

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

AUDIT REPORT

OF

DEKALB COUNTY EASTERN COMMUNITY SCHOOL DISTRICT

DEKALB COUNTY, INDIANA

July 1, 2004 to June 30, 2006



FILED
02/12/2007

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Philip Carpenter	07-01-04 to 06-30-07
Superintendent of Schools	Dr. Jeffrey Stephens	07-01-04 to 06-30-07
President of the School Board	Fred Surface Leon Steury	07-01-04 to 06-30-06 07-01-06 to 06-30-07



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

TO: THE OFFICIALS OF THE DEKALB COUNTY EASTERN COMMUNITY
SCHOOL DISTRICT, DEKALB COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the DeKalb County Eastern Community School District (School Corporation), as of and for the years ended June 30, 2005 and 2006, which collectively comprise the School Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School Corporation'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.

As discussed in Note I, the School Corporation prepares its financial statements on the prescribed basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash and investment balances of the governmental activities, each major fund, and the aggregate remaining fund information of the School Corporation as of June 30, 2005 and 2006, and the respective cash receipts and cash disbursements during the years then ended on the basis of accounting described in Note I.

In accordance with Government Auditing Standards, we have also issued a report dated January 18, 2007, on our consideration of the School Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the School Corporation taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is 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.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)

The Schedule of Funding Progress, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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.

The School Corporation has not presented Management's Discussion and Analysis or Budgetary Comparison Schedules that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School Corporation's basic financial statements. The Schedule of Capital Assets and Schedule of Long-Term Debt are presented for additional analysis and are not required parts of the basic financial statements. The Schedule of Capital Assets and Schedule of Long-Term Debt have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

January 18, 2007



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Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE DEKALB COUNTY EASTERN COMMUNITY
SCHOOL DISTRICT, DEKALB COUNTY, INDIANA

We have audited the financial statements of the DeKalb County Eastern Community School District (School Corporation), as of and for the years ended June 30, 2005 and 2006, and have issued our report thereon dated January 18, 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.

Compliance

As part of obtaining reasonable assurance about whether the School Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the School Corporation's management and 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. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

January 18, 2007

DEKALB COUNTY EASTERN COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH AND INVESTMENTS
June 30, 2005

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 5,085,854
Restricted assets:	
Cash and investments	<u>404,258</u>
Total assets	<u>\$ 5,490,112</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 404,258
Unrestricted	<u>5,085,854</u>
Total net assets	<u>\$ 5,490,112</u>

The accompanying notes are an integral part of the financial statements.

DEKALB COUNTY EASTERN COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH AND INVESTMENTS
June 30, 2006

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 4,024,799
Restricted assets:	
Cash and investments	<u>139,747</u>
Total assets	<u>\$ 4,164,546</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 139,747
Unrestricted	<u>4,024,799</u>
Total net assets	<u>\$ 4,164,546</u>

The accompanying notes are an integral part of the financial statements.

DEKALB COUNTY EASTERN COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH ACTIVITIES
For the Year Ended June 30, 2005

Functions/Programs	Disbursements	Program Receipts		Net (Disbursements) Receipts
		Charges for Services	Operating Grants and Contributions	Total
Governmental activities:				
Instruction	\$ 6,745,846	\$ -	\$ 62,840	\$ (6,683,006)
Support services	11,825,391	344,265	177,390	(11,303,736)
Community services	177,519	-	-	(177,519)
Nonprogrammed charges	459,308	-	-	(459,308)
Debt service	<u>7,768,083</u>	<u>-</u>	<u>-</u>	<u>(7,768,083)</u>
Total governmental activities	<u>\$ 26,976,147</u>	<u>\$ 344,265</u>	<u>\$ 240,230</u>	<u>(26,391,652)</u>
General receipts:				
Property taxes				8,886,063
Other local sources				1,360,897
State aid				4,326,865
Grants and contributions not restricted				4,743,419
Bonds and loans				3,223,583
Sale of property, adjustments, and refunds				75,574
Investment earnings				141,169
Intergovernmental transfers				<u>2,588,416</u>
Total general receipts and intergovernmental transfers				<u>25,345,986</u>
Change in cash and investments				(1,045,666)
Net assets - beginning				<u>6,535,778</u>
Net assets - ending				<u>\$ 5,490,112</u>

The accompanying notes are an integral part of the financial statements.

DEKALB COUNTY EASTERN COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH ACTIVITIES
For the Year Ended June 30, 2006

Functions/Programs	Disbursements	Program Receipts		Net (Disbursements) Receipts
		Charges for Services	Operating Grants and Contributions	Total
Governmental activities:				
Instruction	\$ 7,936,271	\$ -	\$ 54,386	\$ (7,881,885)
Support services	12,431,486	358,578	211,224	(11,861,684)
Community services	149,916	-	-	(149,916)
Nonprogrammed charges	517,843	-	-	(517,843)
Debt service	4,350,890	-	-	(4,350,890)
Total governmental activities	<u>\$ 25,386,406</u>	<u>\$ 358,578</u>	<u>\$ 265,610</u>	<u>(24,762,218)</u>
General receipts:				
Property taxes				6,022,369
Other local sources				935,872
State aid				5,238,615
Grants and contributions not restricted				3,081,543
Bonds and loans				3,906,544
Sale of property, adjustments, and refunds				1,615,495
Investment earnings				237,687
Intergovernmental transfers				<u>2,398,527</u>
				Total general receipts and intergovernmental transfers <u>23,436,652</u>
				Change in cash and investments (1,325,566)
				Net assets - beginning <u>5,490,112</u>
				Net assets - ending <u><u>\$ 4,164,546</u></u>

The accompanying notes are an integral part of the financial statements.

DEKALB COUNTY EASTERN COMMUNITY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2005

	General	Transportation Operating	Special Education Coop	Special Education Grants 04/05	Debt Service	Capital Projects	School Bus Replacement	Construction	Other	Totals
Receipts:										
Local sources	\$ 4,663,651	\$ 1,106,429	\$ 53,962	\$ -	\$ 2,032,986	\$ 2,028,321	\$ 179,889	\$ 15,319	\$ 651,297	\$ 10,731,854
Intermediate sources	109	-	-	-	-	-	-	-	431	540
State sources	4,376,699	-	-	-	-	-	-	-	88,063	4,464,762
Federal sources	-	-	-	4,339,144	-	-	-	-	506,608	4,845,752
Bonds and loans	1,935,091	341,194	-	-	417,104	530,194	-	-	-	3,223,583
Sale of property, adjustments and refunds	9,366	1,667	51,382	38	-	9,011	-	-	4,110	75,574
Intergovernmental transfers	-	-	2,376,140	-	-	-	-	-	212,276	2,588,416
Total receipts	10,984,916	1,449,290	2,481,484	4,339,182	2,450,090	2,567,526	179,889	15,319	1,462,785	25,930,481
Disbursements:										
Current:										
Instruction	4,060,819	-	308,928	2,016,058	-	-	-	-	360,041	6,745,846
Support services	3,534,451	891,063	3,194,765	769,758	-	1,988,395	152,332	421,830	872,797	11,825,391
Community services	159,217	-	-	-	-	-	-	-	18,302	177,519
Nonprogrammed charges	338,802	19,228	-	-	36,342	35,861	3,417	-	25,658	459,308
Debt services	3,869,677	544,803	-	-	2,136,061	1,129,058	88,484	-	-	7,766,083
Total disbursements	11,962,966	1,455,094	3,503,693	2,785,816	2,172,403	3,153,314	244,233	421,830	1,276,798	26,976,147
Excess (deficiency) of total receipts over (under) total disbursements	(978,050)	(5,804)	(1,022,209)	1,553,366	277,687	(585,788)	(64,344)	(406,511)	185,987	(1,045,666)
Cash and investments - beginning	1,549,563	248,001	1,769,393	307,165	126,571	866,058	112,424	1,007,564	549,039	6,535,778
Cash and investments - ending	\$ 571,513	\$ 242,197	\$ 747,184	\$ 1,860,531	\$ 404,258	\$ 280,270	\$ 48,080	\$ 601,053	\$ 735,026	\$ 5,490,112

The accompanying notes are an integral part of the financial statements.

DEKALB COUNTY EASTERN COMMUNITY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2006

	General	Transportation Operating	Special Education Coop	Special Education Grants 04/05	Special Education Grants 05/06	Debt Service	Capital Projects	School Bus Replacement	Construction	Other	Totals
Receipts:											
Local sources	\$ 3,159,569	\$ 847,105	\$ 110,036	\$ -	\$ -	\$ 1,302,542	\$ 1,433,443	\$ 82,142	\$ 10,959	\$ 608,080	\$ 7,553,876
Intermediate sources	217	-	-	-	-	-	-	-	-	413	630
State sources	5,280,002	-	-	-	-	-	-	-	-	88,078	5,368,080
Federal sources	162	-	-	-	2,600,000	-	-	-	-	617,527	3,217,689
Bonds and loans	1,769,609	466,917	-	-	-	548,549	1,025,239	96,230	-	-	3,906,544
Sale of property, adjustments and refunds	23,207	12,021	1,160,298	-	-	-	209	-	415,000	4,759	1,615,494
Intergovernmental transfers	157,092	-	2,162,926	-	-	-	19,300	-	-	59,209	2,398,527
Total receipts	10,389,858	1,326,043	3,433,260	-	2,600,000	1,851,091	2,478,191	178,372	425,959	1,378,066	24,060,840
Disbursements:											
Current:											
Instruction	4,310,621	-	354,547	1,270,276	1,554,394	-	-	-	-	446,433	7,936,271
Support services	4,079,732	1,040,911	2,511,524	590,255	737,376	-	1,919,457	85,157	611,838	855,236	12,431,486
Community services	142,040	-	-	-	-	-	-	-	-	7,876	149,916
Nonprogrammed charges	290,911	3,192	-	-	-	797	5,612	229	-	217,102	517,843
Debt services	1,379,040	326,272	-	-	-	2,114,805	530,773	-	-	-	4,350,890
Total disbursements	10,202,344	1,370,375	2,866,071	1,860,531	2,291,770	2,115,602	2,455,842	85,386	611,838	1,526,647	25,386,406
Excess (deficiency) of total receipts over (under) total disbursements	187,514	(44,332)	567,189	(1,860,531)	308,230	(264,511)	22,349	92,986	(185,879)	(148,581)	(1,325,566)
Cash and investments - beginning	571,513	242,197	747,184	1,860,531	-	404,258	280,270	48,080	601,053	735,026	5,490,112
Cash and investments - ending	\$ 759,027	\$ 197,865	\$ 1,314,373	\$ -	\$ 308,230	\$ 139,747	\$ 302,619	\$ 141,066	\$ 415,174	\$ 586,445	\$ 4,164,546

The accompanying notes are an integral part of the financial statements.

DEKALB COUNTY EASTERN COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH AND INVESTMENTS
FIDUCIARY FUNDS
June 30, 2005

<u>Assets</u>	<u>Agency Funds</u>
Cash and investments	<u>\$ 4,365</u>

The accompanying notes are an integral part of the financial statements.

DEKALB COUNTY EASTERN COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH AND INVESTMENTS
FIDUCIARY FUNDS
June 30, 2006

<u>Assets</u>	<u>Agency Funds</u>
Cash and investments	<u>\$ 5,063</u>

The accompanying notes are an integral part of the financial statements.

DEKALB COUNTY EASTERN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

School Corporation, as used herein, shall include, but is not limited to, school townships, school towns, school cities, consolidated school corporations, joint schools, metropolitan school districts, township school districts, county schools, united schools, school districts, cooperatives, educational service centers, community schools, community school corporations, and charter schools.

The School Corporation was established under the laws of the State of Indiana. The School Corporation operates under a Board of School Trustees form of government and provides educational services.

The School Corporation's financial reporting entity is composed of the primary government.

In determining the financial reporting entity, the School Corporation complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

Joint Ventures

The School Corporation is a participant with other interested School Corporations in DeKalb, LaGrange, Noble, and Steuben Counties, in a joint venture to operate the Four County Area Vocational Cooperative (Co-op), which was created to provide vocational instruction for children. The School Corporation is obligated by contract to remit a proportionate share of annual costs to supplement the Co-op. Complete financial statements for the Co-op can be obtained from the Garrett-Keyser-Butler School Corporation, 801 Houston Street, Garrett, Indiana, 46738.

The School Corporation is a participant with other interested School Corporations in DeKalb, LaGrange, Noble, and Steuben Counties in a joint venture to operate the Northeast Indiana Special Education Cooperative (Co-op) which was created to provide programs and services for children with exceptional needs. The School Corporation is obligated by contract to remit a proportionate share of annual costs to supplement the Co-op. The School Corporation is the administrator for the Co-op. The Co-op's financial records are accounted for in several special revenue funds on the records of the School Corporation.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Activities and Net Assets – Cash and Investment Basis displays information about the reporting government as a whole. It includes all funds of the reporting entity except for fiduciary funds. The statement distinguishes between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. However, there are no business-type activities to report at this time.

DEKALB COUNTY EASTERN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, receipts, and disbursements. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. However, at this time, the School Corporation has not established any enterprise funds.

The School Corporation reports the following major governmental funds:

The general fund is the School Corporation's primary operating fund and accounts for all financial resources of the School Corporation, except those required to be accounted for in another fund.

The transportation operating fund accounts for financial resources for the transportation of school children to and from school.

The special education co-op fund accounts for financial resources used for the operation of the NE Indiana Special Education Co-op (joint venture).

The special education grants funds account for receipts and disbursements related to federal grants used for special education.

The debt service fund accounts for debt from funds borrowed or advanced for the purchase or lease of school buildings, school buses, equipment or capital construction. It also accounts for interest on emergency and temporary loans.

The capital projects fund accounts for planned construction, repair, replacement or remodeling, the purchase, lease, upgrade, maintenance, or repair of computer equipment.

The bus replacement fund is used to account for receipts and disbursements concerning the acquisition and disposal of school buses.

The construction fund is used to account for receipts and disbursements of bond proceeds issued for construction purposes.

Additionally, the School Corporation reports the following fund type:

Agency funds account for assets held by the School Corporation as an agent for other entities and serve as control of accounts for certain cash transactions during the time they are a liability to the School Corporation.

C. Measurement Focus and Basis of Accounting

The government-wide, governmental fund, proprietary fund and fiduciary fund financial statements are reported using the basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

DEKALB COUNTY EASTERN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

The cash and investment basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash rather than when earned and disbursements are recognized when paid rather than when a liability is incurred. Investment transactions are not presented on the financial statements.

If the School Corporation utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities are provided to people outside the government (enterprise funds) or other departments or agencies primarily within the government (internal service funds). The School Corporation does not have any proprietary funds.

When both restricted and unrestricted resources are available for use, the School Corporation's policy is to use restricted resources first, then unrestricted resources as they are needed.

D. Assets and Cash and Investment Balances

1. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as interest receipts in the year of the sale of the investment.

2. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the School Corporation in June and in December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively.

3. Compensated Absences

a. Sick Leave

School Corporation noncertified employees earn sick leave at the rate of 7 to 9 days per year. Unused sick leave may be accumulated to a maximum of 30 days. Accumulated sick leave of 10 days or less is paid to employees through cash payments upon retirement.

DEKALB COUNTY EASTERN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

b. Vacation Leave

Nonteaching or administrative and noncertified School Corporation employees earn vacation leave at rates from 5 days to 25 days per year based upon the number of years of service. Vacation leave may be accumulated to a maximum of twice the annual credit days. Accumulated vacation leave is paid to employees through cash payments upon separation.

c. Other Leave

School Corporation certified employees earn other leave at the rate of 12 to 15 days per year. Unused other leave is paid into a 403(b) annuity account based on an individual's annual salary (excluding extra duty payments) and owned by the individual.

4. Capital Assets

Capital assets arising from cash transactions acquired for use in governmental or proprietary fund operations are accounted for as capital outlay disbursements of the fund upon acquisition.

5. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental and proprietary funds is not reported as liabilities in the basic financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as disbursements.

6. Equity Classification

Government-Wide Statements

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

- a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.
- b. Unrestricted net assets – All other net assets that do not meet the definition of "restricted."

It is the School Corporation's policy to first use restricted net assets prior to the use of unrestricted net assets when a disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Financial Statements

Governmental fund equity is classified as fund balance.

E. Receipts and Disbursements

Program Receipts

Amounts reported as program receipts include (1) charges to customers or applicants for goods, services, or privileges provided, and (2) operating grants and contributions. Internally dedicated resources are reported as general receipts rather than as program receipts. Likewise, general receipts include all taxes.

DEKALB COUNTY EASTERN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

F. Internal and Interfund Balances and Activities

In the process of aggregating the financial information for the government-wide Statement of Activities and Net Assets – Cash and Investment Basis, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

Fund Financial Statements

1. Interfund services – Sales or purchases of goods and services between funds are reported as receipts and disbursements.
2. Interfund reimbursements – Repayments from funds responsible for certain disbursements to the funds that initially paid for them are reported as reimbursements.
3. Interfund transfers – Flow of assets from one fund to another where repayment is not expected is reported as transfers in and out.

Government-Wide Financial Statements

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities and Net Assets – Cash and Investment Basis except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers – Internal Activities. The effects of interfund services between funds, if any, are not eliminated in the Statement of Activities and Net Assets – Cash and Investment Basis.

II. Stewardship, Compliance and Accountability

Budgetary Information

Annual budgets are adopted on the cash basis, which is not consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at calendar year end.

Prior to the first required publication, the fiscal officer of the School Corporation submits to the governing board a proposed operating budget for the year commencing the following July 1. Prior to adoption, the budget is advertised and public hearings are conducted by the governing board to obtain taxpayer comments. In September of each year, the governing board, through the passage of a resolution, approves the budget for the next year. Copies of the budget resolution and the advertisement for funds for which property taxes are levied or highway use taxes are received are sent to the Indiana Department of Local Government Finance. The budget becomes legally enacted after the fiscal officer of the School Corporation receives approval of the Indiana Department of Local Government Finance.

The School Corporation's management cannot transfer budgeted appropriations between object classifications of a budget without approval of the governing board. The Indiana Department of Local Government Finance must approve any revisions to the appropriations for any fund. The legal level of budgetary control is by object within the fund.

DEKALB COUNTY EASTERN COMMUNITY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

III. Detailed Notes on All Funds

A. Deposits and Investments

1. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

2. Investments

Authorization for investment activity is stated in Indiana Code 5-13.

B. Interfund Transfers

Interfund transfers for the years ended June 30, 2005 and 2006, were as follows:

Transfer From	Transfer To	2005	2006
General Fund	Other governmental funds	\$ 81,270	\$ 8,669
Transportation Operating Fund	Other governmental funds	19,228	3,192
Debt Service Fund	Other governmental funds	36,342	797
Capital Projects Fund	Other governmental funds	35,861	5,612
School Bus Replacement Fund	Other governmental funds	3,417	229
Other governmental funds	General Fund	-	157,092
	Capital Projects Fund	-	19,300
	Other governmental funds	<u>25,658</u>	<u>40,710</u>
Totals		<u>\$ 201,776</u>	<u>\$ 235,601</u>

The School Corporation typically uses transfers for cash flow purposes as provided by various statutory provisions.

IV. Other Information

A. Risk Management

The School Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters.

DEKALB COUNTY EASTERN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

Workers' Compensation

During 2005, the School Corporation joined the Public Employers' Plan, Inc., a public entity risk pool currently operating as a common risk management and insurance program for approximately 350 member governmental entities. This risk pool was formed in 1989. The purpose of the risk pool is to provide a medium for the funding and administration of workers' compensation claims. The Utility pays an annual premium to the risk pool for its workers' compensation coverage. The risk pool is considered a self-sustaining risk pool that will provide coverage for its members for up to \$1,000,000 per insured event. The risk pool obtains independent coverage for insured events in excess of the \$1,000,000 limit.

B. Holding Corporation

The School Corporation has entered into a capital lease with DeKalb Eastern High School Building Corporation (the lessor). The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the School Corporation. The lessor has been determined to be a related party of the School Corporation. Lease payments during the audit period totaled \$2,876,415.

C. Receivables From/Payables To Special Education Co-op Members

As mentioned in Note I, the school corporation is the administrator of the Northeast Indiana Special Education Co-op. The following amounts are receivable from/(payable to) member school corporations as of June 30:

<u>School Corporation</u>	<u>2005</u>	<u>2006</u>
DeKalb County Eastern CSD	\$ 103,857	\$ 173,854
Garrett-Keyser-Butler CSC	69,125	-
DeKalb County Central USD	(139,584)	(346,236)
Prairie Heights CSC	78,116	190,916
Westview School Corporation	72,284	44,669
Lakeland School Corporation	(125,196)	(321,652)
Central Noble School Corporation	59,174	46,056
West Noble School Corporation	84,974	(88,714)
Fremont Community Schools	119,213	26,954
Hamilton Community Schools	100,253	-
MSD Steuben County	<u>(139,769)</u>	<u>(322,331)</u>
Total Receivable (Payable)	<u>\$ 282,447</u>	<u>\$ (596,484)</u>

DEKALB COUNTY EASTERN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Pension Plans

1. Agent Multiple-Employer Defined Benefit Pension Plan

Public Employees' Retirement Fund

Plan Description

The School Corporation contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system and give the School Corporation authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. The report may be obtained by contacting:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The School Corporation's annual pension cost and related information, as provided by the actuary, is presented in this note.

Information to segregate the assets/liabilities and the actuarial study figures between the School Corporation and the Utilities is not available.

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 131,530
Interest on net pension obligation	(16,343)
Adjustment to annual required contribution	18,625
Annual pension cost	133,812
Contributions made	135,717
Decrease in net pension obligation	(1,905)
Net pension obligation, beginning of year	(225,427)
Net pension obligation, end of year	\$ (227,332)

DEKALB COUNTY EASTERN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

	PERF
Contribution rates:	
School Corporation	5.50%
Plan members	3%
Actuarial valuation date	07-01-05
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	40 years
Amortization period (from date)	07-01-97
Asset valuation method	75% of expected actuarial value plus 25% of market value

Actuarial Assumptions

Investment rate of return	7.25%
Projected future salary increases:	
Total	5%
Attributed to inflation	4%
Attributed to merit/seniority	1%
Cost-of-living adjustments	2%

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-03	\$ 121,639	101%	\$ (218,255)
	06-30-04	117,582	106%	(225,427)
	06-30-05	133,812	115%	(227,332)

2. Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

Teachers' Retirement Fund

Plan Description

The School Corporation contributes to the Indiana Teachers' Retirement Fund (TRF), a defined benefit pension plan. TRF is a cost-sharing multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All employees engaged in teaching or in the supervision of teaching in the public schools of the State of Indiana are eligible to participate in TRF. State statute (IC 5-10.2) governs, through the TRF Board, most requirements of the system and gives the School Corporation authority to contribute to the plan. The TRF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The School Corporation may elect to make the contributions on behalf of the member.

DEKALB COUNTY EASTERN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

TRF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Teachers' Retirement Fund
150 West Market Street
Indianapolis, IN 46204
Ph. (317) 232-3860

Funding Policy and Annual Pension Costs

The School Corporation contributes the employer's share to TRF for certified employees employed under a federally funded program and all the certified employees hired after July 1, 1995. The School Corporation currently receives partial funding, through the school funding formula, from the State of Indiana for this contribution. The employer's share of contributions for certified personnel who are not employed under a federally funded program and were hired before July 1, 1995, is considered to be an obligation of, and is paid by, the State of Indiana.

The School Corporation is to contribute at an actuarially determined rate. The current rate has been actuarially determined under the entry age normal cost method to be 6.82% of covered wages. The School Corporation's required contributions to the plan for the fiscal years ended June 30, 2006, 2005, and 2004, were \$279,967, \$260,479, and \$219,953, respectively. The School Corporation actually contributed 100% of the required contribution for each of the fiscal years.

DEKALB COUNTY EASTERN COMMUNITY SCHOOL DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	\$ 2,261,652	\$ 2,220,909	\$ 40,743	102%	\$ 2,330,998	2%
07-01-04	2,302,034	2,398,324	(96,290)	96%	2,391,277	(4%)
07-01-05	2,411,531	2,928,088	(516,557)	82%	2,468,047	(21%)

DEKALB COUNTY EASTERN COMMUNITY SCHOOL DISTRICT
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS

June 30, 2006

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 874,510
Buildings	27,279,086
Improvements other than buildings	382,566
Machinery and equipment	<u>6,886,051</u>
Total governmental activities, capital assets not being depreciated	<u>\$ 35,422,213</u>

DEKALB COUNTY EASTERN COMMUNITY SCHOOL DISTRICT
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT

June 30, 2006

Description of Debt	Ending Balance	Due Within One Year
Governmental Activities:		
Capital leases:		
Building construction/rennovation	\$ 20,600,000	\$ 360,000
Eastside HS bleachers	53,312	53,312
Butler Elementary computers	59,760	59,760
Riverdale Elementary computers	81,018	39,196
Energy savings certificates of participation	1,390,000	445,000
Temporary loans payable	<u>3,916,709</u>	<u>3,916,709</u>
 Total governmental activities long-term debt	 <u>\$ 26,100,799</u>	 <u>\$ 4,873,977</u>

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

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

TO: THE OFFICIALS OF THE DEKALB COUNTY EASTERN COMMUNITY
SCHOOL DISTRICT, DEKALB COUNTY, INDIANA

Compliance

We have audited the compliance of the DeKalb County Eastern Community School District (School Corporation) 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 years ended June 30, 2005 and 2006. The School Corporation'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 the School Corporation's management. Our responsibility is to express an opinion on the School Corporation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; 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 School Corporation'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 of the School Corporation's compliance with those requirements.

In our opinion, the School Corporation complied in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the years ended June 30, 2005 and 2006.

Internal Control Over Compliance

The management of the School Corporation 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 the School Corporation'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.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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 noncompliance with applicable requirements of laws, regulations, contracts and grants 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. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the School Corporation's management and 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. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

January 18, 2007

DEKALB COUNTY EASTERN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended June 30, 2005 and 2006

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 06-30-05	Total Federal Awards Expended 06-30-06
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Pass-Through Indiana Department of Education				
Child Nutrition Cluster				
School Breakfast Program	10.553		\$ 22,264	\$ 22,548
National School Lunch Program	10.555		<u>178,625</u>	<u>195,871</u>
Total for cluster			<u>200,889</u>	<u>218,419</u>
Total for federal grantor agency			<u>200,889</u>	<u>218,419</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Pass-Through Indiana Department of Education				
Special Education Cluster				
Special Education - Grants to States	84.027			
		14203-046-DY08	79,595	-
		14204-046-PY02	302,570	-
		14205-046-PN01	2,348,727	1,859,293
		14205-046-SN01	54,924	1,200
		14205-046-DY01	-	54,924
		14206-046-PN01	-	<u>2,291,770</u>
Total for program			<u>2,785,816</u>	<u>4,207,187</u>
Special Education - Preschool Grants	84.173			
		45703-046-PN01	144,729	160
		45704-046-PN01	-	<u>148,995</u>
Total for program			<u>144,729</u>	<u>149,155</u>
Total for cluster			<u>2,930,545</u>	<u>4,356,342</u>
Title I Grants to Local Education Agencies	84.010			
		04-1805	73,740	-
		05-1805	36,288	101,421
		06-1805	-	<u>105,528</u>
Total for program			<u>110,028</u>	<u>206,949</u>
Title II Enhancing Education Through Technology	84.138			
		SY02-03	1,113	-
		SY03-04	2,970	-
Total for program			<u>4,083</u>	<u>-</u>
Safe and Drug Free Schools and Communities - State Grants	84.186			
		04-024	5,744	-
		05-010	-	<u>3,129</u>
Total for program			<u>5,744</u>	<u>3,129</u>
Innovative Education Program Strategies	84.298			
		03-139	18,801	-
		04-029	29,315	167
		05-016	-	<u>7,342</u>
Total for program			<u>48,116</u>	<u>7,509</u>
Education Technology - State Grants	84.318			
		03-04	3,825	-
		04-05	-	<u>2,925</u>
Total for program			<u>3,825</u>	<u>2,925</u>
Improving Teacher Quality - State Grants	84.367			
		03-118	15,758	-
		04-027	22,722	21,745
		05-014	-	<u>6,028</u>
Total for program			<u>38,480</u>	<u>27,773</u>
Total for federal grantor agency			<u>3,140,821</u>	<u>4,604,627</u>
Total federal awards expended			<u>\$ 3,341,710</u>	<u>\$ 4,823,046</u>

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

DEKALB COUNTY EASTERN COMMUNITY SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

I. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the DeKalb County Eastern Community School District (School Corporation) and is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Accordingly, the amount of federal awards expended is based on when the activity related to the award occurs. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$500,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with the Indiana Code (IC 5-11-1 et seq.), audits of school corporations shall be conducted biennially. Such audits shall include both years within the biennial period.

II. Noncash Assistance

The School Corporation expended the following amount of noncash assistance for the years ending June 30, 2005 and 2006. This noncash assistance is also included in the federal expenditures presented in the schedule.

Program Title	Federal CFDA Number	2005	2006
School Breakfast Program	10.553	\$ 4,499	\$ 4,389
National School Lunch Program	10.555	34,860	34,649

DEKALB COUNTY EASTERN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	none reported

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? no

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
84.010	Special Education Cluster Title I Grants to Local Education Agencies

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? yes

Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

DEKALB COUNTY EASTERN COMMUNITY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

DEKALB COUNTY EASTERN COMMUNITY SCHOOL DISTRICT
EXIT CONFERENCE

The contents of this report were discussed on January 18, 2007, with Dr. Jeffrey Stephens, Superintendent of Schools; Philip Carpenter, Treasurer; and Sheila Holman, Bookkeeper. Our audit disclosed no material items that warrant comment at this time.