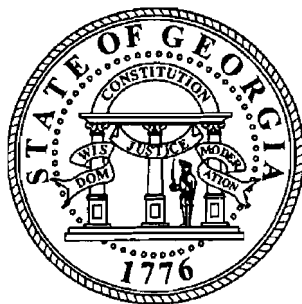


**DEKALB COUNTY BOARD OF EDUCATION
DECATUR, GEORGIA**

**REPORT ON AUDIT
OF THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**



STATE OF GEORGIA

DEPARTMENT OF AUDITS AND ACCOUNTS

**Russell W. Hinton
State Auditor**

DEKALB COUNTY BOARD OF EDUCATION

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SECTION I
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DEPARTMENT OF AUDITS AND ACCOUNTS

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

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

June 29, 2007

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

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

Ladies and Gentlemen:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information (Exhibits A through H) of the DeKalb County Board of Education, as of and for the year ended June 30, 2006, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the DeKalb County Board of Education's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the DeKalb County Board of Education, as of June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

2006ARL-11

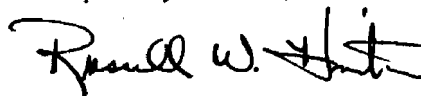
In accordance with Government Auditing Standards, we have also issued our report dated June 29, 2007, on our consideration of the DeKalb County Board of Education's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and the Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual, as presented on pages i through ix and page 27 respectively, are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

Respectfully submitted,

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

Russell W. Hinton, CPA, CGFM
State Auditor

RWH:as
2006ARL-11

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

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

Financial Highlights

Key financial highlights for 2006 are as follows:

- In total, net assets increased \$88.2 million to \$974.9 million. This represents a 9 percent increase from 2005. This total increase was due to governmental activities since the Board has no business-type activities.
- General revenues accounted for \$552.6 million in revenue or 52.6 percent of all revenues. Program specific revenues in the form of charges for services, operating and capital grants and contributions accounted for \$498.8 million or 47.4 percent of total revenues of \$1.051 billion.
- The Board had \$963.3 million in expenses related to governmental activities; \$498.8 million of these expenses were offset by program specific charges for services, grants or contributions.
- Among major funds, the general fund has \$936.7 million in revenues and \$946.2 million in expenditures. The general fund's "Net Change in Fund Balances" decreased by \$9.03 million resulting in a change in the "Total Fund Balances" decreased from \$34.8 million to \$25.8 million for the fiscal year. The fund balance reflects the full accrual of all contracted salaries and benefits unpaid at June 30 in full compliance with GASB 34 regulations.

Using the Basic Financial Statements

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

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

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

Reporting the Board as a Whole

Statement of Net Assets and the Statement of Activities

While this document includes a number of funds used by the Board to provide programs and activities, a view of the Board as a whole requires looking at all financial transactions to ask the question, "How did we do financially during 2006?" The Statement of Net Assets and the Statement of Activities answers this question. These statements include *all assets and liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Board's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the Board as a whole, the financial position of the Board has improved or diminished. The causes of this change may be a result of many factors, some financial, some not. Nonfinancial factors include the Board's property tax base, facility conditions, required educational programs and other factors.

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

- **Governmental Activities** - All of the Board's programs and services are reported here including instruction, pupil services, improvement of instructional services, educational media services, general administration, school administration, business administration, maintenance and operation of plant, student transportation services, central support services, enterprise operations, food services and interest on debt.

Reporting the Board's Most Significant Funds

Fund Financial Statements

Fund financial reports provide detailed information about the Board's major funds. The Board uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Board's most significant funds. The Board's major governmental funds are the general fund, District-wide capital projects funds and the debt service fund.

Governmental Funds: Most of the Board's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Board's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that

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

can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

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

The Board as a Whole

The perspective of the statement of net assets is of the Board as a whole. Table 1 provides a summary of the Board's net assets for fiscal year 2006 compared to fiscal year 2005.

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

	<u>Governmental Activities</u>	
	<u>Fiscal Year 2006</u>	<u>Fiscal Year 2005</u>
Assets		
Current and Other Assets	\$ 182,218	\$ 173,410
Capital Assets, Net	<u>923,254</u>	<u>888,660</u>
Total Assets	\$ 1,105,472	\$ 1,062,070
Liabilities		
Current and Other Liabilities	\$ 116,528	\$ 116,452
Long-Term Liabilities	<u>14,085</u>	<u>14,294</u>
Total Liabilities	\$ 130,613	\$ 130,746
Net Assets		
Invested in Capital Assets, Net of Related Debt	\$ 922,502	\$ 886,664
Restricted	48,707	30,635
Unrestricted	<u>3,650</u>	<u>14,025</u>
Total Net Assets	\$ 974,859	\$ 931,324

Total net assets increased \$43.5 million.

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

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

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

	<u>Governmental Activities</u>	
	<u>Fiscal</u>	<u>Fiscal</u>
	<u>Year 2006</u>	<u>Year 2005</u>
Revenues		
Program Revenues:		
Charges for Services and Sales	\$ 11,582	\$ 14,053
Operating Grants and Contributions	466,291	415,719
Capital Grants and Contributions	<u>20,978</u>	<u>17,225</u>
Total Program Revenues	<u>\$ 498,851</u>	<u>\$ 446,997</u>
General Revenues:		
Taxes		
Property Taxes		
For Maintenance and Operations	\$ 417,387	\$ 388,644
For Debt Service		3,252
Railroad Cars		63
Sales Taxes		
Special Purpose Local Option Sales Tax		
For Capital Projects	97,729	89,085
Intangible Recording Tax	10,982	10,710
Real Estate	3,817	2,849
Alcoholic Beverages	5,920	4,693
Grants and Contributions not Restricted to		
Specific Programs		7,568
Investment Earnings	7,730	4,224
Miscellaneous	<u>9,078</u>	<u>6,321</u>
Total General Revenues	<u>\$ 552,643</u>	<u>\$ 517,409</u>
Total Revenues	<u>\$ 1,051,494</u>	<u>\$ 964,406</u>
Program Expenses		
Instruction	\$ 594,542	\$ 540,105
Support Services		
Pupil Services	28,287	20,314
Improvement of Instructional Services	63,176	47,889
Educational Media Services	20,426	16,883
General Administration	5,896	5,565
School Administration	61,085	54,867
Business Administration	6,036	3,898
Maintenance and Operation of Plant	76,581	71,609
Student Transportation Services	41,016	39,202
Central Support Services	19,835	14,436
Operations of Non-Instructional Services		
Enterprise Operations	1,466	1,443
Food Services	44,887	43,813
Interest on Short-Term and Long-Term Debt	<u>90</u>	<u>725</u>
Total Expenses	<u>\$ 963,323</u>	<u>\$ 860,749</u>
Increase in Net Assets	<u>\$ 88,171</u>	<u>\$ 103,657</u>

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

Governmental Activities

Instruction, Pupil Services and Improvement of Instructional Services comprises 71.2 percent of governmental program expenses. The Operations of Non-instructional Services amounted to 4.8 percent of the total governmental program expenses. These operations consist primarily of the School Nutrition and Athletics programs.

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

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

	<u>Net Cost of Services Fiscal Year 2006</u>	<u>Net Cost of Services Fiscal Year 2005</u>
Instruction	\$ 224,765	\$ 206,712
Support Services		
Pupil Services	25,392	18,170
Improvement of Instructional Services	47,228	40,604
Educational Media Services	11,837	8,790
General Administration	-1,315	-1,364
School Administration	43,644	39,036
Business Administration	5,195	3,263
Maintenance and Operation of Plant	52,473	48,614
Student Transportation Services	34,401	34,018
Central Support Services	19,234	14,407
Operations of Non-Instructional Services		
Enterprise Operations	248	89
Food Services	1,280	688
Interest on Short-Term and Long-Term Debt	90	725
Total Net Cost of Services	\$ 464,472	\$ 413,752

Although program revenues make up 47.4 percent of the revenues, the Board is still primarily dependent upon tax revenues for governmental activities. More than 37.8 percent of instruction activities are supported through taxes and other general revenues; for all governmental activities general revenue support is 48.2 percent.

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

The Board's Funds

The Board's governmental funds are accounted for using the modified accrual basis of accounting. Total governmental funds had revenues and other financing sources of \$1.056 billion and expenditures of \$1.046 billion. There was an increase in fund balance of \$19 million in the capital project funds due to the sales tax proceeds collected being higher than projected during the year. The general fund had a decrease in fund balance of \$9 million. The change in the fund balance of the general fund for the year was due to significant increases in budgeted expenditures during the year. These increases in spending were the result of a concentrated increase in instructional expenditures. The effort by the Board to begin to rebuild the general fund balance, which has been severely depleted in prior years by state funding reductions which began in fiscal year 2003, was subordinated to provide additional resources for instruction and student achievement. This has resulted in a reduction in state earnings of nearly \$58 million over the past four fiscal years.

General Fund Budgeting Highlights

The Board's budget is prepared according to Georgia law. The most significant budgeted fund is the General Fund.

During the course of fiscal year 2006, the Board amended its general fund budget as needed. The Board uses site-based budgeting based on FTE student allocations. The budgeting systems are designed to tightly control total sited budgets but provide flexibility for site management.

For the General Fund, final budgeted revenues and other sources of \$925.6 was exceeded by the actual by \$11.6 million. This difference was due mainly to receiving additional Federal funds that exceeded the projected amounts. Better than expected investment earnings were also a factor in the better than projected revenue forecast.

Actual expenditures of \$946.3 million were 1.4 percent more than the final budgeted total of \$932.8 million. More than projected instructional salaries and operating costs contributed to the budget variance. Additionally, the food costs for the school nutrition operations were more than expected.

General Fund expenditures exceeded revenues and other financing sources resulting in a decrease in "Net Change in Fund Balances" of over \$9 million for the year. The additional instruction related costs was a major factor in the decrease.

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

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2006 the Board had \$923.3 million invested in capital assets, all in governmental activities. Table 4 shows fiscal year 2006 balances compared with fiscal year 2005 balances.

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

	<u>Governmental Activities</u>	
	<u>Fiscal Year 2006</u>	<u>Fiscal Year 2005 (Restated)</u>
Land	\$ 33,536	\$ 33,536
Construction in Progress	124,130	72,777
Buildings and Building Improvements	687,846	657,150
Improvements Other than Buildings	2,278	981
Equipment	<u>75,464</u>	<u>79,581</u>
Total	<u>\$ 923,254</u>	<u>\$ 844,025</u>

The primary increases occurred in construction in progress, buildings and building improvements. Due to the ongoing growth in the county, the Board has numerous construction projects including new buildings, additions, and renovations.

Debt

At June 30, 2006 the Board had \$752 thousand in capital leases. There were \$13.3 million in compensated absences and \$5.7 million of the outstanding debt is due within one year. The Board defeased all of its outstanding General Obligation Bonds in prior years. This defeasance was the culmination of the 1997 Special Purpose Local Option Sales Tax Program with sales tax proceeds being used to enable the Board to become essentially debt free.

Table 5 summarizes capital leases and compensated absences outstanding and compares fiscal year 2006 balances to fiscal year 2005 balances.

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

**Table 5
Debt at June 30
(in Thousands)**

	<u>Governmental Activities</u>	
	<u>Fiscal</u>	<u>Fiscal</u>
	<u>Year 2006</u>	<u>Year 2005</u>
Capital Leases	\$ 752	\$ 1,996
Compensated Absences	<u>13,333</u>	<u>12,298</u>
Total	<u>\$ 14,085</u>	<u>\$ 14,294</u>

The Board maintains an AA- and Aa3 bond rating from Standard and Poor's and Moody's respectively.

Current Issues

The DeKalb County School System continues to face serious reductions in the State's "Quality Basic Education" funding formula earnings. In addition to the over \$21 million in State funding lost in the current year, State austerity reductions have amounted to nearly \$58 million through fiscal year 2006. Additional annual reductions of \$10 million and \$8 million for fiscal years 2007 and 2008, respectively, having already been instituted by the State as well. Sales tax collections from the Special Purpose Local Option Sales Tax instituted in 2002 also continue to fluctuate versus projections. However, signs point to a rebound in collections as sales tax revenue has shown an increase in fiscal year 2006 and 2007.

On a positive note, the State of Georgia ended the fiscal year 2007 with a surplus and has budgeted to reduce the amount of the funding formula reductions. The property tax digest continues to grow at more than a 5% annual growth rate. The growth is a mix of new residential, commercial and industrial properties and reassessment of existing properties.

Revenues in the fiscal year 2007 have been strong all school year for the Board. The Board has taken budgetary action to see to it that the DeKalb County School System will overcome any current or future economic challenges while increasing the working reserve to higher levels in order to sustain the School System in the future. This action has resulted in an increase in the School System's general fund balances of over \$44 million in fiscal years 2004 and 2005. Notwithstanding the decrease in fund balance for fiscal year 2006, the trend in increased general fund balances is expected to continue.

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

Contacting the Board's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Board's finances and to show the Board's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Mr. Marcus T. Turk, Chief Financial Officer, at the DeKalb County Board of Education, 3770 North Decatur Road, Decatur, Georgia, 30032. You may also e-mail your questions to marcus_turk@fc.dekalb.k12.ga.us.

DEKALB COUNTY BOARD OF EDUCATION

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

EXHIBIT "A"

	GOVERNMENTAL ACTIVITIES
ASSETS	
Cash and Cash Equivalents	\$ 97,150,194
Investments	71,822
Accounts Receivable, Net	
Taxes	20,533,753
State Government	47,672,809
Federal Government	14,827,592
Other	137,371
Inventories	1,824,763
Capital Assets	
Land	33,535,949
Construction in Progress	124,129,540
Land Improvements	2,485,612
Buildings	990,920,085
Equipment	135,027,262
Less: Accumulated Depreciation	<u>362,844,192</u>
Total Assets	\$ <u>1,105,472,560</u>
LIABILITIES	
Accounts Payable	\$ 27,509,715
Salaries Payable	79,462,482
Contracts Payable	3,042,680
Retainages Payable	6,264,906
Deposits and Deferred Revenues	247,745
Long-Term Liabilities	
Due Within One Year	5,719,083
Due in More Than One Year	<u>8,366,400</u>
Total Liabilities	\$ <u>130,613,011</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	\$ 922,502,214
Restricted for	
Bus Replacement	1,841,509
Continuation of Federal Programs	8,983,538
Capital Projects	37,882,162
Unrestricted	<u>3,650,126</u>
Total Net Assets	\$ <u>974,859,549</u>
Total Liabilities and Net Assets	\$ <u>1,105,472,560</u>

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

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

	<u>EXPENSES</u>	<u>CHARGES FOR SERVICES</u>
<u>GOVERNMENTAL ACTIVITIES</u>		
Instruction	\$ 594,542,505	\$ 1,918,694
Support Services		
Pupil Services	28,287,290	
Improvement of Instructional Services	63,176,479	
Educational Media Services	20,425,954	
General Administration	5,895,523	
School Administration	61,085,219	
Business Administration	6,036,105	
Maintenance and Operation of Plant	76,580,529	
Student Transportation Services	41,015,815	
Central Support Services	19,834,540	
Operations of Non-Instructional Services		
Enterprise Operations	1,466,231	1,217,961
Food Services	44,887,211	8,445,232
Interest on Short-Term and Long-Term Debt	<u>89,955</u>	
Total Governmental Activities	<u>\$ 963,323,356</u>	<u>\$ 11,581,887</u>
General Revenues		
Taxes		
Property Taxes		
For Maintenance and Operations		
For Debt Services		
Sales Taxes		
Special Purpose Local Option Sales Tax		
For Capital Projects		
Intangible Recording Tax		
Real Estate		
Alcoholic Beverages		
Investment Earnings		
Miscellaneous		
Total General Revenues		
Change In Net Assets		
Net Assets - Beginning of Year (Restated)		
Net Assets - End of Year		

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

EXHIBIT "B"

PROGRAM REVENUES		NET (EXPENSES)
OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	REVENUES AND CHANGES IN NET ASSETS
\$ 351,703,849	\$ 16,155,068	\$ -224,764,894
2,887,496	7,240	-25,392,554
15,657,917	290,182	-47,228,380
8,068,896	519,622	-11,837,436
7,187,873	22,946	1,315,296
17,441,298		-43,643,921
	841,086	-5,195,019
23,721,972	365,192	-52,473,365
5,743,188	872,094	-34,400,533
600,701		-19,233,839
		-248,270
33,277,660	1,884,720	-1,279,599
		-89,955
<u>\$ 466,290,850</u>	<u>\$ 20,978,150</u>	<u>\$ -464,472,469</u>

\$ -417,387,300
295

97,729,332
10,982,466
3,816,559
5,919,713
7,730,114
9,077,788

\$ -552,643,547

\$ 88,171,078

886,688,471

\$ 974,859,549

DEKALB COUNTY BOARD OF EDUCATION
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

EXHIBIT "C"

	GENERAL FUND	DISTRICT- WIDE CAPITAL PROJECTS FUND	DEBT SERVICE FUND	TOTAL
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 66,765,533	\$ 30,338,124	\$ 46,537	\$ 97,150,194
Investments		71,822		71,822
Accounts Receivable, Net				
Taxes	1,775,350	16,783,926		18,559,276
State Government	47,672,809			47,672,809
Federal Government	14,827,592			14,827,592
Other	137,371			137,371
Inventories	1,824,763			1,824,763
 Total Assets	 \$ 133,003,418	 \$ 47,193,872	 \$ 46,537	 \$ 180,243,827
<u>LIABILITIES AND FUND BALANCES</u>				
<u>LIABILITIES</u>				
Accounts Payable	\$ 27,505,591	\$ 4,124		\$ 27,509,715
Salaries Payable	79,462,482			79,462,482
Contracts Payable		3,042,680		3,042,680
Retainages Payable		6,264,906		6,264,906
Deposits and Deferred Revenue	247,745			247,745
 Total Liabilities	 \$ 107,215,818	 \$ 9,311,710		 \$ 116,527,528
<u>FUND BALANCES</u>				
Reserved for:				
Bus Replacement	\$ 1,841,509			\$ 1,841,509
Continuation of Federal Programs	7,907,666			7,907,666
Inventories	1,824,763			1,824,763
Capital Projects		\$ 37,882,162		37,882,162
Unreserved				
Undesignated Reported in:				
General Fund	14,213,662			14,213,662
Debt Service			\$ 46,537	46,537
 Total Fund Balances	 \$ 25,787,600	 \$ 37,882,162	 \$ 46,537	 \$ 63,716,299
 Total Liabilities and Fund Balances	 \$ 133,003,418	 \$ 47,193,872	 \$ 46,537	 \$ 180,243,827

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

DEKALB COUNTY BOARD OF EDUCATION
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006

EXHIBIT "D"

Total Fund Balances - Governmental Funds (Exhibit "C") \$ 63,718,299

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

Capital Assets used in Governmental Activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Land	\$ 33,535,949	
Construction in Progress	124,129,540	
Land Improvements	2,485,612	
Buildings	990,920,085	
Equipment	135,027,262	
Accumulated Depreciation	<u>(362,844,192)</u>	
Total Capital Assets		923,254,256

Some of the School District's property tax revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures.

1,974,477

Long-Term Liabilities 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:

Capital Leases	\$ -752,042	
Compensated Absences	<u>(13,333,441)</u>	
Total Long-Term Liabilities		<u>(14,085,483)</u>

Net Assets of Governmental Activities (Exhibit "A") \$ 974,859,549

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

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

EXHIBIT "E"

	GENERAL FUND	DISTRICT- WIDE CAPITAL PROJECTS FUND	DEBT SERVICE FUND	TOTAL
REVENUES				
Property Taxes	\$ 418,665,146		\$ 295	\$ 418,665,441
Sales Taxes	20,718,738	\$ 97,729,332		118,448,070
State Funds	363,193,979	20,106,056		383,300,035
Federal Funds	103,866,494			103,866,494
Charges for Services	11,581,887			11,581,887
Investment Earnings	6,895,641	832,582	1,891	7,730,114
Miscellaneous	11,783,819	25,305		11,809,124
Total Revenues	\$ 936,705,504	\$ 118,693,275	\$ 2,186	\$ 1,055,400,965
EXPENDITURES				
Current				
Instruction	\$ 578,781,838			\$ 578,781,838
Support Services				
Pupil Services	28,243,898			28,243,898
Improvement of Instructional Services	63,011,396			63,011,396
Educational Media Services	18,989,998			18,989,998
General Administration	5,884,209			5,884,209
School Administration	60,975,859			60,975,859
Business Administration	5,541,950	\$ 34,795	\$ 5,198	5,581,943
Maintenance and Operation of Plant	76,165,575			76,165,575
Student Transportation Services	41,955,004			41,955,004
Central Support Services	19,793,182			19,793,182
Enterprise Operations	1,466,231			1,466,231
Food Services Operation	43,176,252			43,176,252
Capital Outlay		99,040,848		99,040,848
Debt Services				
Principal	1,242,554	541,255		1,783,809
Interest	60,606	29,349		89,955
Total Expenditures	\$ 946,288,552	\$ 99,646,247	\$ 5,198	\$ 1,045,939,997
Excess of Revenues over (under) Expenditures	\$ -9,583,048	\$ 19,047,028	\$ -3,012	\$ 9,460,968
OTHER FINANCING SOURCES				
Sale of Equipment	\$ 9,990			\$ 9,990
Capital Leases	539,621			539,621
Total Other Financing Sources	\$ 549,611			\$ 549,611
Net Change in Fund Balances	\$ -9,033,437	\$ 19,047,028	\$ -3,012	\$ 10,010,579
Fund Balances - Beginning	34,821,037	18,835,134	49,549	53,705,720
Fund Balances - Ending	\$ 25,787,600	\$ 37,882,162	\$ 46,537	\$ 63,716,299

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

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

EXHIBIT "F"

Total Net Change in Fund Balances - Governmental Funds (Exhibit "E") \$ 10,010,579

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	\$ 104,123,819	
Depreciation Expense	<u>-22,255,300</u>	
Excess of Capital Outlay over Depreciation Expense		81,868,519

Because some property taxes will not be collected for several months after the School District's fiscal year ends, they are not considered "available" revenues. -1,277,846

In the Statement of Activities, only the gain on the sale of the equipment is reported, whereas in the Governmental Funds, the entire proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balances by the carrying value of the equipment sold. -2,638,675

Some of the Capital Assets acquired this year were financed with capital leases. In Governmental Funds, a capital lease arrangement is considered a source of financing, but in the Statement of Net Assets, the lease obligation is reported as a Long-Term Liability. -539,621

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:

Capital Lease Payments	1,783,809
------------------------	-----------

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

Increase in Compensated Absences	<u>-1,035,687</u>
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Change in Net Assets of Governmental Activities (Exhibit "B") \$ 88,171,078

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

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

EXHIBIT "G"

	AGENCY FUNDS
<u>ASSETS</u>	
Cash and Cash Equivalents	\$ 2,125,007
Accounts Receivable, Net	
Other	<u>239,353</u>
Total Assets	\$ <u>2,364,360</u>
<u>LIABILITIES</u>	
Funds Held for Others	\$ <u>2,364,360</u>

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

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

EXHIBIT "H"

Note 1: DESCRIPTION OF SCHOOL DISTRICT AND REPORTING ENTITY

REPORTING ENTITY

The DeKalb 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 DeKalb 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.

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

EXHIBIT "H"

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The School District reports the following major governmental funds:

- General Fund is the School District's primary operating fund. It accounts for all financial resources of the School District, except those resources required to be accounted for in another fund.
- District-wide Capital Projects Fund accounts for financial resources including Special Purpose Local Option Sales Tax (SPLOST) and grants from Georgia State Financing and Investment Commission to be used for the acquisition, construction or renovation of major capital facilities.
- Debt Service Fund accounts for taxes (property) legally restricted for the payment of general long-term principal, interest and paying agent's fees.

The School District reports the following fiduciary fund type:

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

BASIS OF ACCOUNTING

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

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

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

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

EXHIBIT "H"

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

RESTATEMENT OF PRIOR YEAR NET ASSETS

For fiscal year 2006, the School District restated various Capital Assets due to errors and omissions. The School District decreased land and construction in progress, \$4,903,820 and \$7,507,668, respectively. Additionally, the School District increased, net of accumulated depreciation, equipment by \$1,252,816 and decreased, net of accumulated depreciation, buildings and improvements by \$33,476,721. The result is a decrease in Net Assets at July 1, 2005, of \$44,635,393. This change is in accordance with generally accepted accounting principles.

CASH AND CASH EQUIVALENTS

COMPOSITION OF DEPOSITS

Cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition in authorized financial institutions. Georgia Laws OCGA 45-8-14 authorize the School District to deposit its funds in one or more solvent banks or insured Federal savings and loan associations.

INVESTMENTS

COMPOSITION OF INVESTMENTS

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

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

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

EXHIBIT "H"

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- (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 Local Government Investment Pool administered by the State of Georgia, Office of Treasury and Fiscal Services,
- (7) Repurchase agreements; and
- (8) Obligations of other political subdivisions of the State of Georgia.

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

RECEIVABLES

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

PROPERTY TAXES

The DeKalb County Board of Commissioners fixed the property tax levy for the 2005 tax digest year (calendar year) on June 14, 2005 (levy date). Taxes were due on November 15, 2005 (lien date) and could be paid in two installments on August 15, 2005 and November 15, 2005 (due dates). Taxes collected within the current fiscal year or within 60 days after year-end on the 2005 tax digest are reported as revenue in the governmental funds for fiscal year 2006. The DeKalb County Tax Commissioner bills and collects the property taxes for the School District, withholds 1.25% of taxes collected as a fee for tax collection and remits the balance of taxes collected to the School District. Property tax revenues, at the fund reporting level, during the fiscal year ended June 30, 2006, for maintenance and operations amounted to \$418,665,146 and for school bonds amounted to \$295.

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

EXHIBIT "H"

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The tax millage rate levied for the 2005 tax year (calendar year) for the DeKalb County Board of Education was as follows (a mill equals \$1 per thousand dollars of assessed value):

School Operations	<u>22.98</u> mills
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SALES TAXES

Special Purpose Local Option Sales Tax, at the fund reporting level, during the year amounted to \$97,729,332 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

CONSUMABLE SUPPLIES

On the basic financial statements, consumable supplies are reported at cost (first-in, first-out). The School District uses the consumption method to account for the consumable supplies inventory whereby an asset is recorded when supplies are purchased and expenses are recorded at the time the supplies are consumed.

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.

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

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

EXHIBIT "H"

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

	<u>Capitalization Policy</u>	<u>Estimated Useful Life</u>
Land	All	N/A
Land Improvements	\$ 100,000	20 years
Buildings and Improvements	\$ 100,000	80 years
Improvements Other than Buildings	\$ 100,000	20 years
Equipment		
Outdoor Equipment	\$ 1,000	15 years
Vehicles	\$ 1,000	20 years
Kitchen Equipment	\$ 1,000	12 years
Computers	\$ 1,000	10 years
Miscellaneous Equipment	\$ 1,000	10 to 30 years
Buses	\$ 1,000	20 years

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

Note 3: DEPOSITS AND INVESTMENTS

COLLATERALIZATION OF DEPOSITS

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

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;

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

EXHIBIT "H"

Note 3: DEPOSITS AND INVESTMENTS

- (5) Bonds of any public authority created by the laws of the State of Georgia, providing that the statute that created the authority authorized the use of the bonds for this purpose,
- (6) Industrial revenue bonds and bonds of development authorities created by the laws of the State of Georgia, and
- (7) Bonds, bills, notes, certificates of indebtedness, or other obligations of a subsidiary corporation of the United States government, which are fully guaranteed by the United States government both as to principal and interest or debt obligations issued by the Federal Land Bank, the Federal Home Loan Bank, the Federal Intermediate Credit Bank, the Central Bank for Cooperatives, the Farm Credit Banks, the Federal Home Loan Mortgage Association, and the Federal National Mortgage Association.

CATEGORIZATION OF DEPOSITS

At June 30, 2006, the bank balances were \$120,114,182. The amounts of the total bank balances are classified into four categories of custodial credit risk:

- Category 1 - Cash that is insured (e.g., Federal Deposit Insurance) or collateralized with securities held by the School District or by the School District's agent in the School District's name.
- Category 2 - Cash collateralized with securities held by the pledging financial institution's trust department or agent in the School District's name.
- Category 3 - Cash collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the School District's name.
- Category 4 - Uncollateralized.

The School District's deposits are classified by custodial credit risk category at June 30, 2006, as follows:

<u>Custodial Credit Risk Category</u>	<u>Bank Balance</u>
1	\$ 480,270
2	0
3	119,633,912
4	<u>0</u>
Total	<u>\$ 120,114,182</u>

CATEGORIZATION OF INVESTMENTS

At June 30, 2006, the carrying value of the School District's total investments was \$71,822 which is materially the same as fair value. This investment consisted entirely of funds invested in the Local

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

EXHIBIT "H"

Note 3: DEPOSITS AND INVESTMENTS

Government Investment Pool administered by the State of Georgia, Office of Treasury and Fiscal Services which are not required to be categorized since the School District did not own any specific identifiable securities in the pool. The investment policy of the State of Georgia, Office of Treasury and Fiscal Services for the Local Government Investment Pool (Primary Liquidity Portfolio) does not provide for investment in derivatives or similar investments. A description of the Primary Liquidity Portfolio is as follows:

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

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

Note 4: NON-MONETARY TRANSACTIONS

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

Note 5: CAPITAL ASSETS

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

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

EXHIBIT "H"

Note 5: CAPITAL ASSETS

	Balances July 1, 2005 (Restated)	Increases	Decreases	Balances June 30, 2006
Governmental Activities				
Capital Assets, Not Being Depreciated:				
Land	\$ 33,535,949			\$ 33,535,949
Construction in Progress	<u>72,776,965</u>	\$ 88,732,557	\$ 37,379,982	<u>124,129,540</u>
Total Capital Assets Not Being Depreciated	\$ 106,312,914	\$ 88,732,557	\$ 37,379,982	\$ 157,665,489
Capital Assets Being Depreciated				
Buildings and Improvements	\$ 947,906,502	\$ 43,013,583		\$ 990,920,085
Equipment	135,291,672	8,359,181	\$ 8,623,591	135,027,262
Land Improvements	1,087,132	1,398,480		2,485,612
Less Accumulated Depreciation for:				
Buildings and Improvements	290,756,611	12,316,966		303,073,577
Equipment	55,710,624	9,837,069	5,984,916	59,562,777
Land Improvements	<u>106,573</u>	<u>101,265</u>		<u>207,838</u>
Total Capital Assets, Being Depreciated, Net	\$ 737,711,498	\$ 30,515,944	\$ 2,638,675	\$ 765,588,767
Governmental Activity Capital Assets - Net	\$ <u>844,024,412</u>	\$ <u>119,248,501</u>	\$ <u>40,018,657</u>	\$ <u>923,254,256</u>

Capital assets being acquired under capital leases as of June 30, 2006, are as follows:

	Governmental Funds
Equipment	\$ 5,476,242
Less: Accumulated Depreciation	<u>1,860,764</u>
	\$ <u>3,615,478</u>

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

EXHIBIT "H"

Note 5: CAPITAL ASSETS

Current year depreciation expense by function is as follows:

Instruction		\$ 15,779,728
Support Services		
Pupil Services	\$ 7,072	
Improvements of Instructional Services	283,440	
Educational Media Services	507,549	
General Administration	22,413	
Business Administration	821,545	
Maintenance and Operation of Plant	376,243	
Student Transportation Services	2,616,379	4,634,641
Food Services		1,840,931
		<u>\$ 22,255,300</u>

Note 6: RESTRICTED ASSETS

Special Purpose Local Option Sales Tax (SPLOST) funds are reported as restricted assets in the Statement of Net Assets because its use is limited by applicable statutory provisions. Restricted assets at June 30, 2006, were as follows:

	District-wide Capital Projects <u>SPLOST</u>
Restricted Cash and Cash Equivalents:	
Capital Acquisitions	\$ 30,338,124
Restricted Investments	
Capital Acquisitions	\$ 71,822

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 acts of God. The School District has neither significantly reduced coverage for these risks nor incurred losses (settlements) which exceeded the School District's insurance coverage in any of the past three years.

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

EXHIBIT "H"

Note 7: RISK MANAGEMENT

The School District participates in the Georgia School Boards Association Risk and Insurance Management System, a public entity risk pool organized on July 1, 1994, to develop and administer a plan to reduce risk of loss on account of general liability, motor vehicle liability, or property damage, including safety engineering and other loss prevention and control techniques, and to administer one or more groups of self-insurance funds, including the processing and defense of claims brought against members of the system. The School District pays an annual premium to the system for its general insurance coverage. Additional coverage is provided through agreements by the system with other companies according to their specialty for property, boiler and machinery (including coverage for flood and earthquake), general liability (including coverage for sexual harassment, molestation and abuse), errors and omissions, crime and automobile risks. Payment of excess insurance for the system varies by line of coverage.

The School District has established a limited risk management program for workers' compensation claims. The School District accounts for claims within the same fund as the employee's salaries and benefits are paid. Expenses/expenditures and liability are reported when it is probable that a loss has occurred, and the amount of that loss can be reasonable estimated. An excess coverage insurance policy covers individual claims in excess of \$500,000 loss per occurrence, up to statutory limit.

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

	<u>Beginning of Year Liability</u>	<u>Claims and Changes in Estimates</u>	<u>Claims Paid</u>	<u>End of Year Liability</u>
2005	\$ 0	\$ 3,234,618	\$ 3,234,618	\$ 0
2006	\$ 0	\$ 3,780,512	\$ 3,780,512	\$ 0

The School District is self-insured with regard to unemployment compensation claims. The School District accounts for claims within the same fund that the employee's salaries and benefits are paid. Expenses/expenditures and liability are reported when it is probable that a loss has occurred, and the amount of that loss can be reasonably estimated.

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

	<u>Beginning of Year Liability</u>	<u>Claims and Changes in Estimates</u>	<u>Claims Paid</u>	<u>End of Year Liability</u>
2005	\$ 0	\$ 341,560	\$ 341,560	\$ 0
2006	\$ 0	\$ 172,752	\$ 172,752	\$ 0

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

EXHIBIT "H"

Note 7: RISK MANAGEMENT

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

<u>Position Covered</u>	<u>Amount</u>
Superintendent	\$ 100,000

Note 8: LONG-TERM DEBT

CAPITAL LEASES

The DeKalb County Board of Education has entered into various lease agreements as lessee for vehicles, buses, solid waste system and software. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception.

COMPENSATED ABSENCES

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

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

	<u>Governmental Funds</u>		
	<u>Capital Leases</u>	<u>Compensated Absences</u>	<u>Total</u>
Balance July 1, 2005	\$ 1,996,230	\$ 12,297,754	\$ 14,293,984
Additions			
Capital Leases	539,621		539,621
Annual Leave Earned		6,197,452	6,197,452
Deductions			
Annual Leave Utilized		5,161,765	5,161,765
Debt Retired	1,783,809		1,783,809
Balance June 30, 2006	\$ 752,042	\$ 13,333,441	\$ 14,085,483
Portion of Long-Term Debt Due within One Year	\$ 219,083	\$ 5,500,000	\$ 5,719,083

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

EXHIBIT "H"

Note 8: LONG-TERM DEBT

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

<u>Fiscal Year</u> <u>Ended June 30</u>	<u>Capital Leases</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 219,083	\$ 33,239
2008	144,488	22,738
2009	123,570	15,881
2010	129,399	10,052
2011	<u>135,502</u>	<u>3,949</u>
Total Principal and Interest	<u>\$ 752,042</u>	<u>\$ 85,859</u>

Note 9: PRIOR YEAR DEFEASEMENT OF DEBT

In fiscal year 2003, the School District defeased certain general obligation 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 School District's basic financial statements. At June 30, 2006, \$43,690,000 of bonds are outstanding and are considered defeased.

Note 10: ON-BEHALF PAYMENTS

The School District has recognized revenues and costs in the amount of \$16,887,117 for health insurance and retirement contributions paid on the School District's behalf by the following State Agencies.

Georgia Department of Education

Paid to the Georgia Department of Community Health
For Health Insurance of Non-Certified Personnel
In the amount of \$16,027,939

Paid to the Teachers Retirement System of Georgia
For Teachers Retirement System (TRS)
Employer's Cost
In the amount of \$767,343

Office of Treasury and Fiscal Services

Paid to the Public School Employees Retirement System
For Public School Employees Retirement (PSERS) Employer's Cost
In the amount of \$91,835

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

EXHIBIT "H"

Note 11: SIGNIFICANT COMMITMENTS

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

<u>Project</u>	<u>Unearned Executed Contracts</u>	<u>Funding Available From State</u>
Avondale Elementary School	\$ 77,160	
Avondale High School	4,500	
Columbia High School	4,802,419	\$ 1,570,318
Cross Keys High School	3,696,269	
Electrical Upgrades - Various Schools	999,870	
Evansdale Elementary School	1,731,800	
Henderson Middle School	3,157,586	
Lakeside High School	3,675,407	
Margaret Harris High School	46,000	
McNair High School	1,630,453	297,010
Miller Grove High School	191,707	1,839,404
Mountain Industrial Center	9,366	
New McNair Cluster	11,739,680	
New Peachtree Middle School	10,111,284	6,798,120
Sanitary Sewer Upgrades	398,000	
Sexton Woods Center	4,744	
Southwest DeKalb High School	2,039,267	
Staefa Freezer/Cooler Monitoring	289,750	
Stone Mountain Middle School	794,131	890,131
Towers High School	9,248,468	
Tucker High School	4,199,230	
	<u>\$ 58,847,091</u>	<u>\$ 11,394,983</u>

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

Note 12: SIGNIFICANT CONTINGENT LIABILITIES

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

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

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

EXHIBIT "H"

Note 12: SIGNIFICANT CONTINGENT LIABILITIES

The School District (DCSD) is a defendant in a lawsuit filed by Heery International, Inc., E.R. Mitchell & Co., and Heery/Mitchell, A Joint Venture in DeKalb County Superior Court on February 20, 2007. Heery/Mitchell alleges that DCSD breached its contract with Heery/Mitchell for construction program management services when DCSD terminated the Agreement and failed to remit payment to Heery/Mitchell for three outstanding pay applications. Heery/Mitchell claims that it has incurred over \$1 million in lost profits and other consequential damages as a result of DCSD's alleged breach. Heery/Mitchell also seeks to recover litigation expenses, including attorneys' fees, from DCSD, pursuant to O.C.G.A. §13-6-11. DCSD is contesting the case vigorously.

On March 23, 2007, DCSD filed an Answer and Counterclaims in response to Heery/Mitchell's Complaint. In addition to answering Heery/Mitchell's allegations, DCSD filed counterclaims against Heery/Mitchell for (1) fraud, (2) breach of fiduciary duty, and (3) breach of contract. In addition, DCSD alleges that Heery/Mitchell failed to satisfy a number of their contractual obligations relating to, among other things, record maintenance and retention, project supervision and coordination, and reporting to DCSD.

Although both the results and cost of litigation are uncertain, DCSD strongly believes that Heery/Mitchell's claims are totally without merit and will be ultimately dismissed. On the other hand, DCSD believes, based on the available evidence, that its Counterclaims against Heery/Mitchell are strong and that the DCSD will achieve a substantial recovery against Heery/Mitchell.

The School District believes the likelihood of a material adverse outcome is remote. Accordingly, adjustments, if any, that might result from the resolution of this matter have not been reflected in the basic financial statements.

Note 13: SUBSEQUENT EVENTS

In the subsequent fiscal year, the voters of DeKalb County voted in favor of a Special Purpose Local Option Sales Tax Referendum for educational purposes. The imposition of the tax, as stated in part on the Official Ballot of DeKalb County, is as follows:

"Shall a special one percent sales and use tax for educational purposes continue to be imposed in DeKalb County for not longer than 20 quarters, beginning July 1, 2007, to raise not more than \$645,000,000 in the aggregate for the purpose of (A) acquiring new sites for the construction of new schools, support facilities and athletic facilities and the expansion of existing schools and support facilities; (B) developing sites for constructing and equipping new schools, support facilities and athletic facilities; (C) making additions to, acquiring or renovating and equipping existing schools, support facilities and athletic facilities, and demolishing portions of existing structures in connection therewith; (D) making system-wide renovations, additions, and improvements to bus and parent pick-up driveways and facility parking lots and purchasing school buses; (E) making existing lease/purchase payments with respect to the acquisition of new and existing schools and support facilities; and (F) modernizing technology and making system-wide technology improvements; not to

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

EXHIBIT "H"

Note 13: SUBSEQUENT EVENTS

exceed \$609,460,500 for the DeKalb School District, ... If imposition of the tax is approved by a majority of the voters within the DeKalb County School District, such vote shall also constitute approval of the issuance of general obligation debt of the DeKalb County School District in the principal amount of not to exceed \$300,000,000 for the purpose of funding a portion of the DeKalb County School District Projects ..."

In the subsequent fiscal year, the School District issued general obligation bonds in the amount of \$300,000,000. The proceeds from these bonds will be used for the acquisition, construction, equipping, renovation and expansions of new and existing school facilities.

Note 14: RELATED PARTY TRANSACTIONS

The School District employed the services of Vincent Pope and Associates, Inc. for various construction projects. This company is owned and operated by Vincent Pope, the husband of Patricia Pope, who is currently the Chief Operations Officer (COO) for the DeKalb County Board of Education. While some of these services were secured by a bid procedure, all were not. Additionally, the contracts were signed prior to Ms. Pope becoming the School District's COO. Current year expenditures to Vincent Pope and Associates, Inc. totaled \$348,039.

Note 15: RETIREMENT PLANS

TEACHERS RETIREMENT SYSTEM OF GEORGIA (TRS)

TRS PLAN DESCRIPTION

Substantially all teachers, administrative and clerical personnel employed by local school systems are covered by the Teachers Retirement System of Georgia (TRS), which is a cost-sharing multiple employer defined benefit pension plan. TRS provides service retirement, disability retirement and survivors benefits for its members in accordance with State statute. The Teachers Retirement System of Georgia issues a separate stand alone financial audit report and a copy can be obtained from the Georgia Department of Audits and Accounts.

TRS CONTRIBUTIONS REQUIRED AND MADE

Employees of the School District who are covered by TRS are required by State statute to contribute 5% of their gross earnings to TRS. The School District makes monthly employer contributions to TRS at rates adopted by the TRS Board of Trustees in accordance with State statute and as advised by their independent actuary. The required employer contribution rate is 9.24% and employer contributions for the current fiscal year and the preceding two fiscal years are as follows:

<u>Fiscal Year</u>	<u>Percentage Contributed</u>	<u>Required Contribution</u>
2006	100%	\$ 51,922,344
2005	100%	\$ 48,185,200
2004	100%	\$ 47,510,329

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DEKALB COUNTY BOARD OF EDUCATION
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2008

SCHEDULE "1"

	NONAPPROPRIATED BUDGETS		ACTUAL
	ORIGINAL (1)	FINAL (1)	AMOUNTS
REVENUES			
Property Taxes	\$ 422,732,782	\$ 422,732,782	\$ 418,665,146
Sales Taxes	16,499,996	16,499,996	20,718,736
State Funds	354,780,046	366,253,436	363,193,979
Federal Funds	77,283,174	89,748,468	103,866,494
Charges for Services	12,100,348	12,100,348	11,581,887
Investment Earnings	2,938,096	3,441,000	6,895,641
Miscellaneous	12,368,978	12,789,816	11,783,619
Total Revenues	\$ 898,703,420	\$ 923,565,846	\$ 938,705,504
EXPENDITURES			
Current			
Instruction	\$ 541,981,646	\$ 555,113,395	\$ 578,781,838
Support Services			
Pupil Services	19,738,192	30,783,187	28,243,898
Improvement of Instructional Services	73,313,258	79,424,571	63,011,396
Educational Media Services	17,418,031	17,630,204	19,989,998
General Administration	4,119,260	5,134,991	5,884,209
School Administration	57,933,102	58,027,781	60,975,859
Business Administration	8,249,936	6,090,766	5,541,950
Maintenance and Operation of Plant	72,466,948	77,626,777	76,165,575
Student Transportation Services	40,168,893	43,194,838	41,955,004
Central Support Services	19,024,588	18,609,143	19,793,182
Enterprise Operations	2,060,694	2,390,159	1,466,231
Food Services Operation	38,557,105	38,578,705	43,176,252
Capital Outlay		48,000	
Debt Service			1,303,180
Total Expenditures	\$ 895,631,654	\$ 932,852,317	\$ 948,288,552
Excess of Revenues over (under) Expenditures	\$ 3,071,766	\$ -9,286,471	\$ -9,583,048
OTHER FINANCING SOURCES (USES)			
Other Sources	\$ 41,830,423	\$ 2,070,877	\$ 549,611
Other Uses	-41,830,423	-2,070,877	
Total Other Financing Sources (Uses)	\$ 0	\$ 0	\$ 549,611
Net Change in Fund Balances	\$ 3,071,766	\$ -9,286,471	\$ -9,033,437
Fund Balances - Beginning	47,209,427	48,892,522	34,621,037
Fund Balances - Ending	\$ 50,281,193	\$ 39,606,051	\$ 25,787,600

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

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

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

See notes to the basic financial statements.

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

SCHEDULE "2"

FUNDING AGENCY PROGRAM/GRANT	CFDA NUMBER	PASS- THROUGH ENTITY ID NUMBER	EXPENDITURES IN PERIOD
Agriculture, U. S. Department of			
Child Nutrition Cluster			
Pass-Through From Georgia Department of Education			
Food Services			
School Breakfast Program	* 10.553	N/A	(2)
National School Lunch Program	* 10.555	N/A	\$ 39,567,698
Total Child Nutrition Cluster			\$ 39,567,698
Other Programs			
Pass-Through From Georgia Department of Education			
Food Donation (1)	10.550	N/A	2,324,236
Total U. S. Department of Agriculture			\$ 41,891,934
Corporation for National and Community Service			
Pass-Through From Georgia Department of Education			
Learn and Serve America			
School and Community Based Programs	94.004	N/A	\$ 28,483
Education, U. S. Department of			
Special Education Cluster			
Pass-Through From Georgia Department of Education			
Special Education			
Grants to States	* 84.027	N/A	\$ 17,428,675
Preschool Grants	* 84.173	N/A	791,262
Total Special Education Cluster			\$ 18,219,937
Other Programs			
Direct			
Comprehensive School Reform Demonstration	84.332		7,309
Fund for the Improvement of Education	84.215		1,355,321
Safe and Drug-Free Schools and Communities - National Programs	84.184		176,724
Transition to Teaching	84.350		332,396
Pass-Through From Georgia Department of Education			
Charter Schools	84.282	N/A	618,606
Comprehensive School Reform Demonstration	84.332	N/A	164,187
Education for Homeless Children and Youth	84.196	N/A	91,227
English Language Acquisition Grants	84.365	N/A	1,602,516
Enhancing Education Through Technology Program	84.318	N/A	937,240
Hurricane Education Recovery	* 84.938	N/A	(3)
Improving Teacher Quality State Grants	* 84.367	N/A	4,493,513
Mathematics and Science Partnerships	84.366	N/A	193,064
Reading First State Grants	84.357	N/A	202,095
Safe and Drug-Free Schools and Communities - State Grants	84.186	N/A	601,796
Special Education - State Personnel Development	84.323	N/A	6,479
State Grants for Innovative Programs	84.298	N/A	330,384
Title I Grants to Local Educational Agencies	* 84.010	N/A	28,750,420
Twenty-First Century Community Learning Centers	84.287	N/A	2,428,088
Vocational Education - Basic Grants to States	84.048	N/A	1,038,028
Total U. S. Department of Education			\$ 61,549,330

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

SCHEDULE "2"

FUNDING AGENCY PROGRAM/GRANT	CFDA NUMBER	PASS- THROUGH ENTITY ID NUMBER	EXPENDITURES IN PERIOD
Health and Human Services, U. S. Department of			
Pass-Through From Georgia Department of Human Resources			
Block Grants for Prevention and Treatment of Substance			
Abuse	93.959	N/A	\$ 90,000
Refugee and Entrant Assistance Discretionary Grants	93.576	N/A	92,142
Total U. S. Department of Health and Human Services			\$ 182,142
Defense, U. S. Department of			
Direct			
Department of the Air Force			
R.O.T.C. Program			\$ 443,534
Department of the Army			
R.O.T.C. Program			60,732
Department of the Navy			
R.O.T.C. Program			646,644
Total U. S. Department of Defense			\$ 1,150,910
Total Federal Financial Assistance			\$ 104,802,799

N/A = Not Available

Notes to the Schedule of Expenditures of Federal Awards

- (1) The amount shown for the Food Donation Program represents the Federally assigned value of nonmonetary assistance for donated commodities received and/or consumed by the School District during the current fiscal year.
- (2) Expenditures for the funds earned on the School Breakfast Program (\$6,028,529) were not maintained separately and are included in the 2006 National School Lunch Program.
- (3) Funds earned on the Hurricane Education Recovery program, in the amount of \$9,918,555, do not require reporting of expenditures. Additionally, this amount includes Federal assistance of \$481,346, provided to non-public schools.

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 DeKalb 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.

DEKALB COUNTY BOARD OF EDUCATION
SCHEDULE OF STATE REVENUE
YEAR ENDED JUNE 30, 2008

SCHEDULE "3"

AGENCY/FUNDING	GOVERNMENTAL FUND TYPES	
	GENERAL FUND	CAPITAL PROJECTS FUND
		TOTAL
GRANTS		
Bright From the Start:		
Georgia Department of Early Care and Learning Pre-Kindergarten Program	\$ 8,068,574	\$ 8,068,574
Community Affairs, Georgia Department of Local Assistance Grant	11,250	11,250
Education, Georgia Department of Quality Basic Education		
Direct Instructional Cost		
Kindergarten Program	24,252,112	24,252,112
Kindergarten Program - Early Intervention Program	2,501,127	2,501,127
Primary Grades (1-3) Program	54,203,267	54,203,267
Primary Grades - Early Intervention (1-3) Program	7,128,679	7,128,679
Upper Elementary Grades (4-5) Program	25,831,202	25,831,202
Upper Elementary Grades - Early Intervention (4-5) Program	4,240,231	4,240,231
Middle Grades (6-8) Program	2,109,867	2,109,867
Middle School (6-8) Program	44,717,074	44,717,074
High School General Education (9-12) Program	44,819,786	44,819,786
Vocational Laboratory (9-12) Program	10,103,783	10,103,783
Students with Disabilities		
Category I	5,861,382	5,861,382
Category II	6,680,116	6,680,116
Category III	22,184,981	22,184,981
Category IV	5,913,992	5,913,992
Category V	314,301	314,301
Gifted Student - Category VI	12,848,767	12,848,767
Remedial Education Program	915,019	915,019
Alternative Education Program	3,780,602	3,780,602
English Speakers of Other Languages (ESOL)	6,119,477	6,119,477
Media Center Program	7,666,194	7,666,194
20 Days Additional Instruction	2,480,985	2,480,985
Staff and Professional Development	1,625,714	1,625,714
Indirect Cost		
Central Administration	6,715,752	6,715,752
School Administration	16,089,429	16,089,429
Facility Maintenance and Operations	22,679,037	22,679,037
Categorical Grants		
Pupil Transportation		
Regular	4,926,522	4,926,522
Bus Replacement	872,084	872,084
Nursing Services	1,684,819	1,684,819
Principal Supplements	336,271	336,271
Food Services	2,240,586	2,240,586
Vocational Education	455,864	455,864
Austerity Reduction	-21,138,565	-21,138,565
Other State Programs		
Charter Schools	48,000	48,000
Health Insurance	16,027,939	16,027,939
K-8 State Reading and Mathematics Program	1,749,747	1,749,747
K-8 State Reading and Mathematics Program - Psycho Ed.	12,000	12,000
National Teacher Certification	366,543	366,543
Preschool Handicapped Program	1,415,903	1,415,903
Residential and Reintegration Services	75,315	75,315
Rule 10 Special Education Grant	74,000	74,000
Severely Emotionally Disturbed	3,210,613	3,210,613
Teachers' Retirement	767,343	767,343
Virtual Schools State Grant	1,850	1,850

DEKALB COUNTY BOARD OF EDUCATION
SCHEDULE OF STATE REVENUE
YEAR ENDED JUNE 30, 2008

SCHEDULE "3"

AGENCY/FUNDING	GOVERNMENTAL FUND TYPES		TOTAL
	GENERAL FUND	CAPITAL PROJECTS FUND	
GRANTS			
Georgia State Financing and Investment Commission			
Reimbursement on Construction Projects		\$ 20,106,056	\$ 20,106,056
Office of Planning and Budget			
Georgia Council for the Arts			
Georgia Challenge Program	\$ 57,000		57,000
Georgia Teacher Alternative Preparation Program	55,200		55,200
Office of Treasury and Fiscal Services			
Public School Employees Retirement	91,835		91,835
CONTRACT			
Education, Georgia Department of			
HIV/AIDS Workshop	2,400		2,400
	<u>\$ 363,193,979</u>	<u>\$ 20,106,056</u>	<u>\$ 383,300,035</u>

See notes to the basic financial statements.

DEKALB COUNTY BOARD OF EDUCATION
SCHEDULE OF APPROVED LOCAL OPTION SALES TAX PROJECTS
YEAR ENDED JUNE 30, 2006

SCHEDULE "4"

<u>PROJECT</u>	<u>ORIGINAL ESTIMATED COST (1)</u>	<u>CURRENT ESTIMATED COSTS (2)</u>	<u>AMOUNT EXPENDED IN CURRENT YEAR (3)</u>	<u>AMOUNT EXPENDED IN PRIOR YEARS (3)</u>	<u>PROJECT STATUS</u>
Property acquisition, construction and equipping of eleven (11) new schools, including two (2) elementary schools, seven (7) middle schools, and two (2) high schools; renovations, modifications, additions and equipment for existing schools; acquisition of a warehouse facility; and acquisition and installation of information systems hardware and infrastructure at all schools and selected other facilities.	\$ 381,733,800	\$ 407,120,349	\$ 1,136,885	\$ 403,062,436	Completed
Property acquisition, construction and equipping a minimum of eight (8) new schools and two (2) new centers; renovations, modifications, additions and equipment for existing schools; acquisition and installation of information systems hardware and infrastructure at all schools and selected other facilities; purchase of both new school buses and school buses currently under lease.	<u>524,404,330</u>	<u>611,134,108</u>	<u>98,509,362</u>	<u>251,513,364</u>	Ongoing
	<u>\$ 906,138,130</u>	<u>\$ 1,018,254,457</u>	<u>\$ 99,646,247</u>	<u>\$ 654,575,820</u>	

- (1) The School District's original cost estimate as specified in the resolution calling for the imposition of the Local Option Sales Tax.
- (2) The School District's current estimate of total cost for the projects. Includes all cost from project inception to completion.
- (3) The voters of DeKalb County approved the imposition of a 1% sales tax to fund the above projects and retire associated debt. Amounts expended for these projects may include sales tax proceeds, state, local property taxes and/or other funds over the life of the projects.

See notes to the basic financial statements.

DEKALB COUNTY BOARD OF EDUCATION
GENERAL FUND - QUALITY BASIC EDUCATION PROGRAM (QBE)
ALLOTMENTS AND EXPENDITURES BY PROGRAM
YEAR ENDED JUNE 30, 2006

SCHEDULE "5"

DESCRIPTION	ALLOTMENTS FROM GEORGIA DEPARTMENT OF EDUCATION (1) (2)	ELIGIBLE QBE PROGRAM COSTS		
		SALARIES	OPERATIONS	TOTAL
Direct Instructional Programs				
Kindergarten Program	\$ 31,262,744	\$ 35,554,852	\$ 61,846	\$ 35,616,498
Kindergarten Program-Early Intervention Program	3,238,525	807,159		807,159
Primary Grades (1-3) Program	69,903,148	73,918,302	1,910,025	75,828,327
Primary Grades-Early Intervention (1-3) Program	9,387,038	2,744,619		2,744,619
Upper Elementary Grades (4-5) Program	33,452,828	42,114,647		42,114,647
Upper Elementary Grades-Early Intervention (4-5) Program	5,636,043	354,292		354,292
Middle Grades (6-8) Program	3,056,907	30,224,963	184,486	30,409,449
Middle School (6-8) Program	57,814,345	66,450,881	1,070,383	67,521,264
High School General Education (9-12) Program	57,667,441	74,659,106	2,918,738	77,577,842
Vocational Laboratory (9-12) Program	12,851,368	11,409,216	918,654	12,328,070
Students with Disabilities	52,746,553	431		431
Category I		38,985,116	2,218,921	41,204,037
Category II		5,792,590	30,603	5,823,193
Category III		22,365,843	85,480	22,451,323
Category IV		4,824,504	38,293	4,862,797
Category V		787,982	4,186	792,168
Gifted Student - Category VI	16,425,494	11,111,773	10,362	11,122,135
Remedial Education Program	1,209,175	8,774,136		8,774,136
Alternative Education Program	4,884,895	1,784,609	36,741	1,821,350
English Speakers of Other Languages (ESOL)	7,702,708	10,078,607		10,078,607
TOTAL DIRECT INSTRUCTIONAL PROGRAMS	\$ 367,339,312	\$ 442,743,428	\$ 9,488,916	\$ 452,232,344
Media Center Program	10,141,327	17,462,054	1,854,175	19,316,229
Staff and Professional Development	2,113,057	1,484,205	755,853	2,240,058
TOTAL QBE FORMULA FUNDS	\$ 379,593,696	\$ 461,689,687	\$ 12,098,944	\$ 473,788,631

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

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

See notes to the basic financial statements.

SECTION II

COMPLIANCE AND INTERNAL CONTROL REPORTS



DEPARTMENT OF AUDITS AND ACCOUNTS

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

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

June 29, 2007

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

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

Ladies and Gentlemen:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of DeKalb County Board of Education as of and for the year ended June 30, 2006, which collectively comprise DeKalb County Board of Education's basic financial statements and have issued our report thereon dated June 29, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered DeKalb County Board of Education's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect DeKalb County Board of Education's ability to record, process, summarize and report financial data consistent with assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items FS-6441-06-01, FS-6441-06-02, FS-6441-06-03, FS-6441-06-04, FS-6441-06-05 and FS-6441-06-06.

2006YB-40

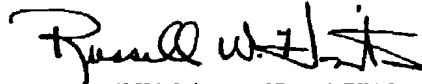
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items FS-6441-06-02 and FS-6441-06-06 to be material weaknesses.

Compliance and Other Matters

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

This report is intended solely for the information and use of the management and members of the DeKalb County Board of Education and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Russell W. Hinton, CPA, CGFM
State Auditor

RWH:as
2006YB-40



DEPARTMENT OF AUDITS AND ACCOUNTS

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

Russell W. Hinton
STATE AUDITOR
(404) 856-2174

June 29, 2007

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

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Ladies and Gentlemen:

Compliance

We have audited the compliance of DeKalb County Board of Education with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2006. DeKalb 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 DeKalb County Board of Education's management. Our responsibility is to express an opinion on DeKalb 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 DeKalb 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 DeKalb County Board of Education's compliance with those requirements.

As described in item FA-6441-06-03 in the accompanying Schedule of Findings and Questioned Costs, DeKalb County Board of Education did not comply with requirements regarding Special Reporting that is applicable to its Hurricane Education Recovery (CFDA 84.938) Federal program. Compliance with such requirements is necessary, in our opinion, for DeKalb County Board of Education to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the DeKalb County Board of Education complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

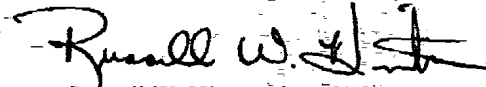
The management of DeKalb County Board of Education is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered DeKalb County Board of Education's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the DeKalb County Board of Education's ability to administer a major Federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items FA-6441-06-01, FA-6441-06-02 and FA-6441-06-03.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level of risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item FA-6441-06-03 to be a material weakness.

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

Respectfully submitted,

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

Russell W. Hinton, CPA, CGFM
State Auditor

RWH:as
2006SA-65

SECTION III

AUDITEE'S RESPONSE TO PRIOR YEAR FINDINGS AND QUESTIONED COSTS

DEKALB COUNTY BOARD OF EDUCATION
AUDITEE'S RESPONSE
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

PRIOR YEAR FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

FINDING CONTROL NUMBER AND STATUS

FS-6441-04-01	Previously Reported Corrective Action Implemented
FS-6441-04-02	Further Action Not Warranted
FS-6441-05-01	Previously Reported Corrective Action Implemented
FS-6441-05-02	Previously Reported Corrective Action Implemented
FS-6441-05-03	Unresolved - See Corrective Action/Responses
FS-6441-05-04	Partially Resolved - See Corrective Action/Responses
FS-6441-05-05	Unresolved - See Corrective Action/Responses

CORRECTIVE ACTION/RESPONSES

**REVENUES/RECEIVABLES/RECEIPTS
EXPENDITURES/LIABILITIES/DISBURSEMENTS**

Inadequate Internal Controls over School Activity Accounts
Finding Control Number: FS-6441-05-03

The Board will provide additional training and support to ensure controls over school activities are followed as designed. The internal audit staff of the Board will continue to perform local internal audits and review compliance.

PROCUREMENT

Inadequate Controls over the Bid Process
Finding Control Number: FS-6441-05-04

The Board commissioned the audit firm of Rubino and McGeehin to conduct an independent forensic audit of the Board's capital building program. This audit was completed and the report issued on June 1, 2006. Similar findings were included in the firm's report and a detailed improvement plan was developed and is being implemented by the Board's Chief Operations Officer, Ms. Patricia Pope.

CAPITAL ASSETS

Failure to Adequately Maintain Capital Assets
Finding Control Number: FS-6441-05-05

The Board has established procedures to properly identify capitalizable purchases using the accounting software and charges made to equipment account codes. The property audit and faculties departments now hold periodic meetings to review the status of capital projects and assets being recorded. The property audit department is working to ensure that amounts submitted to the Georgia Department of Education agree with the subsidiary ledgers.

DEKALB COUNTY BOARD OF EDUCATION
AUDITEE'S RESPONSE
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING CONTROL NUMBER AND STATUS

FA-6441-05-01	Partially Resolved - See Corrective Action/Responses
FA-6441-05-02	Previously Reported Corrective Action Implemented

CORRECTIVE ACTION/RESPONSES

ACTIVITIES ALLOWED/UNALLOWED
ALLOWABLE COSTS/COST PRINCIPLES
Unallowable Expenditures
Amount: \$453,668
Finding Control Number: FA-6441-05-01

The Board has established a procedure to charge Federal programs the direct amount of alternative benefit plan charges for fiscal year 2007. The Board will reimburse Federal programs for any reclaim of funds as determined by the Georgia Department of Education or the grantors.

SECTION IV
FINDINGS AND QUESTIONED COSTS

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

I SUMMARY OF AUDITOR'S RESULTS

1. Type of Report Issued on the Financial Statements

The auditor's opinion on the DeKalb County Board of Education's financial statements was unqualified.

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

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

Expenditures/Liabilities/Disbursements	General Ledger
Revenues/Receivables/Receipts	Capital Assets
Procurement	

Of the reportable conditions described above, Procurement and Capital Assets are considered to be material weaknesses.

3. Noncompliance Material to the Financial Statements

The audit of the DeKalb County Board of Education disclosed no instances of noncompliance that were deemed to be material to the financial statements.

4. Reportable Conditions in Internal Control Over Major Programs

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

Activities Allowed or Unallowed	Eligibility
Special Reporting	

Of the reportable conditions described above, Special Reporting is considered to be a material weakness.

5. Type of Report Issued on Compliance for Major Programs

The auditor's opinion on the DeKalb County Board of Education's report on compliance with requirements applicable to major programs was unqualified except for Hurricane Education Recovery, which was qualified.

6. Audit Findings Required to be Reported by Section .510(a) of OMB Circular A-133

The DeKalb County Board of Education's audit disclosed audit findings required to be reported by section .510(a) of OMB Circular A-133. These audit findings are included in section IV of this report.

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

I. SUMMARY OF AUDITOR'S RESULTS

7. Major Programs

Federal awards audited as major programs are as follows:

10.553	Food Services - School Breakfast Program
10.555	Food Services - National School Lunch Program
84.010	Title I Grants to Local Educational Agencies
84.027	Special Education - Grants to States
84.173	Special Education - Preschool Grants
84.367	Improving Teacher Quality State Grants
84.938	Hurricane Education Recovery

8. Type "A" Program Dollar Threshold

The dollar threshold for type "A" programs was \$3,000,000.

9. Low Risk Auditee

The DeKalb County Board of Education did not qualify as a low risk auditee as defined by Section .530 of OMB Circular A-133.

II. FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

**REVENUES/RECEIVABLES/RECEIPTS
EXPENDITURES/LIABILITIES/DISBURSEMENTS
GENERAL LEDGER**

Inadequate Internal Control Procedures over School Activity Accounts

Reportable Condition

Finding Control Number: FS-6441-06-01

Condition: This is a repeat finding (FS-6441-05-03) from the year ended June 30, 2005. The accounting procedures of the School District were insufficient to provide for adequate internal controls over the school activity accounts.

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

Questioned Cost: N/A

Information: Revenues/Receivables/Receipts
A review of one hundred receipts revealed the following deficiencies:

- Forty-two receipts were not deposited in a timely manner.
- Students were not given receipts for ten items reviewed.
- Two receipts were not recorded accurately in the accounting system.
- One receipt did not agree with the deposit amount.

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

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

**REVENUES/RECEIVABLES/RECEIPTS
EXPENDITURES/LIABILITIES/DISBURSEMENTS
GENERAL LEDGER**

Inadequate Internal Control Procedures over School Activity Accounts

Reportable Condition

Finding Control Number: FS-6441-06-01

- Athletic gate receipts were not reconciled to prenumbered tickets.
- An incorrect charge code was used for sixteen receipts reviewed.

Expenditures/Liabilities/Disbursements

A review of one hundred expenditure vouchers revealed the following deficiencies:

- Thirty-seven vouchers did not include an original invoice.
- Ten voucher packages did not contain an invoice.
- The check amount did not agree to the invoice for four vouchers reviewed.
- The "Authorization of Payment" form was not properly approved for four vouchers reviewed.
- An incorrect charge code was used for nineteen vouchers reviewed.
- Prior approval was not required for any of the items tested.

General Ledger

Receipts and disbursements included transfers between activities. Revenues and expenses are both overstated by \$1,514,599.

Cause: These deficiencies were a result of management's failure to ensure that internal controls were established, implemented and functioning at the school level.

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

Recommendation: Management should revise and monitor controls to provide reasonable assurance that transactions are processed according to established procedures. In addition, management should ensure that appropriate elimination entries are posted to the general ledger to eliminate duplicate reporting which caused overstatements of revenues and expenses.

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

II. FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

PROCUREMENT

Inadequate Controls over the Bid Process

Reportable Condition - Material Weakness

Finding Control Number: FS-6441-06-02

Condition: The School District did not retain school construction project files in accordance with the policies adopted by the School District. Therefore, management could not document compliance with State laws and regulations as discussed in a finding (FS-6441-05-04) from year ended June 30, 2005.

Criteria: The Georgia Archives' *Retention Schedules for Local Government Records*, which has been adopted by the School District, states that school construction project files must be retained for the life of the facility.

Management of the School District is responsible for designing, implementing, and documenting internal controls related to the construction bid process to ensure that:

- All construction projects entered into are adequately planned in accordance with OCGA §36-91-20(b) which states: "Plans and specifications shall be available on the first day of the advertisement and shall be open to inspection by the public. The advertisement shall include such details and specifications as will enable the public to know the extent and character of the work to be done..."
- Bids are awarded to "The lowest responsible and responsive bidders whose bids meet the requirements..." as required by OCGA §36-91-21(b).
- Change orders are within the scope of the signed contract in accordance with OCGA §36-91-20(b) which states: "Bid and contract documents may contain provisions authorizing the issuance of change orders, without the necessity of additional request for bids or proposals, within the scope of the project when appropriate or necessary in the performance of the contract. Change orders may not be used to evade the purposes of this article."
- The Georgia Department of Education's *Guidelines for Receiving State Capital Outlay Funds* are met for capital outlay projects funded with State funds. Specifically, the Project Budget under Preliminary Planning states, "Every effort should be made to get full value for the dollar invested in construction and to prevent over-designing the project. All parties concerned should be made fully aware of the project budget. The amount of funds available for construction, architectural fees, resident engineer, survey, soil investigation, cost of loose equipment, contingencies, etc. shall be made perfectly clear."

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

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

PROCUREMENT

Inadequate Controls over the Bid Process

Reportable Condition - Material Weakness

Finding Control Number: FS-6441-06-02

Questioned Cost: N/A

Information:

A review of 38 construction projects revealed the following:

- Bid documentation could not be provided for 35 of the 38 construction projects examined.
- Requests for Proposals (RFP) were not provided for any of the construction projects examined.
- Documentation of change orders were incomplete for all projects examined.
- Only 17 of 41 construction contracts requested for review were provided.

Due to the lack of available documentation, our testing could not determine if:

- Contracts entered into were adequately planned.
- Completed designs were available at the time of the advertisement of the RFP to ensure a competitive bidding process.
- Change orders were within the scope of the signed contract.
- Project designs and budgets were complete prior to the onset of construction.

Cause:

These deficiencies occurred because School District personnel failed to follow established policies when the following events occurred:

- The School District outsources management of construction projects. During the period under review, the School District changed Construction Management firms. School District personnel did not maintain proper care and custody of construction project records during this change.
- The School District is involved in a legal matter related to certain construction projects. School District personnel did not maintain proper care and custody of construction project records when providing the School District's attorney documentation related to this legal matter.

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

II. FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

PROCUREMENT

Inadequate Controls over the Bid Process
Reportable Condition - Material Weakness
Finding Control Number: FS-6441-06-02

Effect: The School District could not document compliance with State laws and regulations nor document resolution of deficiencies in internal controls cited in prior year finding FS-6441-05-04. In addition, fraud and/or abuse of public funds could have occurred and remain undetected due to incomplete documentation of the procurement process for construction projects.

Recommendation: Management should revise procedures to ensure that records are retained in accordance with School District policy. In addition, procedures should be implemented to document compliance with State laws and regulations. These procedures should be monitored for effectiveness on a regular basis. This monitoring should also be documented and retained in accordance with the School District's adopted record retention policy.

Existing projects should be reviewed for compliance with the School District's adopted record retention policy. If exceptions are noted, the School District should document the exceptions and make every effort to resolve them. If an exception cannot be resolved, the steps made to resolve the exception and the reasons why the exception could not be resolved should be adequately documented.

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

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

PROCUREMENT

EXPENDITURES/LIABILITIES/DISBURSEMENTS

Inadequate Controls over the Purchase Card Purchases

Reportable Condition

Finding Control Number: FS-6441-06-03

Condition: School District personnel utilized Purchase Cards (P-Cards) to circumvent normal procurement procedures which require the use of a purchase order and may require multiple bids. In addition, some P-Card transactions were not adequately documented.

Criteria: Management of the School District is responsible for designing, implementing, and documenting internal controls that provide reasonable assurance that transactions are processed according to established procedures.

Questioned Cost: N/A

Information: A review of 32 P-Card statements revealed the following:

- 28 instances were noted where an acquisition of goods/services was split into several transactions. In doing so, School District personnel circumvented normal purchasing procedures.
- Seven instances were noted where transactions were not properly supported by an invoice.
- Numerous instances were noted where transactions did not include an adequate explanation, and/or failed to specify the appropriate project to be charged.

A review of the School District's P-Card policy noted that the policy lacked adequate guidance on when it is acceptable for expenditures to be initialized with a P-Card and when expenditures must be initialized with a purchase order.

Cause: Management failed to properly define adequate policies related to P-Cards. Existing policies related to P-Cards were not adequately communicated to personnel initializing transactions. In addition, management failed to adequately monitor P-Card purchases to ensure that proper procedures were being followed.

Effect: Fraud and/or abuse of public funds can occur and remain undetected.

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

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

**PROCUREMENT
EXPENDITURES/LIABILITIES/DISBURSEMENTS**
Inadequate Controls over the Purchase Card Purchases
Reportable Condition
Finding Control Number: FS-6441-06-03

Recommendation: Management should revise the P-Card policy to define when it is acceptable and unacceptable to initialize expenditures with P-Cards. This policy should be communicated to all personnel involved with P-Cards. This communication should occur at least annually and be adequately documented. Procedures for monitoring P-Card transactions should be developed so that risky types of transactions can be targeted. This monitoring should occur on a regular basis and be documented. Procedures should be developed to provide additional training to personnel outlining consequences of abuse of the School District P-Card policy.

**PROCUREMENT
EXPENDITURES/LIABILITIES/DISBURSEMENTS**
Inadequate Controls over the Purchase of Gift Cards
Reportable Condition
Finding Control Number: FS-6441-06-04

Condition: A proper accounting of gift card purchases was not maintained by the School District. Gift card expenditures could not be verified to final source documentation.

Criteria: Management of the School District is responsible for adopting sound accounting policies, establishing and maintaining effective internal control, and preventing and detecting fraud and abuse over financial reporting.

Questioned Cost: N/A

Information: A review of P-Card transactions noted numerous purchases of gift cards from various vendors ranging from \$20 to \$1,000 per gift card. Further inquiry about these purchases revealed the following:

- The School District did not have a policy in place that provided guidance over the purchase or use of gift cards.
- An adequate system of inventorying gift cards was not in place.
- Invoices for items purchased with gift cards were not required to be maintained on file or to be reconciled back to the total value of the gift card. Therefore, adequate documentation for these expenditures was not maintained.

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

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

**PROCUREMENT
EXPENDITURES/LIABILITIES/DISBURSEMENTS**

Inadequate Controls over the Purchase of Gift Cards

Reportable Condition

Finding Control Number: FS-6441-06-04

Cause: Management failed to develop policies that address the purchase of gift cards.

Effect: Fraud and/or abuse of public funds can occur and remain undetected.

Recommendation: Management should develop an extensive and detailed policy over the purchase and use of gift cards. The policy should address, but not be limited to, the following:

- The fact that unused gift cards should be kept in a secure location - treated in the same manner as cash.
- The need for a system of accounting for gift cards at the District level. This inventory, at a minimum, should include the gift card number, vendor, amount, purchaser, and purpose. As gift cards are utilized, the individual using the card should be required to sign out the card. The signer's information should also be included on the inventory.
- The need for periodic physical inventory counts.
- Acceptable uses for gift cards.
- A requirement to complete a reconciliation of items purchased with the gift card to the total value of the gift card. This reconciliation should include all pertinent information about the gift card such as gift card number, vendor, amount, purchaser, individual using the card, and purpose. Original invoices for items purchased with the gift card should be attached to the reconciliation. The reconciliation should be submitted to the central office for review.

This policy should be communicated to all personnel involved with gift cards. This communication should occur at least annually and be adequately documented. Procedures for monitoring gift card activity transactions should be developed. This monitoring should occur on a regular basis and be documented.

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

II. FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

GENERAL LEDGER

Inadequate Control over Subsidiary Ledgers

Reportable Condition

Finding Control Number: FS-6441-06-05

Condition: The School District failed to reconcile general ledger account balances to the subsidiary records.

Criteria: Management of the School District is responsible for designing, implementing, and documenting internal controls that provide reasonable assurance that transactions are processed according to established procedures and that the financial statements are presented fairly.

Chapter 22H *Preparing for a GASBS 34 Audit of the Financial Management for Georgia Local Units of Administration* (FMGLUA) states that management of the School District has "a responsibility to provide certain information to facilitate the audit process and to allow the auditors to maintain their independence." The FMGLUA further states that listing of all accounts receivable and accounts payable at June 30 for the year under audit and documentation of subsequent year receipts demonstrating the collection of the accounts receivable should be provided for audit purposes.

Questioned Cost: N/A

Information: Our examination of the accounting records revealed that the School District did not provide for adequate general ledger procedures as follows:

- Listings of accounts payables and accounts receivables were not prepared in a timely manner.
- The accounts payable listing included an unidentified beginning balance in the amount of \$147,905.
- The accounts receivable listing included an unidentified beginning balance in the amount of \$119,923.

Cause: Management failed to implement internal controls to ensure that general ledger accounts are reconciled with subsidiary records.

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

Recommendation: The School District should implement internal controls to ensure that all subsidiary reports are properly reconciled to the general ledger.

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

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

CAPITAL ASSETS

Failure to Adequately Maintain Capital Assets

Reportable Condition - Material Weakness

Finding Control Number: FS-6441-06-06

Condition: This is a repeat finding (FS-6441-05-05 and FS-6441-04-02) from the years ended June 30, 2005, and 2004, respectively. The School District failed to adequately maintain the capital assets records.

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

Questioned Cost: N/A

Information: A review of the School District's Capital Asset policies and procedures and related Capital Asset records noted deficiencies as discussed below:

- The fiscal year 2004 audit noted unrecorded Buildings and Building Improvements additions totaling \$27,337,252. The amount was removed from Construction in Progress, but inadvertently omitted from additions to Buildings and Building Improvements. A current year audit adjustment was proposed and made to record this material omission in the School District's basic financial statements.
- The School District restated various Capital Assets due to errors and omissions which resulted in a decrease in Net Assets at July 1, 2005, of \$44,635,393. This restatement was necessary because of the following deficiencies:
 - Management failed to verify that the fiscal year 2005 Construction in Progress Analysis footed.
 - Management failed to verify that a building placed in service in fiscal year 1991 was entered into the system at the appropriate amount.
 - The physical inventory of equipment was not effective in ensuring that significant equipment additions were capitalized in previous years.
 - A reconciliation of capital asset additions to capital outlay expenses was not performed in previous years.

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

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

CAPITAL ASSETS

Failure to Adequately Maintain Capital Assets

Reportable Condition - Material Weakness

Finding Control Number: FS-644I-06-06

- The 2006 Construction in Progress Analysis, as originally presented for audit, contained significant misstatements due to calculation errors made by School District personnel. The ending Construction in Progress balance did not include beginning balances for retainage payables. This error in the calculation resulted in a net change of approximately \$2,037,464 in Construction in Progress. In addition, School District personnel added an unearned executed contract balance of \$1,630,453 for one project in error to Construction in Progress at June 30, 2006. An audit adjustment was proposed and made to correct this error in the School District's basic financial statements.
- The Capital Assets listing presented for audit failed to include current year additions for Construction in Progress for a specific vendor for a Wide Area Network (WAN) system upgrade totaling \$12,237,733. An audit adjustment was proposed and made to record this omission in the School District's basic financial statements.
- The School District failed to reconcile current year capital asset additions to current year capital outlay expenditures.
- The balances on the School District's subsidiary ledger (FASGov) did not reconcile to the amounts posted to the general ledger; therefore, materially correct balances were not submitted to the Georgia Department of Education as required.

Cause:

The School District failed to properly maintain its capital assets records in accordance with the School District's approved capital assets policy. The School District does not adequately monitor expenditures to identify capitalizable purchases. Central office personnel responsible for the capital assets records rely on school personnel to notify them that capital assets items are purchased in order to include the items on the inventory listing.

Effect:

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

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

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

CAPITAL ASSETS

Failure to Adequately Maintain Capital Assets

Reportable Condition - Material Weakness

Finding Control Number: FS-6441-06-06

Recommendation: The School District should review its capital assets records and make appropriate adjustments to ensure that the capital assets records conform to the School District's approved capital assets policy and generally accepted accounting principles. The School District should implement procedures to reconcile current year capital asset additions to current year capital outlay expenditures on a periodic basis. In addition, the School District should ensure that the amounts submitted to Georgia Department of Education agree with the subsidiary ledgers.

III FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

ACTIVITIES ALLOWED OR UNALLOWED

Inadequate Internal Control Procedures

Reportable Condition

U. S. Department of Education

Through Georgia Department of Education

Hurricane Education Recovery (CFDA 84.938)

Finding Control Number: FA-6441-06-01

Condition: The School District did not adequately account for Hurricane Education Recovery Act (HERA) funds provided for displaced students reported as having disabilities. These HERA funds can only be used for the excess costs of providing special education and related services to students with disabilities.

Criteria: The following guidance applied to the management of Emergency Impact Aid for Displaced Students to include funds made available for displaced students:

1. Section 107(e)(4) of HERA
2. Volumes "I" and "II" of US Department of Education (USED) guidelines included in "Frequently Asked Questions, Emergency Impact Aid for Displaced Students" and
3. State of Georgia issued publication titled "Georgia Guidance on Federal Emergency Hurricane Act" (GDOE Guidelines).

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

III FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

ACTIVITIES ALLOWED OR UNALLOWED

Inadequate Internal Control Procedures

Reportable Condition

U. S. Department of Education

Through Georgia Department of Education

Hurricane Education Recovery (CFDA 84.938)

Finding Control Number: FA-6441-06-01

Provisions of HERA, USED and GDOE Guidelines state that HERA funds for students with disabilities may only be used to pay for special education and related services consistent with the Individuals with Disabilities Education Act (IDEA). Both Volumes "I" and "II" of USED guidance state that the funds provide for students with disabilities must be recorded and tracked separately from those HERA funds provided for non-disabled students. This Federal requirement was not specifically included in GDOE Guidelines.

Provisions of HERA and GDOE guidelines state that these funds may become a part of a School District's special education budget to ensure that they are only used to pay for special education and related service consistent with IDEA. The guidelines further stated that since these funds are to be applied and used in a manner as funds made available under Part B of IDEA, it was also advised to consult with State and local staff who are cognizant of IDEA requirements.

Questioned Cost: \$691,875

Information: HERA funds received by the School District included \$691,875 for students with disabilities. Although required by Federal guidelines, the receipt and expenditure of these funds were not maintained separately.

We further noted that the budget for special education was not modified for the increase in HERA funds designated for special education and related purposes. There was no evidence that State or local special education staff were consulted about the use of these funds.

Cause: The School District relied solely on GDOE Guidelines which did not specifically state that the School District provide separate accountability of HERA funds provided for students with disabilities. Consideration had not been given to consulting with local and State special education staff or revising its special education budget to ensure that these HERA funds were applied in line with IDEA.

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

III FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

ACTIVITIES ALLOWED OR UNALLOWED

Inadequate Internal Control Procedures

Reportable Condition

U. S. Department of Education

Through Georgia Department of Education

Hurricane Education Recovery (CFDA 84.938)

Finding Control Number: FA-6441-06-01

Effect: We were unable to verify if the \$691,875 of HERA funds earmarked for students with disabilities were used for special education and related purposes.

Recommendation: Management should ensure that procedures are in place to comply with both Federal and State guidelines when administering HERA funds for special education purposes. The Georgia Department of Education should review this matter and determine if these funds were used properly or a refund is appropriate.

ELIGIBILITY

Failure to Maintain Student Documentation

Reportable Condition

U. S. Department of Education

Through Georgia Department of Education

Hurricane Education Recovery (CFDA 84.938)

Finding Control Number: FA-6441-06-02

Condition: The School District failed to maintain adequate documentation to support the determination of eligibility requirements for displaced students as included in 34 CFR section 76.731.

Criteria: OMB's Compliance Supplement (CS) Part 4-84.938, IIE3b. states that the LEA is required to keep records to show compliance with program requirements (34 CFR section 76.731). Therefore, the LEA must document that each reported displaced student was enrolled, or eligible to be enrolled, in a public or non-public school within the disaster areas covered by Hurricane Katrina or Rita. The requirements for recordkeeping for all local education agencies are outlined in the answer to question 35 of Volume I (Revised) of the *Frequently Asked Questions Emergency Impact Aid for Displaced Students* dated February 2, 2006, as follows: "At a minimum, recipients must keep auditable records documenting the enrollment of the displaced children who they claimed as the basis for receiving payments and evidence of the children claimed met the definition of a displaced student."

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

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

ELIGIBILITY

Failure to Maintain Student Documentation
Reportable Condition
U. S. Department of Education
Through Georgia Department of Education
Hurricane Education Recovery (CFDA 84.938)
Finding Control Number: FA-6441-06-02

Questioned Cost: \$9,375

Information: We reviewed the applications and documentation of sixty displaced students to determine if these students met eligibility requirements of the Hurricane Education Recovery Program. The School District was unable to provide the application and documentation for one public school student in order to verify eligibility. In addition, four other students were deemed ineligible after review of their applications and supporting documentation.

Cause: The School District did not monitor the applications and documentation required for all displaced students to ensure that there was proper support for student eligibility.

Effect: We were unable to verify that the student with the missing file was an eligible displaced student and the four other students were found to be ineligible. Therefore, the School District incorrectly requested and received Hurricane Education Recovery funds for this student.

Recommendation: Management should ensure that all applications and documentation for each displaced student is maintained on file as required and available for examination. The Georgia Department of Education should review this matter and determine if a refund is appropriate.

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

III FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

SPECIAL REPORTING

Inaccurate Reporting of Eligible Displaced Students

Reportable Condition - Material Weakness

Material Noncompliance

U. S. Department of Education

Through Georgia Department of Education

Hurricane Education Recovery (CFDA 84.938)

Finding Control Number: FA-6441-06-03

Condition: The School District inaccurately reported the number of eligible displaced students on the application for Emergency Impact Aid for Displaced Students (CFDA 84.938) to the Georgia Department of Education (GDOE).

Criteria: Federal guidelines stated on the School District's approved application submitted to GDOE states in part: "For each quarter, report the number of displaced students as of the reporting date for that quarter." In addition, pre-kindergarten is not permitted to be included on the counts since pre-kindergarten is not required by Georgia Law. This guideline is explained in question 3 of Volume I (Revised) of the *Frequently Asked Questions Emergency Impact Aid for Displaced Students* dated February 2, 2006.

Questioned Cost: \$331,500

Information: We reviewed the quarterly applications submitted to GDOE for Federal funding of the Emergency Impact Aid for Displaced Students. While the application should not report any displaced pre-kindergarten students who were enrolled on the reporting date, we found that pre-kindergarten students were included on the roster of displaced students used to complete the application. A recalculation of eligible students was made based on actual attendance at each of the quarterly count dates. We identified that the School District received excess funding in the approximate amount of \$331,500 due to the over counting of displaced students.

Cause: These deficiencies resulted from the School District's oversight of Federal guidelines pertaining to counts included on their application to GDOE for Emergency Impact Aid for Displaced Students.

Effect: These reporting deficiencies resulted in the School District receiving excess funding from GDOE.

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

III FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

SPECIAL REPORTING

Inaccurate Reporting of Eligible Displaced Students

Reportable Condition - Material Weakness

Material Noncompliance

U. S. Department of Education

Through Georgia Department of Education

Hurricane Education Recovery (CFDA 84.938)

Finding Control Number: FA-6441-06-03

Recommendation: Management should become aware of Federal guidelines and ensure that procedures are in place to comply with those Federal guidelines when reporting to GDOE. In addition, GDOE should review this matter and make a recovery of the excess Emergency Impact Aid for Displaced Students funds awarded to the School District.

SECTION V
MANAGEMENT'S RESPONSES

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

Finding Control Number: FS-6441-06-01

We concur with this finding. Many of the same items have been identified in the School District's internal audits of local school accounts. The School District will continue to perform local school reviews to ensure that proper procedures are followed. The School District will continue to train and monitor local school personnel in order to ensure that controls are followed as designed. The controls and procedures are prescribed in the DCSS Local School Accounting Manual and local internal audits are conducted to review compliance.

Contact Person: Mr. Marcus Turk, Chief Financial Officer
Phone: (678) 676-0069 Fax Number: (678) 875-5025
E-mail Address: marcus_turk@fc.dekalb.k12.ga.us

Finding Control Number: FS-6441-06-02

We concur with this finding. The School District continues to implement recommendations from the firm Rubino and McGeehin in its independent forensic audit of the School District's capital building program. The audit was completed and the report was issued on June 1, 2006. A detailed improvement plan was developed and continues to be implemented by the Chief Operations Officer, Ms. Patricia Pope. Much of the documentation requested was unavailable because the School District is involved in a legal matter related to numerous construction projects. As a result, a new scanning process has been implemented in order to ensure that documentation is available.

Contact Person: Ms. Patricia Pope, Chief Operations Officer
Phone: (678) 676-1200 Fax Number: (678) 875-5025
E-mail Address: pap8746@fc.dekalb.k12.ga.us

Finding Control Number: FS-6441-06-03

We concur with this finding. The School District has revised the regulations related to P-Card usage to detail when it is acceptable and unacceptable to initialize expenditures with P-Cards. The revised P-Card procedures have been strengthened and communicated to all P-Card holders. Consequences for failure to adhere to the regulations are severe and include revocation of the P-Card. The School District will continue to monitor transactions to review for fraud and abuse.

Contact Person: Mr. Marcus Turk, Chief Financial Officer
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DEKALB COUNTY BOARD OF EDUCATION
SCHEDULE OF MANAGEMENT'S RESPONSES
YEAR ENDED JUNE 30, 2006

Finding Control Number: FS-6441-06-04

We concur with this finding. The School District has revised the regulations related to P-Card usage to indicate that it is unacceptable to purchase gift cards with P-Cards. Consequences for failure to adhere to the regulations are severe and include revocation of the P-Card. The School District will continue to monitor transactions to review for fraud and abuse.

Contact Person: Mr. Marcus Turk, Chief Financial Officer
Phone: (678) 676-0069 Fax Number: (678) 875-5025
E-mail Address: marcus_turk@fc.dekalb.k12.ga.us

Finding Control Number: FS-6441-06-05

We concur with this finding. The School District will ensure that general ledger account balances reconcile to the subsidiary records by vendor. The listings of accounts payable and accounts receivable will be prepared in a timely manner in order to detect errors and/or irregularities in a timely manner. The School District will comply with the Financial Management Guide for Local Units of Administration Chapter 22H by providing detailed listings as of June 30 of each year.

Contact Person: Mr. Marcus Turk, Chief Financial Officer
Phone: (678) 676-0069 Fax Number: (678) 875-5025
E-mail Address: marcus_turk@fc.dekalb.k12.ga.us

Finding Control Number: FS-6441-06-06

We concur with this finding. The School District has established an "Assistant Director for Capital Projects" position with the primary responsibility for the physical inventory of equipment, the Construction in Progress schedule, and the Capital Assets listing. Processes have been developed in order to ensure that there are no material errors and/or omissions, the subsidiary ledger reconciles to the general ledger, and the Construction in Progress schedule is stated correctly. Additionally, the School District has implemented a Board policy related to the capitalization of assets. The staff responsible for recording assets on the subsidiary ledger and the staff responsible for the School District's building program meet and collaborate regularly to review the status of the capital projects and the documentation related to each capital project.

Contact Person: Mr. Marcus Turk, Chief Financial Officer
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DEKALB COUNTY BOARD OF EDUCATION
SCHEDULE OF MANAGEMENT'S RESPONSES
YEAR ENDED JUNE 30, 2006

Finding Control Number: FA-6441-06-01

We do not concur with this finding. The School District received funds for the Hurricane Education Recovery Act during the second month of the fiscal year 2006. The School District adhered to the guidance received from the Georgia Department of Education (GDOE). The Volumes "I" and "II" of U. S. Department of Education guidelines included in "Frequently Asked Questions, Emergency Impact Aid for Displaced Students" were released in the seventh month of the fiscal year 2006, at which point most of the funds had been expended. The GDOE Guidelines did not specifically include the Federal requirement cited in this finding. As a result of guidance that was not clear, specific, or timely, the School District does not agree with the \$691,875 questioned cost.

Contact Person: Mr. Marcus Turk, Chief Financial Officer
Phone: (678) 676-0069 Fax Number: (678) 875-5025
E-mail Address: marcus_turk@fc.dekalb.k12.ga.us

Finding Control Number: FA-6441-06-02

We do not concur with this finding. The School District learned of the requirements for recordkeeping for all local education agencies in Volume "I" of the "Frequently Asked Questions, Emergency Impact Aid for Displaced Students" released five months after students were enrolled on an emergency basis. Though in most instances the information was not available to be obtained, the School District was not made aware of the requirement on a timely basis.

Contact Person: Mr. Marcus Turk, Chief Financial Officer
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Finding Control Number: FA-6441-06-03

We do not concur with this finding. The School District received funds for the Hurricane Education Recovery Act during the second month of the fiscal year 2006. The Volumes "I" and "II" of U. S. Department of Education guidelines included in "Frequently Asked Questions, Emergency Impact Aid for Displaced Students" were released in the seventh month of the fiscal year 2006, at which point most of the funds had been expended. As a result of guidance that was not clear, specific, or timely, the School District does not agree with the \$331,500 questioned cost.

Contact Person: Mr. Marcus Turk, Chief Financial Officer
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