NOTES TO THE

BASIC FINANCIAL STATEMENTS

Notes To The
Basic Financial Statements

ATLANTA INDEPENDENT SCHOOL SYSTEM

Notes to the Basic Financial Statements

June 30, 2007

A. Summary of Significant Accounting Policies

The financial statements of the School System have been prepared in conformity with generally accepted accounting principles ("GAAP") as applicable to government units. The more significant of the School System's accounting policies are summarized below.

1. Reporting Entity

The School System was established by the Georgia State Legislature and is composed of nine publicly elected members serving four year terms. The school system has the authority to approve its own budget and to provide for the levy of taxes to cover the cost of operations and maintenance and to cover debt service payments on lease purchase agreements. Additionally, the School System has decision making authority, the power to approve selection of management personnel, the ability to significantly influence operations, and primary accountability for fiscal matters. Accordingly, the School System is a primary government and consists of all the organizations that compose its legal entity.

As required by generally accepted accounting principles, these financial statements present the School System and its component units, entities for which the School System is considered to be financially accountable. The blended component units, although a legally separate entity is, in substance, part of the School System's operations. Therefore, data from this unit is combined with data of the School System.

Blended Component Unit. Education Reform Success, Inc., (ERS) (a non-profit corporation) was established by the School System for the purpose of providing financing for some of the School System's buildings and equipment. ERS is governed by a seven member board. ERS has issued certificates of participation (COPS) for the acquisition and construction of facilities and equipment. The COPS are repayable solely from payments made by the School System to ERS under a lease agreement for the related facilities and equipment. Accordingly, the COPS and the related capital assets are reported in the District-wide financial statements. (See Note H) Separate financial statements are not prepared for this component unit.

Charter Schools. Included within the School System are eight charter schools. Charter schools were created by the Georgia General Assembly to increase student achievement through academic and organizational innovation by encouraging local school systems to utilize the flexibility of a performance based contract called a "charter."

A. **Summary of Significant Accounting Policies, continued**

Pursuant to Georgia Statute 20-2-2062, charter schools are considered public schools and are entitled to receive equal treatment as a public school. The source of funding for public schools includes the State of Georgia Quality Basis Education allotment as prescribed in Georgia Statute 20-2-2068-1. Other funds are received from local grants, tax revenue collections and donations. Charter schools with the School System's boundaries receive allocations from the stated sources of revenue.

Because the major portion of the funding for the charter schools comes through the School System, the School System is considered financially accountable for the charter schools. The financial activities of the charter schools have been blended with those of the School System. A listing of the charter schools follows:

School for Integrated Academics and
Technologies at Georgia, Inc.
239 West Lake Avenue
Atlanta, GA 30314

KIPP West Atlanta Young Scholars
Academy, Inc.
80 Joseph Lowery Boulevard
Atlanta, GA 30314

Achieve Academy of Atlanta, Inc.
1335 Kimberly Road SW
Atlanta, Georgia 30331

University Community
Academy, Inc.
Tiger Flowers Dr. NW
Atlanta, Georgia 30314

Southeast Atlanta Charter
Middle School, Inc.
820 Essie Avenue SE.
Atlanta, Georgia 30316

Neighborhood Charter
School, Inc.
688 Grant Street SE
Atlanta, Georgia 30315

Drew Charter School, Inc.
301 East Lake Blvd.
Atlanta, Georgia 30317

Tech High School, Inc.
1043 Memorial Drive, SE
Atlanta, GA 30316

Separate financial statements are available for each charter school, in existence as of June 30, 2007, and may be obtained from each by writing to the addresses listed above.

Discretely Presented Component Unit. Atlanta Educational Telecommunications Collaborative, Inc. (AETC) is a non-profit corporation which the School System contracted with for the purpose of operating the Corporation for Public Broadcasting radio and television broadcast station licenses owned by the School System. The School System owns substantially all assets used to operate the stations and is providing support for capital improvements. Separate financial statements of AETC are available from the School System. Financial Statements for AETC may also be obtained at www.pba.org/about/pba/aetc or by request at 740 Bismark Road, Atlanta, GA 30324.

A. Summary of Significant Accounting Policies, continued

2. District-wide and fund financial statements

   The District-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the School System and its component units. The effects of interfund activity have been netted in these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the School System is reported separately from certain legally separate component units for which the School System is financially accountable.

   The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to applicants who use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

   Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the District-wide financial statements. Major individual governmental funds are reported as separate columns in the governmental fund financial statements.

3. Measurement Focus and Basis of Accounting

   The District-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

   Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School System considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

A. Summary of Significant Accounting Policies, continued

Property taxes, sales taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the School System.

The School System reports the following major government funds:

General Fund - The General Fund is the School System's primary operating fund. It accounts for all financial transactions of the School System, except those required to be accounted for in another fund.

Capital Projects Funds - These funds account for resources which are used exclusively for acquiring school sites, constructing and equipping new school facilities, and renovating existing facilities. The major revenue sources are proceeds from debt proceeds, bond sales, property tax revenue, special purpose local option sales tax revenues and amounts received from the State of Georgia.

Debt Service Fund – The accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Title I Fund – The Fund was established to account for federal grant funds passed through the Georgia Department of Education to provide remedial education in the areas of reading and math and to provide a special education program for children who are physically handicapped.

The School System reports the following major proprietary fund:

Food Service Funds - The primary purpose of the food service funds is to account for activities of the School System's school breakfast and lunch programs, which are funded primarily by the United States Department of Agriculture, passed through the Georgia Department of Education.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the District-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The School System has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the enterprises fund includes the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The AETC component unit is accounted for on a flow of economic resources measurement focus and uses the accrual basis of accounting. This means that all assets and liabilities associated with the component unit's activities are included on the balance sheet. Under this method, revenues are recognized when they are earned, and expenses are recognized when they are incurred.

The Fiduciary fund accounts for assets held by the School System in a trustee capacity or as an agent on behalf of others. The School System reports the following fiduciary fund:

Agency Fund - This fund is used to account for local school student club and class accounts. It is custodial in nature and does not involve measurement of results of operations.

The fiduciary fund is excluded from the District-wide financial statements.

4. Assets, liabilities and net assets or equity

a. Cash Equivalents

The School System considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Georgia Laws, OCGA 45-8-14, authorizes the School District to deposit its funds in one or more solvent banks or insured Federal savings and loan associations.

b. Investments

Investments made by the School System 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 and equity investments are reported at fair value. The Official Code of Georgia Annotated Section 36-83-4 authorizes the School District to invest its funds. In selecting among options for investment or among institutional bids for deposits, the highest rate of return shall be the objective, given equivalent conditions of safety and liquidity. Funds may be invested in the following:

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

2) Obligations issued by the United States government

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

4) Obligations of any corporation of the United States government

5) Prime banker's acceptances

6) The Local Government Investment Pool administered by the State of Georgia, Office of Treasury and Fiscal Services

7) Repurchase agreements

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

d. 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.

e. Inventories

Inventories are valued at cost using the first-in, first-out method of accounting. The costs of general fund inventories are recorded as expenditures when purchased rather than when consumed (purchase method). The costs of food services fund inventories are recorded as expenditures when consumed (consumption method).

f. Capital Assets

Capital assets used in governmental fund types of the School System are recorded in the statement of net assets at historical cost (or estimated historical cost). Donated fixed assets are recorded at their estimated market value at the date of donation. The School System maintains a capitalization threshold of $5,000. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not included in the cost of capital assets. The School System does not capitalize book collections or works of art.

A. Summary of Significant Accounting Policies, continued

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

	Capitalization Policy	Estimated Useful Life
Land	All	N/A
Land Improvements	$ 20,000	10 to 20 years
Buildings	$ 5,000	20 to 50 years
Building Improvements	$ 5,000	10 to 30 years
Furniture and Fixtures	$ 5,000	3 to 15 years
Vehicles	$ 5,000	5 to 8 years
Equipment	$ 5,000	3 to 15 years

Capital assets of the discretely presented component unit are recorded at cost. Capital assets donated to proprietary fund type operation are recorded at their estimated fair value at the date of donation. These capital assets are depreciated using the straight line method over their estimated useful lives of five to 20 years.

g. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive salary related compensation are attributable to services already rendered and it is probable that the School System will compensate the employees for the benefits through paid time off or some other means. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported as long-term obligations in the government-wide financial statements.

h. Long-term Obligations

In the governmental-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or business-type activities statement of net assets. Long-term debt and other long-term liabilities that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due but are reported in the district-wide statements as long-term debt.

A. Summary of Significant Accounting Policies, continued

i. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriations or are legally restricted by outside parties for use for a specific purpose. The following reservations have been established by the School System:

Reserved for Inventory - resources of the School System in connection with inventory on hand at year end.

Reserved for Encumbrances - resources of the School System which have been encumbered or appropriated for purchase orders or contractual obligations.

Reserved for Capital Projects - resources received from Special Purpose Local Option Sales Tax which has been formally set aside for capital projects.

Reserved for Debt Service Fund - resources accumulated for future payments of principal and interest on long-term general obligation.

Designations of Fund Balance represent tentative management plans that are subject to change. The School System has made authorized allocation of fund balances for various capital, technology and operational needs.

j. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The School System applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

k. New Accounting Pronouncement

The School System will adopt the following new accounting pronouncement in future years: GASB Statement No. 45 – *Accounting and Financial Reporting by Employers for Postretirement Benefits Other Than Pensions,* effective for fiscal year ended June 30, 2008.

A. Summary of Significant Accounting Policies, continued

The impact of this pronouncement on the School System's financial statements is under assessment.

l. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

B. Budgets and Budgetary Accounting

Atlanta Independent School District employs zero-based budgeting for budget preparation. The zero-based budgeting process provides for the identification and prioritization of school system activities and resources starting from zero and accumulating to the targeted funding level. Each activity is linked to the goal, objectives and mission of the District and ranked as to its importance. As the proposed budget moves through each level of the organization, program activities and goals are aggregated further and ranked again. The final budget produced and presented is one which includes all program activities ranked in order of importance in reaching the District's mission.

The School System follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Budget requests are completed in January.

2. Proposed budgets are reviewed and prepared by the CFO, Superintendent of Schools and Budget Commission for submission and approval to the School System and ultimately the Atlanta City Council.

3. Public hearings on the proposed budget are held in March through May.

4. The legally adopted annual budget is adopted by the Board in May for the General and Special Revenue Funds.

5. All budget revisions or changes must be approved as required in the charter of the School System and administrative policy. The administrative level of budgetary control as the budget is adopted is at the program level within funds where budgets are adopted. The School System must approve revisions that alter the reallocation or revisions between salary and non salary expenditures. Transfer of budgeted amounts between object categories within program functions requires the approval of the budget center manager.

B. Budgets and Budgetary Accounting, continued

6. Revenues and expenditures of the Capital Projects Funds are budgeted on a project basis and are, therefore, excluded from presentation in the financial statements.

Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is used in the governmental funds. Encumbrances outstanding at year-end are reported as reservations of fund balances in the governmental funds and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

C. Fund Deficit/Excess Expenditures Over Appropriations of Individual Funds

Food Services Fund

The Food Services Fund has an unrestricted fund deficit of $9,323,756 at year end. The management of the School System has taken the following actions to stop the annual deficit:

1. Transferred $16,416,074 from General Fund to reduce the deficit, during fiscal year 2007.
2. Implementing a plan to eliminate the deficit in fiscal year 2008.
3. Entered into management contract which requires vendor penalties for selected areas of non-performance.
4. Replaced program management personnel.
5. Installed Point of Sale technology to provide expanded and more accurate cost data for management decision-making.
6. Initiated actions to adjust staffing levels to better match meal demands
7. Placed greater emphasis on government commodity utilized to reduce food cost.
8. Developed protocols to focus local school nutrition managers' attention on profitability.
9. Refined outreach and processing for free and reduced-cost meal eligible students.

D. Deposits and Investments Risks

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 10 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 pledge 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 pledge 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 Untied States or of the State of Georgia.

4) Bonds, bills, notes, certificates of indebtedness or other obligations of the counties or municipalities of the State of Georgia.

5) Bonds of any public authority created by the laws of the State of Georgia, providing that the statute that created the authority authorized the use of the bonds for this purpose.

6) Industrial revenue bonds and bonds of development authorities created by the laws of the State of Georgia.

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, 2007, the bank balances were $31,115,968. The amounts of the total bank balances are classified into three categories of custodial credit risk:

D. Deposits and Investments Risks, continued

Category 1 - Uncollateralized

Category 2 - Cash collateralized with securities held by the pledging financial institution

Category 3 - Cash collateralized with securities held by the pledging financial institution's trust department or agent but not in the School System's name.

The School System's deposits are classified by custodial credit risk category at June 30, 2007 as follows:

Custodial Credit Risk Category	Bank Balance
1	$ 365,991
2	0
3	30,749,977
	$ 31,115,968

At June 30, 2007 the carrying amount of deposits for AETC, the discretely presented component unit, was $4,515,028 and the bank balance was $4,691,534. Of the bank balance $4,348,909 was uninsured and uncollateralized.

Custodial Credit Risk – Custodial credit risks for *investments*, is the risk that in the event of the failure of the counterparty, the School System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School System's investment policy on custodial credit risk clearly specifies the School System as purchaser or owner. Based on the analysis of investment there is no custodial risk to the School System.

Investments are classified as to custodial credit risk by the categories described below:

Category 1 – Insured or registered, or securities held by the School System or the School System's agent in the School System's name.

Category 2 – Uninsured or unregistered, with securities held by the counterparty's trust department or agent in the School System's name.

Category 3 – Uninsured or unregistered, with securities held by the counterparty's trust department or agent, but not in the School System's name.

Funds invested in U.S. Treasury Money Market Mutual Funds (open-end mutual funds) are not required to be classified by categories of custodial credit risk.

D. Deposits and Investments Risks, continued

At June 30, 2007, the carrying value of the School System's investments was $209,801,499, which is materially the same as fair value. Fair value is based on quoted market prices, unless otherwise noted. The investments are classified as to custodial credit risk categories as follows:

	Risk Categories			Carrying	Fair
Type of Investment	1	2	3	Amount	Value
Debt Securities					
U.S. Agencies	$124,085,946			$124,085,946	$124,085,946
Repurchase Agreements	83,629,000			83,629,000	83,629,000
	207,714,946			207,714,946	207,714,946
Other Investments					
U.S. Treasury Money Market Mutual Funds (Open-End)				28,715,553	28,715,553
Total Investments				$236,430,499	$236,430,499

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

Investments are classified as to investment maturity as follows:

Investment Type	Fair Value	Investment Less Than 1 Year
Debt Securities		
U.S. Agencies	$124,085,946	$124,085,946
Repurchase Agreements	83,629,000	83,629,000
Total by Maturity	$207,714,946	$207,714,946

Credit Quality Risk – Credit quality risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The School District's policy for managing credit quality risk related to certificates of deposit and repurchase agreements states such investments will only be purchased through banks having at least an AA rating. The School System does not have a formal policy for other investments not mentioned in previous sentence.

Investments are classified as to quality ratings as follows:

	Fair	Quality Ratings		
Rated Debt Investments	Value	AAA	A1	Unrated
U.S. Agencies	$124,085,946	$ 11,616,000		$112,469,886
Repurchase Agreements – Underlying:				
U.S. Agency Securities	83,629,000		57,000,000	26,629,000
Totals by Quality Ratings	$207,714,946	$124,085,946	$57,000,000	$139,098,886

D. Deposits and Investments Risks, continued

Concentration of Credit Risk – is the risk of loss that may be attributed to the magnitude of a government's investment in a single issue. The School System does have a policy concerning the composition of its investment portfolio and is in compliance with its investment policy.

The investment policy establishes, the following eligible investments individually are not to exceed the following composition in the portfolios of the General and S.P.L.O.S.T. funds:

• U.S. Treasury Bills	100%
• Federal Agencies (No more than 40% per issuer)	65%
• Certificates of Deposit	10%
• Commercial Paper	20%
• Repurchase Agreements	30%
• State of Georgia – Georgia Fund 1	25%
• Bank Special Purpose Money Market Funds	25%

Investments in any one issuer that represents 5% or more of the total investments were as follows as of June 30, 2007:

Issuer	Investment Type	% of Total Investments
Federal National Mortgage association	Federal Agency Security	24.79%
Federal Home Loan Bank	Federal Agency Security	21.79%
Federal Home Loan Mortgage Corporation	Federal Agency Security	13.54%
Lehmann Brothers	Repurchase Agreements	27.82
STI Classic Fund U.S. Money Market	Bank Special Purpose Money Market Funds	11.63

AETC, the discretely presented component unit, does have a policy concerning the composition of the its investment portfolio.

Investments in one issuer that represents 5% or more of the total investments were as follows:

Issuer	Investment Type	% of Total Investments
Equity Mutual Funds	Equity	9.00%
Fixed rate Cap Securities	Preferred/Fixed Rate	11.00%

Foreign Currency risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The School district does not have a formal policy for managing foreign currency risk.

As of year end, AETC, the discretely presented component unit, had investments in foreign equity mutual funds totaling $55,486.

E. Due from Other Governments

Due from other governments consists of grant reimbursements due primarily from the Georgia Department of Education for expenditures made, but not yet reimbursed and amounts due from City of Atlanta for bonds issued and unspent tax collections.

F. Taxes Receivable

Property taxes are levied in early July based on property values assessed as of January 1, on all real and personal property located within the City of Atlanta. Property taxes are due on or before August 15, at which time they become delinquent and penalties and interest may be assessed and liens may be attached to property. An allowance has been established for estimated amounts that will not be collected.

	Taxes Receivable	Allowance	Net Taxes Receivable
General Fund	$26,959,952	$1,117,476	$25,842,476
Capital Projects Fund	$17,197,396	0	$17,197,396

G. Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows:

Primary Government

	Beginning Balance-PY CAFR	Prior Year Adjustments	Beginning Balance, as Restated (Note S)	Additions	Retirements / Reclassifications	Transfers	Ending Balance
Governmental activities:							
Land	$ 24,356,399	$ (1,086,003)	$ 23,270,396	$ 585,927	$ -	-	$ 23,856,323
Construction in progress	35,831,982	-	35,831,982	34,774,052	-	(1,512,049)	69,093,985
Construction in progress - Charter Schools	489,083	-	489,083	19,960	-	-	509,043
Construction in progress - Eduaction Reform Success	-	-	-	7,609,587	-	-	7,609,587
Total non-depreciable assets	60,677,464	(1,086,003)	59,591,461	42,989,526	-	(1,512,049)	101,068,938
Buildings	874,782,593	(2,230,013)	872,552,580	753,592	(264,030)	-	873,042,142
Building improvements	49,934,385	5,288,479	55,222,864	18,205,746	-	-	73,428,610
Land improvements	10,575,340	(1,005)	10,574,335	233,516	-	1,512,049	12,319,900
Equipment	94,159,238	(2,227,862)	91,931,376	1,419,860	(48,600)	-	93,302,636
Furniture and fixtures	30,600,197	(91)	30,600,106	637,138	-	-	31,237,244
Vehicles	24,070,396	(1,947,295)	22,123,101	136,734	(1,449,508)	-	20,810,327
Other equipment - Charter Schools	2,018,782	-	2,018,782	2,031,608	-	-	4,050,390
Total depreciable assets	1,086,140,931	(1,117,787)	1,085,023,144	23,418,194	(1,762,138)	1,512,049	1,108,191,249
Totals at historical cost	1,146,818,395	(2,203,790)	1,144,614,605	66,407,720	(1,762,138)	-	1,209,260,187
Less: Accumulated Depreciation							
Buildings	174,533,402	7,839,079	182,372,481	17,024,205	(226,626)	-	199,170,060
Building improvements	17,916,182	3,687,604	21,603,786	4,284,153	-	-	25,887,939
Land improvements	806,805	409,855	1,216,660	779,240	-	-	1,995,900
Equipment	67,288,487	5,936,483	73,224,970	13,618,546	(46,143)	-	86,797,373
Furniture and Fixtures	9,736,518	1,854,007	11,590,525	3,060,011	-	-	14,650,536
Vehicles	20,880,712	(1,531,569)	19,349,143	1,145,275	(1,449,508)	-	19,044,910
Other equipment - Charter Schools	700,327	-	700,327	510,805	-	-	1,211,132
Total accumulated depreciation	291,862,433	18,195,459	310,057,892	40,422,235	(1,722,277)	-	348,757,850
Governmental activities capital assets, net	$ 854,955,962	$ (20,399,249)	$ 834,556,713	$ 25,985,485	$ (39,861)	$ -	$ 860,502,337
Business-type activities:							
Equipment	$ 10,831,507	$ -	$ 10,831,507	$ 96,202	$ (37,129)	$ -	$ 10,890,580
Totals at historical cost	10,831,507	-	10,831,507	96,202	(37,129)	-	10,890,580
Less: Accumulated Depreciation							
Equipment	5,055,119	-	5,055,119	562,314	(27,594)	-	5,589,839
Total accumulated depreciation	5,055,119	-	5,055,119	562,314	(27,594)	-	5,589,839
Business-type activities capital assets, net	$ 5,776,388	$ -	$ 5,776,388	$ (466,112)	$ (9,535)	$ -	$ 5,300,741

G. Capital Assets, continued

Depreciation expense was charged to governmental functions as follows:

Instruction	$	29,417,826
Pupil services		21,521
Improvement of instruction		7,534
Educational media		6,817
General administrative		8,981,798
Support services-Business		13,509
Maintenance and operation of facilities		95,999
Student transportation		1,615,349
Support services-Central		66,109
Other outlays		195,773
Total	$	40,422,235

Depreciation expense was charged to business-type activities as follows:

Food Service	$	562,314

Component Unit

Fixed asset balances of AETC (component unit) as of June 30, 2007 are as follows:

Equipment and furniture	$ 2,206,583
Equipment purchased under capital leases	186,416
Leasehold improvements	100,702
	2,493,701
Less: Accumulated depreciation	(1,912,047)
Net Fixed Assets	$ 581,654

Depreciation expense of AETC for the year ended June 30, 2007 was $186,093.

As part of the operation agreement with the School System for the (AETC) radio and television stations, all real and personal property comprising the physical facilities of the stations remains the property of the School System. The School System is responsible for routine maintenance and insurance of the facilities. AETC, in turn, leases the facilities from the School System for $10.00 a year.

H. Long-term Debt

Capital Leases

The School System has entered into various equipment lease agreements. 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 inception.

The assets acquired through capital leases are as follows:

	Governmental Activities
Asset:	
Machinery and Equipment	$ 11,147,582
Vehicles and Buses	2,638,066
Less: Accumulated Depreciation	(3,457,274)
Total	$ 10,328,374

The following is a schedule of the future minimum lease payments under capital leases and their total present value:

Fiscal Year Ending June 30, 2007	Governmental Activities
2008	$ 1,729,105
2009	1,729,105
2010	320,287
2011	320,287
2010	1,600,992
Total minimum lease payments	5,699,776
Less: Amount representing interest	(672,093)
Present value of minimum lease payments	$ 5,027,683

H. Long-term Debt, continued

General Obligation Debt Outstanding

The School System reports as due to other governments the amount of bonds proceeds requested and received from the City. This liability is reduced by the amount of bonded debt portion of property taxes collected by the City and reported to the School System.

General Obligation Bonds currently outstanding at the City of Atlanta on behalf of the School System are as follows:

Purpose	Interest Rate	Amount
Governmental activities	3-5%	$22,112,375

Changes in long-term obligations during the fiscal year ended June 30, 2007, were as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Amounts Due within One Year
Governmental activities:					
Long-term debt					
Capital leases	$ 4,219,951	$ 2,638,066	$ (1,830,334)	$ 5,027,683	$ 1,516,461
Capital leases - Charter Schools	41,506	-	(15,192)	26,314	19,545
Notes Payable - Charter Schools	209,220		(103,803)	105,417	43,315
Intergovernmental agreement- City of Atlanta	18,697,134	3,921,678	(506,137)	22,112,675	726,875
Certificates of Participation		10,115,000	-	10,115,000	-
Total long-term debt	23,167,811	16,674,744	(2,455,466)	37,387,089	2,306,196
Other long-term liabilities					
Compensated absences	6,244,104	2,214,122	(2,467,276)	5,990,950	2,639,137
Workers' compensation	5,850,095	2,285,256	(2,672,606)	5,462,745	1,146,251
Total other long-term liabilities	12,094,199	4,499,378	(5,139,882)	11,453,695	3,785,388
Total long-term obligations	$ 35,262,010	$ 21,174,122	$ (7,595,348)	$ 48,840,784	$ 6,091,584

Over the years, the City of Atlanta has issued various annual general obligation bonds, general obligation refunding bonds on behalf of the School System. During the current fiscal year, $4,000,000 was issued on behalf of the School System. The Intergovernmental agreement as of June 30, 2007 amounted to $22.10 million. The debt service for the bonds has been funded through the School System's bonded debt portion of the annual tax levy. The bonded debt portion of property taxes collected by the City on behalf of the School System is retained by the City and used to pay the annual debt service on the outstanding bonds. As of June 30, 2007, $3,480,761 is available and held by the City.

H. Long-term Debt, continued

The School System reports as due to other governments the amount of bonds proceeds requested and received from the City. This liability is reduced by the amount of bonded debt portion of property taxes collected by the City and reported to the School System.

Fiscal Year Ended June 30	Capital Leases		Intergovernmental Agreements City of Atlanta		Education Reform Success, Inc. Certificates of participation	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	$ 1,516,461	$ 212,644	$ 726,875	$ 1,002,035		
2009	1,583,646	145,459	896,750	961,620	$ 550,000	$ 417,699
2010	244,726	75,561	1,026,875	919,100	570,000	417,699
2011	254,319	65,968	1,022,875	873,515	595,000	394,987
2012	264,135	56,152	1,040,875	824,100	620,000	371,449
2013-2017	1,164,397	116,310	5,691,250	3,321,392	3,500,000	346,878
2018-2022			7,019,625	1,886,654	4,280,000	1,328,873
2023-2027			4,687,250	203,883		544,268
Total Principal and Interest	$ 5,027,684	$ 672,094	$ 22,112,375	$ 9,992,299	$ 10,115,000	$ 3,821,852

I. Restricted Assets

Special Purpose Local Option (SPLOST) and proceeds from certificates of participation related to Education Reform Success, Inc., are reported as restricted assets in the Statement of Net Assets because its use is limited by statutory provisions. Restricted assets at June 30, 2007, were as follows:

	Capital Projects Funds
Restricted Cash and Cash Equivalents	$ 40,579,262
Restricted Investments	51,021,584
ERS Restricted Cash	4,884,269
	$ 96,485,115

J. Interfund Receivables and Payables

Interfund receivable and payable balance as of June 30, 2007 are as follows:

	Due from other funds	Due to other funds
Governmental Activities		
General Fund	$ 21,683,806	$
Capital Projects Funds		1,847,786
Title 1 Fund		
Nonmajor governmental funds	39,395	1,078
Business-type Activities		
Food Service Fund		19,874,337
	$ 21,723,201	$ 21,723,201

During the course of its operations, the School System makes transfers between funds to finance operations, provide services, and acquire assets and service debt. To the extent that certain transfers among funds had not been received as of year end, balances of Interfund amounts receivable or payable have been recorded. It is management's intent to repay interfund balances within the next fiscal year.

K. Inter-fund transfers

Transfers within the governmental and proprietary funds for the year ended June 30, 2007 are as follows:

	Transfers In	Transfers Out
Transfers To/From Primary Government:		
Governmental Activities		
General Fund		$ 44,051,769
Capital Projects Funds:	$ 5,000,000	
Non-major governmental funds	22,635,695	
Business-type Activities		
Food Services Fund	16,416,074	
Total Primary Government	$ 44,051,769	$ 44,051,769

Transfers are used to: (1) move capital assets purchased with Governmental Activities to Business-type Activities for use by School Food Services and (2) transfer state revenues and allocable property taxes to the individual Charter Schools to fund their operations.

L. Risk Management

The School System is exposed to various risks of losses related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The School System is self-insured for workers' compensation claims. The School System purchases commercial insurance in amounts deemed prudent by management for all other risks of loss. Settled claims have not yet exceeded purchased commercial insurance coverage in any of the past three years. The School System is also self-insured for Unemployment Compensation. The State bills the system quarterly for the outstanding claims and the System pay the claims at that time.

Workers' Compensation:

The School System is fully self-insured for workers' compensation claims of its employees and has accrued a liability for the estimated costs of claims and related settlement costs incurred but not paid as of year-end. Liabilities include an amount of $775,857 for claims that have been incurred but not reported (IBNR). The calculation of the present value of future workers' compensation liabilities is based on a discount rate of 3.5%. Changes in the claims liability during the last two fiscal years are as follows:

	Balance at Beginning of Year	Claims and Changes in Estimates	Claim Payments	Balance at End of Year
Fiscal year 2006	$2,943,922	$5,580,917	$(2,674,744)	$5,850,095
Fiscal year 2007	$5,850,095	$2,285,256	$(2,672,606)	$5,462,745

M. Non-monetary Transactions

The School System received from the United States Department of Agriculture through the Georgia Department of Education approximately $981,571 in donated food commodities for its lunchroom programs. The federally assigned value of these commodities is reflected as revenue and expense in the Food Services fund financial statements.

N. On-behalf Payments for Fringe Benefits

The School System has recognized revenues and expenditures in the amount of $5,811,198.46 for health insurance paid by the Georgia Department of Education to the State Merit System of Personnel Administration for non-certified personnel on the School System's behalf.

O. Retirement Plans

Teachers Retirement System of Georgia (TRS)

Plan Description

Substantially all teachers, administrative and clerical personnel employed by local school systems of the State of Georgia are covered by the Teachers Retirement System of Georgia (TRS), which is a cost-sharing multiple employer public employee retirement system sponsored by the State of Georgia. Most School Systems' employees participate in TRS.

TRS provides service retirement, disability retirement and survivor's benefits for its members. A member is eligible for service retirement after 30 years of creditable service, regardless of age, or after 10 years of service and attainment of age 60. A member is eligible for early retirement after 25 years of creditable service. Early retirement benefits are reduced by the lesser of 1/12 of 7% of each month the member is below age 60, or by 7% of each year or fraction thereof by which the member has less than 30 years of service.

Normal retirement benefits paid to members are equal to 2% of the average of the member's two consecutive highest paid years of service multiplied by the number of years of creditable service up to 40 years. The normal retirement pension is payable monthly for life. Options are available for distribution of the member's monthly pension at a reduced rate to a designated beneficiary on the member's death.

Retirement benefits also include death and disability benefits whereby the disabled member or surviving spouse is entitled to receive annually an amount equal to the member's service retirement benefit or disability retirement, whichever is greater. The benefit is based on member's creditable service (minimum of 10 years) and compensation up to the date of death.

TRS issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by calling 404-352-6500, or by accessing their website at www.trsga.com.

Funding Policy

Employees of the School System who are covered by TRS are required to pay 5% of their gross earnings to TRS. The School System makes monthly employer contributions to TRS at rates adopted by the TRS Board of Trustees as advised by their independent actuary. The employer contribution rate is 9.24% at June 30, 2007.

O. Retirement Plans, continued

Total actual and required contributions were as follows:

	2007	2006	2005
School System	$28,304,077	$27,154,487	$26,202,224
Employees	15,294,733	14,691,312	14,180,084
	$43,598,810	$41,845,799	$40,382,308

City of Atlanta General Employees Pension Plan

Plan Description

All permanent employees of the School System who are not covered under the TRS are eligible to participate in the City of Atlanta General Employees' Pension Plan (the "Plan"). In addition, certain School System employees employed prior to July 1, 1979, also participate in the Plan.

The Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Plan is an agent multiple-employer pension plan administered by a Board of Trustees, which includes the Mayor of the City of Atlanta or designee, the City's Chief Financial Officer, one member of City Council, one member of the School System, one member elected by eligible employees of the City, one member elected by eligible employees of the School System, one member elected by retired employees of the School System and one member elected by retired employees of the City. The Board of Trustees has the authority to establish and amend the benefit provisions of the Plan.

On December 12, 2005, the School System adopted the following changes to the Plan:

1. 10 year vesting
2. 2.5% benefit multiplier (capped at 80%)
3. Unreduced retirement at 30 years of service regardless of age

The Plan issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. The report may be obtained by writing or by calling the Plan at:

City of Atlanta General Employees Pension Plan
68 Mitchell Street
Atlanta, GA
Telephone Number: (404) 330-6000

The Plan provides retirement benefits that, initially, are 2% of the employee's highest average monthly base compensation over any 36-month period. A participant may retire at age 65 or, after 15 years of service, at age 60. Cost-of-living increases are awarded annually, up to a 3% maximum increase. Partial vesting percentages based on years of creditable service and provisions for early retirement, are included in the Plan. Benefits also may be payable at termination, death, or disability.

O. Retirement Plans, continued

The School System's membership in the Plan as of July 1, 2007 is as follows:

Active employees	1,026
Inactive members	154
Retirees and beneficiaries	2,479
Total membership	3,659

Method Used to Value Investments

Investments are stated at fair value. Fair value of Plan assets at July 1, 2007 was $161,816,360.

Funding Policy and Annual Pension Cost

The School System's funding policy is to contribute a percentage of covered employee payroll as developed in the actuarial valuation for the Plan. Obligations to contribute to the Plan are established by the Board, subject to minimum financing standards established by the State of Georgia.

Active participants are required to contribute 7% of pay (8% if participant has a covered beneficiary or is married). The School System's contribution percentage is the actuarial determined amount necessary to fund Plan benefits after consideration of employee contributions.

The actuarial determined contribution amount is the sum of the annual normal cost (determined under the entry age normal actuarial cost method) and the amortization of the unfunded actuarial accrued liability as a level percentage of future payrolls (over 40 years from January 1, 1979).

The Plan's annual pension cost for the current year, based on actuarial valuations performed as of July 1, 2007 and related information for the Plan is as follows:

Contribution rates as a percent of covered payroll:	
Employee	7.0% or 8.0%
Employer	8.0%
Annual pension cost	$ 47,925,431
Employer Contributions made	$49,265,266*

*This amount is based on the fiscal year vs. amounts provided by the actuarial report in the following page, which are presented on a calendar year.

Actuarial valuation date	7/1/07
Actuarial cost method	Entry age normal
Amortization method	Level % of pay, closed
Actuarial assumptions:	
Investment rate of return	8.0% per year
Projected salary increases:	
Inflation	3.0% per year
Merit or seniority and productivity	4.5% per year
Post retirement benefit increases	N/A

O. Retirement Plans, continued

The asset valuation method used is the actuarial value from the prior year plus net new money plus 20% of the asset appreciation/depreciation for the current year and each of the prior four years.

Effective July 1, 2007, the Plan Year was changed from January 1 to July 1. Therefore, the valuation presented below, dated December 31, 2006, is based on the most current actuarial tables available at the School System's fiscal year end of June 30, 2007. Data as of July 1, 2007 will be presented in the School System's 2008 Comprehensive Annual Financial Report.

Five Year Trend Information as of December 31 is as follows:

Year	Annual Required Contribution ARC)	Actual Contribution	% of ARC Contributed	Net Pension Obligation
2002	$34,950,601	$35,136,900	100.53%	($186,299)
2003	$38,812,022	$38,675,940	99.65%	$136,082
2004	$40,937,888	$36,321,730	88.72%	$4,616,158
2005	$43,537,755	$45,125,221	103.65%	($1,587,466)
2006	$46,116,267	$46,116,267	100.00%	$0

Actuarial Valuation Date	Actuarial Value of Assets* (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/02	$117,546,260	$563,396,789	$445,850,529	20.9%	$40,666,479	1,096.4%
1/1/03	$109,367,500	$579,890,481	$470,522,981	18.9%	$47,042,418	1,000.3%
1/1/04	$107,323,985	$581,451,634	$474,127,649	18.5%	$45,898,463	1,033.0%
1/1/05	$102,301,954	$580,470,790	$478,168,836	17.6%	$40,366,756	1,184.6%
1/1/06	$116,866,067	$600,055,443	$483,189,376	19.5%	$26,185,568	1,845.3%

P. Special Items

During Fiscal Year 2007, the School System sold several pieces of Capital Assets. A net gain of $3,129,377 from sale is reported as a special item on the Statement of Activities.

Q. Extraordinary Items

During Fiscal Year 2007, Achieve Academy of Atlanta and School for Integrated Academics & Technologies at Georgia Inc, were closed. These two charter schools financial information was not available as of June 30, 2007. Therefore an extraordinary item was shown as to close out any balances remaining from these blended charter schools.

R. Commitments and Contingencies

Construction commitments

The School System has active construction projects as of June 30, 2007. The projects relate to construction and renovation of school buildings. At year end the School System's commitments with contractors were $27.9 million. Additionally, Education Reform Success entered into a construction contract which had $3.38 million in commitments as of June 30, 2007.

Litigation and Other Contingencies

The School System is a defendant in various lawsuits which arose in the ordinary course of its activities. The School System believes its liability in these matters, if any, will not be material.

S. Prior Period Adjustments

Beginning net asset balances have been adjusted in the following statements pursuant to corrections of prior year error:

Government-Wide

Net assets at the beginning of the year for governmental activities have been restated by $20,399,249 for capital assets and $6,029,535 for property taxes as described in the following paragraph.

The valuations of various plots of land and some other capital assets were understated by $20,399,249. Capital assets at the beginning of the year have been restated to reflect properly the understatement of these assets. These amounts are reflected as a correction of prior year errors in the statement of activities.

Adjustments for the proper recognition of property taxes were made for $6,029.535.

Additional restatements were required in separation of the Debt Service fund from General Fund. Beginning fund balance for general fund was adjusted by $4,396,505. Debt service fund needed a net adjustment of $4,310,899. The net variance of $85,606 was due to reconciliation of beginning balance with amounts presented by City of Atlanta.

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