FINANCIAL SECTION

BANKS, FINLEY,
WHITE & CO.
CERTIFIED PUBLIC ACCOUNTANTS

Superintendent and Members of the
Board of Education of the City of Atlanta, Georgia

Report of Independent Certified Public Accountants

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Atlanta Independent School System (the "School System") of Atlanta, Georgia, as of and for the year ended June 30, 2007, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School System's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statement of the charter schools, represented as blended component units of the School System, which collectively at the fund level represent 16.0 percent, 17.5 percent, and 9.7 percent and at the district-wide level represent .23 percent, .23 percent, and .47 percent, respectively, of the assets, fund balances, and revenues of the aggregate remaining funds. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities and fund, is based solely on the report of the other auditors.

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 *Governmental Auditing Standards*, issued by the Comptroller 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 and the report of other auditors provide a reasonable basis for our opinions.

Management has not properly captured, recorded, summarized, depreciated, reconciled subsidiary ledger to control accounts in the general ledger and reviewed the activities of capital assets and, accordingly, has not considered the need to provide an accurate accounting of its capital assets. Accounting principles generally accepted in the United States of America require that an adequate accounting be provided for capital assets, which would impact the assets and net asset balances and change the revenues in the governmental activities. The amount by which this departure would affect the assets, net asset balances, and revenues of the governmental activities is not reasonably determinable.

Superintendent and Members of the
Board of Education of the City of Atlanta, Georgia

In our opinion, except for the effects of not providing an adequate accounting for capital assets in the governmental activities as described in the preceding paragraph, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to reconcile the capital outlays in the general ledger to the School System's financial statements and to substantiate the additions, deletions, reclassifications and prior year adjustments to capital assets, the School System's financial statements referred to above present fairly, in all materials respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented components units, each major fund, and the aggregate remaining fund information of the School System as of June 30, 2007, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparisons for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Governmental Auditing Standard*, we have also issued our report dated February 4, 2009 on our consideration of the School System's internal control over financial reporting and our test of its compliance with certain provisions of law, 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 our audit performed in accordance with *Governmental Auditing Standard*, and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and analysis on pages 3 through 16 is not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standard Board. 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 School System's basic financial statements. The introductory section, the combining and individual nonmajor fund financial statements, budgetary comparison schedules and the statistical section, all as listed in the accompanying table of contents, are presented for purposed of additional analysis and are not a required part the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Banks, Finley, White & Co.

February 4, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

ATLANTA INDEPENDENT SCHOOL SYSTEM
Management's Discussion and Analysis
For the Year Ended June 30, 2007

The discussion and analysis of the School System's financial performance provides an overview of the financial year ended June 30, 2007. The intent of this discussion and analysis is to examine the School System's financial performance as a whole, identify changes in financial position as well as to provide basic financial statements. The basic financial statements and notes to the financial statements should be reviewed by the readers to enhance their understanding of the School System's financial performance as a whole or as an entire operating entity. The basic financial statements contain the following components:

1) District-wide financial statements including the Statement of Net Assets and the Statement of Activities which provide a broad, long-term overview of the School System's finances

2) Fund-level financial statements provide a greater level of detail about the School System's major funds and focus on how well the School System has performed in the short-term in the most significant funds

3) Notes to the Basic Financial Statements

This report also presents the highlights for the year ended June 30, 2007, and contains other supplementary information.

FINANCIAL HIGHLIGHTS

Overall, net assets in fiscal year 2007 increased by 13.6% over fiscal year 2006. This is evidence of management's ability to maintain a balanced budget and effectively control expenses, despite austerity reductions due to economic downturns affecting district revenues. The key financial highlights for fiscal year 2007 as represented are:

<u>District-wide Financial Statements:</u>

- Total net assets for the School System increased from $963.84 million in fiscal year 2006 to $1,094.94 in fiscal year 2007, an increase of approximately $131.16 million or 13.6%. Net assets increased by $114.71 million for Governmental Activities and increased by $16.4 million for Business-type Activities

- Total revenues increased from $733.34 million in fiscal year 2006 to $835.22 million in fiscal year 2007, an increase of approximately $101.88 million or 13.9%. Revenue for Governmental Activities increased $101.18 million while revenue for Business-type activities increased by $0.7 million

- Total expenses increased $20.73 million or 3.1% from $670.02 million in fiscal year 2006 to $690.75 million in fiscal year 2007. Expenses increased in Governmental Activities by $20.81 million and decreased by $0.08 million in Business-type Activities.

Fund Financial Statements:

The School System has prepared its annual financial reports corresponding to the Governmental Accounting Standards Board No. 34 financial reporting model. The following graphic is provided to give the reader an overview of the new reporting model.



OVERVIEW OF FINANCIAL STATEMENTS

District-Wide Financial Statements

The district–wide financial statements are designed to provide the reader with a broad overview of the School System's finances in a manner similar to those used by private-sector businesses. The Statement of Net Assets and the Statement of Activities provide information about the activities of the whole School System, presenting an aggregate and long-term perspective of the finances. These statements include all assets and liabilities using the accrual basis of accounting. This basis of accounting includes all of the current year's revenues and expenses regardless of when cash is received or paid.

- The ***Statement of Net Assets*** presents information on all of the Schools System's assets and liabilities, with the difference between the two reported as net assets. Increases or decreases in net assets may serve as a useful indicator of whether the financial position is improving or deteriorating.

- The ***Statement of Activities*** presents information showing how net assets changed during the fiscal year. All changes in the net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of the related cash flows*. Thus, revenues and expenses are reported in the statement for some items that will result in cash flows in future fiscal periods (for example, uncollected taxes and earned but unused vacation leave).

Included in the Statement of Net Assets and Statement of Activities for the School System are two distinct kinds of activities:

- *Governmental Activities* – Most of the School System's programs and services are reported here including instruction, pupil services, improvement of instruction, educational media, general administrative, school administrative, business services, maintenance and operations of facilities, student transportation and central support.

- *Business-type Activities* – This service is provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The Food Services proprietary fund is reported as a Business-type activity.

Table I - Condensed Statement of Net Assets (in millions of dollars)

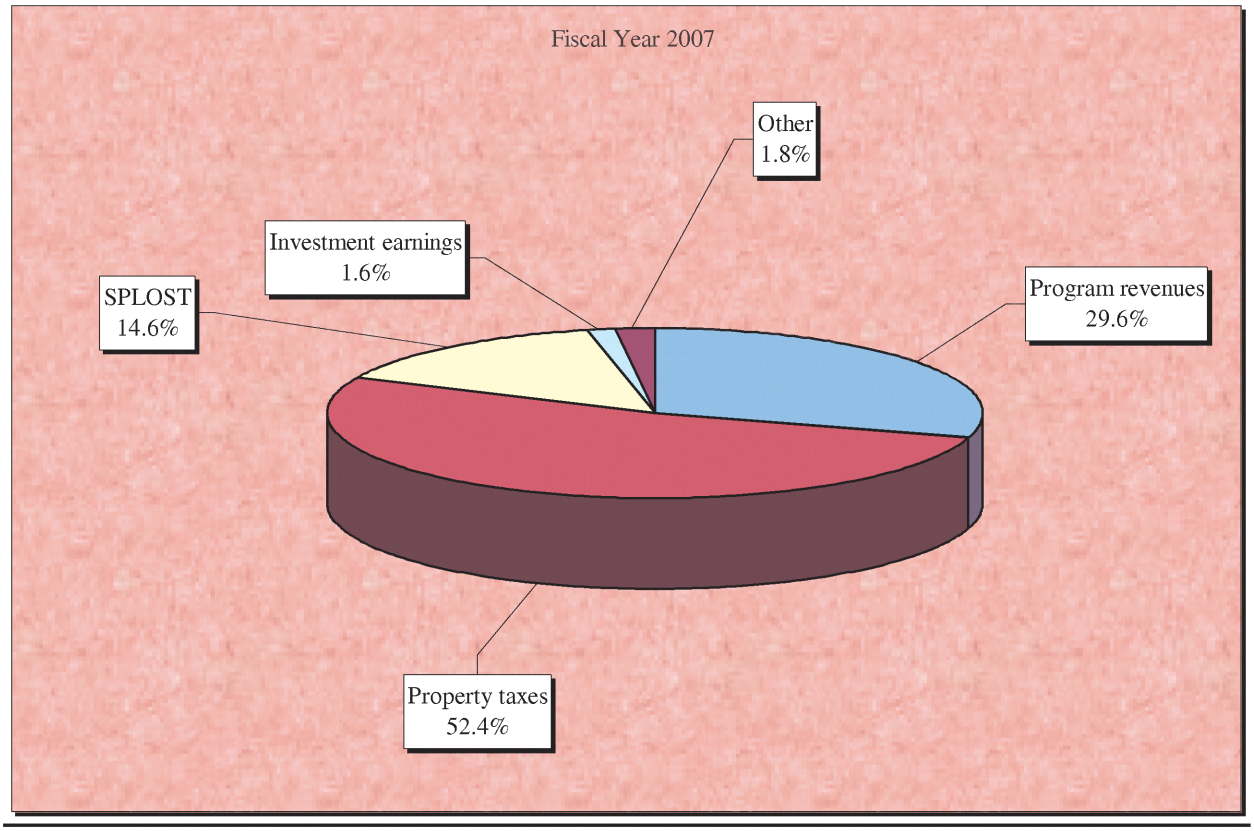
	Governmental Activities		Business-type Activities		Total School System		Percentage Change
	2007	2006	2007	2006	2007	2006	
Current and other assets	$ 366.44	218.30	$ (8.14)	$ 8.72	$ 358.30	$ 227.01	57.8%
Net capital assets	860.50	854.96	5.30	5.78	865.80	860.73	0.6%
Total assets	1,226.94	1,073.26	(2.84)	14.50	1,224.10	1,087.74	12.5%
Long-term debt outstanding	48.84	35.22	0.00	0.00	48.84	35.22	38.7%
Other liabilities	79.22	53.84	1.11	34.84	80.33	88.69	-9.4%
Total liabilities	128.06	89.06	1.11	34.84	129.17	123.91	4.2%
Net assets							
Invested in capital assets, net of related debt	825.58	831.83	5.30	5.78	830.88	837.61	-0.8%
Restricted	106.98	22.08	0.00	0.00	106.98	22.08	384.5%
Intergovernmental debt service	0.00	4.39	0.00	0.00	0.00	4.39	0.0%
Unrestricted	166.33	125.88	(9.25)	(26.12)	157.07	99.77	57.4%
Total net assets	$ 1,098.89	$ 984.18	$ (3.95)	$ (20.35)	$ 1,094.93	$ 963.84	13.6%

- **Total assets** increased 12.5% or $136.36 million.
- **Current and other assets** increased by $131.29 million or 57.8 %.
- **Capital assets, net of depreciation** for all activities increased $5.07 million or .6%. For governmental activities the increase primarily represents additions to buildings and Building improvements.
- **Long-term debt outstanding** increased 38.7% or $13.62 million. The increase was primarily due to the debt issued by Education Reform Success, Inc., and new bond issued by the City of Atlanta on behalf of the school system.

Table 2 - Condensed Changes in Net Assets (in millions of dollars)

	Governmental Activities		Business-type Activities		Total School System		Percentage Change
	2007	2006	2007	2006	2007	2006	
Revenues							
Program revenues							
Charges for services	$ 2.07	$ 2.10	$ 2.53	$ 2.58	$ 4.61	$ 4.68	-1.5%
Operating grants and contributions	222.39	205.81	19.00	18.27	241.39	224.08	7.7%
Capital grants and contributions	1.19	1.70	0.00	0.00	1.19	1.70	-30.0%
General revenues							
Property taxes	436.90	361.84	0.00	0.00	436.90	361.84	20.7%
SPLOST	121.57	115.95	0.00	0.00	121.57	115.95	4.8%
Investment earnings	13.32	7.32	0.00	0.00	13.32	7.32	81.9%
Grants and Contributions not restricted to specific programs	0.00	9.41	0.00	0.00	0.00	9.41	-100.0%
Property taxes levied for debt service	1.04	1.98	0.00	0.00	1.04	1.98	-47.7%
Other	15.13	6.32	0.08	0.06	15.21	6.38	138.5%
Total Revenues	813.61	712.43	21.61	20.91	835.22	733.34	13.9%
Expenses:							
Instruction	425.38	393.12	0.00	0.00	425.38	393.12	8.2%
Pupil services	23.64	29.20	0.00	0.00	23.64	29.20	-19.0%
Improvement of instruction	31.47	31.91	0.00	0.00	31.47	31.91	-1.4%
Educational media	9.11	11.33	0.00	0.00	9.11	11.33	-19.6%
General administrative	24.25	22.24	0.00	0.00	24.25	22.24	9.0%
School administrative	28.16	36.31	0.00	0.00	28.16	36.31	-22.4%
Business services	15.85	12.97	0.00	0.00	15.85	12.97	22.2%
Maintenance and operation of facilities	60.21	60.10	0.00	0.00	60.21	60.10	0.2%
Student transportation	18.84	21.66	0.00	0.00	18.84	21.66	-13.0%
Food services	0.00	0.00	21.63	21.71	21.63	21.71	-0.4%
Central support	27.91	26.76	0.00	0.00	27.91	26.76	4.3%
Community services	0.07	0.00	0.00	0.00	0.07	0.00	0.0%
Other support services	3.03	0.84	0.00	0.00	3.03	0.84	260.2%
Interest Expense	1.20	1.86	0.00	0.00	1.20	1.86	-35.5%
Total Expenses	669.12	648.31	21.63	21.71	690.75	670.02	3.1%
Gain on Sale of Capital Assets	3.13	2.51	(0.01)	0.00	3.12	2.51	24.5%
Extraordinary Items	(1.98)	0.00	0.00	0.00	(1.98)	0.00	100.0%
Transfers	(16.42)	(1.04)	16.42	1.04	0.00	0.00	0.0%
Change in Net Assets	$ 129.22	$ 65.59	$ 16.39	$ 0.24	$ 145.61	$ 65.83	121.2%

Sources of Revenues

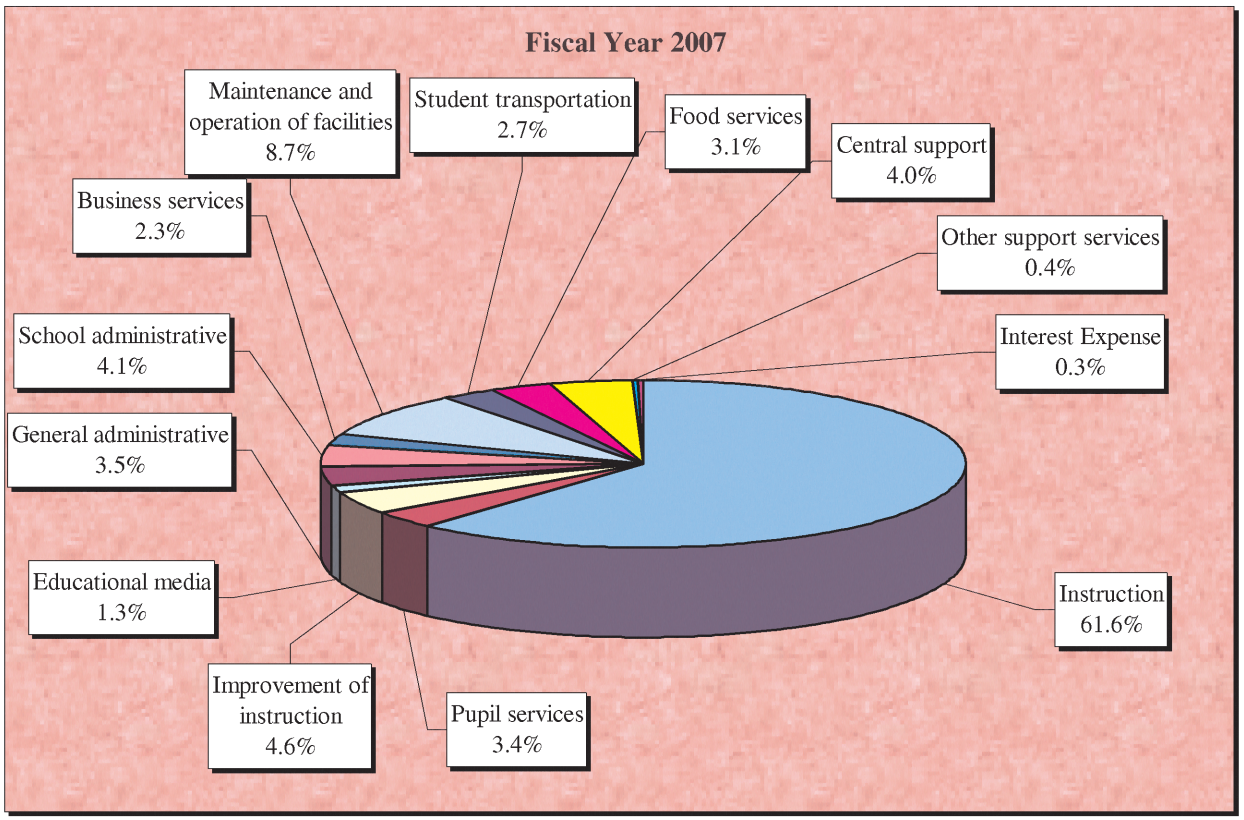


Total revenues, overall, increased $101.88 million or 13.9 %, from fiscal year 2006 to fiscal year 2007, with an increase in program revenues of $16.73 million.

- Program revenues are primarily grant related and account for 29.6%, or $247.19 million, of total revenues received.

- General revenues represent the major revenue stream for the district. They account for 70.4%, or $588.03 million, of total revenues received in FY 2007. Between fiscal years 2006 and 2007, an increase of $74.12 million in property tax collections occurred with an increase in SPLOST sales tax collections of $5.61 million.

Expenses



Total expenses increased from 2006 to 2007 by 3.1% or $20.7 million. Management continues to accurately forecast spending levels and manage spending throughout the year.

- Governmental activities account for 96.9 %, or $669.12 million of total district spending. Four groups of activities account for 91%, or $608.97 million of governmental spending: instruction ($425.38 million or 63.6%), pupil and improvement of instructional services ($55.12 million or 8.2%), administration and business services ($68.26 million or 10.2%), and maintenance and operations ($60.21 million or 9%).

- Business-activities revenues increased and expenditures decreased respectively, with revenue increasing by $.71 million or 3.4% and expenditures decreasing by $0.08 million or 0.4%. These improvements are a direct result of district-wide priorities to operate competitively and control costs.

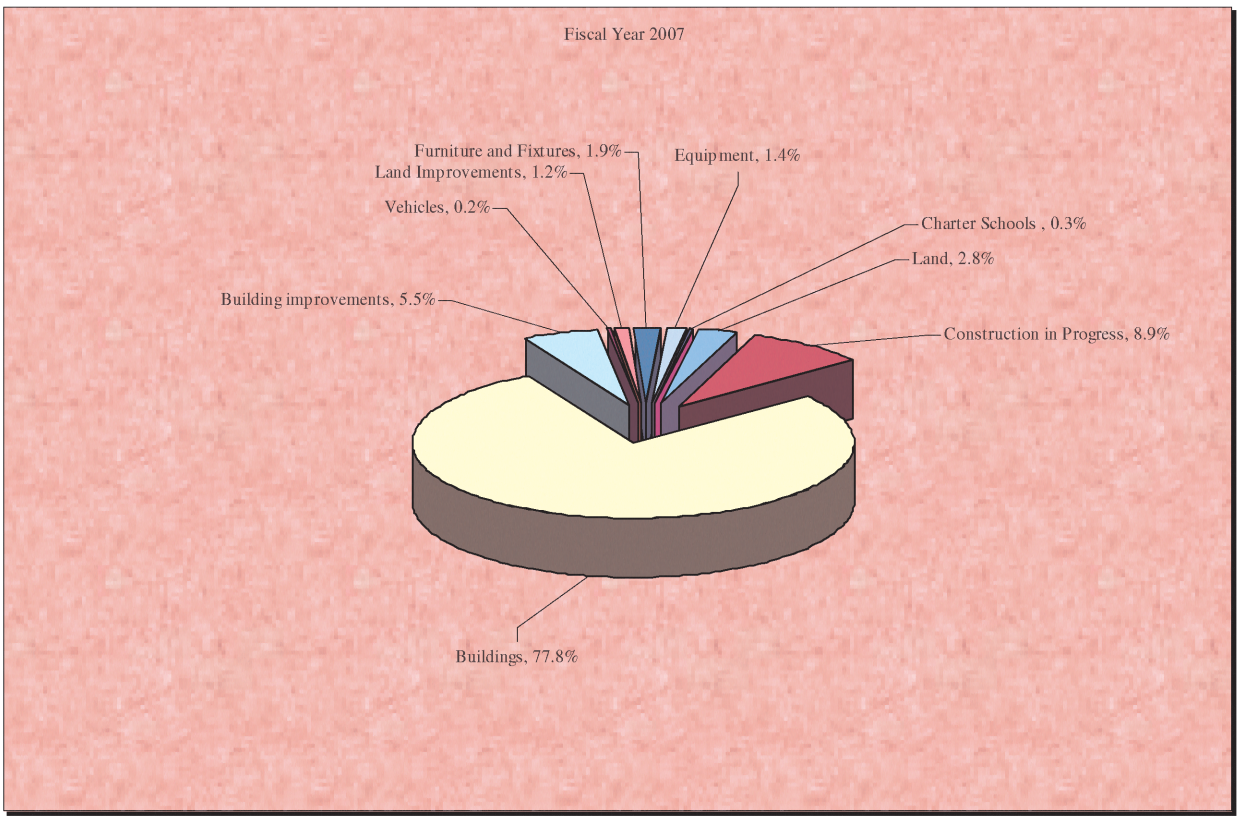
Table 3 - Net Cost of Governmental Activities (in millions of dollars)

	Total Cost of Services			Net Cost of Services		
	2007	2006	Percentage Change	2007	2006	Percentage Change
Instruction	$ 425.38	$ 393.12	8.2%	$ 268.30	$ 240.56	11.5%
Pupil services	23.64	29.20	-19.0%	8.69	24.79	-65.0%
Improvement of instruction	31.47	31.91	-1.4%	15.40	25.00	-38.4%
Educational media	9.11	11.33	-19.6%	6.69	8.13	-17.7%
General administrative	24.25	22.24	9.0%	20.91	23.69	-11.7%
School administrative	28.16	36.31	-22.4%	22.10	25.12	-12.0%
Business services	15.85	12.97	22.2%	14.75	11.30	30.5%
Maintenance and operation of facilities	60.21	60.10	0.2%	50.40	43.45	16.0%
Student transportation	18.84	21.66	-13.0%	12.44	15.34	-18.9%
Central support	27.91	26.76	4.3%	26.92	20.63	30.5%
Other support services	3.03	0.84	260.2%	(4.34)	1.09	-498.2%
Interest Expense	1.20	1.86	-35.5%	1.20	1.85	-35.2%
Total Expenses	$ 669.12	$ 648.30	3.2%	$ 443.45	$ 440.95	0.6%

The Net Cost of Governmental Activities represents the cost of operating the School System to be covered by general revenues, including property taxes. The Net Cost of Services increase is attributable to reduction in program revenues, primarily Quality Basic Education funds received from the State Department of Education and increases in expenditures as discussed above.

Table 4 - Capital Assets (net of depreciation, in millions of dollars)

	Governmental Activities		Business-type Activities		Total School System		Percentage Change
	2007	2006	2007	2006	2007	2006	
Land	$ 23.86	$ 24.36	$ 0.00	$ 0.00	$ 23.86	$ 24.36	-2.1%
Construction in Progress & Education Reform	76.70	35.83	0.00	0.00	76.70	35.83	114.1%
Construction in Progress - Charter Schools	0.51	0.49	0.00	0.00	0.51	0.49	0.0%
Buildings	673.86	700.25	0.00	0.00	673.86	700.25	-3.8%
Building improvements	47.53	32.02	0.00	0.00	47.53	32.02	48.4%
Land Improvements	10.33	9.77	0.00	0.00	10.33	9.77	5.7%
Furniture and Fixtures	16.59	26.87	0.00	0.00	16.59	26.87	-38.3%
Equipment	6.51	20.86	5.30	5.78	11.81	26.64	-55.7%
Vehicles	1.77	3.19	0.00	0.00	1.77	3.19	-44.5%
Charter Schools	2.84	1.32	0.00	0.00	2.84	1.32	115.3%
Capital Leases	0.00	0.00	0.00	0.00	0.00	0.00	0.0%
Total	$ 860.50	$ 854.96	$ 5.30	$ 5.78	$ 865.80	$ 860.74	0.6%



Construction in Progress and Buildings

SPLOST II construction programs to renovate academic facilities are near completion. For more detailed information on the School System's capital assets, see Note G in the Notes to The Basic Financial Statements.

Table 5 - Outstanding Long-Term Debt (in millions of dollars)

	Total School System		
	2007	2006	Percentage Change
Capital leases	$ 5.03	$ 4.22	19.1%
Capital leases - Charter Schools	0.03	0.04	-36.6%
Notes Payable - Charter Schools	0.11	0.21	-49.6%
Intergovernmental agreement-City of Atlanta	22.11	18.70	18.3%
Certificates of Participation	10.12	0.00	0.0%
Compensated absences	5.99	6.24	-4.1%
Workers' compensation	5.46	5.85	-6.6%
	$ 48.84	$ 35.26	38.5%

Outstanding long-term debt increased, in the current fiscal year, due to debt issues by Education Reform Success, Inc. and new bond issued by the City of Atlanta on behalf of the School System. For more detailed information on the School System's long-term debt, see Note H in the Notes to the Basic Financial Statements.

Fund Financial Statements

Fund financial statements provide detailed information regarding the resources segregated for specific activities or objectives, not district-wide. Funds are used to track specific sources of revenue and expenditures for particular programs.

The School System has three kinds of funds:

Governmental funds include most of the School System's basic services and focus on providing cash flow available for spending. These funds include the General Fund, Capital Projects and Other Governmental Funds of lesser magnitude. Fund accounting statements use the modified accrual method of accounting, which measures cash and other financial assets that can be readily converted to cash. These statements present a short-term view of the School System's operations and services and do not include the long-term focus presented in the new district-wide financial statements. For an explanation of the differences see the reconciliations included with the Governmental Fund Statements.

Proprietary funds consist of services provided by the School System for a fee and employ the full accrual method of accounting in the same manner as the district-wide statements. The School System has one proprietary fund, Food Service. This fund provides student meals at a cost based on the student's ability to pay, subsidized by federal funds and the School System.

Fiduciary funds account for assets not owned by the School System but for which the School System is responsible for ensuring that the assets in the funds are used for their designated purposes. These funds are not included in the district-wide financial statement because they cannot be used to finance the School System operations. The School System has one fiduciary fund - Agency Funds (Local School, Club and Class Funds).

The following presents a summary of the General Fund, Capital Projects Fund and Other Governmental Funds by type of revenue for the fiscal year ended June 30, 2007 as compared to June 30, 2006.

Table 6 - Revenues (in millions of dollars)

	Governmental Funds			
	2007	2006	Increase (Decrease)	Percentage Change
Local taxes	$ 415.69	$ 369.49	$ 46.20	12.5%
Sales taxes	121.57	115.95	5.62	4.8%
State revenues	151.92	141.64	10.28	7.3%
Federal revenues	71.66	66.54	5.12	7.7%
Investment earnings	13.32	7.32	6.00	81.9%
Facilities rental	0.91	0.95	(0.04)	-3.7%
Tuition charges	0.27	0.24	0.03	12.6%
Charges for services	2.07	0.90	1.17	129.2%
Other	13.94	15.07	(1.12)	-7.5%
Total Revenues	$ 791.36	$ 718.10	$ 73.25	10.2%

The following table presents a summary of the General Fund, Capital Projects Fund and Other Governmental Funds by type of expenditure for the fiscal year ended June 30, 2007 as compared to June 30, 2006.

Table 7 - Expenditures (in millions of dollars)

	Governmental Funds			
	2007	2006	Increase (Decrease)	Percentage Change
Instruction	$ 405.02	$ 358.00	$ 47.01	13.1%
Pupil Services	23.65	28.29	(4.64)	-16.4%
Improvement of Instruction	31.50	31.81	(0.31)	-1.0%
Educational Media	9.12	11.12	(2.00)	-18.0%
General administrative	15.83	15.07	0.76	5.1%
School administrative	28.21	35.58	(7.37)	-20.7%
Business services	15.63	12.96	2.67	20.6%
Maintenance and operations	60.20	59.94	0.26	0.4%
Student Transportation	17.34	19.33	(1.99)	-10.3%
Central Support	28.68	26.57	2.11	7.9%
Community Services	0.01	0.00	0.01	0.0%
Other	2.39	0.85	1.54	180.8%
Capital outlays	56.74	78.37	(21.63)	-27.6%
Debt services	3.84	3.10	0.73	23.6%
Total Expenditures	$ 698.16	$ 681.00	$ 17.16	2.5%

Fluctuations in these accounts are consistent with those discussed in the Changes in Net Assets at the District- wide level.

Analysis of Major Funds

The School System has four major funds: the General Fund, the Capital Projects Fund, the Debt Service Fund, and the Title I Fund. The General Fund is the general operating fund of the School System and is used to account for all financial resources except those funds accounted for in another fund. The Capital Projects fund is used for the acquisition or construction of major capital facilities and to account for the bond proceeds restricted to renovation and school construction. The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds. The Title I fund is a federal grant used to supplement the general operating fund by ensuring students gain knowledge and skills, as well as upgrade the entire educational program for systemic reform.

General Fund

As of June 30, 2007, total fund balance in the General Funds was $108.45 million, reserved $17.95 million, designated $6.5 million and $90.5 million in unreserved undesignated. As a result of operations in fiscal year 2007, the fund balance increased by $19.79 million. For Budget to Actual

comparison purposes, the operating transfers to Charter Schools of $20.02 million were budgeted in the Instruction function.

Capital Projects Fund

As of June 30, 2007, total fund balance in the Capital Projects Fund was $134.68 million, reserved $100.49 million for Special Purpose Local Option Sales Tax (SPLOST) and undesignated unreserved $34.18 million for Capital Projects. The fund balance increased by $73.08 million due primarily to SPLOST collections exceeding capital expenditures.

Debt Service Fund

As of June 30, 2007, total fund balance in the Debt Service Fund was $3.84 million.

Title I Fund

As of June 30, 2007, the Title I Funding sources had a zero fund balance. Revenues equaled expenditures.

Other Governmental Funds

As of June 30, 2007, total fund balance in Other Governmental Funds was $14.60 million. This balance included reserved of $2.65 million for capital projects, $9.40 million designated for Special Revenue Fund and undesignated unreserved for special revenue $2.55 million.

Current Issues

Currently known facts, decisions or conditions that are expected to have a significant effect on the financial position or results of operations are as follow:

Overall, the School System's financial position for the next year is expected to remain stable.

The School System is currently working to fund the Food Services – Nutrition Fund deficit and hopes to eliminate the deficit during the 2008 fiscal year.

On March 20, 2007, the voters of City of Atlanta extended the Special Option Local Sales Tax for educational purposes for five additional years. Specific capital expenditures plans are formalized in conjunction with anticipated SPLOST receipts. The School System regularly monitors anticipated capital outlay needs.

Despite the challenges, the School System is strong financially and remains optimistic about the ability of the School System to maximize all of the financial resources to provide quality education for our students.

General Fund Budgetary Highlights

The School System's budget is prepared by the Finance Division and is a collaborative effort between the school district and the Atlanta community. The basis for preparation utilizes a zero-based approach because it has systematically provided a more accurate account of anticipated spending levels for the year.

Details of the original budget and the amended budget are presented on page 23 in the Financial Section of this report.

Requests for Information

This financial report is designed to provide a general overview of the School System's finances for all those with an interest in the School System's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the School System's Chief Financial Officer, 130 Trinity Street SW, Atlanta Georgia 30303.