

**HENRY COUNTY BOARD
OF EDUCATION**

ANNUAL FINANCIAL REPORT

**FOR THE
FISCAL YEAR ENDED JUNE 30, 2008**

**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, 2008**

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

To the Superintendent and Members of the Henry County Board of Education

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, 2008, 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, 2008, 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 September 18, 2009 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 accompanying schedules of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Henry County Board of Education. The schedule of expenditures of special purpose local option sales tax proceeds and the schedules of expenditures of federal awards 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
September 18, 2009

**HENRY COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

INTRODUCTION

Our discussion and analysis of the Henry County School District's financial performance provides an overview of the School District's financial activities for the fiscal year ended June 30, 2008. The intent of this discussion and analysis is to look at the School District's financial performance as a whole. Readers should also review the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

This is the seventh year the School District has prepared its annual financial report using the government financial reporting model. The reporting model is a combination of both government-wide financial statements and fund financial statements. The basic financial statements contain three components:

- 1) District-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 District's finances.
- 2) Fund financial statements including the balance sheets that provide a greater level of detail and focus on how well the School District 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 2008 are as follows:

On the School District-wide financial statements:

- Total assets of the School District exceeded liabilities by over \$363.1 million. This represented an increase of \$21.9 million in net assets when compared to the prior year.
- The School District had \$385.5 million in expenses relating to governmental activities; only \$204 million of these expenses were offset by program specific charges for services, grants and contributions. However, general revenues (primarily property and sales taxes) of \$203.3 million were adequate to provide for these programs.
- As stated above, general revenues accounted for \$203.3 million or about 50% of all revenues totaling over \$407 million. Program specific revenues in the form of charges for services, grants, and contributions accounted for the balance of these revenues.

MANAGEMENT'S DISCUSSION AND ANALYSIS

On the fund financial statements:

- Among major funds, the General Fund had \$308.1 million in revenues and \$308.3 million in expenditures. The general fund balance of \$15.2 million at June 30, 2008 decreased \$931,032 when compared to the prior year.
- Another major fund, the Capital Projects Fund, has \$84.9 million in reserved fund balance at June 30, 2008. This balance resulted primarily from the issuance of general obligation bonds for new construction during fiscal year 2007.

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 School District. These include the district-wide and fund financial statements.

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

The fund financial statements focus on individual parts of the School District, reporting the School District'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 School District acts solely as a trustee or agent for the benefit of others. In the case of the Henry County School District, the General Fund, Capital Projects Fund, and Debt Service Fund are all considered to be major funds. The District has no nonmajor funds 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.

District-Wide Statements

Since Henry County School District has no operations that have been classified as "Business Activities", the district-wide financial statements are basically a consolidation of all of the School District's operating funds into one column called governmental activities. In reviewing the district-wide financial statements, a reader might ask the question, are we in a better financial position now than last year? The 'Statement of Net

MANAGEMENT'S DISCUSSION AND ANALYSIS

Assets' and the 'Statement of Activities' provide the basis for answering this question. These financial statements include all School District 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 School District's net assets and any changes in those assets. The change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, including those not under the School District'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' reflect 100% of the School District's governmental activities.

Fund Financial Statements

The School District 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 information about the School District's significant or major funds. As discussed previously, the School District has no nonmajor Funds as defined by generally accepted accounting principles.

Governmental Funds – Most of the School District'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 School District'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 School District is the trustee, or fiduciary, for assets that belong to clubs, organizations and others within the principals' accounts. The School District 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 School District excludes these activities from the district-wide financial statements because it cannot use these assets to finance its operations.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. The reader can think of the District's net assets as the difference between its assets (i.e., what the District owns) and its liabilities (i.e., what the District owes) at the end of a fiscal year. This balance represents one way to measure the School District's financial health or its financial position. In the case of the Henry County School District, assets exceeded liabilities in excess of \$363.1 million at June 30, 2008.

To better understand the School District'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 \$363.1 million of net assets, over \$31 million was restricted for debt service. Accordingly, these funds were not available to meet the District's ongoing obligations to citizens and creditors.

In addition, the School District had in excess \$240.5 million (net of related debt) invested in capital assets (e.g., land, buildings, and equipment). The School District uses these capital assets to provide educational services to students within geographic boundaries served by the School District. 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.

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

**Table 1
Net Assets**

	Governmental Activities	
	Fiscal Year 2008	Fiscal Year 2007
Assets		
Current and Other Assets	\$208,874,940	\$303,599,147
Capital Assets, Net	585,276,343	490,673,755
Total Assets	\$794,151,283	\$794,272,902
Liabilities		
Current and Other Liabilities	\$76,106,245	\$60,759,983
Long-Term Liabilities	354,888,839	392,267,366
Total Liabilities	\$430,995,084	\$453,027,349
Net Assets		
Invested in Capital Assets,		
Net of Related Debt	\$240,535,676	\$304,664,254
Restricted	116,068,507	224,646,485
Unrestricted	6,552,016	-188,065,186
Total Net Assets	\$363,156,199	\$341,245,553

MANAGEMENT'S DISCUSSION AND ANALYSIS

The comparison (Table 1) reflects that total net assets increased about \$21.9 million.

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 2008	Fiscal Year 2007
Revenues		
Program Revenues:		
Charges for Services and Sales	\$9,296,831	\$9,408,381
Operating Grants and Contributions	191,141,315	176,592,524
Capital Grants and Contributions	3,616,309	13,286,112
Total Program Revenues	<u>\$204,054,455</u>	<u>\$199,287,017</u>
General Revenues:		
Property Taxes	\$144,392,886	\$135,188,991
Sales Taxes		
Special Purpose Local Option Sales Tax		
For Debt Service	29,512,217	30,443,008
Other Taxes	4,882,384	5,874,448
Grants and Contributions not Restricted to Specific Programs	6,315,873	-
Investment Earnings	9,190,462	5,913,283
Miscellaneous	9,088,866	8,487,454
Total General Revenues	<u>\$203,382,688</u>	<u>\$185,907,184</u>
Total Revenues	<u><u>\$407,437,143</u></u>	<u><u>\$385,194,201</u></u>
Program Expenses		
Instruction	\$259,413,368	\$234,004,609
Support Services		
Pupil Services	8,031,332	8,084,271
Improvement of Instructional Services	6,692,822	5,754,211
Educational Media Services	6,108,915	5,411,569
General Administration	2,044,135	1,982,907
School Administration	20,107,412	17,863,682
Business Administration	1,177,857	1,093,479
Maintenance and Operation of Plant	28,197,458	24,481,846
Student Transportation Services	15,843,177	12,955,227
Central Support Services	1,053,957	827,612
Other Support Services	2,448,175	3,396,497
Operations of Non-Instructional Services		
Enterprise Operations		
Community Services	3,732,319	3,627,285
Food Services	14,333,076	12,877,206
Interest on Short-Term and Long-Term Debt	16,342,494	9,198,484
Total Expenses	<u>\$385,526,497</u>	<u>\$341,558,885</u>
Increase in Net Assets	<u><u>\$21,910,646</u></u>	<u><u>\$43,635,316</u></u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 School District'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 2008	Fiscal Year 2007	Fiscal Year 2008	Fiscal Year 2007
Instruction	\$259,413,368	\$234,004,609	\$93,407,737	\$71,762,486
Support Services				
Pupil Services	8,031,332	8,084,271	5,798,324	5,810,401
Improvement of Instructional Services	6,692,822	5,754,211	5,655,222	4,287,619
Educational Media Services	6,108,915	5,411,569	5,462,944	4,844,360
General Administration	2,044,135	1,982,907	1,252,888	1,083,914
School Administration	20,107,412	17,863,682	19,451,201	17,216,717
Business Administration	1,177,857	1,093,479	1,155,910	1,076,693
Maintenance and Operation of Plant	28,197,458	24,481,846	16,151,723	13,030,157
Student Transportation Services	15,843,177	12,955,227	12,764,122	9,662,106
Central Support Services	1,053,957	827,612	1,038,825	813,785
Other Support Services	2,448,175	3,396,497	2,419,339	3,387,745
Operations of Non-Instructional Services				
Enterprise Operations			-73,297	-136,412
Community Services	3,732,319	3,627,285	-29,203	-52,748
Food Services	14,333,076	12,877,206	673,813	286,561
Interest on Short-Term and Long-Term Debt	16,342,494	9,198,484	16,342,494	9,198,484
Total Expenses	<u>\$385,526,497</u>	<u>\$341,558,885</u>	<u>\$181,472,042</u>	<u>\$142,271,868</u>

The School District's total expenditures increased about \$43.9 million from the prior year, the net costs of services to the School District's taxpayers increased by \$39.2 million from the prior year.

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S FUNDS

Information about the School District'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 \$405.5 million and total expenditures of \$515.4 million in fiscal year 2008. Included in the expenditures of

MANAGEMENT'S DISCUSSION AND ANALYSIS

\$515.4 million were \$118 million of capital outlay expenditures which were made to acquire or construct capital assets.

General Fund Budget Highlights

The School District's budget is prepared according to Georgia Law. The most significant budgeted fund is the General Fund. During the course of fiscal year 2008, no amendments were made to the original budget.

The School District 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 \$300.1 million were 99.6% of the final budgeted amount of \$301.2 million. The final actual expenditures of \$299.6 million were 98.3% of the final budgeted amount of \$304.7 million. With the growth Henry County is experiencing and the uncertain economic conditions, management continues to be extremely conservative.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At fiscal year ended June 30, 2008, the School District had \$585 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 5
Long Term Liabilities at June 30

	Governmental Activities	
	Fiscal Year 2008	Fiscal Year 2007
Infrastructure	\$3,403,482	
Land	31,604,135	\$29,085,458
Construction in Progress	113,585,681	107,571,620
Land Improvements	13,916,698	14,766,539
Buildings and Improvements	407,355,669	326,371,967
Equipment	15,410,678	12,878,171
Total	<u>\$585,276,343</u>	<u>\$490,673,755</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

Long Term Liabilities

At fiscal year ended June 30, 2008, the School District had \$352.5 million in long term liabilities outstanding. Table 5 summarizes the School District's liabilities as compared to the prior fiscal year.

Table 5
Long Term Liabilities at June 30

	Governmental Activities	
	Fiscal Year 2008	Fiscal Year 2007
Bonds Payable	\$354,888,839	\$392,267,366
Capital Leases	-	40,183
Compensated Absences	1,281,994	1,154,264
Workers Compensation Claims Payable	1,460,953	1,228,720
Other Claims Payable	340,000	-
Total	<u>\$357,971,786</u>	<u>\$394,690,533</u>

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:

- **State QBE Revenue Reductions** – The School District's austerity reductions in state funding for education over the past six years have totaled \$25.5 million. Considering the stagnant economy of the past few years, these formula funding reductions challenge the long-term financial stability of the School District. However, despite these conditions, the Henry County School District is strong financially and we remain optimistic about the ability of the School District to maximize all of the financial resources to provide a quality education to our students.
- **Capital Improvements** – The School District plans capital improvements as future capital needs arise due to increased student population and 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District'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, 2008

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 44,251,598
Investments	124,004,084
Intergovernmental receivables	39,393,496
Inventories	356,186
Deferred charges	869,576
Capital assets, nondepreciable	145,189,816
Capital assets, depreciable (net of accumulated depreciation)	440,086,527
	<hr/>
Total assets	794,151,283
LIABILITIES	
Accounts payable	28,453,586
Accrued interest	5,736,563
Accrued payroll and payroll withholdings	38,048,705
Unearned revenue	784,444
Insurance claims payable due within one year	982,005
Insurance claims payable due in more than one year	478,948
Other claims payable due within one year	100,000
Other claims payable due in more than one year	240,000
Compensated absences due within one year	1,028,380
Compensated absences due in more than one year	253,614
General obligation bonds due within one year	4,076,500
General obligation bonds due in more than one year, net of unamortized premium	350,812,339
	<hr/>
Total liabilities	430,995,084
NET ASSETS	
Invested in capital assets, net of related debt	316,366,718
Restricted for debt service	31,082,789
Restricted for capital projects	531,423
Unrestricted	15,175,268
	<hr/>
Total net assets	\$ 363,156,199

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, 2008

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
Instruction	\$ 259,413,368	\$ 226,931	\$ 162,162,391	\$ 3,616,309	\$ (93,407,737)
Pupil services	8,031,332	-	2,233,008	-	(5,798,324)
Improvement of instructional services	6,692,822	-	1,037,600	-	(5,655,222)
Educational media services	6,108,915	-	645,971	-	(5,462,944)
General administration	2,044,135	-	791,247	-	(1,252,888)
School administration	20,107,412	-	656,211	-	(19,451,201)
Business services	1,177,857	-	21,947	-	(1,155,910)
Maintenance and operations	28,197,458	-	12,045,735	-	(16,151,723)
Student transportation	15,843,177	-	3,079,055	-	(12,764,122)
Central support services	1,053,957	-	15,132	-	(1,038,825)
Other support services	2,448,175	-	28,836	-	(2,419,339)
School nutrition	14,333,076	5,245,081	8,414,182	-	(673,813)
Enterprise operations	-	73,297	-	-	73,297
Community services	3,732,319	3,751,522	10,000	-	29,203
Interest on long-term debt	16,342,494	-	-	-	(16,342,494)
Total governmental activities	385,526,497	9,296,831	191,141,315	3,616,309	(181,472,042)
General revenues:					
Property taxes					144,392,886
Sales taxes					29,512,217
Other taxes					4,882,384
Grants and contributions not restricted to specific programs					6,315,873
Local school activity					9,088,866
Unrestricted investment earnings					9,190,462
Total general revenues					203,382,688
Change in net assets					21,910,646
Net assets, beginning of year					341,245,553
Net assets, end of year					\$ 363,156,199

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

HENRY COUNTY BOARD OF EDUCATION

BALANCE SHEET GOVERNMENTAL FUNDS JUNE 30, 2008

ASSETS	General	Debt Service	Capital Projects	Nonmajor Special Revenue	Total Governmental Funds
Cash	\$ 33,306,671	\$ 2,982,401	\$ 1,240,728	\$ 6,721,798	\$ 44,251,598
Investments	92,175	22,816,478	101,095,431	-	124,004,084
Due from other governments	31,324,327	6,030,530	1,372,190	666,449	39,393,496
Due from other funds	1,396,767	-	-	-	1,396,767
Inventories	-	-	-	356,186	356,186
Total assets	\$ 66,119,940	\$ 31,829,409	\$ 103,708,349	\$ 7,744,433	\$ 209,402,131
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 9,417,929	\$ 1,000	\$ 18,722,631	\$ 312,026	\$ 28,453,586
Due to other funds	-	-	-	1,396,767	1,396,767
Accrued payroll and payroll withholdings	36,127,236	-	-	1,921,469	38,048,705
Deferred revenue	5,368,184	745,620	-	179,119	6,292,923
Total liabilities	50,913,349	746,620	18,722,631	3,809,381	74,191,981
FUND BALANCES					
Fund balances:					
Reserved for inventories	-	-	-	356,186	356,186
Reserved for debt service	-	31,082,789	-	-	31,082,789
Unreserved, reported in:					
General fund	15,206,591	-	-	-	15,206,591
Special revenue funds	-	-	-	3,578,866	3,578,866
Capital projects fund	-	-	84,985,718	-	84,985,718
Total fund balances	15,206,591	31,082,789	84,985,718	3,935,052	135,210,150
Total liabilities and fund balances	\$ 66,119,940	\$ 31,829,409	\$ 103,708,349	\$ 7,744,433	
<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. 585,276,343</p> <p>Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. 5,508,479</p> <p>Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. (362,838,773)</p> <p>Net assets of governmental activities <u>\$ 363,156,199</u></p>					

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, 2008

	General	Debt Service	Capital Projects	Nonmajor Special Revenue	Total Governmental Funds
REVENUES					
Local sources	\$ 129,254,145	\$ 49,232,561	\$ -	\$ 18,152,214	\$ 196,638,920
State sources	176,929,961	-	3,616,309	745,884	181,292,154
Federal sources	524,978	-	-	17,926,742	18,451,720
Interest income	1,450,603	990,065	6,736,282	13,512	9,190,462
Total revenues	308,159,687	50,222,626	10,352,591	36,838,352	405,573,256
EXPENDITURES					
Current:					
Instruction	220,706,497	-	-	18,304,337	239,010,834
Pupil services	7,416,926	-	-	610,123	8,027,049
Improvement of instructional services	5,359,262	-	-	1,356,312	6,715,574
Educational media services	6,108,915	-	-	-	6,108,915
General administration	1,832,800	-	-	174,961	2,007,761
School administration	19,612,632	-	-	-	19,612,632
Business services	1,170,479	-	-	-	1,170,479
Maintenance and operations	27,974,674	-	-	-	27,974,674
Student transportation	13,554,707	-	-	2,923	13,557,630
Central support services	1,046,163	-	-	459	1,046,622
Other support services	2,418,644	-	-	29,531	2,448,175
School nutrition	85	-	-	13,700,818	13,700,903
Community service	-	-	-	3,729,748	3,729,748
Capital outlay	901,186	1,000	117,073,446	-	117,975,632
Debt service:					
Principal retirement	-	35,010,000	40,183	-	35,050,183
Interest and fiscal charges	272,620	10,049,284	6,966,379	-	17,288,283
Total expenditures	308,375,590	45,060,284	124,080,008	37,909,212	515,425,094
Excess (deficiency) of revenues over (under) expenditures	(215,903)	5,162,342	(113,727,417)	(1,070,860)	(109,851,838)
OTHER FINANCING SOURCES (USES)					
Transfers in	19,428	-	4,064,300	734,557	4,818,285
Transfers out	(734,557)	(4,064,300)	(12,903)	(6,525)	(4,818,285)
Total other financing sources (uses)	(715,129)	(4,064,300)	4,051,397	728,032	-
Net change in fund balances	(931,032)	1,098,042	(109,676,020)	(342,828)	(109,851,838)
FUND BALANCE, beginning of year	16,137,623	29,984,747	194,661,738	4,277,880	245,061,988
FUND BALANCE, end of year	\$ 15,206,591	\$ 31,082,789	\$ 84,985,718	\$ 3,935,052	\$ 135,210,150

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, 2008

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

Net change in fund balances - total governmental funds \$ (109,851,838)

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 capital outlays exceeded depreciation in the current period. 94,602,588

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 1,863,887

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. 34,477,950

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. 818,059

Change in net assets - governmental activities \$ 21,910,646

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, 2008

	Budget		Actual	Variance With Final Budget
	Original	Final		
REVENUES				
Local sources	\$ 130,116,273	\$ 130,116,273	\$ 129,254,145	\$ (862,128)
State sources	169,299,230	169,299,230	168,878,912	(420,318)
Federal sources	450,000	450,000	524,978	74,978
Interest income	1,400,000	1,400,000	1,450,603	50,603
Total revenues	<u>301,265,503</u>	<u>301,265,503</u>	<u>300,108,638</u>	<u>(1,156,865)</u>
EXPENDITURES				
Current:				
Instruction	216,574,657	216,574,657	213,805,816	2,768,841
Pupil services	7,094,875	7,094,875	7,172,138	(77,263)
Improvement of instructional services	5,367,581	5,367,581	5,297,223	70,358
Educational media services	6,055,611	6,055,611	5,938,233	117,378
General administration	1,976,839	1,976,839	1,811,172	165,667
School administration	20,140,292	20,140,292	18,990,249	1,150,043
Business services	1,268,105	1,268,105	1,148,532	119,573
Maintenance and operations	29,084,019	29,084,019	27,669,247	1,414,772
Student transportation	12,835,943	12,835,943	13,184,901	(348,958)
Central support services	1,030,306	1,030,306	1,031,031	(725)
Other support services	2,324,622	2,324,622	2,418,644	(94,022)
School nutrition	-	-	85	(85)
Capital outlay	999,643	999,643	901,186	98,457
Debt service:				
Interest and fiscal charges	-	-	272,620	(272,620)
Total expenditures	<u>304,752,493</u>	<u>304,752,493</u>	<u>299,641,077</u>	<u>5,111,416</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(3,486,990)</u>	<u>(3,486,990)</u>	<u>467,561</u>	<u>3,954,551</u>
OTHER FINANCING USES				
Transfers in	-	-	19,428	19,428
Transfers out	-	-	(734,557)	(734,557)
Total other financing uses	<u>-</u>	<u>-</u>	<u>(715,129)</u>	<u>(715,129)</u>
Net change in fund balances	<u>\$ (3,486,990)</u>	<u>\$ (3,486,990)</u>	<u>\$ (247,568)</u>	<u>\$ 3,239,422</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, 2008

	Agency Fund
	Student
	Activities
ASSETS	
Cash	\$ 242,730
Total assets	\$ <u>242,730</u>
LIABILITIES	
Due to others	\$ 242,730
Total liabilities	\$ <u>242,730</u>

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

HENRY COUNTY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

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.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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*. 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.

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.

The fiduciary fund financial statements are reported using the *accrual basis of accounting*.

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.

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.

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.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 **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 **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.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

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, 2008 was \$5,428,824.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 \$578,059 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.

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
Land improvements	\$10,000	10-20
Buildings and improvements	\$100,000	20-60
Machinery and equipment	\$10,000	5-25

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 \$362,838,773 difference are as follows:

General obligation bonds payable	\$	346,860,000
Accrued interest on general obligation bonds payable		5,736,563
Unamortized premium on general obligation bonds payable		8,028,839
Unamortized issuance costs on general obligation bonds payable		(869,576)
Workers' compensation claims payable		1,460,953
Other claims payable		340,000
Compensated absences		1,281,994
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	\$	362,838,773

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 \$94,602,588 difference are as follows:

Capital outlay	\$	106,120,361
Depreciation expense		(11,517,773)
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>	\$	94,602,588

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 \$33,134,007 difference are as follows:

Debt issued or incurred:	
Workers' compensation claims incurred	\$ (1,576,176)
Other claims incurred	(340,000)
Workers' compensation claims paid	1,343,943
Principal repayments:	
Capital leases	40,183
General obligation bonds	<u>35,010,000</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>\$ 34,477,950</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 \$2,162,002 difference are as follows:

Compensated absences	\$ (127,730)
Accrued interest	(1,285,166)
Amortization of issuance costs	(137,572)
Amortization of premium on general obligation bonds	<u>2,368,527</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>\$ 818,059</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	\$ (931,032)
Adjustments for:	
State QBE revenue	(2,622,225)
Salaries and employee benefits	3,305,689
State paid employee benefit revenue	(5,428,824)
State paid employee benefit expenditures	<u>5,428,824</u>
Budget basis net change in fund balance	<u>\$ (247,568)</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, 2008, the School System's investment in Georgia Fund 1 was rated AAAM by Standard & Poor's.

At June 30, 2008, the School System had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
Georgia Fund 1	40 day weighted average	\$ 124,004,084

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, 2008, the School System's bank balance was uncollateralized by \$65,648.

NOTES TO FINANCIAL STATEMENTS

NOTE 5. RECEIVABLES

Receivables at June 30, 2008, 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	Capital Projects	Nonmajor Governmental Funds	Total
Due from other governments	\$ 32,974,617	\$ 6,293,437	\$ 1,372,190	\$ 666,449	\$ 41,306,693
Less allowance for uncollectible	(1,650,290)	(262,907)	-	-	(1,913,197)
Net total receivable	\$ 31,324,327	\$ 6,030,530	\$ 1,372,190	\$ 666,449	\$ 39,393,496

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 5, 2007, billed on September 17, 2007, and payable on or before November 17, 2007. 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, 2008, 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, 2008, is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending Balance</u>
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 29,085,458	\$ 2,518,677	\$ -	\$ -	\$ 31,604,135
Construction in progress	107,571,620	99,107,956	-	(93,093,895)	113,585,681
Total	<u>136,657,078</u>	<u>101,626,633</u>	<u>-</u>	<u>(93,093,895)</u>	<u>145,189,816</u>
Capital assets, being depreciated:					
Buildings and improvements	379,430,530	-	-	89,406,783	468,837,313
Land improvements	22,266,440	-	-	202,892	22,469,332
Infrastructure	-	-	-	3,484,220	3,484,220
Machinery and equipment	23,287,284	4,493,728	-	-	27,781,012
Total	<u>424,984,254</u>	<u>4,493,728</u>	<u>-</u>	<u>93,093,895</u>	<u>522,571,877</u>
Less accumulated depreciation for:					
Buildings and improvements	(53,058,563)	(8,441,587)	-	18,506	(61,481,644)
Land improvements	(7,499,901)	(1,052,733)	-	-	(8,552,634)
Infrastructure	-	(62,232)	-	(18,506)	(80,738)
Machinery and equipment	(10,409,113)	(1,961,221)	-	-	(12,370,334)
Total	<u>(70,967,577)</u>	<u>(11,517,773)</u>	<u>-</u>	<u>-</u>	<u>(82,485,350)</u>
Total capital assets, being depreciated, net	<u>354,016,677</u>	<u>(7,024,045)</u>	<u>-</u>	<u>93,093,895</u>	<u>440,086,527</u>
Governmental activities capital assets, net	<u>\$ 490,673,755</u>	<u>\$ 94,602,588</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 585,276,343</u>

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

Governmental activities:	
Instruction	\$ 8,488,599
General administration	23,036
School administration	460,711
Maintenance and operations	80,624
Student transportation	1,923,468
School nutrition	541,335
Total depreciation expense - governmental activities	<u>\$ 11,517,773</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 8. SHORT-TERM DEBT

Tax Anticipation Note. On August 10, 2007, 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 3.804%. The note was paid off on December 12, 2007.

The following is a summary of short-term debt transactions for the School System for the year ended June 30, 2008:

	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, 2008, consisted of the following:

Series	Coupon Rate	Maturities	Balance
1992A	5.60% - 6.45%	2009 to 2012	\$ 13,590,000
1992B - Refunding	3.75% - 6.30%	2009	635,000
2000	5.00% - 5.75%	2009 to 2011	12,250,000
2001 - Refunding	3.70% - 5.125%	2009 to 2015	22,780,000
2004	3.50% - 5.00%	2009 to 2024	111,045,000
2007	4.375%	2025	13,060,000
2007A	5.00%	2009 to 2013	173,500,000
			\$ 346,860,000

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
2009	\$ 40,765,000	\$ 16,957,489	\$ 57,722,489
2010	43,370,000	14,893,854	58,263,854
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
2014-2018	42,845,000	24,746,200	67,591,200
2019-2023	53,850,000	12,949,875	66,799,875
2024-2025	25,485,000	1,167,688	26,652,688
Total	<u>\$ 346,860,000</u>	<u>\$ 101,949,007</u>	<u>\$ 448,809,007</u>

Changes in long-term debt related to governmental activities for the year ended June 30, 2008 are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable	\$ 381,870,000	\$ -	\$ (35,010,000)	\$ 346,860,000	\$ 4,076,500
Plus unamortized bond premium	10,397,366	-	(2,368,527)	8,028,839	2,084,682
Bonds payable, net	392,267,366	-	(37,378,527)	354,888,839	6,161,182
Insurance claims payable	1,228,720	1,576,176	(1,343,943)	1,460,953	982,005
Other claims payable	-	340,000	-	340,000	100,000
Capital leases	40,183	-	(40,183)	-	-
Compensated absences	1,154,264	1,131,027	(1,003,297)	1,281,994	1,028,380
Governmental activities Long-term liabilities	<u>\$ 394,690,533</u>	<u>\$ 3,047,203</u>	<u>\$ (39,765,950)</u>	<u>\$ 357,971,786</u>	<u>\$ 8,271,567</u>

There is \$31,082,789 of restricted net assets available in the Debt Service Fund to service the general obligation bonds.

Compensated absences 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, 2008, is as follows:

Due to/from other funds:

<u>Due In</u>	<u>Due From Nonmajor Governmental Fund</u>
General Fund	\$ 1,396,767

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:

<u>Transfers Out</u>	<u>Transfers Out</u>			<u>Total</u>
	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>	
General Fund	\$ -	\$ -	\$ 734,557	\$ 734,557
Debt Service Fund		4,064,300		4,064,300
Capital Projects Fund	12,903	-	-	12,903
Nonmajor Governmental Fund	6,525			6,525
	\$ 19,428	\$ 4,064,300	\$ 734,557	\$ 4,818,285

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% of their annual covered salary to the plan and the School System is required to contribute 9.28% of current covered payroll. Covered employees' contributions for the years ended June 30, 2008, 2007, and 2006, were \$9,353,550, \$8,445,577, and \$7,320,490, respectively. The School System's contributions to TRS for the years ended June 30, 2008, 2007, and 2006, were \$17,160,722, \$15,485,692, and \$13,548,078, 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, 2008, totaled \$33,020.

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, 2008, for School System employees was \$31,717.

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, 2008 was 916.

NOTES TO FINANCIAL STATEMENTS

NOTE 12. OTHER POST EMPLOYMENT BENEFITS

Georgia Retiree Health Benefit Fund

Plan Description. The School System participates in the Georgia Retiree Health Benefit Fund (“GRHBF”), a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the State of Georgia Department of Community Health. GRHBF provides health insurance benefits to eligible retirees and their qualified beneficiaries. Pursuant to Title 45, Chapter 18 of the Official Code of Georgia Annotated, the authority to establish and amend the benefit provisions of the plan is assigned to the Board of the State of Georgia Department of Community Health. The Department of Community Health issues a publicly available financial report that includes financial statements and required supplementary information for GRHBF. That report may be obtained from the Department of Community Health at 2 Peachtree Street, Atlanta, Georgia 30303.

Funding Policy. The contribution requirements of plan members and participating employers are established and may be amended by the Board of the State of Georgia Department of Community Health. Contributions of plan members or beneficiaries receiving benefits vary based on plan election, dependent coverage, and Medicare eligibility and election.

Participating state employers, including local Boards of Education, are statutorily required to contribute in accordance with the employer contribution rate established by the Board. The contribution rate is established to fund both the active and retired employee health insurance plans based on projected pay-as-you-go financing requirements. The combined rate for the active and retiree plans (pay-as-you go basis) for the fiscal year ended June 30, 2008, was 18.534% of covered payroll for certified employees and \$162.72 per non-certified covered employee. Currently, the state is requiring that local Boards of Education pay only on active employees. The School System’s contribution to the health insurance plans for the fiscal year ended June 30, 2008, was \$28,276,074 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.

NOTES TO FINANCIAL STATEMENTS

NOTE 13. RISK MANAGEMENT (CONTINUED)

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 year ended June 30, 2008 for which the School System is self-insured are as follows:

<u>Workers' Compensation</u>	<u>June 30, 2008</u>
Unpaid claims, beginning of fiscal year	\$ 1,228,720
Incurred claims (including IBNRs)	1,576,176
Claim payments and changes in estimates	<u>(1,343,943)</u>
Unpaid claims, end of fiscal year	<u>\$ 1,460,953</u>
<u>Unemployment Compensation</u>	<u>June 30, 2008</u>
Unpaid claims, beginning of fiscal year	\$ -
Incurred claims (including IBNRs)	12,783
Claim payments and changes in estimates	<u>(12,783)</u>
Unpaid claims, end of fiscal year	<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.

NOTES TO FINANCIAL STATEMENTS

NOTE 14. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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, 2008, 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.

The School System is committed under outstanding construction contracts in the Capital Projects Fund in the amount of \$78,810,959. Construction contracts include new school construction and expansion and renovation of existing facilities.

NOTE 15. SUBSEQUENT EVENT

On August 12, 2008, 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 2.25%. The entire balance of the note was paid on November 4, 2008.

Supplementary Schedules

HENRY COUNTY BOARD OF EDUCATION

SCHEDULE OF EXPENDITURES OF SPECIAL PURPOSE LOCAL OPTION SALES TAX PROCEEDS - 2002 ISSUE FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	<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 schools	<u>\$ 130,000,000</u>	<u>\$ 171,222,473</u>	<u>\$ 154,877,157</u>	<u>\$ 1,850,210</u>	<u>\$ 156,727,367</u>
	<u><u>\$ 130,000,000</u></u>	<u><u>\$ 171,222,473</u></u>	<u><u>\$ 154,877,157</u></u>	<u><u>\$ 1,850,210</u></u>	<u><u>\$ 156,727,367</u></u>

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, 2008

	<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 schools	<u>\$ 300,000,000</u>	<u>\$ 119,239,267</u>	<u>\$ 9,019,018</u>	<u>\$ 98,763,430</u>	<u>\$ 107,782,448</u>
	<u><u>\$ 300,000,000</u></u>	<u><u>\$ 119,239,267</u></u>	<u><u>\$ 9,019,018</u></u>	<u><u>\$ 98,763,430</u></u>	<u><u>\$ 107,782,448</u></u>

SINGLE AUDIT SECTION



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

**To the Superintendent and Members of the
Henry County Board of Education**

We have audited the 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, 2008, which collectively comprise the Henry County Board of Education's basic financial statements and have issued our report thereon dated September 18, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Henry County Board of Education's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Henry County Board of Education's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Henry County Board of Education's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Henry County Board of Education's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is a more than a remote likelihood that misstatement of the Henry County Board of Education's financial statements that is more than inconsequential will not be prevented or detected by the Henry County Board of Education's internal control. We consider the deficiencies in the accompanying schedule of findings and questioned costs as 08-1 through 08-4 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Henry County Board of Education's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 08-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Henry County Board of Education's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings and questioned costs as item 08-4.

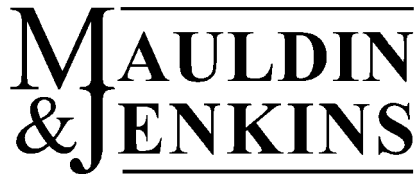
We noted certain matters that we reported to management of the Henry County Board of Education in a separate letter dated September 18, 2009.

Henry County Board of Education's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Henry County Board of Education's responses, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Superintendent and members of the Henry County Board of Education 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.

Mauldin & Jenkins, LLC

Macon, Georgia
September 18, 2009



CERTIFIED PUBLIC ACCOUNTANTS, LLC

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

**To the Superintendent and Members of the
Henry County Board of Education**

Compliance

We have audited the compliance of the Henry County Board of Education with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The Henry County Board of Education's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Henry County Board of Education's management. Our responsibility is to express an opinion on the Henry County Board of Education's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Henry County Board of Education's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Henry County Board of Education's compliance with those requirements.

In our opinion, the Henry County Board of Education complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the Henry County Board of Education is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Henry County Board of Education's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Henry County Board of Education's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is a more than remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in a more than remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily disclose all matters in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above.

This report is intended solely for the information and use of management, the Superintendent and members of the Henry County Board of Education 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.

Macon, Georgia
September 18, 2009

Mauldin & Jenkins, LLC

HENRY COUNTY BOARD OF EDUCATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Total Expenditures
U. S. DEPARTMENT OF AGRICULTURE:		
Passed through Georgia Department of Education		
Child Nutrition Cluster:		
School Breakfast Program	10.553	\$ 1,473,267
National School Lunch Program	10.555	5,616,972
Total Child Nutrition Cluster		7,090,239
Other Programs:		
USDA-Food Distribution (noncash)	10.550	578,059
Total U. S. Department of Agriculture		7,668,298
U. S. DEPARTMENT OF DEFENSE:		
Direct Federal Award		
Junior ROTC	12.unknown	524,978
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE		
Passed through Georgia Department of Education		
Learn and Serve America		
Total Corporation for National and Community Service	94.004	13,326
U. S. DEPARTMENT OF EDUCATION:		
Direct Federal Award		
Fund for the Improvement of Education	84.215	464,529
Passed through Georgia Department of Education:		
Title I - Improving Academic Achievement	84.010	3,188,406
Title II, Part A - Improving Teacher Quality	84.367	630,022
Title III - Limited English Proficient	84.365	221,095
Title IV - Drug Free Schools and Communities	84.186	89,567
Title V - Innovation Education Program	84.298	43,276
Special Education Cluster:		
Title VI-B Flowthrough	84.027	5,305,201
Title VI-B Preschool	84.173	121,598
Total Special Education Cluster		5,426,799
Vocational Education - Basic Grants to States	84.048	215,187
Education for Homeless Children and Youth	84.196	26,495
Total U.S. Department of Education		10,305,376
Total Expenditures of Federal Awards		\$ 18,511,978

HENRY COUNTY BOARD OF EDUCATION

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 1. BASIS OF PRESENTATION

The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Henry County Board of Education and is presented on the accrual basis of accounting.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the financial statements.

HENRY COUNTY BOARD OF EDUCATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE FISCAL YEAR ENDED JUNE 30, 2008

A. SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditor's report issued Unqualified

Internal control over financial reporting:
Material weaknesses identified? yes no

Significant deficiencies identified not considered
to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal Control over major programs:
Material weaknesses identified? yes no

Significant deficiencies identified not considered
to be material weaknesses? yes 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 OMB Circular
A-133, Section 510(a)? yes no

Identification of major program:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
	<u>Child Nutrition Cluster Program:</u>
	U.S. Department of Agriculture:
10.553	School Breakfast Program
10.555	National School Lunch Program
10.550	USDA – Food Distribution
	<u>Special Education Cluster Program:</u>
	U.S. Department of Education:
84.027	Title VI-B Flowthrough
84.173	Title VI-B Preschool
	<u>Non- Cluster Program:</u>
	U.S. Department of Education:
84.215	Fund for the Improvement of Education

Dollar threshold used to distinguish between
Type A and Type B programs: \$555,359

Auditee qualified as low-risk auditee? yes no

HENRY COUNTY BOARD OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

B. FINDINGS: FINANCIAL STATEMENTS AUDIT

08-1. Accounts Receivable

Criteria: Generally accepted accounting principles require revenue to be recognized in the accounting period in which it becomes both measurable and available to finance expenditures of the current period.

Condition: The School System did not properly record accounts receivable from the state in the Debt Service Fund or the Capital Projects Fund as of June 30, 2008. Additionally, accounts receivable of the All Other Special Revenue Funds required adjustment for the year ended June 30, 2008.

Context: We addressed this matter with School System officials, and they were able to determine the necessary corrections to the receivable accounts that should be recorded as of June 30, 2008.

Effect: Audit adjustments to increase receivables and increase revenues by \$4,925,665 in the Debt Service Fund and to decrease receivables and decrease revenues by \$412,035 in the Capital Projects Fund were required to be recorded as of June 30, 2008. An audit adjustment of \$60,762 was required to be recorded as of June 30, 2008 in the Other Special Revenue Funds to decrease receivables and revenues.

Recommendation: We recommend the School System begin recognizing and recording all necessary receivable adjustments at the end of each financial reporting cycle.

Views of Responsible Officials and Planned Corrective Action: We concur with this finding. Management will record revenue in the period in which it becomes both measurable and available to finance expenditures of the current period.

08-2. Deferred Revenue

Criteria: Generally accepted accounting principles require amounts that are available but do not otherwise meet the criteria for revenue recognition to be reported as deferred revenue.

Condition: The School System withdrew grant funds from the grantor agency in excess of the grant expenditures. At June 30, 2008, this excess had not been utilized for the grant program.

Context: We addressed this matter with School System officials, who agreed that the excess amount drawn should be recorded as deferred revenue at June 30, 2008.

Effect: An audit adjustment of \$179,119 was required in the Special Revenue Fund to increase deferred revenue and decrease revenue as of June 30, 2008.

HENRY COUNTY BOARD OF EDUCATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE FISCAL YEAR ENDED JUNE 30, 2008

B. FINDINGS: FINANCIAL STATEMENTS AUDIT (CONTINUED)

08-2. Deferred Revenue (Continued)

Recommendation: We recommend the School System strengthen internal controls in the area of grant drawdowns to only draw that which has already been expended.

Views of Responsible Officials and Planned Corrective Action: We concur with this finding. Management will defer revenue at year end that has not been expended for specific grant programs.

08-3. Accrued Salaries

Criteria: Generally accepted accounting principles require reporting of all current liabilities whose liquidation is expected to require the use of current assets when the goods have been received or services have been performed.

Condition: During our audit of accrued salaries, we noted additional amounts related to summer salaries and benefits of the school food service employees which should have been recorded as accrued salaries at June 30, 2008.

Context: We addressed this matter with School System officials, who agreed that the amounts should have been recorded as accrued salaries as of June 30, 2008.

Effect: An audit adjustment of \$83,381 was required in the Special Revenue Fund to increase accrued benefits and increase expenditures as of June 30, 2008.

Recommendation: We recommend the School System make every effort to record all summer related salaries and benefits related as accruals at year-end.

Views of Responsible Officials and Planned Corrective Action: We concur with the finding. The School Nutrition Department will strengthen internal controls to ensure salaries are accrued properly.

HENRY COUNTY BOARD OF EDUCATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE FISCAL YEAR ENDED JUNE 30, 2008

B. FINDINGS: FINANCIAL STATEMENTS AUDIT (CONTINUED)

08-4. Undercollateralization of School System Deposits

Non-material noncompliance

Criteria: The Official Code of Georgia (OCGA) Section 45-8-12 (c) requires all depositories of public funds to pledge securities of not less than 110% of the deposited public funds.

Condition: For the year ended June 30, 2008, the School System's deposits held at one financial institution were undercollateralized.

Context: During our review of collateral confirmations obtained from the School Systems' financial institutions, we noted that School System deposits at one financial institution were undercollateralized by \$65,648.

Effect: School System accounts were not adequately collateralized at one financial institution, allowing for the possibility of loss of assets if the financial institution were to become insolvent.

Cause: The financial institution has not appropriately coded all School System accounts as public funds.

Recommendation: We recommend the School System periodically review a listing of all accounts opened under the School System's federal identification number to determine that all are properly coded as public deposits. Additionally, the School System should request from the financial institutions holding School System deposits, a monthly pledging report to determine that each financial institution has pledged securities of not less than 110% of the deposited funds as required by Georgia law.

Views of Responsible Officials and Planned Corrective Action: We concur with this finding. Management has contacted the financial institution that did not adequately collateralize school system accounts to ensure the institution remedies this problem.

HENRY COUNTY BOARD OF EDUCATION

SCHEDULE OF PRIOR YEAR FINDINGS FOR THE FISCAL YEAR ENDED JUNE 30, 2008

07-1. Management of Capital Assets

Criteria: Governmental activities in the government-wide financial statements report all assets and liabilities, including capital assets. Capital assets are reported at their historical cost, which is written off periodically, or depreciated, in a systematic and rational manner. Accurate and complete records should be maintained for all capital assets.

Condition: The School System did not properly record capital asset activities and related depreciation prior to fiscal year ended June 30, 2007. Additionally, capital asset activity per the School System's general ledger is not being reconciled to the capital asset schedules prepared by an outside consultant.

Auditee Response/Status: Resolved

07-2. Capital Lease Activity

Criteria: The government-wide statements use the economic resources measurement focus, which requires the reporting of all assets and liabilities, including long-term debt.

Condition: The School System utilizes capital leases for the purchase of various equipment and vehicles. All activity associated with the capital lease transactions should be recorded in the fund level financial statements, and the outstanding balance of the capital lease liability should be recorded in the government-wide financial statements. The School System did not record this liability for the year ended June 30, 2006.

Auditee Response/Status: Resolved

07-3. Accrued Interest on Long-Term Debt

Criteria: The government-wide statements use the economic resources measurement focus, which requires the reporting of all assets and liabilities, including long-term debt and the accrued interest payable on long-term debt.

Condition: As of June 30, 2006, the School System had several bond issuances outstanding for which accrued interest should have been calculated and recorded as a liability in the government-wide financial statements. No such liability was recorded.

Auditee Response/Status: Resolved

HENRY COUNTY BOARD OF EDUCATION

SCHEDULE OF PRIOR YEAR FINDINGS FOR THE FISCAL YEAR ENDED JUNE 30, 2008

07-4. Incurred But Not Reported Liability (IBNR) – Workers' Compensation

Criteria: The government-wide statements use the economic resources measurement focus, which requires the reporting of all assets and liabilities, including liabilities associated with the School System's self-insurance activities.

Condition: The School System is self-insured for workers' compensation, and activities associated with workers' compensation insurance are accounted for in the general fund. As such, any liability associated with workers' compensation claims, including the estimated IBNR, should be recorded in the government-wide financial statements. As of June 30, 2006, no such liability was recorded.

Auditee Response/Status: Resolved

07-5. Accounts Receivable and Interfund Transactions

Criteria: Generally accepted accounting principles require revenue to be recognized in the accounting period in which it becomes both measurable and available to finance expenditures of the current period.

Condition: The School System did not properly record all accounts receivable and interfund receivables in the School Nutrition Fund as of June 30, 2007. Additionally, amounts owed to the General Fund from the Special Revenue Fund related to Afterschool Program salaries for the month of June were not recorded in either fund as of June 30, 2007.

Auditee Response/Status: Partially resolved. See current year finding 08-1.

07-6. Taxes Receivable

Criteria: Generally accepted accounting principles require revenue to be recognized in the accounting period in which it becomes both measurable and available to finance expenditures of the current period.

Condition: The School System did not properly record property taxes receivable as of June 30, 2007 in the General Fund or Debt Service Fund.

Auditee Response/Status: Resolved

HENRY COUNTY BOARD OF EDUCATION

SCHEDULE OF PRIOR YEAR FINDINGS FOR THE FISCAL YEAR ENDED JUNE 30, 2008

07-7. Interfund Transfers

Criteria: Transfers are used to move revenues from various funds to other funds to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or as matching funds for grant programs.

Condition: For the year ended June 30, 2007, the School System recorded a transfer made from the Debt Service Fund to the Capital Projects Fund. This transfer did not actually occur until after June 30, 2007.

Auditee Response/Status: Resolved

07-8. Accounts Payable

Criteria: Generally accepted accounting principles require reporting of all current liabilities whose liquidation is expected to require the use of current assets when the goods have been received or services have been performed.

Condition: During our audit of accounts payable, we noted two (2) disbursements made subsequent to year end which should have been recorded as accounts payable at June 30, 2007.

Auditee Response/Status: Resolved

07-9. Undercollateralization of School System Deposits

Non-material noncompliance

Criteria: The Official Code of Georgia (OCGA) Section 45-8-12 (c) requires all depositories of public funds to pledge securities of not less than 110% of the deposited public funds.

Condition: For the year ended June 30, 2007, the School System's deposits held at one financial institution were undercollateralized.

Auditee Response/Status: Unresolved. See current year finding 08-4.

HENRY COUNTY BOARD OF EDUCATION

SCHEDULE OF PRIOR YEAR FINDINGS FOR THE FISCAL YEAR ENDED JUNE 30, 2008

07-10. Proper approval of disbursements - School Nutrition Program

Criteria: Sound internal controls require policies and procedures should be in place to monitor expenditures under federal programs to ensure grant funds are only spent on allowable expenditures.

Condition: Twenty-two (22) of the forty-six (46) disbursements tested from the School Nutrition Program did not have documentation of proper approval indicated on the invoice prior to disbursement of funds.

Auditee Response/Status: Resolved

07-11. Error in student benefit determination – Child Nutrition Cluster

Criteria: In accordance with the National School Lunch Program (CFDA 10.555), a child's eligibility for free or reduced meals under a Child Nutrition Cluster program may be established by submission of an annual application or statement which furnishes such information as family income and family size. School food authorities, institutions, and sponsors determine eligibility by comparing the data reported by the child's household to published income eligibility guidelines.

Condition: For the year ended June 30, 2007, we noted an instance in which the School System was unable to provide documentation to support the status of two students under the Program.

Auditee Response/Status: Resolved

07-12. Receipt of Reimbursement of Grant Funds in Excess of Grant Expenditures

Criteria: Federal guidelines state that expenditures of reimbursement-based grants are to be incurred prior to the request and receipt of grant funds.

Condition: The School System incorrectly requested and received grant funds under the Improvement of Education Program (CFDA 84.215) in excess of expenditures.

Questioned Costs: \$20,129

Auditee Response/Status: Resolved

HENRY COUNTY BOARD OF EDUCATION

SCHEDULE OF PRIOR YEAR FINDINGS FOR THE FISCAL YEAR ENDED JUNE 30, 2008

07-13. Payment of Title I Grant Funds to an Ineligible Employee

Criteria: Federal guidelines state that only teachers who are highly qualified as defined in 34 CFR section 200.56 can be paid with Title I funds.

Condition: The School System continued to pay an employee using Title I grant funds although the individual had been identified as not being highly qualified.

Auditee Response/Status: Resolved

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