool. Under this plan, the district is responsible for the first \$25,000 of each property loss, the first \$1,000 of auto physical damage loss and for the first \$10,000 of each school leader's liability claim. The plan assumes certain risks of the district in excess of the stated retentions up to certain customary coverage limits. The district is required to make a financial contribution to the plan each year in an amount that is determined on the basis of actuarial projections of losses.

Management of GSBA-RMF has informed the district it had maximum outstanding liability of \$36,000 within the loss retentions stated in the preceding paragraph.

Management of GSBA-RMF has also informed the district that there is a possibility of additional contribution liability in the event that the plan is terminated or the district elects to withdraw prematurely. No amount has been recorded in the financial statements due to the belief that plan termination is unlikely and withdrawal by the district is not contemplated.

Changes in the balances of claims liabilities for the risk pool fund during fiscal years 2004, 2005 and 2006 were as follows:

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability</u>	<u>Claims and Changes in Current Year Liability</u>	<u>Claim Payments</u>	<u>Balance at Fiscal Year End</u>
2004	\$ 10,167	\$ 19,833	\$ -	\$ 30,000
2005	30,000	11,800	-	41,800
2006	41,800	-	5,800	36,000

Risk Transfer

The district transfers the risk from all other risks through the use of commercially purchased insurance.

E. On-Behalf Payments

The district has recognized revenues and expenditures in the amount of \$3,922,695 for health insurance and retirement contributions paid on the district's behalf by the following State Agencies.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006

	<u>Amount</u>
Georgia Department of Education	
Paid to Georgia Department of Community Health For Health Insurance of Non-certified Personnel	\$ 3,827,869
Paid to the Teachers Retirement System of Georgia (TRS) For the TRS Employer's Cost	\$ 72,839
Office of Treasury and Fiscal Services	
Paid to the Public School Employees Retirement System (ERS) For the ERS Employer's Cost	\$ 21,987

F. Subsequent Events

On September 19, 2006 the voters of Chatham County voted to approve an Educational Special Local Option Sales Tax (ESPLOST). This 1% sales tax is projected to raise up to \$360,000,000 over the next five years. The district will use these funds to build three new schools, replace five existing schools and other District properties, and to pay principal and interest on previously incurred general obligation debt. In addition, the district is authorized to issue up to \$200,000,000 of general obligation bonds to fund these projects. This debt is scheduled to be paid back over the next five years with proceeds from ESPLOST.



REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A

Description

Required supplementary information other than MD&A is presented in accordance with GASB Statement No. 34. It contains budget and actual comparison schedules for the School District's major governmental funds with annual appropriated budgets (General Fund). The notes to the required supplementary information disclose relevant budgetary information.

THE BOARD OF EDUCATION FOR THE CITY OF SAVANNAH
AND THE COUNTY OF CHATHAM, GEORGIA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		Actual Amounts	Variance Final Budget- Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$134,176,560	\$134,176,560	\$140,671,006	\$ 6,494,446
State sources	111,527,341	114,205,566	114,137,787	(67,779)
Federal sources	593,000	611,305	1,240,012	628,707
Other	1,611,000	1,661,000	3,545,366	1,884,366
Total revenues	247,907,901	250,654,431	259,594,171	8,939,740
EXPENDITURES				
Current:				
Instruction	154,968,871	155,704,180	155,659,519	44,661
Pupil services	12,465,627	12,773,687	12,370,285	403,402
Instructional services	3,518,397	3,844,884	3,628,414	216,470
Educational media services	4,841,730	4,934,924	4,932,484	2,440
General administration	4,485,434	4,738,306	4,447,215	291,091
School administration	16,315,274	16,650,391	16,598,948	51,443
Business administration	3,429,465	3,000,557	2,678,346	322,211
Maintenance and operations	22,634,159	23,014,470	22,937,375	77,095
Pupil transportation	11,101,891	11,477,691	12,237,499	(759,808)
Central support services	5,383,034	3,509,292	3,220,825	288,467
Capital outlay	3,359,783	2,044,575	1,885,614	158,961
Total expenditures	242,503,665	241,692,957	240,596,524	1,096,433
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	5,404,236	8,961,474	18,997,647	10,036,173
OTHER FINANCING SOURCES (USES):				
Transfers in	200,000	282,101	282,101	-
Transfers out	(11,164,560)	(16,817,170)	(16,817,170)	-
Capital leases	2,460,324	2,460,324	2,460,324	-
Total other financing sources (uses)	(8,504,236)	(14,074,745)	(14,074,745)	-
NET CHANGE IN FUND BALANCE	(3,100,000)	(5,113,271)	4,922,902	10,036,173
FUND BALANCE, BEGINNING OF YEAR	32,957,764	32,957,764	32,957,764	-
FUND BALANCE, END OF YEAR	\$ 29,857,764	\$ 27,844,493	\$ 37,880,666	\$ 10,036,173

Note: Budgets are adopted on a basis consistent with generally accepted accounting principles.

THE BOARD OF EDUCATION FOR
THE CITY OF SAVANNAH AND THE COUNTY
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NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
ON BUDGETARY ACCOUNTING AND CONTROL
YEAR ENDED JUNE 30, 2006

BUDGETARY INFORMATION

I. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles. Formal budgetary integration is employed as a management control device during the year for the General Fund. The level of legal budgetary control (the level at which expenditures may not exceed appropriations) is at the fund level.

Supplemental appropriations and decreases in budget appropriations were properly approved by the School District. For the year ended June 30, 2006, the following supplemental and decrease in appropriations were approved:

<u>Fund Type</u>	<u>Original Appropriations</u>	<u>Supplemental Appropriations</u>	<u>Supplemental Decreases</u>	<u>Final Appropriations</u>
General	\$ 253,668,225	\$ 9,511,428	\$ 4,669,526	\$ 258,510,127

