HENRY COUNTY BOARD OF EDUCATION

ANNUAL FINANCIAL REPORT

FOR THE
FISCAL YEAR ENDED JUNE 30, 2012

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, 2012

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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, 2012, 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, 2012, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund, Special Revenue Fund and Debt Service 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 May 14, 2013 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 10) 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.

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 schedule of expenditures of special purpose local option sales tax proceeds is presented for purposes of additional analysis as required by the Official Code of Georgia Annotated 48-8-121, and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is also presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organization*, and is also not a required part of the financial statements of the Henry County Board of Education. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Mauldin & Jenkins, LLC

Macon, Georgia
May 14, 2013

HENRY COUNTY SCHOOL SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

INTRODUCTION

Our discussion and analysis of the Henry County School District's ("School District") financial performance provides an overview of the School District's financial activities for the fiscal year ended June 30, 2012. 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 and financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2012 are as follows:

- On the government-wide financial statements, the assets of the School District exceeded liabilities by $499.8 million. Of this amount, $42.3 million is unrestricted and is available for spending at the School District's discretion.

- Total net assets of the governmental activities increased from $485.1 million in 2011 to $499.8 million in 2012, an increase of $14.7 million.

- Total revenues for governmental funds decreased from $408 million in 2011 to $385.2 million in 2012, a decrease of $22.8 million.

- Total expenditures of governmental funds increased from $394.5 million in 2011 to $407.8 million in 2012, an increase of $13.3 million.

- Net assets for the School District rose by $14.7 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

The fund financial statements focus on individual parts of the School District, reporting the School District's operation in more detail. The Governmental Funds statements disclose how basic services are financed in the short-term as well as what remains for

future spending. The 'Fiduciary Funds' statements provide information about the financial relationships in which the School District acts solely as a trustee or agent for the benefit of others. In the case of the Henry County School District, the General Fund, Capital Projects Fund, Debt Service Fund, and Special Revenue Fund are reported as major funds.

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

District-Wide Statements

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 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, and other factors.

The Statement of Net Assets and the Statement of Activities reflect the School District's governmental activities.

Fund Financial Statements

The School District uses many funds to account for a multitude of financial transactions during the fiscal year. However, the fund financial statements presented in this report provide separate columns of detailed information about only the School District's major funds.

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 basis 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 government-wide financial statements because it cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

Table 1
Net Assets

	Governmental Activities	
	Fiscal Year 2012	**Fiscal Year 2011**
Assets		
Current and Other Assets	$224,109,997	$133,216,708
Capital Assets, Net	614,230,445	627,244,379
Total Assets	$838,340,442	$760,461,087
Liabilities		
Current and Other Liabilities	$50,935,472	$53,812,009
Long-Term Liabilities	287,598,821	221,559,382
Total Liabilities	$338,534,293	$275,371,391
Net Assets		
Invested in Capital Assets, Net of Debt	$421,884,410	$408,708,620
Restricted	35,607,248	26,850,305
Unrestricted	42,314,491	49,530,771
Total Net Assets	$499,806,149	$485,089,696

Table 2
Changes in Net Assets

	Governmental Activities	
	Fiscal Year 2012	Fiscal Year 2011
Revenues		
Program Revenues:		
Charges for Services and Sales	$9,760,144	$10,018,657
Operating Grants and Contributions	191,709,189	212,649,998
Capital Grants and Contributions	-	3,490
Total Program Revenues	$201,469,333	$222,672,145
General Revenues:		
Property Taxes	$124,099,555	$133,712,949
Sales Taxes		
Special Purpose Local Option Sales Tax		
For Debt Service	29,739,766	27,476,441
Other Taxes	2,724,682	2,189,145
Grants and Contributions not Restricted to Specific Programs	16,954,146	12,092,484
Investment Earnings	103,779	158,898
Local School Activity	9,200,828	9,118,112
Total General Revenues	$182,822,756	$184,748,029
Total Revenues	$384,292,089	$407,420,174
Program Expenses		
Instruction	$249,077,883	$241,004,234
Support Services		
Pupil Services	7,954,121	8,708,220
Improvement of Instructional Services	9,768,678	7,864,201
Educational Media Services	5,053,182	5,097,968
General Administration	1,779,620	2,709,360
School Administration	20,834,657	20,847,425
Business services	1,268,260	1,212,900
Maintenance and Operation of Plant	27,687,711	27,526,684
Student Transportation Services	14,825,301	14,776,127
Central Support Services	1,093,773	951,499
Other Support Services	2,920,015	2,295,931
Operations of Non-Instructional Services		
Community Services	2,172,330	2,097,984
School Nutrition	16,693,393	15,479,795
Interest on Short-Term and Long-Term Debt	8,446,712	10,690,929
Total Expenses	$369,575,636	$361,263,257
Increase in Net Assets	$14,716,453	$46,156,917

Governmental Activities

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

Table 3
Cost of Services

	Total Cost of Services		Net Cost of Services	
	Fiscal Year 2012	Fiscal Year 2011	Fiscal Year 2012	Fiscal Year 2011
Instruction	$249,077,883	$241,004,234	$92,022,928	$65,691,794
Support Services				
Pupil Services	7,954,121	8,708,220	6,314,260	6,418,962
Improvement of Instructional Services	9,768,678	7,864,201	4,404,129	4,255,380
Educational Media Services	5,053,182	5,097,968	1,519,697	717,432
General Administration	1,779,620	2,709,360	-2,328,951	-2,698,886
School Administration	20,834,657	20,847,425	13,861,859	11,557,589
Business Administration	1,268,260	1,212,900	1,265,668	1,209,324
Maintenance and Operation of Plant	27,687,711	27,526,684	27,654,250	27,472,282
Student Transportation Services	14,825,301	14,776,127	12,866,768	12,422,749
Central Support Services	1,093,773	951,499	1,091,501	947,923
Other Support Services	2,920,015	2,295,931	2,308,215	2,129,396
Operations of Non-Instructional Services				
Enterprise Operations	-	-	-745,540	-513,690
Community Services	2,172,330	2,097,984	-884,821	-753,981
School Nutrition	16,693,393	15,479,795	309,628	-956,091
Interest on Short-Term and Long-Term Debt	8,446,712	10,690,929	8,446,712	10,690,929
Total Expenses	$369,575,636	$361,263,257	$168,106,303	$138,591,112

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S FUNDS

The School District's governmental funds are accounted for using the modified accrual basis of accounting. The governmental funds had total revenues of $385.3 million and total expenditures of $407.8 million. Included in the expenditures of $407.8 million were approximately $59.8 million of debt service expenditures.

Major Funds:

General Fund

The General Fund is the operating fund of the School District. Revenue from state and federal sources accounted for 62% of the School District's revenue. The other 38% is from local sources, primarily ad valorem taxes. In fiscal year 2012, state and federal funding decreased by $12.9 million. In fiscal year 2011, the School District also received $3.3 million in federal ARRA related funding. Local revenues declined by $7.7 million. This was the result of the continued decline in the local tax digest's value. The School District's maintenance and operation millage is 20.00 mills.

Capital Projects Fund

The Capital Projects Fund is used to account for school construction and improvement projects. The Capital Projects Fund expenditures were made primarily with funds from a $100 million General Obligation Bond Referendum in 2012. The School District began construction on a new high school, acquired school buses, improved technology, renovated, repaired, and improved existing facilities, and retired a portion of the 2007A bonds. Those expenditures totaled $22 million.

Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources and payments of principal and interest for general obligation bond issues of the School District. Special Purpose Local Option Sales Tax (SPLOST) collections accounted for 60% of the Debt Service Fund revenue. The other 40% is from ad valorem taxes. For fiscal year 2012, the debt service millage rate was 3.628 mills.

General Fund Budgeting Highlights

The School District's budget is prepared according to Georgia Law. The most significant budgeted fund is the General Fund.

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.

For the General Fund, actual revenues of $292.6 million were 102% of the final budgeted amount of $287 million due to higher than expected local tax collections. The final actual expenditures of $304.6 were 102% of the final budgeted amount of $297.7 million due primarily to an increase in state health insurance rates.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At fiscal year ended June 30, 2012, the System had $614 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 Accumulated Depreciation)

	Governmental Activities	
	Fiscal Year 2012	**Fiscal Year 2011**
Land	$30,563,155	$30,563,155
Construction in Progress	4,669,694	2,170,236
Buildings and Improvements	556,742,516	569,699,443
Land Improvements	9,933,128	10,862,534
Infrastructure	3,053,666	3,141,120
Equipment	9,268,286	10,807,891
Total	$614,230,445	$627,244,379

Debt

At fiscal year ended June 30, 2012, the System had $287.6 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 2012	**Fiscal Year 2011**
Bonds Payable	$284,408,070	$218,535,759
Compensated Absences	1,555,864	1,503,348
Workers Compensation Claims Payable	1,633,337	1,518,725
Other Claims Payable	1,550	1,550
Total	$287,598,821	$221,559,382

At June 30, 2012, the School District's assigned bond ratings were 'Aa2' and 'AA' as determined by Moody's Investor Services, Inc. and Standard & Poor's Rating Services.

CURRENT ISSUES

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

- Funding Issues – The economic downturn nationally and locally has significantly impacted the funding sources of the School District. The State of Georgia has continued to impose austerity reductions to all school districts. The School District's austerity reductions in state funding over the past ten years have totaled $127.9 million.

- Local Tax Digest – The value of the ad valorem tax digest has decreased for three consecutive years. The total decline during those three years was 23.84%, approximately $29 million. Despite these conditions, the School District's General Fund balance at June 30, 2012 was $42.3 million. The Henry County School System continues to maintain a strong financial position 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.

- Health Insurance – The School District expects significant increases in state health insurance employer rates through 2015.

- Capital Improvements – The School District 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, collections from Special Purpose Local Option Sales Tax (SPLOST), and anticipated annual receipts of capital outlay funds from the State of Georgia Department of Education. The School District regularly monitors anticipated capital outlay needs.

CONTACTING THE SCHOOL SYSTEM'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizen's 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, 2012

	Governmental Activities
ASSETS	
Cash and cash equivalents	$ 22,139,513
Investments	166,886,788
Intergovernmental receivable	33,509,114
Inventories	355,976
Deferred charges	1,218,606
Capital assets, nondepreciable	35,232,849
Capital assets, depreciable (net of accumulated depreciatio	578,997,596
Total assets	838,340,442
LIABILITIES	
Accounts payable	7,235,693
Accrued interest	3,263,703
Accrued payroll and payroll withholding	39,704,804
Unearned revenue	731,272
Insurance claims payable due within one yea	1,286,044
Insurance claims payable due in more than one yea	347,293
Other claims payable due within one yea	1,550
Compensated absences due within one yea	1,010,575
Compensated absences due in more than one yea	545,289
General obligation bonds due within one yea	51,812,909
General obligation bonds due in more than one yea net of unamortized premiun	232,595,161
Total liabilities	338,534,293
NET ASSETS	
Invested in capital assets, net of related del	421,884,410
Restricted for debt service	30,627,068
Restricted for program activitie	4,980,180
Unrestricted	42,314,491
Total net assets	$ 499,806,149

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, 2012

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	$ 249,077,883	$ 1,618,557	$ 155,436,398	$ -	$ (92,022,928)
Pupil services	7,954,121	-	1,639,861	-	(6,314,260)
Improvement of instructional services	9,768,678	-	5,364,549	-	(4,404,129)
Educational media services	5,053,182	-	3,533,485	-	(1,519,697)
General administration	1,779,620	-	4,108,571	-	2,328,951
School administration	20,834,657	-	6,972,798	-	(13,861,859)
Business services	1,268,260	-	2,592	-	(1,265,668)
Maintenance and operations	27,687,711	-	33,461	-	(27,654,250)
Student transportation	14,825,301	-	1,958,533	-	(12,866,768)
Central support services	1,093,773	-	2,272	-	(1,091,501)
Other support services	2,920,015	-	611,800	-	(2,308,215)
School nutrition	16,693,393	4,338,896	12,044,869	-	(309,628)
Enterprise operations	-	745,540	-	-	745,540
Community services	2,172,330	3,057,151	-	-	884,821
Interest on long-term debt	8,446,712	-	-	-	(8,446,712)
Total governmental activities	369,575,636	9,760,144	191,709,189	-	(168,106,303)

General revenues:	
Property taxes	124,099,555
Sales taxes	29,739,766
Other taxes	2,724,682
Grants and contributions not restricted to specific programs	16,954,146
Local school activity	9,200,828
Unrestricted investment earnings	103,779
Total general revenues	182,822,756
Change in net assets	14,716,453
Net assets, beginning of year	485,089,696
Net assets, end of year	$ 499,806,149

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

HENRY COUNTY BOARD OF EDUCATION

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012

ASSETS	General	Debt Service	Special Revenue	Capital Projects	Total Governmental Funds
Cash	$ 9,272,100	$ 566,865	$ 9,768,375	$ 2,532,173	$ 22,139,513
Investments	50,120,347	27,247,338	-	89,519,103	166,886,788
Due from other governments	28,835,645	3,481,591	1,191,878	-	33,509,114
Due from other funds	-	-	38,788	-	38,788
Inventories	-	-	355,976	-	355,976
Total assets	$ 88,228,092	$ 31,295,794	$ 11,355,017	$ 92,051,276	$ 222,930,179
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	$ 4,570,993	$ 1,000	$ 1,196,841	$ 1,466,859	$ 7,235,693
Due to other funds	38,788	-	-	-	38,788
Accrued payroll and payroll withholdings	37,528,420	-	2,176,384	-	39,704,804
Deferred revenue	3,741,314	667,726	731,272	-	5,140,312
Total liabilities	45,879,515	668,726	4,104,497	1,466,859	52,119,597
FUND BALANCES					
Fund balances:					
Nonspendable for inventories	-	-	355,976	-	355,976
Restricted for:	-	-	-	-	
Program activities	-	-	4,624,204	-	4,624,204
Debt service	-	30,627,068	-	-	30,627,068
Capital projects	-	-	-	90,584,417	90,584,417
Committed to school activity funds	-	-	2,336,840	-	2,336,840
Assigned:					
For subsequent year's budget	10,980,196	-	-	-	10,980,196
Afterschool program	-	-	-	-	-
Unassigned	31,368,381	-	(66,500)	-	31,301,881
Total fund balances	42,348,577	30,627,068	7,250,520	90,584,417	170,810,582
Total liabilities and fund balances	$ 88,228,092	$ 31,295,794	$ 11,355,017	$ 92,051,276	$ 222,930,179

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

HENRY COUNTY BOARD OF EDUCATION

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS JUNE 30, 2012

Amounts reported for governmental activities in the statement of net assets are different from amounts reported in the balance sheet of governmental funds due to the following:

Fund balances - total governmental funds	$	170,810,582
Capital assets		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Cost of the assets		756,567,468
Accumulated depreciation		(142,337,023)
Revenues		
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.		4,409,040
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. Long-term liabilities at year end consist of the following:		
Bonds payable		(268,575,000)
Accrued interest payable		(3,263,703)
Unamortized bond issuance costs		1,218,606
Unamortized premium		(21,648,759)
Unamortized deferred charge on refunding		5,815,689
Compensated absences		(1,555,864)
Workers' compensation claims payable		(1,633,337)
Other claims payable		(1,550)
Net assets - governmental activities.	$	499,806,149

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, 2012

	General	Debt Service	Special Revenue	Capital Projects	Total Governmental Funds
REVENUES					
Local sources	$ 109,510,616	$ 49,648,705	$ 16,663,592	$ -	$ 175,822,913
State sources	180,110,027	-	476,956	-	180,586,983
Federal sources	2,370,116	-	26,391,689	-	28,761,805
Interest income	32,228	21,814	2,361	47,376	103,779
Total revenues	292,022,987	49,670,519	43,534,598	47,376	385,275,480
EXPENDITURES					
Current:					
Instruction	213,472,732	-	18,163,670	-	231,636,402
Pupil services	6,908,099	-	1,045,237	-	7,953,336
Improvement of instructional services	4,335,236	-	5,427,510	-	9,762,746
Educational media services	5,048,311	-	-	-	5,048,311
General administration	1,446,844	-	228,557	-	1,675,401
School administration	20,582,193	43	-	-	20,582,236
Business services	1,264,609	1,500	-	-	1,266,109
Maintenance and operations	27,551,896	-	-	-	27,551,896
Student transportation	13,255,643	-	31,510	-	13,287,153
Central support services	1,092,547	-	-	-	1,092,547
Other support services	2,359,939	-	613,736	-	2,973,675
School nutrition	-	-	16,530,555	-	16,530,555
Community service	-	-	2,172,213	-	2,172,213
Capital outlay	-	-	-	6,415,282	6,415,282
Debt service:					
Principal retirement	-	33,600,000	-	13,000,000	46,600,000
Interest and fiscal charges	-	9,887,737	-	2,019,404	11,907,141
Bond issuance costs and fees	-	721,983	-	602,534	1,324,517
Total expenditures	297,318,049	44,211,263	44,212,988	22,037,220	407,779,520
Excess (deficiency) of revenues over (under) expenditures	(5,295,062)	5,459,256	(678,390)	(21,989,844)	(22,504,040)
OTHER FINANCING SOURCES (USES)					
Bond issuance	-	94,550,000	-	100,000,000	194,550,000
Premium on bonds issued	-	13,273,467	-	12,574,261	25,847,728
Payment to refunded bond escrow agent	-	(104,384,438)	-	-	(104,384,438)
Transfers in	19,166	-	113,069	-	132,235
Transfers out	(113,069)	-	(19,166)	-	(132,235)
Total other financing sources (uses)	(93,903)	3,439,029	93,903	112,574,261	116,013,290
Net change in fund balances	(5,388,965)	8,898,285	(584,487)	90,584,417	93,509,250
FUND BALANCE, beginning of year	47,737,542	21,728,783	7,835,007	-	77,301,332
FUND BALANCE, end of year	$ 42,348,577	$ 30,627,068	$ 7,250,520	$ 90,584,417	$ 170,810,582

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, 2012

Amounts reported for governmental activities in the statement of activities are different because:		
Net change in fund balances - total governmental funds.	$	93,509,250
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.		
Total capital outlay		3,333,527
Total depreciation		(16,243,761)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets.		(103,700)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(983,391)
The issuance of long-term debt provides current financial resources to governmental funds, and thus contributes to the change in fund balance. In the Statement of Net Assets, however, issuing debt increases long-term liabilities and does not affect the Statement of Activities. Similarly, repayment of principal is an expenditure in the governmental funds, but reduces the liability in the Statement of 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 amount of the items that make up these differences in the treatment of long-term debt and related items are as follows:		
Issuance of general obligation bonds		(194,550,000)
Principal repayments on general obligation bonds		46,600,000
Payment to escrow agent for refunding		104,384,438
Premium on issuance of bonds		(25,847,728)
Bond issuance costs		1,324,517
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 adjustments for these items are as follows:		
Compensated absences		(52,516)
Accrued interest on general obligation bonds		524,039
Workers' compensation claims		(114,612)
Amortization of issuance costs		(330,817)
Amortization of premium on general obligation bonds		5,839,930
Amortization of deferred loss on refunding		(2,572,723)
Change in net assets - governmental activities.	$	14,716,453

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, 2012

	Budget			Variance With
	Original	Final	Actual	Final Budget
REVENUES				
Local sources	$ 103,251,002	$ 103,251,002	$ 109,510,616	$ 6,259,614
State sources	180,892,607	180,892,607	180,657,880	(234,727)
Federal sources	2,793,488	2,793,488	2,370,116	(423,372)
Interest income	97,500	97,500	32,228	(65,272)
Total revenues	287,034,597	287,034,597	292,570,840	5,536,243
EXPENDITURES				
Current:				
Instruction	211,675,302	212,153,069	219,514,260	(7,361,191)
Pupil services	7,573,271	7,561,358	7,102,330	459,028
Improvement of instructional services	4,477,416	4,505,306	4,325,834	179,472
Educational media services	5,128,825	5,133,957	5,191,871	(57,914)
General administration	1,702,111	1,705,511	1,444,552	260,959
School administration	20,403,365	20,538,369	21,161,214	(622,845)
Business services	1,245,895	1,247,895	1,262,017	(14,122)
Maintenance and operations	28,037,772	28,105,368	27,518,435	586,933
Student transportation	12,904,489	13,264,741	13,635,722	(370,981)
Central support services	1,175,038	1,175,065	1,090,275	84,790
Other support services	2,165,422	2,328,123	2,359,937	(31,814)
Capital outlay	-	2,174	-	2,174
Total expenditures	296,488,906	297,720,936	304,606,447	(6,885,511)
Deficiency of revenues over expenditures	(9,454,309)	(10,686,339)	(12,035,607)	(1,349,268)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	19,166	19,166
Transfers out	-	-	(113,069)	(113,069)
Total other financing sources (uses)	-	-	(93,903)	(93,903)
Net change in fund balances	$ (9,454,309)	$ (10,686,339)	$ (12,129,510)	$ (1,443,171)

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

HENRY COUNTY BOARD OF EDUCATION

DEBT SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Budget			Variance With
	Original	Final	Actual	Final Budget
REVENUES				
Local sources	$ 53,787,648	$ 53,787,648	$ 49,648,705	$ (4,138,943)
Interest income	175,000	175,000	21,814	(153,186)
Total revenues	53,962,648	53,962,648	49,670,519	(4,292,129)
EXPENDITURES				
Current:				
School administration	-	-	43	(43)
Business services	-	-	1,500	(1,500)
Debt service:				
Principal retirement	46,600,000	46,600,000	33,600,000	13,000,000
Interest and fiscal charges	10,422,871	10,422,871	9,887,737	535,134
Bond issuance costs and fees	-	-	721,983	(721,983)
Total expenditures	57,022,871	57,022,871	44,211,263	12,811,608
Excess (deficiency) of revenues over (under) expenditures	(3,060,223)	(3,060,223)	5,459,256	8,519,479
OTHER FINANCING SOURCES (USES)				
Bond issuance	-	-	94,550,000	94,550,000
Premium on bonds issued	-	-	13,273,467	13,273,467
Payment to refunded bond escrow agent	-	-	(104,384,438)	(104,384,438)
Total other financing sources (uses)	-	-	3,439,029	3,439,029
Net change in fund balances	$ (3,060,223)	$ (3,060,223)	$ 8,898,285	$ 11,958,508

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, 2012

	Budget			Variance With
	Original	Final	Actual	Final Budget
REVENUES				
Local sources	$ 19,561,238	$ 19,561,238	$ 16,663,592	$ (2,897,646)
State sources	478,189	478,189	476,956	(1,233)
Federal sources	23,775,180	23,775,180	26,391,689	2,616,509
Interest income	-	-	2,361	2,361
Total revenues	43,814,607	43,814,607	43,534,598	(280,009)
EXPENDITURES				
Current:				
Instruction	20,556,426	20,556,426	18,536,382	2,020,044
Pupil services	971,955	971,955	1,066,685	(94,730)
Improvement of instructional services	2,880,260	2,880,260	5,538,880	(2,658,620)
General administration	223,982	223,982	228,557	(4,575)
Business services	6,000	6,000	-	6,000
Student transportation	1,386	1,386	31,510	(30,124)
Other support services	64,538	64,538	613,736	(549,198)
School nutrition	15,160,046	15,160,046	16,869,756	(1,709,710)
Community service	4,281,914	4,281,914	2,172,213	2,109,701
Capital outlay	-	2,174	-	2,174
Total expenditures	44,146,507	44,148,681	45,057,719	(909,038)
Deficiency of revenues over expenditures	(331,900)	(334,074)	(1,523,121)	(1,189,047)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	113,069	113,069
Transfers out	-	-	(19,166)	(19,166)
Total other financing sources (uses)	-	-	93,903	93,903
Net change in fund balances	$ (331,900)	$ (334,074)	$ (1,429,218)	$ (1,095,144)

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, 2012

	Agency Fund Student Activities
ASSETS	
Cash	$ 281,152
Total assets	$ 281,152
LIABILITIES	
Due to others	$ 281,152
Total liabilities	$ 281,152

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 (QBE) Formula Earnings program. State of Georgia law defines the formula driven grant that determines the cost of an academic school year and the State of Georgia's share in this cost. 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 requirements of the enabling legislation of the QBE program, the State of Georgia reimburses the School System over the same 12-month period in which teachers are paid, funding the academic school year expenditures. At June 30, the amount of teachers' salaries incurred but not paid until July and August of the subsequent year are accrued, as the State of Georgia has only postponed the final payment of their share of the cost until the subsequent appropriations for cash management purposes. By June 30 of each year, the State of Georgia has a signed appropriation that includes this final amount, which represents the State of Georgia's intent to fund this final payment. Based on guidance in Government Accounting Standards Board (GASB) Statement No. 33, paragraph 74, the State of Georgia recognizes its QBE liability for the July and August salaries at June 30, and the School District recognizes the same QBE as a receivable and revenue, consistent with symmetrical recognition.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 ***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.

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.

Additionally, the School System reports the following fund type:

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.

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, 2012 was $598,402.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Non-Monetary Transactions

The School System received from the United States Department of Agriculture through the Georgia Department of Education approximately $750,620 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
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: The 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. 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 Statements of Revenues and Expenditures – Budget (Non-GAAP) to Actual present actual and budget data for the General Fund, Special Revenue Fund and Debt Service 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	$ (5,388,965)
Adjustments for:	
State QBE revenue	1,146,255
Salaries and employee benefits	(7,886,800)
State paid employee benefit revenue	(598,402)
State paid employee benefit expenditures	598,402
Budget basis net change in fund balance	$ (12,129,510)

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

Adjustments necessary to convert the Special Revenue 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	$	(584,487)
Adjustments for salaries and employee benefits		(844,731)
Budget basis net change in fund balance	$	(1,429,218)

NOTE 3. 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 Georgia Office of the State Treasurer. As of June 30, 2012, the School System's investment in Georgia Fund 1 was rated AAAm by Standard & Poor's.

At June 30, 2012, the School System had the following investments:

Investment	Maturities	Fair Value
Georgia Fund 1	48 day weighted average	$ 166,886,788

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 3. 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, 2012, all of the School System's deposits were properly collateralized in accordance with state law and applicable GASB pronouncements.

NOTE 4. RECEIVABLES

Receivables at June 30, 2012, 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	$ 29,356,654	$ 3,574,476	$ 1,191,878	$ 34,123,008
Less allowance for uncollectible	(521,009)	(92,885)	-	(613,894)
Net total receivable	$ 28,835,645	$ 3,481,591	$ 1,191,878	$ 33,509,114

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 5. 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 5. PROPERTY TAXES (CONTINUED)

Real property taxes were levied on July 28, 2011, billed on August 26, 2011, and payable on or before November 16, 2011. 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, 2012, 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 6. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012, 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	2,603,158	(103,700)	-	4,669,694
Total	32,733,391	2,603,158	(103,700)	-	35,232,849
Capital assets, being depreciated:					
Buildings and improvements	665,271,818	-	-	-	665,271,818
Land improvements	22,385,470	25,476	-	-	22,410,946
Infrastructure	3,484,220	-	-	-	3,484,220
Machinery and equipment	29,636,855	704,893	(174,113)		30,167,635
Total	720,778,363	730,369	(174,113)	-	721,334,619
Less accumulated depreciation for:					
Buildings and improvements	(95,572,375)	(12,956,927)	-	-	(108,529,302)
Land improvements	(11,522,936)	(954,882)	-	-	(12,477,818)
Infrastructure	(343,100)	(87,454)	-	-	(430,554)
Machinery and equipment	(18,828,964)	(2,244,498)	174,113	-	(20,899,349)
Total	(126,267,375)	(16,243,761)	174,113	-	(142,337,023)
Total capital assets, being depreciated, net	594,510,988	(15,513,392)	-	-	578,997,596
Governmental activities capital assets, net	$ 627,244,379	$ (12,910,234)	$ (103,700)	$ -	$ 614,230,445

NOTE 6. CAPITAL ASSETS (CONTINUED)

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

Instruction	$ 14,051,635
Educational media services	4,871
School administration	240,322
Maintenance and operations	225,708
Student transportation	1,558,845
School nutrition	162,380
Total depreciation expense - governmental activities	$ 16,243,761

NOTE 7. 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.

During the current fiscal year, the School System issued $94,550,000 in general obligation refunding bonds (Series 2011) for a current refunding of $10,580,000 of Series 2001 bonds and to advance refund $84,560,000 of Series 2004 bonds maturing August 1, 2016 and thereafter. The refunding was undertaken to reduce total future debt service payments. The reacquisition price exceeded the net carrying amount of the old debt by $8,388,412. This amount is being netted against the new debt and amortized over the life of the new debt, which is shorter than the life of the refunded debt. The transaction also resulted in an economic gain of $4,851,584.

Additionally, the School System issued $100,000,000 of general obligation bonds (Series 2012) to refund a portion of the Series 2007A bonds and to provide funding for capital projects.

General obligation bonds at June 30, 2012, consisted of the following:

Series	Coupon Rate	Maturities	Balance
2004	3.50% - 5.00%	2013 to 2015	$ 21,485,000
2007	4.375%	2025	13,060,000
2007A	5.00%	2012 to 2013	39,480,000
2011	2.00% - 5.00%	2013 to 2023	94,550,000
2012	1.00% - 5.00%	2013 to 2018	100,000,000
			$ 268,575,000

NOTE 7. LONG-TERM DEBT (CONTINUED)

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

Year Ending June 30,	Principal	Interest	Total
2013	$ 46,890,000	$ 11,482,163	$ 58,372,163
2014	21,695,000	8,993,762	30,688,762
2015	27,995,000	8,168,163	36,163,163
2016	30,560,000	7,120,837	37,680,837
2017	30,985,000	5,779,838	36,764,838
2018-2022	73,410,000	15,188,013	88,598,013
2023-2025	37,040,000	2,585,256	39,625,256
Total	$ 268,575,000	$ 59,318,032	$ 327,893,032

Changes in long-term debt related to governmental activities for the year ended June 30, 2012 are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable	$ 215,765,000	$ 194,550,000	$ (141,740,000)	$ 268,575,000	$ 46,890,000
Plus unamortized bond premium	2,770,759	25,847,728	(6,969,728)	21,648,759	7,195,179
Less unamortized loss on refunding	-	(8,388,412)	2,572,723	(5,815,689)	(2,272,270)
Bonds payable, net	218,535,759	212,009,316	(146,137,005)	284,408,070	51,812,909
Insurance claims payable	1,518,725	1,620,086	(1,505,474)	1,633,337	1,286,044
Other claims payable	1,550	-	-	1,550	1,550
Compensated absences	1,503,348	1,113,268	(1,060,752)	1,555,864	1,010,575
Governmental activities Long-term liabilities	$ 221,559,382	$ 214,742,670	$ (148,703,231)	$ 287,598,821	$ 54,111,078

There is $30,627,068 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 8. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2012, is as follows:

Due to/from other funds:

	Due From
Due To	General Fund
Special Revenue Fund	$ 38,788

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	Total
General Fund	$ -	$ 19,166	$ 19,166
Special Revenue Fund	113,069	-	113,069
	$ 113,069	$ 19,166	$ 132,235

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 9. 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 5.53% 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, 2012, 2011, and 2010, were $10,729,632, $10,883,439, and $10,537,442, respectively. The School System's contributions to TRS for the years ended June 30, 2012, 2011, and 2010, were $19,945,859, $20,138,900, and $19,319,506, 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 9. 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.

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, 2012, for School System employees was $366,364.

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.

NOTE 10. OTHER POST EMPLOYMENT BENEFITS

Georgia Retiree Health Benefit Fund

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

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

Participating state employers, including local Boards of Education, are statutorily required to contribute in accordance with the employer contribution rate established by the Board. The contribution rate is established to fund both the active and retired employee health insurance plans based on projected pay-as-you-go financing requirements. The combined rate for the active and retiree plans (pay-as-you go basis) for the fiscal year ended June 30, 2012 were as follows:

The combined rate for the active and retiree certified employees (pay-as-you go basis) for the fiscal year ended June 30, 2012 were as follows:

Period	Percentage of Covered Payroll
July 2011	18.534% of covered payroll for August 2011 coverage
August 2011- March 2012	24% of covered payroll for September 2011 - April 2012 coverage
April 2012- June 2012	3.958% of covered payroll for May 2012 - June 2012 coverage

For non-certified school personnel:

Period	Contribution
July 2011 - August 2011	$246.20 per member per month
September 2011 - June 2012	$296.20 per member per month

NOTE 10. 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, 2012, 2011, and 2010 were $31,525,478, $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 11. 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, 2011 and June 30, 2012 for which the School System is self-insured are as follows:

Workers' Compensation	**June 30, 2012**	June 30, 2011
Unpaid claims, beginning of fiscal year	**$ 1,518,725**	$ 1,485,091
Incurred claims (including IBNRs)	**1,620,086**	1,000,458
Claim payments and changes in estimates	**(1,505,474)**	(966,824)
Unpaid claims, end of fiscal year	**$ 1,633,337**	$ 1,518,725

NOTE 11. RISK MANAGEMENT (CONTINUED)

Unemployment Compensation	June 30, 2012	**June 30, 2011**
Unpaid claims, beginning of fiscal year	$ -	**$ -**
Incurred claims (including IBNRs)	116,121	**160,659**
Claim payments and changes in estimates	(116,121)	**(160,659)**
Unpaid claims, end of fiscal year	$ -	**$ -**

NOTE 12. 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, 2012, 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.

HENRY COUNTY BOARD OF EDUCATION

SCHEDULE OF EXPENDITURES OF
SPECIAL PURPOSE LOCAL OPTION SALES TAX PROCEEDS - 2011 ISSUE
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Original Estimated Cost	Current Estimated Cost	Prior Years	Current Year	Total
Acquisition, construction, and equipping of a new Hampton High School; acquiring school buses and related transportation equipment, acquiring instructional and administrative technology improvements; adding to, renovating, replacing, repairing, improving, and equipping existing school buildings and other buildings and facilities useful or desirable in connection therewith; and acquiring any necessary property therefore, both real and personal; and to the extent funds are available, acquiring, constructing, and equipping one new elementary school and one replacement middle school and acquiring any necessary property therefore, both real and personal; all at a maximum cost of $225,000,000	$ 225,000,000	$ 225,000,000	$ -	$ 6,415,282	$ 6,415,282
Retirement of a portion of the Series 2007A Bonds by paying or making provision for the payment of principal of and interest on such bonds coming due April 1, 2012, in the maximum amount of $14,000,000	14,000,000	14,000,000	-	14,000,000	14,000,000
	$ 239,000,000	$ 239,000,000	$ -	20,415,282	$ 20,415,282
Interest, bond issuance costs and fees paid for with bond funds				1,621,938	
Total expenditures, Capital Projects Fund				$ 22,037,220	

SINGLE AUDIT SECTION

MAULDIN & JENKINS
CERTIFIED PUBLIC ACCOUNTANTS, LLC

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Henry County Board of Education as of and for the year ended June 30, 2012, which collectively comprise the Henry County Board of Education's basic financial statements and have issued our report thereon dated May 14, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 12-1 and 12-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Henry County Board of Education's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

We noted certain matters that we reported to management of the Henry County Board of Education in a separate letter dated May 14, 2013.

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

This report is intended solely for the information and use of management, the Superintendent and members of the Henry County Board of Education and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Mauldin & Jenkins, LLC

Macon, Georgia
May 14, 2013

MAULDIN & JENKINS
CERTIFIED PUBLIC ACCOUNTANTS, LLC

REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of the Henry County Board of Education with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Henry County Board of Education's major federal programs for the year ended June 30, 2012. The Henry County Board of Education's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Henry County Board of Education's management. Our responsibility is to express an opinion on the Henry County Board of Education's compliance based on our audit.

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

As described in item 12-3 in the accompanying schedule of findings and questioned costs, the Henry County Board of Education did not comply with the requirements regarding cash management that are applicable to the School Improvement Grant Program. Compliance with such requirements is necessary, in our opinion, for Henry County Board of Education to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Henry County Board of Education complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The results of our auditing procedures also disclosed another instance of noncompliance with the requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 12-4.

Internal Control Over Compliance

Management of the Henry County Board of Education is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Henry County Board of Education's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Henry County Board of Education's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness and an additional deficiency that we consider to be a significant deficiency.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal contro*l *over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 12-3 to be a material weakness.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 12-4 to be a significant deficiency.

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

This report is intended solely for the information and use of management, the Superintendent and members of the Henry County Board of Education, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Macon, Georgia
May 14, 2013

Mauldin & Jenkins, LLC

HENRY COUNTY BOARD OF EDUCATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Total Expenditures
U. S. DEPARTMENT OF AGRICULTURE:		
Passed through Georgia Department of Education:		
Child Nutrition Cluster:		
School Breakfast Program	10.553	$ 2,662,013
National School Lunch Program	10.555	8,905,900
Total U.S Department of Agriculture		11,567,913
U. S. DEPARTMENT OF DEFENSE:		
Direct Federal Award		
Junior ROTC	12.unknown	653,596
U. S. DEPARTMENT OF EDUCATION:		
Passed through Georgia Department of Education:		
Title I, Part A Cluster:		
Title I, Part A	84.010	5,294,153
ARRA - Title I, Part A	84.389	322,458
Total Title I, Part A Cluster		5,616,611
Title II, Part A - Improving Teacher Quality	84.367	690,311
Title II, Part A - Advanced Placement Grant	84.367	11,200
		701,511
Title II, Part B - Math and Science Partnerships	84.366	136,781
Title III - Limited English Proficient	84.365	117,678
ARRA - School Improvement Grant Cluster	84.388	1,133,121
ARRA - Race to the Top	84.395	871,221
Education Jobs Fund	84.410	99,988
Special Education Cluster:		
IDEA Flowthrough	84.027	5,846,206
ARRA - IDEA Flowthrough	84.391	15,332
IDEA Preschool	84.173	102,363
Total Special Education Cluster		5,963,901
Vocational Education - Basic Grants to States	84.048	237,821
Education for Homeless Children and Youth Cluster	84.196	40,331
Total U.S. Department of Education		14,918,964
Total Expenditures of Federal Awards		$ 27,140,473

HENRY COUNTY BOARD OF EDUCATION

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 1. BASIS OF PRESENTATION

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

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

NOTE 2. DONATED COMMODITIES

The Child Nutrition Cluster includes $750,620 of non-cash expenditures in the form of donated food commodities.

HENRY COUNTY BOARD OF EDUCATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

A. SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditor's report issued	Unqualified
Internal control over financial reporting: Material weaknesses identified?	X yes ____ no
Significant deficiencies identified not considered to be material weaknesses?	____ yes X none reported
Noncompliance material to financial statements noted?	____ yes X no

Federal Awards

Internal Control over major programs: Material weaknesses identified?	X yes ____ no
Significant deficiencies identified not considered to be material weaknesses?	X yes ____ none reported
Type of auditor's report issued on compliance for major programs	Qualified
Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section 510(a)?	X yes ____ no

Identification of major program:

CFDA Number	Name of Federal Program or Cluster
	School Nutrition Cluster:
	U.S. Department of Agriculture:
10.553	School Breakfast Program
10.555	National School Lunch Program
	School Improvement Grants Cluster:
	U.S. Department of Education:
84.388	ARRA - School Improvement Grant
84.395	U.S. Department of Education: ARRA- Race to the Top
84.367	Title II, Part A - Improving Teacher Quality

HENRY COUNTY BOARD OF EDUCATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

A. SUMMARY OF AUDIT RESULTS (CONTINUED)

Dollar threshold used to distinguish between Type A and Type B programs:	$814,214
Auditee qualified as low-risk auditee?	____ yes __X__ no

B. FINDINGS: FINANCIAL STATEMENTS AUDIT

12-1. Recording of Accrued Payroll

Criteria: Procedures should be in place to ensure all amounts earned by employees at June 30, 2012 but not yet paid are recorded as a liability as part of year-end closing procedures.

Condition: The School System did not properly address the above criteria during the year ended June 30, 2012.

Context: The School System did not properly accrue salaries at June 30, 2012.

Effect: We discussed the issue with management who determined the need for an audit adjustment in the amount of $8,772,853 in the General Fund in order to record additional accruals for salaries.

Recommendation: We recommend the School System compare amounts accrued for salaries at year end to amounts paid in the subsequent fiscal year to ensure reasonableness of accruals.

Views of Responsible Officials and Planned Corrective Action: We concur with the finding. The School System will strengthen internal controls to ensure accurate reporting of salary accruals.

12-2. Recording of 2011 Refunding Bond Issuance

Criteria: Procedures should be in place to ensure all transactions related to the issuance of bonds are recorded in the general ledger.

Condition: The School System did not properly address the above criteria during the year ended June 30, 2012.

Context: The School System did not properly record the issuance of the 2011 refunding bonds.

Effect: We discussed the issue with management who determined the need for an audit adjustment as follows: Record as an other financing source, the issuance of $94,550,000 of general obligation refunding bonds, along with a premium of $13,273,467; record payment to the refunded bond escrow agent of $104,384,438; and record bond issuance costs, the underwriters discount, and interest expense of $348,510, $373,473, and $2,717,046, respectively.

C. FINDINGS: FEDERAL PROGRAMS AUDIT

12-2. Recording of 2011 Refunding Bond Issuance (Continued)

Recommendation: We recommend the School System record all activity involved in the issuance of bonds.

Views of Responsible Officials and Planned Corrective Action: We concur with the finding. The School System will record all activity involved in issuance of bonds in the future.

12-3. Compliance with Cash Management Requirements – ARRA School Improvement Grant, CFDA 84.388

Criteria: 34 CFR 80.21 requires that grantees shall establish methods and procedures for payment to minimize the time elapsing between the transfer/receipt of grant funds and the disbursement of funds to subgrantees or contractors/vendors.

Condition: Controls were not in place in ensure timely disbursement of grant receipts.

Context: As of June 30, 2012, the School District had received $374,187 of School Improvement Grant funds in excess of expenditures.

Effect: Funds were drawn in excess of immediate cash needs of the School System.

Recommendation: We recommend the School System strengthen controls over cash management to ensure timely disbursement of grant receipts.

Views of Responsible Officials and Planned Corrective Action: We concur with the finding. The School System will review the requirements for cash management and strengthen internal controls to ensure timely disbursement of grant funds upon receipt.

12-4. Compliance with Indirect Cost Allocation Requirements – ARRA School Improvement Grant, CFDA 84.388 and ARRA Race To The Top Incentive Grant, CFDA 84.395

Criteria: The A-133 Compliance Supplement Cross-Cutting Section states that a “restricted indirect cost rate (RICR) must be used for programs administered by state and local governments and their governmental recipients that have a statutory requirement prohibiting the use of Federal funds to supplant non-federal funds." Indirect costs charged to a grant are determined by applying the RICR to total direct costs of the grant minus capital outlays, subgrants, and other distorting or unallowable items as specified in the grantee’s indirect cost rate agreement.

Condition: Based on the above criteria, the School System did not properly charge indirect costs to the School Improvement (SIG) Grant or the Race To The Top (RTT) Incentive Grant for the fiscal year ended June 30, 2012.

C. FINDINGS: FEDERAL PROGRAMS AUDIT (CONTINUED)

12-4. Compliance with Indirect Cost Allocation Requirements – ARRA School Improvement Grant, CFDA 84.388 and ARRA Race To The Top Incentive Grant, CFDA 84.395 (Continued)

Context: For both the SIG Grant and the RTT Incentive Grant, the School System charged indirect costs based on the budgeted amount on the consolidated applications, instead of using the RICR provided by the Department of Education. Additionally, due to the 15-month span of federal grant programs, grant-year expenditures are not equal to fiscal year expenditures. As such, some indirect costs were not recorded in the proper period because indirect costs were charged based on grant-year expenditures and not fiscal year expenditures. As of June 30, 2012, indirect costs were overcharged to the SIG Grant and RTT Incentive Grant by $10,927 and $9,501, respectively.

Effect: The School System is not in compliance with its allowable costs requirements as indirect costs were incorrectly calculated.

Recommendation: We recommend the School System review the requirements for Federal programs to ensure that indirect costs are properly calculated and recorded.

Views of Responsible Officials and Planned Corrective Action: We concur with the finding. We will strengthen controls to ensure that indirect costs are properly calculated and recorded.

HENRY COUNTY BOARD OF EDUCATION

SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

11-1. Recording of Benefits Payable

Criteria: Procedures should be in place to ensure all benefits owed on behalf of employees are recorded as part of year-end closing procedures.

Condition: The School System did not properly address the above criteria during the year ended June 30, 2011.

Auditee Response/Status: Resolved

11-2. Compliance with Time and Effort Requirements – ARRA School Improvement Grant, CFDA 84.388

Criteria: An employee who works solely on a single cost objective must furnish a semi-annual certification that he/she has engaged solely in activities that support the single cost objective. If an employee works only in part on a single cost objective, he/she must document the time spent to support the single cost objective.

Condition: The School System did not properly address the above criteria during the year ended June 30, 2011.

Auditee Response/Status: Resolved

11-3. Compliance with Cash Management Requirements – ARRA School Improvement Grant, CFDA 84.388

Criteria: 34 CFR 80.21 requires that grantees shall establish methods and procedures for payment to minimize the time elapsing between the transfer/receipt of grant funds and the disbursement of funds to subgrantees or contractors/vendors.

Condition: Controls were not in place to ensure timely disbursement of grant receipts.

Auditee Response/Status: Not Resolved. See current year finding 12-3.