# HENRY COUNTY BOARD OF EDUCATION

## ANNUAL FINANCIAL REPORT

**FOR THE**
**FISCAL YEAR ENDED JUNE 30, 2011**

**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, 2011

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# FINANCIAL SECTION

MAULDIN & JENKINS
CERTIFIED PUBLIC ACCOUNTANTS, LLC

# INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Henry County Board of Education** as of and for the year ended June 30, 2011, 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, 2011, 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.

As discussed in Note 1, the Henry County Board of Education implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, effective July 1, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2012 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (on pages 3 through 11) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Mauldin & Jenkins, LLC

Macon, Georgia
January 20, 2012

**HENRY COUNTY SCHOOL SYSTEM**
**MANAGEMENT'S DISCUSSION AND ANALYSIS**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

## INTRODUCTION

The discussion and analysis of the Henry County School System's (subsequently referred to as the System) financial performance provides an overview of the financial activities for the fiscal year ended June 30, 2011. The intent of this discussion and analysis is to look at the System's financial performance as a whole. Readers should also review the complete financial statements, with notes, to enhance their understanding of the System's financial performance.

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

1) System-wide financial statements including the Statement of Net Assets and the Statement of Activities, which provide both short term and long-term overviews of the System's finances.

2) Fund financial statements including the balance sheets that provide a greater level of detail and focus on how well the System has performed in the short term in the most significant or major funds.

3) Notes to the Financial Statements

## FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2011 are as follows:

- Total net assets of the governmental activities increased from $438.9 million in 2010 to $485 million in 2011, an increase of $46.2 million.

- Total revenues for governmental funds decreased from $413.3 million in 2010 to $408.0 million in 2011, a decrease of $5.3 million.

- Total expenditures of governmental funds decreased from $415.6 million in 2010 to $394.5 million in 2011, a decrease of $21.1 million.

- Total Outstanding Long Term Liabilities decreased $48.4 million from 2010 to 2011.

## OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements.

**Government-Wide Statements**

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

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

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

**Fund Financial Statements**

The System uses many funds or sub-funds to account for a multitude of financial transactions during the fiscal year. The fund financial statements presented in this report provide detail information about the System's significant or major funds, as well as the System's single nonmajor fund.

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

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

## FINANCIAL ANALYSIS OF THE SCHOOL SYSTEM AS A WHOLE

Recall that the Statement of Net Assets provides the perspective of the System as a whole. The reader can think of the System's net assets as the difference between its assets (i.e., what the System owns) and its liabilities (i.e., what the System owes) at the end of a fiscal year. This balance represents one way to measure the System's financial health or its financial position. In the case of the System, assets exceeded liabilities in excess of $485 million at June 30, 2011.

To better understand the System's actual financial position and ability to deliver services in future periods, the reader will need to review the various components of the net asset category. For example, of the $485.1 million of net assets, almost $22 million was restricted for debt service and over $5 million was restricted for program activities. Accordingly, these funds were not available to meet the System's ongoing obligations to citizens and creditors.

In addition, the System had in excess $408.7 million (net of related debt) invested in capital assets (e.g., land, buildings, and equipment). The System uses these capital assets to provide educational services to students within geographic boundaries served by the System. Because of the very nature and on-going use of the assets being reported in this component of net assets, it must be recognized that this portion of the net assets is *not* available for future spending.

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

**Table 1**
**Net Assets**

| | Governmental Activities | |
|---|---|---|
| | **Fiscal Year 2011** | **Fiscal Year 2010** |
| **Assets** | | |
| Current and Other Assets | $133,216,708 | $118,244,820 |
| Capital Assets, Net | 627,244,379 | 643,021,896 |
| **Total Assets** | $760,461,087 | $761,266,716 |
| **Liabilities** | | |
| Current and Other Liabilities | $53,812,009 | $52,389,857 |
| Long-Term Liabilities | 221,559,382 | 269,944,080 |
| **Total Liabilities** | $275,371,391 | $322,333,937 |
| **Net Assets** | | |
| Invested in Capital Assets, Net of Debt | $408,708,620 | $376,112,202 |
| Restricted | 26,850,305 | 26,752,705 |
| Unrestricted | 49,530,771 | 36,067,872 |
| **Total Net Assets** | $485,089,696 | $438,932,779 |

The comparison (Table 1) reflects that total net assets increased about $46.2 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 2011** | **Fiscal Year 2010** |
| **Revenues** | | |
| Program Revenues: | | |
| Charges for Services and Sales | $10,018,657 | $8,415,319 |
| Operating Grants and Contributions | 212,649,998 | 197,449,609 |
| Capital Grants and Contributions | 3,490 | 3,335,014 |
| Total Program Revenues | $222,672,145 | $209,199,942 |
| General Revenues: | | |
| Property Taxes | $133,712,949 | $150,737,887 |
| Sales Taxes | | |
| Special Purpose Local Option Sales Tax | | |
| For Debt Service | 27,476,441 | 27,876,325 |
| Other Taxes | 2,189,145 | 2,759,428 |
| Grants and Contributions not Restricted to Specific Programs | 12,092,484 | 9,139,133 |
| Investment Earnings | 158,898 | 262,694 |
| Local School Activity | 9,118,112 | 10,648,774 |
| Total General Revenues | $184,748,029 | $201,424,241 |
| Total Revenues | $407,420,174 | $410,624,183 |
| **Program Expenses** | | |
| Instruction | $241,004,234 | $252,976,164 |
| Support Services | | |
| Pupil Services | 8,708,220 | 9,332,850 |
| Improvement of Instructional Services | 7,864,201 | 7,757,775 |
| Educational Media Services | 5,097,968 | 6,493,872 |
| General Administration | 2,708,360 | 3,472,807 |
| School Administration | 20,847,425 | 21,300,804 |
| Business services | 1,212,900 | 1,220,847 |
| Maintenance and Operation of Plant | 27,526,684 | 29,153,411 |
| Student Transportation Services | 14,776,127 | 14,690,023 |
| Central Support Services | 951,499 | 1,243,494 |
| Other Support Services | 2,295,931 | 1,900,267 |
| Operations of Non-Instructional Services | | |
| Community Services | 2,097,984 | 2,177,863 |
| School Nutrition | 15,479,795 | 14,580,465 |
| Interest on Short-Term and Long-Term Debt | 10,690,929 | 12,683,429 |
| Total Expenses | $361,263,257 | $378,984,071 |
| Increase in Net Assets | $46,156,917 | $31,640,112 |

## Governmental Activities

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

**Table 3**
**Governmental Activities**

| | Total Cost of Services | | Net Cost of Services | |
|---|---|---|---|---|
| | Fiscal Year 2011 | Fiscal Year 2010 | Fiscal Year 2011 | Fiscal Year 2010 |
| Instruction | $241,004,234 | $252,976,164 | $65,691,794 | $89,841,973 |
| Support Services | | | | |
| Pupil Services | 8,708,220 | 9,332,850 | 6,418,962 | 6,732,264 |
| Improvement of Instructional Services | 7,864,201 | 7,757,775 | 4,255,380 | 4,362,889 |
| Educational Media Services | 5,097,968 | 6,493,872 | 717,432 | 2,179,552 |
| General Administration | 2,708,360 | 3,472,807 | -2,698,886 | -1,259,166 |
| School Administration | 20,847,425 | 21,300,804 | 11,557,589 | 12,063,810 |
| Business Administration | 1,212,900 | 1,220,847 | 1,209,324 | 1,217,866 |
| Maintenance and Operation of Plant | 27,526,684 | 29,153,411 | 27,472,282 | 29,108,849 |
| Student Transportation Services | 14,776,127 | 14,690,023 | 12,422,749 | 12,276,053 |
| Central Support Services | 951,499 | 1,243,494 | 947,923 | 1,240,543 |
| Other Support Services | 2,295,931 | 1,900,267 | 2,129,396 | 1,807,868 |
| Operations of Non-Instructional Services | | | | |
| Enterprise Operations | - | - | -513,690 | -404,460 |
| Community Services | 2,097,984 | 2,177,863 | -753,981 | -951,554 |
| School Nutrition | 15,479,795 | 14,580,465 | -956,091 | -1,115,787 |
| Interest on Short-Term and Long-Term Debt | 10,690,929 | 12,683,429 | 10,690,929 | 12,683,429 |
| Total Expenses | $361,263,257 | $378,984,071 | $138,591,112 | $169,784,129 |

The System's total expenditures decreased $17.7 million from the prior year, the net costs of services decreased $31.2 million from the prior year.

## FINANCIAL ANALYSIS OF THE SCHOOL SYSTEM'S FUNDS

Information about the System's governmental funds is presented starting on page 14 of this report. Governmental funds are accounted for using the modified accrual basis of accounting. The governmental funds had total revenues of $408.0 million and total expenditures of $394.5 million in fiscal year 2011. Included in the expenditures of $394.5 million were approximately $60 million of debt service expenditures.

## General Fund Budget Highlights

The System's budget is prepared according to Georgia Law. The most significant budgeted fund is the General Fund. During the course of fiscal year 2011, no amendments were made to the original budget.

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

For the General Fund, actual revenues of almost $309.9 million were 109% of the final budgeted amount of $284.3 million due to higher than expected tax collections, no mid-term state funding reductions, and the receipt of Federal stimulus funds. The final actual expenditures of $292.6 were 103% of the final budgeted amount of $284.3 million. The System continues to be fiscally conservative.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

## Capital Assets

At fiscal year ended June 30, 2011, the System had $627.2 million invested in capital assets, all in governmental activities. Table 4 reflects a summary of these balances net of accumulated depreciation as compared to the prior fiscal year.

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

| | Governmental Activities | |
|---|---|---|
| | **Fiscal Year 2011** | **Fiscal Year 2010** |
| Land | $30,563,155 | $30,563,155 |
| Construction in Progress | 2,170,236 | 2,170,236 |
| Buildings and Improvements | 569,699,443 | 582,657,304 |
| Land Improvements | 10,862,534 | 11,818,924 |
| Infrastructure | 3,141,120 | 3,228,574 |
| Equipment | 10,807,891 | 12,583,703 |
| Total | $627,244,379 | $643,021,896 |

## Long Term Liabilities

At fiscal year ended June 30, 2011, the System had $221.6 million in long term liabilities outstanding. Table 5 summarizes the System's liabilities as compared to the prior fiscal year.

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

| | Governmental Activities | |
|---|---|---|
| | **Fiscal Year 2011** | **Fiscal Year 2010** |
| Bonds Payable | $218,535,759 | $266,909,694 |
| Compensated Absences | 1,503,348 | 1,447,995 |
| Workers Compensation Claims Payable | 1,518,725 | 1,485,091 |
| Other Claims Payable | 1,550 | 101,300 |
| Total | $221,559,382 | $269,944,080 |

## CURRENT ISSUES

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

- Revenue Reductions – The System's austerity reductions in state funding for education over the past nine years have totaled $97.9 million. In addition, the System's local tax digest decreased 15.3% in FY11. Despite these conditions, the System added $8.4 million to its General Fund unassigned fund balance due to expenditure reduction measures and actual revenues exceeding budgeted amounts. The Henry County School System continues to maintain a strong financial position and we remain optimistic about the ability of the System to maximize all of the financial resources to provide a quality education to our students.

- Capital Improvements – The System plans capital improvements as future capital needs arise due to increased student population, facility repair, and maintenance needs. Specific capital expenditure plans are formalized in conjunction with individual general obligation bond issues, Special Purpose Local Option Sales Tax (SPLOST), and anticipated annual receipts of capital outlay funds from the State of Georgia Department of Education.

## CONTACTING THE SCHOOL SYSTEM'S FINANCIAL MANAGEMENT

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

# BASIC FINANCIAL STATEMENTS

# HENRY COUNTY BOARD OF EDUCATION

## STATEMENT OF NET ASSETS
## JUNE 30, 2011

| | Governmental Activities |
|---|---|
| **ASSETS** | |
| Cash and cash equivalents | $ 88,806,043 |
| Investments | 7,554,915 |
| Intergovernmental receivables | 35,911,721 |
| Inventories | 445,351 |
| Deferred charges | 498,678 |
| Capital assets, nondepreciable | 32,733,391 |
| Capital assets, depreciable (net of accumulated depreciation) | 594,510,988 |
| Total assets | 760,461,087 |
| **LIABILITIES** | |
| Accounts payable | 9,916,697 |
| Accrued interest | 3,787,742 |
| Accrued payroll and payroll withholdings | 39,663,481 |
| Unearned revenue | 444,089 |
| Insurance claims payable due within one year | 1,042,107 |
| Insurance claims payable due in more than one year | 476,618 |
| Other claims payable due within one year | 1,550 |
| Compensated absences due within one year | 1,012,670 |
| Compensated absences due in more than one year | 490,678 |
| General obligation bonds due within one year | 46,600,000 |
| General obligation bonds due in more than one year, net of unamortized premium | 171,935,759 |
| Total liabilities | 275,371,391 |
| **NET ASSETS** | |
| Invested in capital assets, net of related debt | 408,708,620 |
| Restricted for debt service | 21,728,783 |
| Restricted for program activities | 5,121,522 |
| Unrestricted | 49,530,771 |
| Total net assets | $ 485,089,696 |

**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, 2011

| Functions/Programs | Expenses | Program Revenues: Charges for Services | Program Revenues: Operating Grants and Contributions | Program Revenues: Capital Grants and Contributions | Net (Expenses) Revenues and Changes in Net Assets: Governmental Activities |
|---|---|---|---|---|---|
| Governmental activities: | | | | | |
| Instruction | $ 241,004,234 | $ 1,729,253 | $ 173,579,697 | $ 3,490 | $ (65,691,794) |
| Pupil services | 8,708,220 | - | 2,289,258 | - | (6,418,962) |
| Improvement of instructional services | 7,864,201 | - | 3,608,821 | - | (4,255,380) |
| Educational media services | 5,097,968 | - | 4,380,536 | - | (717,432) |
| General administration | 2,709,360 | - | 5,408,246 | - | 2,698,886 |
| School administration | 20,847,425 | - | 9,289,836 | - | (11,557,589) |
| Business services | 1,212,900 | - | 3,576 | - | (1,209,324) |
| Maintenance and operations | 27,526,684 | - | 54,402 | - | (27,472,282) |
| Student transportation | 14,776,127 | - | 2,353,378 | - | (12,422,749) |
| Central support services | 951,499 | - | 3,576 | - | (947,923) |
| Other support services | 2,295,931 | - | 166,535 | - | (2,129,396) |
| School nutrition | 15,479,795 | 4,481,348 | 11,512,137 | - | 513,690 |
| Enterprise operations | - | 753,981 | - | - | 753,981 |
| Community services | 2,097,984 | 3,054,075 | - | - | 956,091 |
| Interest on long-term debt | 10,690,929 | - | - | - | (10,690,929) |
| Total governmental activities | 361,263,257 | 10,018,657 | 212,649,998 | 3,490 | (138,591,112) |
| General revenues: | | | | | |
| Property taxes | | | | | 133,712,949 |
| Sales taxes | | | | | 27,476,441 |
| Other taxes | | | | | 2,189,145 |
| Grants and contributions not restricted to specific programs | | | | | 12,092,484 |
| Local school activity | | | | | 9,118,112 |
| Unrestricted investment earnings | | | | | 158,898 |
| Total general revenues | | | | | 184,748,029 |
| Change in net assets | | | | | 46,156,917 |
| Net assets, beginning of year | | | | | 438,932,779 |
| Net assets, end of year | | | | | $ 485,089,696 |

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

# HENRY COUNTY BOARD OF EDUCATION

## BALANCE SHEET
## GOVERNMENTAL FUNDS
## JUNE 30, 2011

| ASSETS | General | Debt Service | Special Revenue | Nonmajor Capital Projects | Total Governmental Funds |
|---|---|---|---|---|---|
| Cash | $ 65,903,255 | $ 11,539,504 | $ 11,363,284 | $ - | $ 88,806,043 |
| Investments | 93,860 | 7,461,055 | - | - | 7,554,915 |
| Due from other governments | 31,132,107 | 3,527,201 | 1,252,413 | - | 35,911,721 |
| Due from other funds | 1,255,164 | - | - | - | 1,255,164 |
| Inventories | - | - | 445,351 | - | 445,351 |
| Total assets | $ 98,384,386 | $ 22,527,760 | $ 13,061,048 | $ - | $ 133,973,194 |
| **LIABILITIES AND FUND BALANCES** | | | | | |
| **LIABILITIES** | | | | | |
| Accounts payable | $ 9,410,024 | $ 1,000 | $ 505,673 | $ - | $ 9,916,697 |
| Due to other funds | - | - | 1,255,164 | - | 1,255,164 |
| Accrued payroll and payroll withholdings | 36,642,366 | - | 3,021,115 | - | 39,663,481 |
| Deferred revenue | 4,594,454 | 797,977 | 444,089 | - | 5,836,520 |
| Total liabilities | 50,646,844 | 798,977 | 5,226,041 | - | 56,671,862 |
| **FUND BALANCES** | | | | | |
| Fund balances: | | | | | |
| Nonspendable for inventories | - | - | 445,351 | - | 445,351 |
| Restricted for: | - | - | - | - | |
| Program activities | - | - | 4,676,171 | - | 4,676,171 |
| Debt service | - | 21,728,783 | - | - | 21,728,783 |
| Committed to school activity funds | - | - | 2,505,227 | - | 2,505,227 |
| Assigned: | | | | | |
| For subsequent year's budget | 9,454,310 | - | - | - | 9,454,310 |
| Afterschool program | - | - | 208,258 | - | 208,258 |
| Unassigned | 38,283,232 | - | - | - | 38,283,232 |
| Total fund balances | 47,737,542 | 21,728,783 | 7,835,007 | - | 77,301,332 |
| Total liabilities and fund balances | $ 98,384,386 | $ 22,527,760 | $ 13,061,048 | $ - | |

| | |
|---|---|
| Amounts reported for governmental activities in the statement of net assets are different because: | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | 627,244,379 |
| Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. | 5,392,431 |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. | (224,848,446) |
| Net assets of governmental activities | $ 485,089,696 |

**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, 2011

| | General | Debt Service | Special Revenue | Nonmajor Capital Projects | Total Governmental Funds |
|---|---|---|---|---|---|
| **REVENUES** | | | | | |
| Local sources | $ 117,162,953 | $ 48,589,198 | $ 16,732,942 | $ 3,490 | $ 182,488,583 |
| State sources | 185,052,163 | - | 505,302 | - | 185,557,465 |
| Federal sources | 10,318,863 | - | 29,439,249 | - | 39,758,112 |
| Interest income | 107,388 | 43,487 | 7,961 | 62 | 158,898 |
| Total revenues | 312,641,367 | 48,632,685 | 46,685,454 | 3,552 | 407,963,058 |
| **EXPENDITURES** | | | | | |
| Current: | | | | | |
| Instruction | 204,311,337 | - | 22,680,019 | - | 226,991,356 |
| Pupil services | 6,801,601 | - | 1,902,912 | - | 8,704,513 |
| Improvement of instructional services | 4,120,747 | - | 3,726,743 | - | 7,847,490 |
| Educational media services | 5,093,225 | - | - | - | 5,093,225 |
| General administration | 1,724,333 | - | 984,868 | - | 2,709,201 |
| School administration | 20,571,267 | - | 115 | - | 20,571,382 |
| Business services | 1,206,914 | 7,895 | - | - | 1,214,809 |
| Maintenance and operations | 27,323,471 | - | 4,599 | - | 27,328,070 |
| Student transportation | 13,228,723 | - | 467,784 | - | 13,696,507 |
| Central support services | 952,089 | - | - | - | 952,089 |
| Other support services | 2,129,405 | - | 166,526 | - | 2,295,931 |
| School nutrition | - | - | 15,305,248 | - | 15,305,248 |
| Community service | - | - | 2,095,753 | - | 2,095,753 |
| Debt service: | | | | | |
| Principal retirement | - | 46,960,000 | - | - | 46,960,000 |
| Interest and fiscal charges | - | 12,692,264 | - | - | 12,692,264 |
| Total expenditures | 287,463,112 | 59,660,159 | 47,334,567 | - | 394,457,838 |
| Excess (deficiency) of revenues over (under) expenditures | 25,178,255 | (11,027,474) | (649,113) | 3,552 | 13,505,220 |
| **OTHER FINANCING SOURCES (USES)** | | | | | |
| Transfers in | 791 | 6,003,552 | 1,387,304 | - | 7,391,647 |
| Transfers out | (7,387,304) | - | (791) | (3,552) | (7,391,647) |
| Total other financing sources (uses) | (7,386,513) | 6,003,552 | 1,386,513 | (3,552) | - |
| Net change in fund balances | 17,791,742 | (5,023,922) | 737,400 | - | 13,505,220 |
| **FUND BALANCE, beginning of year** | 29,945,800 | 26,752,705 | 7,097,607 | - | 63,796,112 |
| **FUND BALANCE, end of year** | $ 47,737,542 | $ 21,728,783 | $ 7,835,007 | $ - | $ 77,301,332 |

**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, 2011

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

| | | |
|---|---|---|
| Net change in fund balances - total governmental funds. | $ | 13,505,220 |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period. | | (15,777,517) |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | | (542,884) |
| 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. | | 46,960,000 |
| Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. | | 2,012,098 |
| Change in net assets - governmental activities. | $ | 46,156,917 |

**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, 2011

| | Budget | | | Variance With |
|---|---|---|---|---|
| | Original | Final | Actual | Final Budget |
| **REVENUES** | | | | |
| Local sources | $ 111,089,400 | $ 111,089,400 | $ 117,162,953 | $ 6,073,553 |
| State sources | 170,285,207 | 170,285,207 | 182,275,072 | 11,989,865 |
| Federal sources | 2,792,488 | 2,792,488 | 10,318,863 | 7,526,375 |
| Interest income | 155,000 | 155,000 | 107,388 | (47,612) |
| Total revenues | 284,322,095 | 284,322,095 | 309,864,276 | 25,542,181 |
| **EXPENDITURES** | | | | |
| Current: | | | | |
| Instruction | 203,904,698 | 203,904,698 | 208,530,917 | (4,626,219) |
| Pupil services | 4,820,036 | 4,820,036 | 6,946,295 | (2,126,259) |
| Improvement of instructional services | 3,737,586 | 3,737,586 | 4,109,688 | (372,102) |
| Educational media services | 5,135,588 | 5,135,588 | 5,198,090 | (62,502) |
| General administration | 1,705,367 | 1,705,367 | 1,721,154 | (15,787) |
| School administration | 19,996,707 | 19,996,707 | 20,996,574 | (999,867) |
| Business services | 1,256,656 | 1,256,656 | 1,203,338 | 53,318 |
| Maintenance and operations | 27,766,572 | 27,766,572 | 27,273,668 | 492,904 |
| Student transportation | 12,710,522 | 12,710,522 | 13,512,424 | (801,902) |
| Central support services | 1,145,793 | 1,145,793 | 948,513 | 197,280 |
| Other support services | 2,142,570 | 2,142,570 | 2,129,396 | 13,174 |
| Total expenditures | 284,322,095 | 284,322,095 | 292,570,057 | (8,247,962) |
| Excess of revenues over expenditures | - | - | 17,294,219 | 17,294,219 |
| **OTHER FINANCING SOURCES (USES)** | | | | |
| Transfers in | - | - | 791 | 791 |
| Transfers out | - | - | (7,387,304) | (7,387,304) |
| Total other financing sources (uses) | - | - | (7,386,513) | (7,386,513) |
| Net change in fund balances | $ - | $ - | $ 9,907,706 | $ 9,907,706 |

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

# HENRY COUNTY BOARD OF EDUCATION

## SPECIAL REVENUE FUND
## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET (NON-GAAP) AND ACTUAL
## FOR THE FISCAL YEAR ENDED JUNE 30, 2011

| | Budget | | | Variance With |
|---|---|---|---|---|
| | Original | Final | Actual | Final Budget |
| **REVENUES** | | | | |
| Local sources | $ 19,983,358 | $ 19,983,358 | $ 16,732,942 | $ (3,250,416) |
| State sources | 623,000 | 623,000 | 505,302 | (117,698) |
| Federal sources | 27,672,787 | 27,672,787 | 29,439,249 | 1,766,462 |
| Interest income | - | - | 7,961 | 7,961 |
| Total revenues | 48,279,145 | 48,279,145 | 46,685,454 | (1,593,691) |
| **EXPENDITURES** | | | | |
| Current: | | | | |
| Instruction | 21,939,957 | 21,939,957 | 22,444,055 | (504,098) |
| Pupil services | 6,872,833 | 6,872,833 | 1,883,114 | 4,989,719 |
| Improvement of instructional services | 803,673 | 803,673 | 3,687,970 | (2,884,297) |
| General administration | 148,130 | 148,130 | 984,868 | (836,738) |
| School administration | - | - | 115 | (115) |
| Maintenance and operations | - | - | 4,599 | (4,599) |
| Student transportation | 4,509 | 4,509 | 467,784 | (463,275) |
| Other support services | 2,991 | 2,991 | 166,526 | (163,535) |
| School nutrition | 13,716,284 | 13,716,284 | 15,146,011 | (1,429,727) |
| Community service | 3,789,667 | 3,789,667 | 2,095,753 | 1,693,914 |
| Total expenditures | 47,278,044 | 47,278,044 | 46,880,795 | 397,249 |
| Excess of revenues over expenditures | 1,001,101 | 1,001,101 | (195,341) | (1,196,442) |
| **OTHER FINANCING SOURCES (USES)** | | | | |
| Transfers in | - | - | 1,387,304 | 1,387,304 |
| Transfers out | - | - | (791) | (791) |
| Total other financing sources (uses) | - | - | 1,386,513 | 1,386,513 |
| Net change in fund balances | $ 1,001,101 | $ 1,001,101 | $ 1,191,172 | $ 190,071 |

**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, 2011

| | Agency Fund Student Activities |
|---|---|
| **ASSETS** | |
| Cash | $ 250,860 |
| Total assets | $ 250,860 |
| **LIABILITIES** | |
| Due to others | $ 250,860 |
| Total liabilities | $ 250,860 |

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

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. Reporting Entity

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

### B. Government-Wide and Fund Financial Statements

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

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

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

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Agency funds have no measurement focus; however, they use the accrual basis of accounting to recognize receivables and payables. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

The School System reports the following major governmental funds:

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

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

Additionally, the School System reports the following fund types:

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

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

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

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

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

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### D. Cash and Investments

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

### E. Receivables and Payables

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

### F. On-Behalf Payments

The State of Georgia makes certain health insurance and pension plan payments on behalf of the School System for its employees. The School System records these payments as both a revenue and expenditure in the General Fund. The total of the on-behalf payments for the fiscal year ended June 30, 2011 was $857,771.

### 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 $931,989 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.

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### I. Capital Assets

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

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

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

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

### J. Long-Term Obligations

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

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

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### K. Compensated Absences

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

### L. Fund Equity

Fund equity at the governmental fund financial reporting level is classified as "fund balance." Fund equity for all other reporting is classified as "net assets."

Generally, fund balance represents the difference between current assets and current liabilities. In the fund financial statements, governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the Board of Education is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balances are classified as follows:

Nonspendable: Fund balances that are not in spendable form (e.g., inventory) or are legally or contractually required to be maintained intact (e.g., permanent fund principal).

Restricted: Fund balances that can be spent only for the specific purposes stipulated by external parties either constitutionally or through enabling legislation (e.g., grants or donations).

Committed: Fund balances that can be used only for the specific purposes determined by an approved resolution of the Henry County Board of Education. Commitments may be changed or lifted only by referring to formal action that imposed the original constraint on the fund (e.g., the School System's commitment in connection with future construction projects).

Assigned: Fund balances intended to be used by the School System for specific purposes. Intent can be expressed by the Henry County Board of Education or by a designee to whom the Henry County Board of Education delegates authority. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at minimum, intended to be used for the purpose of that fund.

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### L. Fund Equity – (Continued)

Unassigned: Fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criteria. The School System reports positive unassigned fund balance only in the General Fund. Negative unassigned fund balances may be reported in all funds.

The responsibility for designating funds to specific classifications shall be as follows:

Committed: Then Henry County Board of Education is the School System's highest level of decision-making authority, and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution approved by the Board.

Assigned: The Henry County Board of Education has authorized the Superintendent and the Assistant Superintendent for Financial Services as officials authorized to assign fund balance to a specific purpose as approved by this fund balance policy.

It is the goal of the School System to achieve and maintain an unassigned fund balance in the general fund at fiscal year-end of not less than 5% of budgeted expenditures, not to exceed 15% of the total budget of the subsequent fiscal year, net of any committed balance for capital expenditures, in compliance with O.C.G.A 20-2-167(a)5. If the unassigned fund balance at fiscal year-end falls below the goal, the School System shall develop a restoration plan to achieve and maintain the minimum fund balance.

When multiple categories of fund balance are available for expenditures (e.g., a project is being funded partly by a grant, funds set aside by the Henry County Board of Education, and unassigned fund balance), the School System will start with the most restricted category and spend those funds first before moving down to the next category with available funds.

### 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.

## 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 $224,848,446 difference are as follows:

| | | |
|---|---|---|
| General obligation bonds payable | $ | 215,765,000 |
| Accrued interest on general obligation bonds payable | | 3,787,742 |
| Unamortized premium on general obligation bonds payable | | 2,770,759 |
| Unamortized issuance costs on general obligation bonds payable | | (498,678) |
| Workers' compensation claims payable | | 1,518,725 |
| Other claims payable | | 1,550 |
| Compensated absences | | 1,503,348 |
| Net adjustment to reduce *fund balance - total governmental funds* to arrive at *net assets - governmental activities* | $ | 224,848,446 |

### 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 $15,777,517 difference are as follows:

| | | |
|---|---|---|
| Capital outlay | $ | 479,550 |
| Depreciation expense | | (16,257,067) |
| Net adjustment to increase *net changes in fund balances - total governmental funds* to arrive at *changes in net assets of* governmental activities | $ | (15,777,517) |

## 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 $46,960,000 difference are as follows:

| | | |
|---|---|---|
| Principal repayments: | | |
| General obligation bonds | $ | 46,960,000 |
| Net adjustment to increase *net changes in fund balances - total governmental* funds to arrive at *changes in net assets of governmental activities* | $ | 46,960,000 |

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 $2,012,098 difference are as follows:

| | | |
|---|---|---|
| Change in: | | |
| Compensated absences | $ | (55,353) |
| Workers' compensation claims | | (33,634) |
| Other claims | | 99,750 |
| Accrued interest | | 697,333 |
| Amortization of issuance costs | | (109,933) |
| Amortization of premium on general obligation bonds | | 1,413,935 |
| Net adjustment to increase *net changes in fund balances - total governmental funds* to arrive at *changes in net assets of governmental activities* | $ | 2,012,098 |

## 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 | $ | 17,791,742 |
| Adjustments for: | | |
| State QBE revenue | | (1,919,320) |
| Salaries and employee benefits | | (5,964,716) |
| State paid employee benefit revenue | | (857,771) |
| State paid employee benefit expenditures | | 857,771 |
| Budget basis net change in fund balance | $ | 9,907,706 |

## NOTE 3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

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 | $ | 737,400 |
| Adjustments for salaries and employee benefits | | 453,772 |
| Budget basis net change in fund balance | $ | 1,191,172 |

## 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, 2011, the School System's investment in Georgia Fund 1 was rated AAAm by Standard & Poor's.

At June 30, 2011, the School System had the following investments:

| Investment | Maturities | Fair Value |
|---|---|---|
| Georgia Fund 1 | 59 day weighted average | $ 7,554,915 |

**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.

## NOTE 4. DEPOSITS AND INVESTMENTS (CONTINUED)

**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, 2011, the School System's deposits held at one financial institution were undercollateralized by $3,117,726. However, the State of Georgia provides a 10-day grace period within which the excess funds can be withdrawn or additional collateral may be pledged. The financial institution properly insured and collateralized the School System's deposits within the 10-day grace period.

## NOTE 5. RECEIVABLES

Receivables at June 30, 2011, for the School System's individual major funds, including the applicable allowances for uncollectible accounts are as follows:

| | General | Debt Service | Special Revenue Fund | Total |
|---|---|---|---|---|
| Due from other governments | $ 31,807,413 | $ 3,644,707 | $ 1,252,413 | $ 36,704,533 |
| Less allowance for uncollectible | (675,306) | (117,506) | - | (792,812) |
| Net total receivable | $ 31,132,107 | $ 3,527,201 | $ 1,252,413 | $ 35,911,721 |

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 the 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.

## NOTE 6. PROPERTY TAXES (CONTINUED)

Real property taxes were levied on July 29, 2010, billed on September 8, 2010, and payable on or before November 16, 2010. Henry County may place liens on property once the related tax payments become delinquent. The property tax receivable allowance is equal to 10% of outstanding property taxes at June 30, 2011, 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.

## NOTE 7. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2011, is as follows:

| | Beginning Balance | Increases | Decreases | Transfers | Ending Balance |
|---|---|---|---|---|---|
| **Governmental activities:** | | | | | |
| Capital assets, not being depreciated: | | | | | |
| Land | $ 30,563,155 | $ - | $ - | $ - | $ 30,563,155 |
| Construction in progress | 2,170,236 | - | - | - | 2,170,236 |
| Total | 32,733,391 | - | - | - | 32,733,391 |
| Capital assets, being depreciated: | | | | | |
| Buildings and improvements | 665,271,818 | - | - | - | 665,271,818 |
| Land improvements | 22,385,470 | - | - | - | 22,385,470 |
| Infrastructure | 3,484,220 | - | - | - | 3,484,220 |
| Machinery and equipment | 29,157,305 | 479,550 | - | | 29,636,855 |
| Total | 720,298,813 | 479,550 | - | - | 720,778,363 |
| Less accumulated depreciation for: | | | | | |
| Buildings and improvements | (82,614,514) | (12,957,861) | - | - | (95,572,375) |
| Land improvements | (10,566,546) | (956,390) | - | - | (11,522,936) |
| Infrastructure | (255,646) | (87,454) | - | - | (343,100) |
| Machinery and equipment | (16,573,602) | (2,255,362) | - | - | (18,828,964) |
| Total | (110,010,308) | (16,257,067) | - | - | (126,267,375) |
| Total capital assets, being depreciated, net | 610,288,505 | (15,777,517) | - | - | 594,510,988 |
| Governmental activities capital assets, net | $ 643,021,896 | $ (15,777,517) | $ - | $ - | $ 627,244,379 |

## NOTE 7. CAPITAL ASSETS (CONTINUED)

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

| | |
|---|---|
| Instruction | $ 14,049,528 |
| Educational media services | 4,744 |
| School administration | 241,446 |
| Maintenance and operations | 226,409 |
| Student transportation | 1,556,395 |
| School nutrition | 178,545 |
| Total depreciation expense - governmental activities | $ 16,257,067 |

## NOTE 8. 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, 2011, consisted of the following:

| Series | Coupon Rate | Maturities | Balance |
|---|---|---|---|
| 1992A | 6.45% | 2012 | $ 3,940,000 |
| 2001 - Refunding | 4.20% - 5.125% | 2012 to 2016 | 13,815,000 |
| 2004 | 3.50% - 5.00% | 2012 to 2025 | 107,295,000 |
| 2007 | 4.375% | 2025 | 13,060,000 |
| 2007A | 5.00% | 2012 to 2013 | 77,655,000 |
| | | | $ 215,765,000 |

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

| Year Ending June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2012 | $ 46,600,000 | $ 10,422,871 | $ 57,022,871 |
| 2013 | 46,985,000 | 8,118,325 | 55,103,325 |
| 2014 | 7,820,000 | 5,771,641 | 13,591,641 |
| 2015 | 8,180,000 | 5,367,134 | 13,547,134 |
| 2016 | 8,560,000 | 4,946,325 | 13,506,325 |
| 2017-2021 | 49,045,000 | 18,057,225 | 67,102,225 |
| 2022-2026 | 48,575,000 | 4,721,438 | 53,296,438 |
| Total | $ 215,765,000 | $ 57,404,959 | $ 273,169,959 |

## NOTE 8. LONG-TERM DEBT (CONTINUED)

Changes in long-term debt related to governmental activities for the year ended June 30, 2011 are as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| Governmental activities: | | | | | |
| Bonds payable | $ 262,725,000 | $ - | $ (46,960,000) | $ 215,765,000 | $ 46,600,000 |
| Plus unamortized bond premium | 4,184,694 | - | (1,413,935) | 2,770,759 | - |
| Bonds payable, net | 266,909,694 | - | (48,373,935) | 218,535,759 | 46,600,000 |
| Insurance claims payable | 1,485,091 | 1,000,458 | (966,824) | 1,518,725 | 1,042,107 |
| Other claims payable | 101,300 | - | (99,750) | 1,550 | 1,550 |
| Compensated absences | 1,447,995 | 1,177,864 | (1,122,511) | 1,503,348 | 1,012,670 |
| Governmental activities Long-term liabilities | $ 269,944,080 | $ 2,178,322 | $ (50,563,020) | $ 221,559,382 | $ 48,656,327 |

There is $21,728,783 of restricted fund balance available in the Debt Service Fund to service the general obligation bonds.

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

## NOTE 9. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2011, is as follows:

Due to/from other funds:

| | Due To |
|---|---|
| Due From | General Fund |
| Special Revenue Fund | $ 1,255,164 |

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 Out | | | |
|---|---|---|---|---|
| Transfers In | General Fund | Special Revenue Fund | Capital Projects Fund | Total |
| General Fund | $ - | $ 791 | $ - | $ 791 |
| Special Revenue Fund | 1,387,304 | - | - | 1,387,304 |
| Debt Service Fund | 6,000,000 | - | 3,552 | 6,003,552 |
| | $ 7,387,304 | $ 791 | $ 3,552 | $ 7,391,647 |

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.

## NOTE 10. RETIREMENT PLANS

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

Covered employees are required by state law to contribute 5.25% of their annual covered salary to the plan and the School System is required to contribute 10.28% of current covered payroll. Covered employees' contributions for the years ended June 30, 2011, 2010, and 2009, were $10,833,439, $10,537,442, and $9,918,241, respectively. The School System's contributions to TRS for the years ended June 30, 2011, 2010, and 2009, were $20,138,900, $19,319,506, and $16,628,413, 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.

## NOTE 10. 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, 2011, totaled $32,332.

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, 2011, for School System employees was $172,935.

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, 2011 was 894.

## NOTE 11. OTHER POST EMPLOYMENT BENEFITS

**Georgia Retiree Health Benefit Fund**

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

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

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

The combined rate for the active and retiree certified employees (pay-as-you go basis) for the fiscal year ended June 30, 2011 were as follows:

| Period | Percentage of Covered Payroll |
|---|---|
| July 2010 - April 2011 | 21.955% of covered payroll for August-September coverage |
| May 2011- June 2011 | 1.429% of covered payroll for October-December coverage |

The contribution rate for classified employees for the fiscal year ended June 30, 2011 was $246.20 per month.

## NOTE 11. OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

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 years ended June 30, 2011 and 2010 were $29,694,920, and $28,492,112 respectively, which equaled the required contribution. Currently, the State of Georgia has been making the remaining contributions to fund the pay as you go financing on behalf of all local Boards of Education (see Note 1 for discussion of on-behalf payments).

## NOTE 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 years ended June 30, 2010 and June 30, 2011 for which the School System is self-insured are as follows:

| **Workers' Compensation** | **June 30, 2011** | June 30, 2010 |
|---|---|---|
| Unpaid claims, beginning of fiscal year | **$ 1,485,091** | $ 1,546,596 |
| Incurred claims (including IBNRs) | **1,000,458** | 1,317,368 |
| Claim payments and changes in estimates | **(966,824)** | (1,378,873) |
| Unpaid claims, end of fiscal year | **$ 1,518,725** | $ 1,485,091 |

## NOTE 12. RISK MANAGEMENT (CONTINUED)

| **Unemployment Compensation** | **June 30, 2011** | June 30, 2010 |
|---|---|---|
| Unpaid claims, beginning of fiscal year | **$ -** | $ - |
| Incurred claims (including IBNRs) | **160,659** | 139,788 |
| Claim payments and changes in estimates | **(160,659)** | (139,788) |
| Unpaid claims, end of fiscal year | **$ -** | $ - |

## 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, 2011, 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.

## NOTE 14. SUBSEQUENT EVENT

In July 2011, the School System issued $94,550,000 of general obligation refunding bonds to refund a portion of the School System's Series 2001 general obligation refunding bonds and a portion of the School System's Series 2004 general obligation bonds. The interest rates on the bonds range from 2.00% to 5.00%, with final maturity on August 1, 2023

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