

**HENRY COUNTY BOARD
OF EDUCATION**

ANNUAL FINANCIAL REPORT

**FOR THE
FISCAL YEAR ENDED JUNE 30, 2007**

**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, 2007**

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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, 2007, 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, 2007, 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 January 30, 2008 on our consideration of the Henry County Board of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis (on pages 3 through 11) is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Mauldin & Jenkins, LLC

Macon, Georgia
January 30, 2008

HENRY COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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, 2007. 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 sixth year the School District has prepared its annual financial report using the new 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 2007 are as follows:

On the School District-wide financial statements:

- Total assets of the School District exceeded liabilities by over \$341.2 million. This represented an increase of \$41.4 million in net assets when compared to the prior year as restated.
- The School District had \$341.6 million in expenses relating to governmental activities; only \$195.7 million of these expenses were offset by program specific charges for services, grants and contributions. However, general revenues (primarily property and sales taxes) of \$187.3 million were adequate to provide for these programs.
- As stated above, general revenues accounted for \$187.3 million or about 48% of all revenues totaling approximately \$383 million. Program specific revenues in the form of charges for services, grants, and contributions accounted for the balance of these revenues.

On the fund financial statements:

- Among major funds, the General Fund had \$280.4 million in revenues and \$277.7 million in expenditures. The general fund balance of \$16.1 million at June 30, 2007 decreased about \$2.3 million when compared to the prior year.

HENRY COUNTY SCHOOL DISTRICT
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- Another major fund, the Capital Projects Fund, had \$194.7 million in reserved fund balance at June 30, 2007. This balance resulted primarily from the issuance of general obligation bonds for new construction during fiscal year 2007, the bulk of which remained unexpended at fiscal year end.

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 Fund's 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 Funds, and Debt Service Funds are all considered to be major funds. The District's Special Revenue Funds are considered nonmajor 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.

HENRY COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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 Assets' and the 'Statement of Activities' provides the basis for answering this question. These financial statements include all of the School District's assets and liabilities and use the **accrual basis of accounting** similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the 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 results 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's Special Revenue Fund is considered a nonmajor fund 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.

HENRY COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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 \$341.2 million at June 30, 2007.

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 \$341.2 million of net assets, almost \$30 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 of \$304.9 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 - Henry County School District's Net Assets – Governmental Activities

	<u>2007</u>	<u>2006</u>
Current and other assets	\$ 303,599,147	\$ 145,745,393
Capital assets	490,673,755	430,132,518
Total assets	<u>794,272,902</u>	<u>575,877,911</u>
Long-term liabilities outstanding	392,307,549	234,406,970
Other liabilities	60,719,800	41,634,428
Total liabilities	<u>453,027,349</u>	<u>276,041,398</u>
Net assets:		
Invested in capital assets, net of related debt	304,936,874	254,232,144
Restricted	29,984,747	49,923,400
Unrestricted	6,323,932	(4,319,031)
Total net assets	<u>\$ 341,245,553</u>	<u>\$ 299,836,513</u>

The comparison (Table 1) reflects that total net assets increased about \$41.4 million.

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

HENRY COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
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Table 2 - Henry County School District's Changes in Net Assets

	<u>2007</u>	<u>2006</u>
Revenues		
Program revenues:		
Charges for services	\$ 9,408,381	\$ 8,991,479
Operating grants and contributions	172,966,836	147,933,309
Capital grants and contributions	13,286,112	10,003,653
General revenues:		
Property taxes		
For maintenance and operations	132,962,715	99,233,846
For debt service	-	16,009,590
Other taxes	36,317,456	34,171,778
Grant and contributions not restricted to specific programs	3,625,688	1,163,020
Local school activity	8,487,454	14,472,380
Investment income	5,913,283	6,247,578
Total revenues	<u>382,967,925</u>	<u>338,226,633</u>
Expenses		
Instruction	234,004,609	194,645,256
Support services		
Pupil services	8,084,271	6,843,509
Improvement of instructional services	5,754,211	5,804,625
Educational media services	5,411,569	4,661,227
General administration	1,982,907	1,669,146
School administration	17,863,682	15,062,922
Business services	1,093,479	(527,958)
Maintenance and operations	24,481,846	21,111,908
Student transportation	12,955,227	13,972,499
Support services	4,224,109	3,855,409
Operations of noninstructional services		
School nutrition	12,877,206	11,121,913
Community services	3,627,285	3,241,557
Enterprise operations	-	1,071,896
Interest on long-term debt	9,198,484	12,677,075
Total expenses	<u>341,558,885</u>	<u>295,210,984</u>
Increase in net assets	41,409,040	43,015,649
Net assets, beginning of year	299,836,513	256,820,864
Net assets, end of year	<u>\$ 341,245,553</u>	<u>\$ 299,836,513</u>

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

HENRY COUNTY SCHOOL DISTRICT
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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 - Henry County School District's Cost of Services

	Total Cost of Services		Net Cost of Services	
	Fiscal Year 2007	Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2006
Instruction	\$234,004,609	\$194,645,256	\$ 75,388,174	\$ 67,891,645
Support services				
Pupil services	8,084,271	6,843,509	5,810,401	5,490,962
Improvement of instructional services	5,754,211	5,804,625	4,287,619	3,387,866
Educational media services	5,411,569	4,661,227	4,844,360	1,187,641
General administration	1,982,907	1,669,146	1,083,914	(1,485,290)
School administration	17,863,682	15,062,922	17,216,717	8,308,194
Business services	1,093,479	(527,958)	1,076,693	(542,671)
Maintenance and operations	24,481,846	21,111,908	13,030,157	11,885,949
Student transportation	12,955,227	13,972,499	9,662,106	11,977,270
Support services	4,224,109	3,855,409	4,201,530	3,749,236
Operations of noninstructional services				
School nutrition	12,877,206	11,121,913	286,561	(473,214)
Community services	3,627,285	3,241,557	(52,748)	3,236,984
Enterprise operations	-	1,071,896	(136,412)	1,071,896
Interest on long-term debt	9,198,484	12,677,075	9,198,484	12,677,075
Total expenses	<u>\$341,558,885</u>	<u>\$295,210,984</u>	<u>\$ 145,897,556</u>	<u>\$128,363,543</u>

The table above shows that the School District did a good job in mitigating the effects of continued reductions in funding by the State of Georgia. Even though the School District's total expenditures increased about \$46.3 million from the prior year, the net costs of services to the School District's taxpayers increased by \$17.5 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 \$381.5 million and total expenditures of \$438.2 million in fiscal year 2007. Included in the expenditures of \$438.3 million were \$81.5 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. However, the budget is prepared on a non-GAAP basis. The most significant budgeted fund is the General Fund. During the course of fiscal year 2007, no amendments were made to the original budget.

HENRY COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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, the final actual revenues of \$273.3 million exceeded the final budgeted amount of \$268.8 million by about \$4.4 million. This difference (final actual vs. final budget) was primarily due to approximately \$3 million local funds received over budget as a result of the system's growth.

The final actual expenditures of \$268.1 million were less than the final budgeted amount of \$270.3 million by \$2.1 million. This difference (final actual vs. final budget) was due primarily to budgeted expenditures for instruction and maintenance and operation exceeding the final actual expenditures. 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, 2007, the School District had approximately \$490 million invested in capital assets, all in governmental activities. Table 4 reflects a summary of these balances net of accumulated depreciation as compared to the prior fiscal year.

Table 4 - Henry County School District's Capital Assets (Net of Depreciation)

	<u>Fiscal Year 2007</u>	<u>Fiscal Year 2006</u>
Land	\$ 29,085,458	\$ 23,163,904
Construction in progress	107,571,620	131,657,947
Land improvements	14,766,539	10,573,885
Buildings and improvements	326,371,967	252,314,843
Equipment	12,878,171	12,421,939
Total	<u>\$ 490,673,755</u>	<u>\$ 430,132,518</u>

Long Term Liabilities

At fiscal year ended June 30, 2007, the School District had \$394.7 million in long term liabilities outstanding. Table 5 summarizes the School District's liabilities as compared to the prior fiscal year.

HENRY COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
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Table 5 - Henry County School District's Long-term Liabilities

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Due Within One Year
Governmental activities:					
Bonds payable	\$ 228,000,000	\$ 186,560,000	\$ (32,690,000)	\$ 381,870,000	\$ 35,010,000
Plus unamortized bond premium	4,577,373	7,559,368	(1,739,375)	10,397,366	(2,368,527)
Bonds payable, net	232,577,373	194,119,368	(34,429,375)	392,267,366	32,641,473
Claims payable	1,401,425	803,364	(976,069)	1,228,720	985,830
Capital leases	817,156	-	(776,973)	40,183	40,183
Compensated absences	1,012,441	1,013,838	(872,015)	1,154,264	898,175
Governmental activities Long-term liabilities	<u>\$ 235,808,395</u>	<u>\$ 195,936,570</u>	<u>\$ (37,054,432)</u>	<u>\$ 394,690,533</u>	<u>\$ 34,565,661</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:

- Although state revenue collections increased in fiscal year 2007, educational funding from the State of Georgia is expected to remain at a conservatively low level due to ongoing concerns about smaller projected state tax revenues and increased Medicaid and Health care costs at the state level. The School District will continue to face challenges from the implementation of the A+ Education Reform Act, which mandates lower teacher to student ratios. The School District will also be impacted by the remedial actions required for under performing schools under the No Child Left Behind Act. In the midst of these challenges, the School District remains confident in the ability to maximize resources to provide the best possible educational experience for all of our students.

- State QBE Revenue Reductions – The School District's austerity reductions in state funding for education over the past five years have totaled \$22.3 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.

HENRY COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
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CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizen's 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 and Human Resources, Henry County Board of Education, 33 North Zack Hinton Parkway, McDonough Georgia 30253. You may also email your questions to Mr. Allie at jallie@henry.k12.ga.us.

BASIC FINANCIAL STATEMENTS

HENRY COUNTY BOARD OF EDUCATION

STATEMENT OF NET ASSETS JUNE 30, 2007

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 59,886,068
Investments	208,122,638
Intergovernmental receivables	34,210,836
Inventories	372,457
Deferred charges	1,007,148
Capital assets, nondepreciable	136,657,078
Capital assets, depreciable (net of accumulated depreciation)	354,016,677
Total assets	794,272,902
LIABILITIES	
Accounts payable	19,276,967
Accrued interest	4,451,397
Accrued payroll and payroll withholdings	34,606,061
Unearned revenue	2,391
Claims payable due within one year	985,830
Claims payable due in more than one year	242,890
Capital leases due within one year	40,183
Compensated absences due within one year	898,175
Compensated absences due in more than one year	256,089
General obligation bonds due within one year	35,010,000
General obligation bonds due in more than one year, net of unamortized premium	357,257,366
Total liabilities	453,027,349
NET ASSETS	
Invested in capital assets, net of related debt	304,936,874
Restricted for debt service	29,984,747
Unrestricted	6,323,932
Total net assets	\$ 341,245,553

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, 2007

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	\$ 234,004,609	\$ 266,708	\$ 145,063,615	\$ 13,286,112	\$ (75,388,174)
Pupil services	8,084,271	-	2,273,870	-	(5,810,401)
Improvement of					
instructional services	5,754,211	-	1,466,592	-	(4,287,619)
Educational media services	5,411,569	-	567,209	-	(4,844,360)
General administration	1,982,907	-	898,993	-	(1,083,914)
School administration	17,863,682	-	646,965	-	(17,216,717)
Business services	1,093,479	-	16,786	-	(1,076,693)
Maintenance and operations	24,481,846	-	11,451,689	-	(13,030,157)
Student transportation	12,955,227	-	3,293,121	-	(9,662,106)
Central support services	827,612	-	13,827	-	(813,785)
Other support services	3,396,497	-	8,752	-	(3,387,745)
School nutrition	12,877,206	5,330,228	7,260,417	-	(286,561)
Enterprise operations	-	136,412	-	-	136,412
Community services	3,627,285	3,675,033	5,000	-	52,748
Interest on long-term debt	9,198,484	-	-	-	(9,198,484)
Total governmental activities	341,558,885	9,408,381	172,966,836	13,286,112	(145,897,556)
General revenues:					
Property taxes					132,962,715
Sales taxes					30,443,008
Other taxes					5,874,448
Grants and contributions not restricted to specific programs					3,625,688
Local school activity					8,487,454
Unrestricted investment earnings					5,913,283
Total general revenues					187,306,596
Change in net assets					41,409,040
Net assets, beginning of year, as restated					299,836,513
Net assets, end of year					\$ 341,245,553

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

HENRY COUNTY BOARD OF EDUCATION

BALANCE SHEET GOVERNMENTAL FUNDS JUNE 30, 2007

ASSETS	General	Debt Service	Capital Projects	Nonmajor Special Revenue	Total Governmental Funds
Cash	\$ 32,424,546	\$ 2,611,389	\$ 20,753,142	\$ 4,096,991	\$ 59,886,068
Investments	88,600	22,216,514	185,817,524	-	208,122,638
Due from other governments	26,713,212	5,658,717	-	1,838,907	34,210,836
Due from other funds	856,702	-	-	821,980	1,678,682
Inventories	-	-	-	372,457	372,457
Total assets	<u>\$ 60,083,060</u>	<u>\$ 30,486,620</u>	<u>\$ 206,570,666</u>	<u>\$ 7,130,335</u>	<u>\$ 304,270,681</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 7,159,191	\$ -	\$ 11,908,928	\$ 208,848	\$ 19,276,967
Due to other funds	821,980	-	-	856,702	1,678,682
Accrued payroll and payroll withholdings	32,821,547	-	-	1,784,514	34,606,061
Deferred revenue	3,142,719	501,873	-	2,391	3,646,983
Total liabilities	<u>43,945,437</u>	<u>501,873</u>	<u>11,908,928</u>	<u>2,852,455</u>	<u>59,208,693</u>
FUND BALANCES					
Fund balances:					
Reserved for inventories	-	-	-	372,457	372,457
Reserved for debt service	-	29,984,747	-	-	29,984,747
Unreserved, reported in:					
General fund	16,137,623	-	-	-	16,137,623
Special revenue funds	-	-	-	3,905,423	3,905,423
Capital projects fund	-	-	194,661,738	-	194,661,738
Total fund balances	<u>16,137,623</u>	<u>29,984,747</u>	<u>194,661,738</u>	<u>4,277,880</u>	<u>245,061,988</u>
Total liabilities and fund balances	<u>\$ 60,083,060</u>	<u>\$ 30,486,620</u>	<u>\$ 206,570,666</u>	<u>\$ 7,130,335</u>	
<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. 490,673,755</p> <p>Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. 4,651,740</p> <p>Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. (399,141,930)</p> <p>Net assets of governmental activities \$ 341,245,553</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, 2007

	General	Debt Service	Capital Projects	Nonmajor Special Revenue	Total Governmental Funds
REVENUES					
Local sources	\$ 120,748,219	\$ 48,881,976	\$ 401,433	\$ 17,683,407	\$ 187,715,035
State sources	156,945,067	-	12,884,679	658,542	170,488,288
Federal sources	808,395	-	-	16,624,608	17,433,003
Interest income	1,865,612	1,855,290	2,170,608	21,773	5,913,283
Total revenues	<u>280,367,293</u>	<u>50,737,266</u>	<u>15,456,720</u>	<u>34,988,330</u>	<u>381,549,609</u>
EXPENDITURES					
Current:					
Instruction	197,563,551	-	-	16,682,863	214,246,414
Pupil services	6,974,595	-	-	1,103,314	8,077,909
Improvement of instructional services	4,103,080	-	-	1,631,834	5,734,914
Educational media services	5,411,569	-	-	-	5,411,569
General administration	1,858,671	-	-	97,248	1,955,919
School administration	17,463,362	-	-	-	17,463,362
Business services	1,092,297	-	-	-	1,092,297
Maintenance and operations	24,399,520	-	-	-	24,399,520
Student transportation	12,804,292	-	-	-	12,804,292
Central support services	820,747	-	-	-	820,747
Other support services	3,387,745	-	-	8,752	3,396,497
School nutrition	-	-	-	12,445,592	12,445,592
Community service	-	-	-	3,625,266	3,625,266
Capital outlay	1,265,993	-	80,192,229	-	81,458,222
Debt service:					
Principal retirement	383,379	32,690,000	393,594	-	33,466,973
Interest and fiscal charges	205,430	11,172,774	17,104	-	11,395,308
Bond issuance costs	-	-	458,933	-	458,933
Total expenditures	<u>277,734,231</u>	<u>43,862,774</u>	<u>81,061,860</u>	<u>35,594,869</u>	<u>438,253,734</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,633,062</u>	<u>6,874,492</u>	<u>(65,605,140)</u>	<u>(606,539)</u>	<u>(56,704,125)</u>
OTHER FINANCING SOURCES (USES)					
Bond proceeds	-	-	186,560,000	-	186,560,000
Premium on bonds issued	-	-	7,559,368	-	7,559,368
Transfers in	758,206	-	17,350,000	5,627,625	23,735,831
Transfers out	(5,727,625)	(17,250,000)	(15,000)	(743,206)	(23,735,831)
Total other financing sources (uses)	<u>(4,969,419)</u>	<u>(17,250,000)</u>	<u>211,454,368</u>	<u>4,884,419</u>	<u>194,119,368</u>
Net change in fund balances	(2,336,357)	(10,375,508)	145,849,228	4,277,880	137,415,243
FUND BALANCE, beginning of year	<u>18,473,980</u>	<u>40,360,255</u>	<u>48,812,510</u>	<u>-</u>	<u>107,646,745</u>
FUND BALANCE, end of year	<u>\$ 16,137,623</u>	<u>\$ 29,984,747</u>	<u>\$ 194,661,738</u>	<u>\$ 4,277,880</u>	<u>\$ 245,061,988</u>

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

HENRY COUNTY BOARD OF EDUCATION
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

Net change in fund balances - total governmental funds	\$ 137,415,243
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.	60,738,715
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets.	(197,478)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	1,418,316
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.	(160,358,364)
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.	<u>2,392,608</u>
Change in net assets - governmental activities	<u><u>\$ 41,409,040</u></u>

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, 2007

	Budget		Actual	Variance With Final Budget
	Original	Final		
REVENUES				
Local sources	\$ 117,932,970	\$ 117,932,970	\$ 120,748,219	\$ 2,815,249
State sources	149,853,343	149,853,343	149,857,775	4,432
Federal sources	450,000	450,000	808,395	358,395
Interest income	600,000	600,000	1,865,612	1,265,612
Total revenues	268,836,313	268,836,313	273,280,001	4,443,688
EXPENDITURES				
Current:				
Instruction	190,738,940	190,738,940	189,426,319	1,312,621
Pupil services	6,903,838	6,903,838	6,744,388	159,450
Improvement of instructional services	4,359,415	4,359,415	4,054,995	304,420
Educational media services	5,452,913	5,452,913	5,219,871	233,042
General administration	1,495,119	1,495,119	1,843,220	(348,101)
School administration	17,146,771	17,146,771	16,996,562	150,209
Business services	1,088,405	1,088,405	1,075,511	12,894
Maintenance and operations	25,655,252	25,655,252	24,182,731	1,472,521
Student transportation	11,437,179	11,437,179	12,514,492	(1,077,313)
Central support services	977,214	977,214	806,920	170,294
Other support services	2,161,807	2,161,807	3,387,745	(1,225,938)
Capital outlay	1,248,536	1,248,536	1,265,993	(17,457)
Debt service:				
Principal retirement	1,600,000	1,600,000	383,379	1,216,621
Interest and fiscal charges	-	-	205,430	(205,430)
Total expenditures	270,265,389	270,265,389	268,107,556	2,157,833
Excess (deficiency) of revenues over (under) expenditures	(1,429,076)	(1,429,076)	5,172,445	6,601,521
OTHER FINANCING USES				
Transfers in	-	-	758,206	758,206
Transfers out	-	-	(5,727,625)	(5,727,625)
Total other financing uses	-	-	(4,969,419)	(4,969,419)
Net change in fund balances	\$ (1,429,076)	\$ (1,429,076)	\$ 203,026	\$ 1,632,102

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, 2007

	<u>Agency Fund</u> <u>Student</u> <u>Activities</u>
ASSETS	
Cash	\$ 202,059
Total assets	<u>\$ 202,059</u>
LIABILITIES	
Due to others	\$ 202,059
Total liabilities	<u>\$ 202,059</u>

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

HENRY COUNTY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

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, 2007 was \$4,189,197.

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 \$453,102 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:

Asset	Capitalization Threshold	Years
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 \$399,141,930 difference are as follows:

General obligation bonds payable	\$ 381,870,000
Accrued interest on general obligation bonds payable	4,451,397
Unamortized premium on general obligation bonds payable	10,397,366
Capital leases payable	40,183
Workers' compensation claims payable	1,228,720
Compensated absences	<u>1,154,264</u>
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	<u><u>\$ 399,141,930</u></u>

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 \$60,738,715 difference are as follows:

Capital outlay	\$ 69,848,682
Depreciation expense	<u>(9,109,967)</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><u>\$ 60,738,715</u></u>

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 \$160,358,364 difference are as follows:

Debt issued or incurred:	
Proceeds from capital leases	\$ (186,560,000)
Premium on general obligation bonds issued	(7,559,368)
Issuance costs for general obligation bonds	1,097,395
Workers' compensation claims incurred	(803,364)
Principal repayments:	
General obligation bonds	32,690,000
Capital leases	776,973
	<hr/>
Net adjustment to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$ (160,358,364)
	<hr/> <hr/>

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 \$2,392,608 difference are as follows:

Compensated absences	\$ (141,823)
Accrued interest	(90,766)
Workers' compensation claims paid	976,069
Amortization of issuance costs	(90,247)
Amortization of premium on general obligation bonds	1,739,375
	<hr/>
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>	\$ 2,392,608
	<hr/> <hr/>

NOTES TO FINANCIAL STATEMENTS

NOTE 3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The School System adopts annual budgets for its general 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	\$ (2,336,357)
Adjustments for:	
State QBE revenue	(2,898,095)
Salaries and employee benefits	5,437,478
State paid employee benefit revenue	(4,189,197)
State paid employee benefit expenditures	4,189,197
	<hr/>
Budget basis net change in fund balance	<u>\$ 203,026</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 and 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 participant's 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, 2007, the School System's investment in Georgia Fund 1 was rated AAAM by Standard & Poor's.

At June 30, 2007, the School System had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
Georgia Fund 1	15 day weighted average	\$ 208,122,638

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, 2007, the School System's bank balance was uncollateralized by \$7,178,273. However, additional securities were pledged by one of the financial institutions within the 10 day grace period allowed by state law. This additional collateralization resulted in \$82,108 of School System deposits being undercollateralized at June 30, 2007.

NOTES TO FINANCIAL STATEMENTS

NOTE 5. RECEIVABLES

Receivables at June 30, 2007, 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	Nonmajor Governmental Funds	Total
Due from other governments	\$ 27,776,433	\$ 5,832,881	\$ 1,838,907	\$ 35,448,221
Less allowance for uncollectible	(1,063,221)	(174,164)	-	(1,237,385)
Net total receivable	<u>\$ 26,713,212</u>	<u>\$ 5,658,717</u>	<u>\$ 1,838,907</u>	<u>\$ 34,210,836</u>

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 August 11, 2006, billed September 15, 2006, and were due November 15, 2006. 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, 2007, 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, 2007, is as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 23,163,904	\$ 6,071,343	\$ (149,789)	\$ -	\$ 29,085,458
Construction in progress	131,657,947	61,605,851	-	(85,692,178)	107,571,620
Total	<u>154,821,851</u>	<u>67,677,194</u>	<u>(149,789)</u>	<u>(85,692,178)</u>	<u>136,657,078</u>
Capital assets, being depreciated:					
Buildings and improvements	298,847,280	675,980	-	79,907,270	379,430,530
Land improvements	17,156,330	-	-	5,110,110	22,266,440
Machinery and equipment	21,319,821	1,495,508	(202,843)	674,798	23,287,284
Total	<u>337,323,431</u>	<u>2,171,488</u>	<u>(202,843)</u>	<u>85,692,178</u>	<u>424,984,254</u>
Less accumulated depreciation for:					
Buildings and improvements	(46,532,437)	(6,526,126)	-	-	(53,058,563)
Land improvements	(6,582,445)	(917,456)	-	-	(7,499,901)
Machinery and equipment	(8,897,882)	(1,666,385)	155,154	-	(10,409,113)
Total	<u>(62,012,764)</u>	<u>(9,109,967)</u>	<u>155,154</u>	<u>-</u>	<u>(70,967,577)</u>
Total capital assets, being depreciated, net	<u>275,310,667</u>	<u>(6,938,479)</u>	<u>(47,689)</u>	<u>85,692,178</u>	<u>354,016,677</u>
Governmental activities capital assets, net	<u>\$ 430,132,518</u>	<u>\$ 60,738,715</u>	<u>\$ (197,478)</u>	<u>\$ -</u>	<u>\$ 490,673,755</u>

The beginning balance of capital assets related to governmental activities has been increased by \$13,964,892 to correct balances of capital assets and construction in progress.

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

Governmental activities:	
Instruction	\$ 6,695,826
General administration	27,330
School administration	372,598
Maintenance and operations	61,948
Student transportation	1,521,364
School nutrition	<u>430,901</u>
Total depreciation expense - governmental activities	<u>\$ 9,109,967</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 8. SHORT-TERM DEBT

Tax Anticipation Note. On September 8, 2006 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 3.863%. The note was paid off on December 8, 2006.

The following is a summary of short-term debt transactions for the School System for the year ended June 30, 2007:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
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, 2007, consisted of the following:

<u>Series</u>	<u>Coupon Rate</u>	<u>Maturities</u>	<u>Balance</u>
1992A	5.60% - 6.45%	2008 to 2012	\$ 15,955,000
1992B - Refunding	3.75% - 6.30%	2008 to 2009	1,230,000
2000	5.00% - 5.75%	2008 to 2011	15,950,000
2001 - Refunding	3.70% - 5.125%	2008 to 2015	25,545,000
2003	5.00%	2008	25,585,000
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
			<u>\$ 381,870,000</u>

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
2008	\$ 35,010,000	\$ 16,757,657	\$ 51,767,657
2009	40,765,000	17,039,114	57,804,114
2010	43,370,000	14,975,479	58,345,479
2011	46,960,000	12,774,330	59,734,330
2012	46,600,000	10,504,496	57,104,496
2013-2017	80,485,000	29,153,900	109,638,900
2018-2022	51,370,000	15,988,500	67,358,500
2023-2025	37,310,000	3,186,500	40,496,500
Total	<u>\$ 381,870,000</u>	<u>\$ 120,379,976</u>	<u>\$ 502,249,976</u>

Capital Leases. The Board has entered into lease agreements for the purchase of equipment. These lease agreements qualify as capital leases for accounting purposes, and therefore, have been recorded at the present value of the future minimum lease payments as of the date of inception.

The following is an analysis of assets under capital leases as of June 30, 2007:

	<u>Governmental Activities</u>
Equipment	<u>\$ 1,008,103</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2007, are as follows:

	<u>Governmental Activities</u>
Year Ending June 30, 2008	\$ 42,464
Less: amount representing interest	(2,281)
Present value of minimum lease payments	<u>\$ 40,183</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 9. LONG-TERM DEBT (CONTINUED)

Changes in long-term debt related to governmental activities for the year ended June 30, 2007 are as follows:

Long-term liability activity for the year ended June 30, 2007 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable	\$ 228,000,000	\$ 186,560,000	\$ (32,690,000)	\$ 381,870,000	\$ 35,010,000
Plus unamortized bond premium	4,577,373	7,559,368	(1,739,375)	10,397,366	(2,368,527)
Bonds payable, net	232,577,373	194,119,368	(34,429,375)	392,267,366	32,641,473
Claims payable	1,401,425	803,364	(976,069)	1,228,720	985,830
Capital leases	817,156	-	(776,973)	40,183	40,183
Compensated absences	1,012,441	1,013,838	(872,015)	1,154,264	898,175
Governmental activities Long-term liabilities	<u>\$ 235,808,395</u>	<u>\$ 195,936,570</u>	<u>\$ (37,054,432)</u>	<u>\$ 394,690,533</u>	<u>\$ 34,565,661</u>

The beginning balance of long-term debt has been increased by \$2,218,581 to properly include liabilities for claims payable and capital leases.

There is \$29,984,747 of restricted net assets available in the Debt Service Fund to service the capital lease contractual obligations and 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, 2007, is as follows:

Due to/from other funds:

Due to	Due from		Total
	General	Nonmajor Governmental Fund	
General Fund		\$ 856,702	\$ 856,702
Nonmajor governmental fund	821,980	-	821,980
	<u>\$ 821,980</u>	<u>\$ 856,702</u>	<u>\$ 1,678,682</u>

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

Interfund transfers:

Transfers In	Transfers Out				Total
	General Fund	Debt Service Fund	Capital Projects Fund	Nonmajor Governmental Fund	
General Fund	\$ -	\$ -	\$ 15,000	\$ 743,206	\$ 758,206
Capital Projects Fund	100,000	17,250,000	-	-	17,350,000
Nonmajor Governmental Fund	5,627,625	-	-	-	5,627,625
	<u>\$ 5,727,625</u>	<u>\$ 17,250,000</u>	<u>\$ 15,000</u>	<u>\$ 743,206</u>	<u>\$ 23,735,831</u>

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, 2007, 2006, and 2005, were \$8,445,577, \$7,320,490, and \$6,480,191, respectively. The School System's contributions to TRS for the years ended June 30, 2007, 2006, and 2005, were \$15,485,692, \$13,548,078, and \$11,988,354, 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, 2007, totaled \$30,932.

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, 2007, for School System employees was \$30,263.

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, 2007 was 860.

NOTES TO FINANCIAL STATEMENTS

NOTE 12. RISK MANAGEMENT

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

Workers' Compensation

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

Unemployment Compensation

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

Changes in the balances of claims liabilities for the year ended June 30, 2007 for which the School System is self-insured are as follows:

<u>Workers' Compensation</u>	<u>June 30, 2007</u>
Unpaid claims, beginning of fiscal year	\$ 1,401,425
Incurred claims (including IBNRs)	803,364
Claim payments and changes in estimates	(976,069)
Unpaid claims, end of fiscal year	<u>\$ 1,228,720</u>
 <u>Unemployment Compensation</u>	 <u>June 30, 2007</u>
Unpaid claims, beginning of fiscal year	\$ -
Incurred claims (including IBNRs)	6,690
Claim payments and changes in estimates	(6,690)
Unpaid claims, end of fiscal year	<u>\$ -</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 13. COMMITMENTS AND CONTINGENCIES

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

The School System participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the School System has not complied with the rules and regulations governing grants, refunds of any money received may be required and the collectibility of any related receivable at June 30, 2007, 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 \$117,289,875. Construction contracts include new school construction and expansion and renovation of existing facilities.

NOTE 14. SUBSEQUENT EVENT

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 entire balance of the note was paid on December 17, 2007.

NOTE 15. PRIOR PERIOD ADJUSTMENTS

The School System has determined that a restatement of the assets of the governmental activities is required to reflect corrections to beginning balances of capital assets, claims payable, capital leases, and accrued interest. The School System omitted \$13,964,892 of capital assets net of accumulated depreciation, \$1,401,425 in claims payable (including IBNRs), \$817,156 in capital leases, and \$4,360,631 in accrued interest on long term debt in the June 30, 2006 financial statements in error, resulting in an overall understatement of net assets.

NOTES TO FINANCIAL STATEMENTS

NOTE 15. PRIOR PERIOD ADJUSTMENTS (CONTINUED)

Net assets June 30, 2006, as previously reported	\$ 292,450,833
Adjustment for capital assets, net of accumulated depreciation	13,964,892
Adjustment for claims payable, including IBNRs	(1,401,425)
Adjustment for capital leases	(817,156)
Adjustment for accrued interest on long term debt	(4,360,631)
Net assets June 30, 2006, as restated	<u>\$ 299,836,513</u>

To further explain the above restatements, the following thoughts are provided:

Adjustment for Capital Assets. The School System noted instances of errors related to capital assets of governmental activities. These errors caused a variety of asset understatements relative to the carrying value of capital assets. Such errors ranged from not recording fixed assets to improperly recording fixed assets to not properly transferring assets from construction in progress to the appropriate asset classes upon completion. The School System determined several adjustments to capital assets and accumulated depreciation were required to appropriately reflect capital assets of governmental activities as of June 30, 2006.

Adjustment for Claims Payable. The School System is self-insured for workers' compensation claims. As such, a liability should be recorded for the outstanding claims liability and the estimated incurred but not reported claims liability at the end of each fiscal year. A restatement relative to this liability was not recorded in the June 30, 2006 financial report; therefore the School System has elected to record a prior period adjustment to include the June 30, 2006 liability on the government-wide statement of net assets.

Adjustment for Capital Leases. In prior years, the School System entered into various lease agreements for the purchase of equipment and school buses. Because these leases qualify as capital leases, a liability should have been recorded on the government-wide statement of net assets for capital leases payable in the amount of \$817,156 as of June 30, 2006. The School System elected to record a restatement relative to the June 30, 2006 financial report to include this liability on the government-wide statement of net assets.

Adjustment for Accrued Interest on Long-Term Debt. Accrued interest on long-term debt is required to be reported as a liability in the government-wide statement of net assets. The School System has various bond issuances and capital leases for which accrued interest payable was not calculated and recorded as a liability in the June 30, 2006 financial report. The School System has elected to record a prior period adjustment to properly report accrued interest payable of \$4,360,631 as a liability in the government-wide statement of net assets as of June 30, 2006.

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, 2007

	Original Estimated Cost	Current Estimated Cost	Prior Years	Current Year	Total
Acquisition, construction, and equipping of schools	\$ 130,000,000	\$ 154,877,157	\$ 133,674,892	\$ 21,202,265	\$ 154,877,157
	<u>\$ 130,000,000</u>	<u>\$ 154,877,157</u>	<u>\$ 133,674,892</u>	<u>\$ 21,202,265</u>	<u>\$ 154,877,157</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, 2007

	<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>\$ 300,000,000</u>	<u>\$ -</u>	<u>\$ 9,019,018</u>	<u>\$ 9,019,018</u>
	<u><u>\$ 300,000,000</u></u>	<u><u>\$ 300,000,000</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 9,019,018</u></u>	<u><u>\$ 9,019,018</u></u>