

**HENRY COUNTY BOARD
OF EDUCATION
ANNUAL FINANCIAL REPORT
FOR THE
FISCAL YEAR ENDED JUNE 30, 2010**

**Prepared by:
Finance Department**

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McDonough, Georgia 30253**

**HENRY COUNTY BOARD OF EDUCATION
ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

**To the Superintendent and Members of the
Henry County Board of Education
McDonough, Georgia**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Henry County Board of Education** as of and for the year ended June 30, 2010, which collectively comprise Henry County Board of Education's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Henry County Board of Education's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Henry County Board of Education as of June 30, 2010, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 14, 2011 on our consideration of the Henry County Board of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis (on pages 3 through 11) 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 methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Henry County Board of Education's basic financial statements. The accompanying schedules of expenditures of special purpose local option sales tax proceeds are presented for purposes of additional analysis as required by the Official Code of Georgia 48-8-21, and are not a required part of the basic financial statements. The schedules of expenditures of special purpose local option sales tax proceeds have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Mauldin & Jenkins, LLC

Macon, Georgia
April 14, 2011

**HENRY COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

INTRODUCTION

The discussion and analysis of the Henry County Board of Education's (subsequently referred to as the System) financial performance provides an overview of the financial activities for the fiscal year ended June 30, 2010. The intent of this discussion and analysis is to look at the System's financial performance as a whole. Readers should also review the complete financial statements, with notes, to enhance their understanding of the System's financial performance.

The reporting model is a combination of both government-wide financial statements and fund financial statements. The basic financial statements contain three components:

- 1) System-wide financial statements including the Statement of Net Assets and the Statement of Activities, which provide both short term and long-term overviews of the System's finances.
- 2) Fund financial statements including the balance sheets that provide a greater level of detail and focus on how well the System has performed in the short term in the most significant or major funds.
- 3) Notes to the Financial Statements

FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2010 are as follows:

- Total net assets of the governmental activities increased from \$407.3 million in 2009 to \$438.9 million in 2010, an increase of \$31.6 million.
- Total revenues for governmental funds decreased from \$425.3 million in 2009 to \$413.3 million in 2010, a decrease of \$12 million.
- Total expenditures of governmental funds decreased from \$494.4 million in 2009 to \$415.6 million in 2010, a decrease of \$78.8 million.
- Total Outstanding Long Term Liabilities decreased \$45.4 million from 2009 to 2010.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts; management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two levels of statements that present different views of the System. These include the government-wide and fund financial statements.

**HENRY COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

The government-wide financial statements include the 'Statement of Net Assets' and 'Statement of Activities'. These statements provide information about the activities of the System presenting both short-term and long-term information about the System's overall financial status.

The fund financial statements focus on individual parts of the System, reporting the System's operation in more detail. The 'Governmental Funds' statements disclose how basic services are financed in the short-term as well as what remains for future spending. The 'Fiduciary Funds' statements provide information about the financial relationships in which the System acts solely as a trustee or agent for the benefit of others. In the case of the System, the General Fund, Special Revenue Fund, and Debt Service Fund are all considered to be major funds. The Capital Projects Fund is a nonmajor fund as defined by GASB Statement 34 for the purposes of this report.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements. Additionally, other supplementary information (not required) is also presented that further supplements understanding of the financial statements.

Government-Wide Statements

Since the System has no operations that have been classified as "Business Activities", the system-wide financial statements are basically a consolidation of all of the System's operating funds into one column called governmental activities. In reviewing the government-wide financial statements, a reader might ask the question, are we in a better financial position now than last year? The 'Statement of Net Assets' and the 'Statement of Activities' provides the basis for answering this question. These financial statements include all System's assets and liabilities and use the **accrual basis of accounting** similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the System's net assets and any changes in those assets. The change in net assets is important because it tells the reader that, for the System as a whole, the financial position of the System has improved or diminished. The causes of this change may be the results of many factors, including those not under the System's control, such as the property tax base, facility conditions, required educational programs, student-teacher ratios, and other factors.

The 'Statement of Net Assets' and the 'Statement of Activities' reflects 100% of the System's governmental activities.

Fund Financial Statements

The System uses many funds or sub-funds to account for a multitude of financial transactions during the fiscal year. The fund financial statements presented in this report provide detail

**HENRY COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

information about the System's significant or major funds, as well as the System's single nonmajor fund.

Governmental Funds – Most of the System's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the **modified accrual method of accounting** which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the System's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The differences between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds are reconciled in the financial statements.

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

FINANCIAL ANALYSIS OF THE SCHOOL SYSTEM AS A WHOLE

Recall that the Statement of Net Assets provides the perspective of the System as a whole. The reader can think of the System's net assets as the difference between its assets (i.e., what the System owns) and its liabilities (i.e., what the System owes) at the end of a fiscal year. This balance represents one way to measure the System's financial health or its financial position. In the case of the System, assets exceeded liabilities in excess of \$438.9 million at June 30, 2010.

To better understand the System's actual financial position and ability to deliver services in future periods, the reader will need to review the various components of the net asset category. For example, of the \$438.9 million of net assets, over \$26.7 million was restricted for debt service and for completion of capital projects. Accordingly, these funds were not available to meet the System's ongoing obligations to citizens and creditors.

In addition, the System had in excess of \$376.1 million (net of related debt) invested in capital assets (e.g., land, buildings, and equipment). The System uses these capital assets to provide educational services to students within geographic boundaries served by the System. Because of the very nature and on-going use of the assets being reported in this component of net assets, it must be recognized that this portion of the net assets is *not* available for future spending.

**HENRY COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Table 1 provides a summary of the System's net assets for this fiscal year as compared to the prior fiscal year.

**Table 1
Net Assets**

	<u>Governmental Activities</u>	
	<u>Fiscal Year 2010</u>	<u>Fiscal Year 2009</u>
Assets		
Current and Other Assets	\$118,244,820	\$132,778,524
Capital Assets, Net	643,021,896	652,259,263
Total Assets	\$761,266,716	\$785,037,787
Liabilities		
Current and Other Liabilities	\$52,389,857	\$62,446,953
Long-Term Liabilities	269,944,080	315,298,167
Total Liabilities	\$322,333,937	\$377,745,120
Net Assets		
Invested in Capital Assets,		
Net of Debt	\$376,112,202	\$350,687,585
Restricted	26,752,705	31,175,475
Unrestricted	36,067,872	25,429,607
Total Net Assets	\$438,932,779	\$407,292,667

The comparison (Table 1) reflects that total net assets increased about \$31.6 million.

**HENRY COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Table 2 shows the Changes in Net Assets for this fiscal year as compared to the prior fiscal year.

**Table 2
Change in Net Assets**

	Governmental Activities	
	Fiscal Year 2010	Fiscal Year 2009
Revenues		
Program Revenues:		
Charges for Services and Sales	\$8,415,319	\$8,718,888
Operating Grants and Contributions	197,449,609	184,697,985
Capital Grants and Contributions	3,335,014	25,832,709
Total Program Revenues	<u>\$209,199,942</u>	<u>\$219,249,582</u>
General Revenues:		
Property Taxes	\$150,737,887	\$155,839,539
Sales Taxes		
Special Purpose Local Option Sales Tax		
For Debt Service	27,876,325	26,646,890
Other Taxes	2,759,428	3,031,901
Grants and Contributions not Restricted to Specific Programs	9,139,133	11,508,007
Investment Earnings	262,694	1,467,865
Local School Activity	10,648,774	10,653,428
Total General Revenues	<u>\$201,424,241</u>	<u>\$209,147,630</u>
Total Revenues	<u><u>\$410,624,183</u></u>	<u><u>\$428,397,212</u></u>
Program Expenses		
Instruction	\$252,976,164	\$258,852,341
Support Services		
Pupil Services	9,332,850	8,769,674
Improvement of Instructional Services	7,757,775	6,930,278
Educational Media Services	6,493,872	6,023,047
General Administration	3,472,807	3,021,972
School Administration	21,300,804	19,464,146
Business Services	1,220,847	1,312,311
Maintenance and Operation of Plant	29,153,411	30,385,706
Student Transportation Services	14,690,023	14,710,843
Central Support Services	1,243,494	1,169,048
Other Support Services	1,900,267	2,170,156
Operations of Non-Instructional Services		
Community Services	2,177,863	2,694,745
School Nutrition	14,580,465	14,194,148
Interest on Short-Term and Long-Term Debt	12,683,429	14,562,329
Total Expenses	<u>\$378,984,071</u>	<u>\$384,260,744</u>
Increase in Net Assets	<u><u>\$31,640,112</u></u>	<u><u>\$44,136,468</u></u>

**HENRY COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Governmental Activities

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting these services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. Net cost of services can be defined as the total cost less fees generated by the activities and intergovernmental revenue provided for specific programs. The net cost reflects the financial burden on the System's taxpayers by each activity as compared to the prior fiscal year.

**Table 3
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	Fiscal Year 2010	Fiscal Year 2009	Fiscal Year 2010	Fiscal Year 2009
Instruction	\$252,976,164	\$258,852,341	\$89,841,973	\$80,805,179
Support Services				
Pupil Services	9,332,850	8,769,674	6,732,264	6,339,600
Improvement of Instructional Services	7,757,775	6,930,278	4,362,889	5,381,313
Educational Media Services	6,493,872	6,023,047	2,179,552	1,895,830
General Administration	3,472,807	3,021,972	-1,259,166	-804,333
School Administration	21,300,804	19,464,146	12,063,810	10,936,008
Business Administration	1,220,847	1,312,311	1,217,866	1,302,674
Maintenance and Operation of Plant	29,153,411	30,385,706	29,108,849	30,239,757
Student Transportation Services	14,690,023	14,710,873	12,276,053	12,334,610
Central Support Services	1,243,494	1,169,048	1,240,543	1,160,601
Other Support Services	1,900,267	2,170,156	1,807,868	2,108,918
Operations of Non-Instructional Services				
Enterprise Operations	-	-	-404,460	-59,236
Community Services	2,177,863	2,694,745	-951,554	-666,201
School Nutrition	14,580,465	14,194,148	-1,115,787	-525,887
Interest on Short-Term and Long-Term Debt	12,683,429	14,562,329	12,683,429	14,562,329
Total Expenses	\$378,984,071	\$384,260,744	\$169,784,129	\$165,011,162

The System's total expenditures decreased \$5.3 million from the prior year, the net costs of services increased \$4.8 million from the prior year.

FINANCIAL ANALYSIS OF THE SCHOOL SYSTEM'S FUNDS

Information about the System's governmental funds is presented starting on page 14 of this report. Governmental funds are accounted for using the modified accrual basis of accounting. The governmental funds had total revenues of \$413.3 million and total expenditures of \$415.6

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million in fiscal year 2010. Included in the expenditures of \$415.6 million were \$7.4 million of capital outlay expenditures which were made to acquire or construct capital assets.

General Fund Budget Highlights

The System's budget is prepared according to Georgia Law. The most significant budgeted fund is the General Fund. During the course of fiscal year 2010, no amendments were made to the original budget.

The System budget is adopted at the aggregate level and maintained at the program, function, object, and site levels to facilitate budgetary control. The budgeting systems are designed to control the total budget, but provide flexibility to meet the ongoing programmatic needs. The budgeting systems are also designed to control total site budgets but provide flexibility for site management as well.

For the General Fund, actual revenues of \$312.6 million were 98.6% of the final budgeted amount of \$317 million. The final actual expenditures of \$298.2 were 93.8% of the final budgeted amount of \$318 million. The System continues to be fiscally conservative.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At fiscal year ended June 30, 2010, the System had \$643 million invested in capital assets, all in governmental activities. Table 4 reflects a summary of these balances net of accumulated depreciation as compared to the prior fiscal year.

**Table 4
Capital Assets
(Net of Depreciation)**

	Governmental Activities	
	Fiscal Year 2010	Fiscal Year 2009
Land	\$30,563,155	\$31,604,135
Construction in Progress	2,170,236	160,344,443
Buildings and Improvements	582,657,304	429,363,237
Land Improvements	11,818,924	12,820,194
Infrastructure	3,228,574	3,316,028
Equipment	12,583,703	14,811,226
Total	\$643,021,896	\$652,259,263

**HENRY COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Long Term Liabilities

At fiscal year ended June 30, 2010, the System had \$269.9 million in long term liabilities outstanding. Table 5 summarizes the System's liabilities as compared to the prior fiscal year.

**Table 5
Long Term Liabilities at June 30**

	Governmental Activities	
	Fiscal Year 2010	Fiscal Year 2009
Bonds Payable	\$266,909,694	\$312,039,157
Compensated Absences	1,447,995	1,472,414
Workers Compensation Claims Payable	1,485,091	1,546,596
Other Claims Payable	101,300	240,000
Total	\$269,944,080	\$315,298,167

CURRENT ISSUES

Currently known facts, decisions or conditions that are expected to have a significant effect on financial positions or results of operations in future years are as follows:

- Revenue Reductions – The System's austerity reductions in state funding for education over the past eight years have totaled \$70.4 million. In addition, the System's local tax digest decreased \$2.5 million (2%) in FY10. Despite these conditions, the System added \$9.3 million to its General Fund balance due to expenditure reduction measures. The Henry County School System continues to enjoy a strong financial position and we remain optimistic about the ability of the System to maximize all of the financial resources to provide a quality education to our students.
- Capital Improvements – The System plans capital improvements as future capital needs arise due to increased student population, facility repair, and maintenance needs. Specific capital expenditure plans are formalized in conjunction with individual general obligation bond issues and anticipated annual receipts of capital outlay funds from the State of Georgia Department of Education.

**HENRY COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

CONTACTING THE SCHOOL SYSTEM'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the System's finances and to show the System's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Mr. Jeff Allie, Assistant Superintendent of Finance, Henry County Board of Education, 33 North Zack Hinton Parkway, McDonough Georgia, 30253. You may also email your questions to Mr. Allie at jeff.allie@henry.k12.ga.us.

BASIC FINANCIAL STATEMENTS

HENRY COUNTY BOARD OF EDUCATION

STATEMENT OF NET ASSETS

JUNE 30, 2010

	Governmental Activities
ASSETS	<hr/>
Cash and cash equivalents	\$ 70,577,320
Investments	9,424,842
Intergovernmental receivables	37,108,227
Inventories	525,820
Deferred charges	608,611
Capital assets, nondepreciable	32,733,391
Capital assets, depreciable (net of accumulated depreciation)	<hr/> 610,288,505
 Total assets	 <hr/> 761,266,716
 LIABILITIES	
Accounts payable	7,198,135
Accrued interest	4,485,075
Accrued payroll and payroll withholdings	40,704,494
Unearned revenue	2,153
Insurance claims payable due within one year	1,035,000
Insurance claims payable due in more than one year	450,091
Other claims payable due within one year	101,300
Compensated absences due within one year	1,025,422
Compensated absences due in more than one year	422,573
General obligation bonds due within one year	46,960,000
General obligation bonds due in more than one year, net of unamortized premium	<hr/> 219,949,694
 Total liabilities	 <hr/> 322,333,937
 NET ASSETS	
Invested in capital assets, net of related debt	376,112,202
Restricted for debt service	26,752,705
Unrestricted	<hr/> 36,067,872
 Total net assets	 <hr/> <hr/> \$ 438,932,779

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

HENRY COUNTY BOARD OF EDUCATION

STATEMENT OF ACTIVITIES FOR THE FISCAL YEAR ENDED JUNE 30, 2010

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses)</u>
		<u>Charges for</u> <u>Services</u>	<u>Operating</u> <u>Grants and</u> <u>Contributions</u>	<u>Capital</u> <u>Grants and</u> <u>Contributions</u>	<u>Revenues and Changes</u> <u>in Net Assets</u> <u>Governmental</u> <u>Activities</u>
Governmental activities:					
Instruction	\$ 252,976,164	\$ 98,771	\$ 159,700,406	\$ 3,335,014	\$ (89,841,973)
Pupil services	9,332,850	-	2,600,586	-	(6,732,264)
Improvement of instructional services	7,757,775	-	3,394,886	-	(4,362,889)
Educational media services	6,493,872	-	4,314,320	-	(2,179,552)
General administration	3,472,807	-	4,731,973	-	1,259,166
School administration	21,300,804	-	9,236,994	-	(12,063,810)
Business services	1,220,847	-	2,981	-	(1,217,866)
Maintenance and operations	29,153,411	-	44,562	-	(29,108,849)
Student transportation	14,690,023	-	2,413,970	-	(12,276,053)
Central support services	1,243,494	-	2,951	-	(1,240,543)
Other support services	1,900,267	-	92,399	-	(1,807,868)
School nutrition	14,580,465	4,782,671	10,913,581	-	1,115,787
Enterprise operations	-	404,460	-	-	404,460
Community services	2,177,863	3,129,417	-	-	951,554
Interest on long-term debt	12,683,429	-	-	-	(12,683,429)
Total governmental activities	378,984,071	8,415,319	197,449,609	3,335,014	(169,784,129)
General revenues:					
Property taxes					150,737,887
Sales taxes					27,876,325
Other taxes					2,759,428
Grants and contributions not restricted to specific programs					9,139,133
Local school activity					10,648,774
Unrestricted investment earnings					262,694
Total general revenues					201,424,241
Change in net assets					31,640,112
Net assets, beginning of year					407,292,667
Net assets, end of year					\$ 438,932,779

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

HENRY COUNTY BOARD OF EDUCATION

BALANCE SHEET GOVERNMENTAL FUNDS JUNE 30, 2010

ASSETS	General	Debt Service	Special Revenue	Nonmajor Capital Projects	Total Governmental Funds
Cash	\$ 48,833,480	\$ 14,124,279	\$ 7,619,561	\$ -	\$ 70,577,320
Investments	93,693	9,331,149	-	-	9,424,842
Due from other governments	30,411,085	4,595,843	2,101,299	-	37,108,227
Due from other funds	365,762	-	-	-	365,762
Inventories	-	-	525,820	-	525,820
Total assets	\$ 79,704,020	\$ 28,051,271	\$ 10,246,680	\$ -	\$ 118,001,971
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 6,983,320	\$ 1,000	\$ 213,815	\$ -	\$ 7,198,135
Due to other funds	-	-	365,762	-	365,762
Accrued payroll and payroll withholdings	38,137,151	-	2,567,343	-	40,704,494
Deferred revenue	4,637,749	1,297,566	2,153	-	5,937,468
Total liabilities	49,758,220	1,298,566	3,149,073	-	54,205,859
FUND BALANCES					
Fund balances:					
Reserved for inventories	-	-	525,820	-	525,820
Reserved for debt service	-	26,752,705	-	-	26,752,705
Unreserved, reported in:					
General fund	29,945,800	-	-	-	29,945,800
Special revenue funds	-	-	6,571,787	-	6,571,787
Total fund balances	29,945,800	26,752,705	7,097,607	-	63,796,112
Total liabilities and fund balances	\$ 79,704,020	\$ 28,051,271	\$ 10,246,680	\$ -	
<p>Amounts reported for governmental activities in the statement of net assets are different because</p> <p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds</p> <p>Other long-term assets are not available to pay for current period expenditures and therefore, are deferred in the funds</p> <p>Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.</p>					<p>643,021,896</p> <p>5,935,315</p> <p>(273,820,544)</p>
Net assets of governmental activities					\$ 438,932,779

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

**HENRY COUNTY BOARD OF EDUCATION
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	<u>General</u>	<u>Debt Service</u>	<u>Special Revenue</u>	<u>Nonmajor Capital Projects</u>	<u>Total Governmental Funds</u>
REVENUES					
Local sources	\$ 137,030,599	\$ 48,688,537	\$ 18,711,623	\$ 312	\$ 204,431,071
State sources	156,673,530	-	582,600	3,334,702	160,590,832
Federal sources	19,454,430	-	28,550,202	-	48,004,632
Interest income	164,283	76,479	571	21,361	262,694
Total revenues	<u>313,322,842</u>	<u>48,765,016</u>	<u>47,844,996</u>	<u>3,356,375</u>	<u>413,289,229</u>
EXPENDITURES					
Current:					
Instruction	216,269,576	-	23,447,056	-	239,716,632
Pupil services	7,477,387	-	1,864,670	-	9,342,057
Improvement of instructional services	4,403,375	-	3,349,650	-	7,753,025
Educational media services	6,489,127	-	-	-	6,489,127
General administration	1,667,405	-	766,507	-	2,433,912
School administration	21,111,110	-	-	-	21,111,110
Business services	1,221,132	-	-	-	1,221,132
Maintenance and operations	28,932,141	-	8,070	-	28,940,211
Student transportation	12,655,536	-	478,233	-	13,133,769
Central support services	1,235,026	-	-	-	1,235,026
Other support services	1,797,175	-	103,092	-	1,900,267
School nutrition	-	-	14,379,052	-	14,379,052
Community service	-	-	2,180,460	-	2,180,460
Capital outlay	6,834	5,058	-	7,440,227	7,452,119
Debt service:					
Principal retirement	-	43,370,000	-	-	43,370,000
Interest and fiscal charges	74,083	14,893,854	-	-	14,967,937
Total expenditures	<u>303,339,907</u>	<u>58,268,912</u>	<u>46,576,790</u>	<u>7,440,227</u>	<u>415,625,836</u>
Excess (deficiency) of revenues over (under) expenditures	9,982,935	(9,503,896)	1,268,206	(4,083,852)	(2,336,607)
OTHER FINANCING SOURCES (USES)					
Transfers in	13,349	6,762,623	636,820	-	7,412,792
Transfers out	(636,820)	-	(13,349)	(6,762,623)	(7,412,792)
Total other financing sources (uses)	<u>(623,471)</u>	<u>6,762,623</u>	<u>623,471</u>	<u>(6,762,623)</u>	<u>-</u>
Net change in fund balances	9,359,464	(2,741,273)	1,891,677	(10,846,475)	(2,336,607)
FUND BALANCE, beginning of year	<u>20,586,336</u>	<u>29,493,978</u>	<u>5,205,930</u>	<u>10,846,475</u>	<u>66,132,719</u>
FUND BALANCE, end of year	<u>\$ 29,945,800</u>	<u>\$ 26,752,705</u>	<u>\$ 7,097,607</u>	<u>\$ -</u>	<u>\$ 63,796,112</u>

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

**HENRY COUNTY BOARD OF EDUCATION
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$	(2,336,607)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.		(8,196,387)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets.		(1,040,980)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(2,665,046)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items.		43,370,000
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		2,509,132
Change in net assets - governmental activities	\$	31,640,112

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

HENRY COUNTY BOARD OF EDUCATION
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET (NON-GAAP) AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Budget		Actual	Variance With Final Budget
	Original	Final		
REVENUES				
Local sources	\$ 130,845,000	\$ 130,845,000	\$ 137,030,599	\$ 6,185,599
State sources	175,125,782	175,125,782	155,980,257	(19,145,525)
Federal sources	10,812,269	10,812,269	19,454,430	8,642,161
Interest income	250,000	250,000	164,283	(85,717)
Total revenues	<u>317,033,051</u>	<u>317,033,051</u>	<u>312,629,569</u>	<u>(4,403,482)</u>
EXPENDITURES				
Current:				
Instruction	223,406,050	223,406,050	212,138,507	11,267,543
Pupil services	8,425,805	8,425,805	7,332,391	1,093,414
Improvement of instructional services	4,808,355	4,808,355	4,392,415	415,940
Educational media services	6,659,658	6,659,658	6,368,350	291,308
General administration	2,164,637	2,164,637	1,664,459	500,178
School administration	21,556,829	21,556,829	20,709,367	847,462
Business services	1,366,842	1,366,842	1,218,151	148,691
Maintenance and operations	31,079,652	31,079,652	28,887,579	2,192,073
Student transportation	14,803,631	14,803,631	12,417,581	2,386,050
Central support services	1,365,778	1,365,778	1,232,075	133,703
Other support services	2,333,398	2,333,398	1,797,175	536,223
Capital outlay	31,914	31,914	6,834	25,080
Debt service:				
Interest and fiscal charges	-	-	74,083	(74,083)
Total expenditures	<u>318,002,549</u>	<u>318,002,549</u>	<u>298,238,967</u>	<u>19,763,582</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(969,498)</u>	<u>(969,498)</u>	<u>14,390,602</u>	<u>15,360,100</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	13,349	13,349
Transfers out	-	-	(636,820)	(636,820)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(623,471)</u>	<u>(623,471)</u>
Net change in fund balances	<u>\$ (969,498)</u>	<u>\$ (969,498)</u>	<u>\$ 13,767,131</u>	<u>\$ 14,736,629</u>

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

HENRY COUNTY BOARD OF EDUCATION
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUND
JUNE 30, 2010

		<u>Agency Fund</u>
		<u>Student</u>
ASSETS		<u>Activities</u>
Cash		\$ 250,832
Total assets		<u>\$ 250,832</u>
LIABILITIES		
Due to others		\$ 250,832
Total liabilities		<u>\$ 250,832</u>

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

HENRY COUNTY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Henry County Board of Education (the "School System") operates under a Board/Superintendent form of government. The five-member Board is elected by the public and the Board appoints the superintendent. These five elected members have decision making authority, the power to designate management, and the ability to significantly influence operations. The Board determines the millage rate at which school taxes are levied and may incur bonded indebtedness with voter approval.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the School System. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* are normally supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to those who purchase, 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 and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Agency funds have no measurement focus; however, they use the accrual basis of accounting to recognize receivables and payables. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the 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.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)

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. 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.

Property taxes, sales taxes, intergovernmental grants, and investment income 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.

Revenue from grants and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the School System must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School System on a reimbursement basis.

The State of Georgia reimburses the School System for teachers' salaries and operating costs through the Quality Basic Education Formula Earnings program (QBE). Generally teachers are contracted for the school year (July 1 – June 30) and paid over a 12-month contract period, generally September 1 through August 31. In accordance with the respective rules and regulations of the QBE program, the State of Georgia reimburses the School System over the same 12-month period in which teachers are paid. At June 30, the amount of teachers' salaries incurred, but not paid until July and August of the subsequent year are accrued. Since the State of Georgia recognizes its QBE liability for the July and August salaries at June 30, the School System recognizes the same QBE as a receivable and revenue, consistent with symmetrical recognition.

The School System reports the following major governmental funds:

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)

The **Special Revenue Funds** account for Federal and state funded programs. These grants are awarded to the School System for the purpose of accomplishing specific educational tasks as defined in the grant agreements. These funds also contain several locally funded programs whose expenditures are limited to specific purposes. School Activity Funds are also reported as special revenue funds. The School Activity Funds are used to account for funds collected primarily through the fund raising efforts of the individual school. Each school's principal is responsible, under the authority of the Board, for collecting, controlling, disbursing, and accounting for his or her school's funds. All resources of the fund, including earnings on invested resources, may be used to support the schools' activities.

The **Debt Service Fund** is used to account for accumulation of property tax and special purpose local option sales tax proceeds for the payment of debt principal and interest on the various bond issuances of the School System.

Additionally, the School System reports the following fund types:

The **Capital Projects Fund** accounts for the proceeds of a one percent Special Purpose Local Option Sales Tax as well as bond proceeds and revenues from local and state sources to be used for land and building acquisitions and construction and renovations of new educational and administrative facilities.

The **Agency Fund** is used to account for student club and class accounts.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-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.

Amounts reported as *program revenues* include 1) charges for services provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Cash and Investments

The School System's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

E. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year as well as all other outstanding balances between funds are reported as "due to/from other funds."

F. On-Behalf Payments

The State of Georgia makes certain health insurance and pension plan payments on behalf of the School System for its employees. The School System records these payments as both a revenue and expenditure in the General Fund. The total of the on-behalf payments for the fiscal year ended June 30, 2010 was \$738,651.

G. Inventories

Inventories are stated at cost using the first-in, first-out method. Donated food commodities are recorded at fair value. The School System utilizes the consumption method to recognize inventory usage. Under the consumption method, inventories are recorded as expenses when used rather than when purchased.

H. Non-Monetary Transactions

The School System received from the United States Department of Agriculture through the Georgia Department of Education approximately \$947,298 in donated food commodities for its lunchroom programs. The federally assigned value of these commodities is reflected as a revenue and an expense in the financial statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Property, plant and equipment are depreciated using the straight line method over the estimated useful life of the asset.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capitalization thresholds and estimated useful lives of capital assets are as follows:

<u>Asset</u>	<u>Capitalization Threshold</u>	<u>Years</u>
Land	All	N/A
Infrastructure	All	50
Land improvements	\$10,000	10-20
Buildings and improvements	\$100,000	20-60
Machinery and equipment	\$10,000	5-25

J. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. In the fund financial statements, governmental fund types report the face amount of debt issued as other financing sources.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Compensated Absences

It is the School System's policy to permit employees to accumulate unused vacation and sick pay benefits. Accumulated unpaid sick leave benefits do not vest and therefore are not accrued in any fund, but are recognized as expenditures or expenses when incurred. Accumulated unpaid vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

L. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

M. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

NOTES TO FINANCIAL STATEMENTS

NOTE 2. RECONCILIATION OF GOVERNMENT-WIDE FINANCIAL STATEMENTS AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences Between the Governmental Fund Balance sheet and the Government-wide Statement of Net Assets

The governmental fund balance sheet includes reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that “long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.” The details of this \$273,820,544 difference are as follows:

General obligation bonds payable	\$	262,725,000
Accrued interest on general obligation bonds payable		4,485,075
Unamortized premium on general obligation bonds payable		4,184,694
Unamortized issuance costs on general obligation bonds payable		(608,611)
Workers' compensation claims payable		1,485,091
Other claims payable		101,300
Compensated absences		1,447,995
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	\$	273,820,544

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$8,196,387 difference are as follows:

Capital outlay	\$	6,681,124
Depreciation expense		(14,877,511)
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$	(8,196,387)

NOTES TO FINANCIAL STATEMENTS

NOTE 2. RECONCILIATION OF GOVERNMENT-WIDE FINANCIAL STATEMENTS AND FUND FINANCIAL STATEMENTS (CONTINUED)

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities (Continued)

Another element of the reconciliation states that “the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.” The details of this \$43,370,000 difference are as follows:

Principal repayments:	
General obligation bonds	\$ <u>43,370,000</u>
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$ <u>43,370,000</u>

Another element of that reconciliation states that “Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.” The details of this \$2,509,132 difference are as follows:

Change in:	
Compensated absences	\$ 24,419
Workers' compensation claims	61,505
Other claims	138,700
Accrued interest	647,936
Amortization of issuance costs	(122,891)
Amortization of premium on general obligation bonds	<u>1,759,463</u>
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$ <u>2,509,132</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The School System adopts annual budgets for its general fund, debt service fund, and special revenue funds. The School System does not employ encumbrance accounting and, accordingly, all appropriations lapse at year end. After the School System has tentatively adopted a budget, such budget is advertised at least one time in a local newspaper of general circulation. At the next regular meeting of the Board members after the advertisement, the budget is revised as necessary and adopted as the final budget. This final budget is then submitted to the Georgia Department of Education in accordance with provisions of the Quality Basic Education Act (QBE).

The level of budgetary control (the level at which expenditures may not exceed appropriations) is at the function level.

The Statement of Revenues and Expenditures – Budget (Non-GAAP) to Actual presents actual and budget data for the General Fund. To facilitate comparison with the budget, adjustments have been made to actual revenues and expenditures to reflect actual amounts on the budget basis.

The primary differences between the budget basis and accounting principles generally accepted in the United States of America (“GAAP”) are:

- a. State QBE revenue is recorded when received (budget) rather than when susceptible to accrual (GAAP).
- b. Salaries and employee benefits paid to teachers under contract are recorded when paid (budget) rather than when the liability is incurred (GAAP).
- c. Payments made by the State of Georgia for School System employee benefits are recognized as revenues and expenditures under GAAP and are not recognized on the budget basis.

Adjustments necessary to convert the General Fund's net change in fund balance from the GAAP basis to the budgetary basis are as follows:

GAAP basis net change in fund balance	\$ 9,359,464
Adjustments for:	
State QBE revenue	45,378
Salaries and employee benefits	4,362,289
State paid employee benefit revenue	(738,651)
State paid employee benefit expenditures	<u>738,651</u>
Budget basis net change in fund balance	<u>\$ 13,767,131</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 4. DEPOSITS AND INVESTMENTS

Credit risk. State statutes authorize the School System to invest in: obligations of the United States, the State of Georgia and other political subdivisions of the State of Georgia, and other states; prime bankers' acceptances; repurchase agreements; and the Georgia local government investment pool (Georgia Fund 1). Georgia Fund 1, created by OCGA 36-83-8, is a stable net asset value investment pool which follows Standard & Poor's criteria for AAAM rated money market funds. However, Georgia Fund 1 operates in a manner consistent with Rule 2a-7 of the Investment Company Act of 1940 and is considered to be a 2a-7 like pool. The pool is not registered with the SEC as an investment company. The pool's primary objectives are safety of capital, investment income, liquidity and diversification while maintaining principal (\$1.00 per share value). Net asset value is calculated weekly to ensure stability. The pool distributes earnings (net of management fees) on a monthly basis and determines participants' shares sold and redeemed based on a \$1.00 per share value. The fair value of the School System's position in the pool is the same as the value of pool shares (\$1 per share value). The regulatory oversight agency for Georgia Fund 1 is the Office of Treasury and Fiscal Services of the State of Georgia. As of June 30, 2010, the School System's investment in Georgia Fund 1 was rated AAAM by Standard & Poor's.

At June 30, 2010, the School System had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
Georgia Fund 1	46 day weighted average	\$ 9,424,842

Interest rate risk. The School System does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Custodial credit risk – deposits. Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. State statutes require all deposits and investments (other than federal and state government instruments) to be collateralized by depository insurance, obligations of the U.S. government, or bonds of public authorities, counties, or municipalities. As of June 30, 2010, the School System's bank balance of \$75,373,878 was fully collateralized in compliance with state requirements.

NOTES TO FINANCIAL STATEMENTS

NOTE 5. RECEIVABLES

Receivables at June 30, 2010, for the School System's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts are as follows:

	General	Debt Service	Special Revenue Fund	Total
Due from other governments	\$ 32,175,419	\$ 4,866,439	\$ 2,101,299	\$ 39,143,157
Less allowance for uncollectible	(1,764,334)	(270,596)	-	(2,034,930)
Net total receivable	\$ 30,411,085	\$ 4,595,843	\$ 2,101,299	\$ 37,108,227

Due from other governments consists of grant reimbursements due primarily from the Georgia Department of Education, sales taxes which are collected by the state on the School System's behalf, and property taxes collected by Henry County Tax Commissioner on the School System's behalf.

NOTE 6. PROPERTY TAXES

Henry County bills and collects property taxes for the School System. Property taxes are levied (assessed) on all taxable real, public utility and personal property (including vehicles) located within the County as of January 1st of each year. State law limits the School System's tax levy for operations to 20 mills (one mill equals \$1 per thousand dollars of assessed value). Assessed values for property tax purposes are determined by the Henry County Board of Tax Assessors for all property except public utilities and motor vehicles. Assessed value is set at 40% of market value. The State of Georgia establishes values for public utilities and motor vehicles.

Real property taxes were levied on September 1, 2009, billed on September 16, 2009, and payable on or before November 16, 2009. Henry County may place liens on property once the related tax payments become delinquent. The property tax receivable allowance is equal to 20% of outstanding property taxes at June 30, 2010, net of amounts collected within 60 days of year end.

Vehicle personal property taxes are due upon each respective payor's date of birth on an annual basis.

NOTES TO FINANCIAL STATEMENTS

NOTE 7. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2010, is as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 31,604,135	\$ -	\$ (1,040,980)	\$ -	\$ 30,563,155
Construction in progress	160,344,443	6,591,237	-	(164,765,444)	2,170,236
Total	<u>191,948,578</u>	<u>6,591,237</u>	<u>(1,040,980)</u>	<u>(164,765,444)</u>	<u>32,733,391</u>
Capital assets, being depreciated:					
Buildings and improvements	500,506,374	-	-	164,765,444	665,271,818
Land improvements	22,385,470	-	-	-	22,385,470
Infrastructure	3,484,220	-	-	-	3,484,220
Machinery and equipment	29,067,418	89,887	-	-	29,157,305
Total	<u>555,443,482</u>	<u>89,887</u>	<u>-</u>	<u>164,765,444</u>	<u>720,298,813</u>
Less accumulated depreciation for:					
Buildings and improvements	(71,143,137)	(11,471,377)	-	-	(82,614,514)
Land improvements	(9,565,276)	(1,001,270)	-	-	(10,566,546)
Infrastructure	(168,192)	(87,454)	-	-	(255,646)
Machinery and equipment	(14,256,192)	(2,317,410)	-	-	(16,573,602)
Total	<u>(95,132,797)</u>	<u>(14,877,511)</u>	<u>-</u>	<u>-</u>	<u>(110,010,308)</u>
Total capital assets, being depreciated, net	<u>460,310,685</u>	<u>(14,787,624)</u>	<u>-</u>	<u>164,765,444</u>	<u>610,288,505</u>
Governmental activities capital assets, net	<u>\$ 652,259,263</u>	<u>\$ (8,196,387)</u>	<u>\$ (1,040,980)</u>	<u>\$ -</u>	<u>\$ 643,021,896</u>

Depreciation expense was charged to functions/programs of the School System as follows:

Governmental activities:	
Instruction	\$ 12,608,480
Educational media services	4,744
School administration	254,399
Maintenance and operations	251,363
Student transportation	1,561,796
School nutrition	196,729
Total depreciation expense - governmental activities	<u>\$ 14,877,511</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 8. SHORT-TERM DEBT

Tax Anticipation Note. On August 11, 2009, the School System borrowed \$20,000,000 in the form of a tax anticipation note for cash flow purposes. The interest rate on the tax anticipation note was 1.05%. The note was paid off on December 16, 2009.

The following is a summary of short-term debt transactions for the School System for the year ended June 30, 2010:

	Beginning Balance	Additions	Reductions	Ending Balance
Tax anticipation note:	\$ -	\$ 20,000,000	\$ (20,000,000)	\$ -

NOTE 9. LONG-TERM DEBT

General obligation bonds. The School System issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the School System. General obligation bonds at June 30, 2010, consisted of the following:

Series	Coupon Rate	Maturities	Balance
1992A	5.60% - 6.45%	2011 to 2012	\$ 7,620,000
2000	5.00% - 5.75%	2011	4,285,000
2001 - Refunding	3.70% - 5.125%	2011 to 2015	16,925,000
2004	3.50% - 5.00%	2011 to 2024	108,545,000
2007	4.375%	2025	13,060,000
2007A	5.00%	2011 to 2013	112,290,000
			\$ 262,725,000

NOTES TO FINANCIAL STATEMENTS

NOTE 9. LONG-TERM DEBT (CONTINUED)

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2011	\$ 46,960,000	\$ 12,692,705	\$ 59,652,705
2012	46,600,000	10,422,871	57,022,871
2013	46,985,000	8,118,325	55,103,325
2014	7,820,000	5,771,641	13,591,641
2015	8,180,000	5,367,134	13,547,134
2016-2020	46,870,000	20,388,050	67,258,050
2021-2025	59,310,000	7,336,938	66,646,938
Total	<u>\$ 262,725,000</u>	<u>\$ 70,097,664</u>	<u>\$ 332,822,664</u>

Changes in long-term debt related to governmental activities for the year ended June 30, 2010 are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable	\$ 306,095,000	\$ -	\$ (43,370,000)	\$ 262,725,000	\$ 46,960,000
Plus unamortized bond premium	5,944,157	-	(1,759,463)	4,184,694	-
Bonds payable, net	312,039,157	-	(45,129,463)	266,909,694	46,960,000
Insurance claims payable	1,546,596	1,317,368	(1,378,873)	1,485,091	1,035,000
Other claims payable	240,000	-	(138,700)	101,300	101,300
Compensated absences	1,472,414	1,184,091	(1,208,510)	1,447,995	1,025,422
Governmental activities Long-term liabilities	<u>\$ 315,298,167</u>	<u>\$ 2,501,459</u>	<u>\$ (47,855,546)</u>	<u>\$ 269,944,080</u>	<u>\$ 49,121,722</u>

There is \$26,752,705 of restricted net assets available in the Debt Service Fund to service the general obligation bonds.

Compensated absences, insurance claims payable, and other claims payable are liquidated primarily by the General Fund.

NOTES TO FINANCIAL STATEMENTS

NOTE 10. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2010, is as follows:

Due to/from other funds:

Due To	Due From General Fund
Special Revenue Fund	\$ 365,762

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund transfers:

Transfers In	Transfers Out			Total
	General Fund	Special Revenue Fund	Nonmajor Governmental Funds	
General Fund	\$ -	\$ 13,349	\$ -	\$ 13,349
Special Revenue Fund	636,820	-	-	636,820
Debt Service Fund	-	-	6,762,623	6,762,623
	\$ 636,820	\$ 13,349	\$ 6,762,623	\$ 7,412,792

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that the statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTES TO FINANCIAL STATEMENTS

NOTE 11. RETIREMENT PLANS

Teachers Retirement System. Substantially all teachers, administrators, and clerical personnel employed by the School System are members of the Teachers Retirement System of Georgia (TRS), a cost-sharing multiple employer public employee retirement system administered by the TRS Board of Trustees. TRS provides retirement and disability benefits, and death benefits to plan members and beneficiaries. Title 47, Chapter 3 of the Official Code of Georgia Annotated, assigns the authority to establish and amend benefit provisions to the TRS Board of Trustees. The TRS Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for TRS. That report may be obtained by writing to TRS of Georgia, Two Northside 75, Suite 400, Atlanta, GA 30331, or by calling 1-800-352-0650.

Covered employees are required by state law to contribute 5.25% of their annual covered salary to the plan and the School System is required to contribute 9.74% of current covered payroll. Covered employees' contributions for the years ended June 30, 2010, 2009, and 2008, were \$10,537,442, \$9,918,241, and \$9,353,550, respectively. The School System's contributions to TRS for the years ended June 30, 2010, 2009, and 2008, were \$19,319,506, \$16,628,413, and \$17,160,722, respectively, equal to the required contribution for each year.

Active members may retire and receive benefits after 30 years of creditable service regardless of age, or after 10 years of creditable service and reaching age 60. Upon retirement, an employee receives a retirement benefit, payable monthly for life. The amount is determined by multiplying 2% by the years of service up to 40 years. This amount in turn is multiplied by the employee's average monthly salary for the two highest paid consecutive years of service. Early retirement benefits are reduced by the lesser of 1/12 of 7% for each month the member is below age 60, or by 7% for each year or fraction thereof by which the member has less than 30 years of service. It is also assumed that certain cost-of-living adjustments, based on the CPI, will be made in future years. Retirement benefits are payable monthly for life. Options are available for distribution of the member's monthly pension at a reduced rate to a designated beneficiary at the member's death.

NOTES TO FINANCIAL STATEMENTS

NOTE 11. RETIREMENT PLANS (CONTINUED)

Public School Employees Retirement System. Substantially all bus drivers, maintenance, custodial, and lunchroom personnel employed by the School System are members of the Public School Employees Retirement System of Georgia (PSERS), which is also a cost-sharing multiple employer public employee retirement system. The Board of the Public School Employees Retirement System of Georgia issues a publicly available financial report that includes financial statements and supplementary information for PSERS. That report may be obtained by writing Public School Employee Retirement System, Two Northside 75, Atlanta, Georgia 30318-7778, or by calling 1-800-805-4609.

PSERS provides service retirement, disability retirement and survivors' benefits for its members. A member is eligible for normal service retirement after 10 years of service and attainment of age 65. A member applying for service retirement with 10 years of service and retirees between the ages of 60 and 65 receive a reduced benefit. Monthly retirement benefits paid to members are equal to eight dollars per month multiplied by the number of years of creditable service. Retirement provisions include death and disability benefits. Benefits are established by state statute.

Covered employees are required by state statute to contribute four dollars per month for the nine-month school year. Unlike TRS, the School System makes no contribution to PSERS. Total contributions from employees of the School System made during the fiscal year ended June 30, 2010, totaled \$33,176.

The State of Georgia is required by statute to make an annual contribution to PSERS based upon an actuarial calculation. The state's contribution for employees for the fiscal year ended June 30, 2010, for School System employees was \$127,335.

Members become fully vested after 10 years of service. If a member terminates with less than 10 years of service, no vesting of employer contributions occurs, but the member's contributions are refunded with interest.

The monthly average number of employees covered under PSERS for the year ended June 30, 2010 was 922.

NOTES TO FINANCIAL STATEMENTS

NOTE 12. OTHER POST EMPLOYMENT BENEFITS

Georgia Retiree Health Benefit Fund

Plan Description. The Georgia School Personnel Post-employment Health Benefit Fund (School OPEB Fund) is a cost-sharing multiple-employer defined benefit postemployment healthcare plan that covers eligible former employees of public school systems, libraries and regional educational service agencies. The School OPEB Fund provides health insurance benefits to eligible former employees and their qualified beneficiaries through the State Employees Health Insurance Plan administered by the Department of Community Health. The Official Code of Georgia Annotated (OCGA) assigns the authority to establish and amend the benefit provisions of the group health plans, including benefits for retirees, to the Board of Community Health (Board).

Funding Policy. The contribution requirements of plan members and participating employers are established by the Board in accordance with the current Appropriations Act and may be amended by the Board. Contributions of plan members or beneficiaries receiving benefits vary based on plan election, dependent coverage, and Medicare eligibility and election. On average, plan members pay approximately 25 percent of the cost of the health insurance coverage.

Participating employers are statutorily required to contribute in accordance with the employer contribution rates established by the Board. The contribution rates are established to fund all benefits due under the health insurance plans for both active and retired employees based on projected "pay-as-you-go" financing requirements. Contributions are not based on the actuarially calculated annual required contribution (ARC) which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The combined rate for the active and retiree certified employees (pay-as-you go basis) for the fiscal year ended June 30, 2010 were as follows:

<u>Period</u>	<u>Percentage of Covered Payroll</u>
July 2009 - August 2009	18.534% of covered payroll for August - September coverage
September 2009 - November 2009	14.492% of covered payroll for October - December coverage
December 2009 - June 2010	18.534% of covered payroll for January - July coverage

The contribution rate for classified employees for the fiscal year ended June 30, 2010 was \$162.72 per month.

NOTES TO FINANCIAL STATEMENTS

NOTE 12. OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

Currently, the state is requiring that local Boards of Education pay only on active employees. The District's contribution to the health insurance plans for the fiscal years ended June 30, 2010 and 2009 were \$28,492,112, and \$20,667,824 respectively, which equaled the required contribution. Currently, the State of Georgia has been making the remaining contributions to fund the pay as you go financing on behalf of all local Boards of Education (see Note 1 for discussion of on-behalf payments).

NOTE 13. RISK MANAGEMENT

The School System is exposed to various risks of loss for claims associated with torts; theft of, damage to and destruction of assets; errors and omissions; natural disaster; Workers' Compensation; unemployment compensation; and dental benefits. The School System is self-insured for workers' compensation and unemployment compensation. The School System purchases commercial insurance for all other risks of loss. The School System has not experienced any significant reduction in insurance coverage from the previous year nor has it paid any settlements in excess of insurance coverage in the past three years.

Workers' Compensation

The School System is partially self-insured for Workers' Compensation claims of its employees. Claims exceeding \$350,000 per occurrence are covered through a private insurance carrier. The School System is liable for any other claims filed. The School System has entered into a contract with a third party to administer the program. Activity is accounted for in the General Fund.

Unemployment Compensation

The School System is self-insured for Unemployment Compensation claims of its employees. Activity is accounted for in the General Fund.

Changes in the balances of claims liabilities for the years ended June 30, 2009 and June 30, 2010 for which the School System is self-insured are as follows:

<u>Workers' Compensation</u>	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Unpaid claims, beginning of fiscal year	\$ 1,546,596	\$ 1,460,953
Incurred claims (including IBNRs)	1,317,368	1,538,026
Claim payments and changes in estimates	<u>(1,378,873)</u>	<u>(1,452,383)</u>
Unpaid claims, end of fiscal year	<u>\$ 1,485,091</u>	<u>\$ 1,546,596</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 13. RISK MANAGEMENT (CONTINUED)

<u>Unemployment Compensation</u>	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Unpaid claims, beginning of fiscal year	\$ -	\$ -
Incurred claims (including IBNRs)	139,788	20,683
Claim payments and changes in estimates	<u>(139,788)</u>	<u>(20,683)</u>
Unpaid claims, end of fiscal year	<u>\$ -</u>	<u>\$ -</u>

NOTE 14. COMMITMENTS AND CONTINGENCIES

The School System is involved in a number of legal matters which either have or could result in litigation. Although the outcome of these lawsuits is not presently determinable, in the opinion of the School System's legal counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the School System.

The School System participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the School System has not complied with the rules and regulations governing grants, refunds of any money received may be required and the collectibility of any related receivable at June 30, 2010, may be impaired. In the opinion of the School System, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Supplementary Schedules

HENRY COUNTY BOARD OF EDUCATION

SCHEDULE OF EXPENDITURES OF SPECIAL PURPOSE LOCAL OPTION SALES TAX PROCEEDS - 2007 ISSUE FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	<u>Original Estimated Cost</u>	<u>Current Estimated Cost</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total</u>
Acquisition, construction, and equipping of new schools, technology improvements, renovation, and construction of existing schools, and acquisition of school buses	\$ 300,000,000	\$ 300,000,000	\$ 206,230,806	\$ 7,060,060	\$ 213,290,866
	<u>\$ 300,000,000</u>	<u>\$ 300,000,000</u>	<u>\$ 206,230,806</u>	<u>\$ 7,060,060</u>	<u>\$ 213,290,866</u>

Note: Expenditures in the capital projects fund include \$380,167 of expenditures related to the Series 2004 General Obligations Bonds, which were not related to a special purpose local options sales tax issue.

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