HENRY COUNTY BOARD OF EDUCATION

ANNUAL FINANCIAL REPORT

FOR THE
FISCAL YEAR ENDED JUNE 30, 2013

Prepared by:
Finance Department

33 North Zack Hinton Parkway
McDonough, Georgia 30253

HENRY COUNTY BOARD OF EDUCATION
ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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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

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the Henry County Board of Education's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and the fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2013, and the respective changes in financial position and the budgetary comparison for the General Fund, Special Revenue Fund and Debt Service Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 1 and 13, the Henry County Board of Education implemented Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, as well as Statement No. 65, *Items Previously Reported as Assets and Liabilities*, as of July 1, 2012. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (on pages 4 through 11) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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 federal awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the schedule of expenditures of special purpose local option sales tax proceeds, as required by the Official Code of Georgia 48-8-21, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of expenditures of federal awards and schedule of expenditures of special purpose local option sales tax proceeds (collectively "the supplementary information") are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2014, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Henry County Board of Education's internal control over financial reporting and compliance.

Mauldin & Jenkins, LLC

Macon, Georgia
March 14, 2014

HENRY COUNTY SCHOOL SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

INTRODUCTION

Our discussion and analysis of the Henry County School System's ("School System") financial performance provides an overview of the School System's financial activities for the fiscal year ended June 30, 2013. The intent of this discussion and analysis is to look at the School System'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 System's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2013 are as follows:

- On the government-wide financial statements, the assets and deferred outflow of resources of the School System exceeded liabilities by $517.3 million. Of this amount, $21.9 million is unrestricted and is available for spending at the School System's discretion.

- Total net position of the governmental activities increased from $498.6 million in 2012 to $517.3 million in 2013, an increase of $18.7 million.

- Total revenues for governmental funds increased from $385.2 million in 2012 to $389.0 million in 2013, an increase of $3.8 million.

- Total expenditures of governmental funds increased from $407.8 million in 2012 to $448.9 million in 2013, an increase of $41.1 million.

- Net position for the School System rose by $18.7 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 System. These include the government-wide and fund financial statements.

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

The fund financial statements focus on individual parts of the School System, reporting the School System's operation in more detail. The Governmental Funds statements disclose how basic services are financed in the short-term as well as what remains for future spending. The 'Fiduciary Funds' statements provide information about the financial relationships in which the School System acts solely as a trustee or agent for

the benefit of others. In the case of the Henry County School System, 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.

Government-wide Financial Statements

The Government-wide financial statements are basically a consolidation of all of the School System's operating funds into one column called governmental activities. In reviewing the Government-wide financial statements, a reader might ask the question, are we in a better financial position than last year? The Statement of Net Position and the Statement of Activities provide the basis for answering this question. These financial statements include all of the School System's assets and liabilities and use the **accrual basis of accounting** similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

The Statement of Net Position and the Statement of Activities reflect the School System's governmental activities.

Fund Financial Statements

The School System 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 System's major funds.

Governmental Funds – Most of the School System's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the **modified accrual method of accounting** which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the School System's general government operations and the basic services it provides.

Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds are reconciled in the financial statements.

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

FINANCIAL ANALYSIS OF THE SCHOOL SYSTEM AS A WHOLE

Table 1
Net Position

	Governmental Activities	
	Fiscal Year 2013	**Fiscal Year 2012**
Assets		
Current and Other Assets	$173,343,308	$224,109,997
Capital Assets, Net	642,975,027	614,230,445
Total Assets	$816,318,335	$838,340,442
Deferred Outflows of Resources		
Deferred Charge on Refunding	$3,543,419	$0.00
Liabilities		
Current and Other Liabilities	$63,997,305	$50,935,472
Long-Term Liabilities	238,566,729	287,598,821
Total Liabilities	$302,564,034	$338,534,293
Net Position		
Net investment in capital assets	$474,285,469	$421,884,410
Restricted	21,120,781	35,607,248
Unrestricted	21,891,470	42,314,491
Total Net Position	$517,297,720	$499,806,149

Table 2
Changes in Net Position

	Governmental Activities	
	Fiscal Year 2013	Fiscal Year 2012
Revenues		
Program Revenues:		
Charges for Services and Sales	$8,699,336	$9,760,144
Operating Grants and Contributions	198,330,405	191,709,189
Capital Grants and Contributions	1,453,870	0,00
Total Program Revenues	$208,483,611	$201,469,333
General Revenues:		
Property Taxes	$110,923,203	$124,099,555
Sales Taxes		
Special Purpose Local Option Sales Tax		
For Debt Service	30,079,983	29,739,766
Other Taxes	3,278,825	2,724,682
Grants and Contributions not Restricted to Specific Programs	23,129,850	16,954,146
Investment Earnings	223,659	103,779
Local School Activity	9,523,504	9,200,828
Total General Revenues	$177,159,024	$182,822,756
Total Revenues	$385,642,635	$384,292,089
Program Expenses		
Instruction	$244,922,893	$249,077,883
Support Services		
Pupil Services	8,552,880	7,954,121
Improvement of Instructional Services	10,796,865	9,768,678
Educational Media Services	4,755,916	5,053,182
General Administration	2,197,342	1,779,620
School Administration	20,987,849	20,834,657
Business services	1,199,165	1,268,260
Maintenance and Operation of Plant	28,675,612	27,687,711
Student Transportation Services	15,831,873	14,825,301
Central Support Services	1,006,152	1,093,773
Other Support Services	2,557,577	2,920,015
Operations of Non-Instructional Services		
Community Services	2,144,626	2,172,330
School Nutrition	17,267,729	16,693,393
Interest on Short-Term and Long-Term Debt	6,035,979	8,446,712
Total Expenses	$366,932,458	$369,575,636
Increase in Net Position	$18,710,177	$14,716,453

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 System'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 2013	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2012
Instruction	$244,922,893	$249,077,883	$83,969,652	$92,022,928
Support Services				
Pupil Services	8,552,880	7,954,121	6,680,674	6,314,260
Improvement of Instructional Services	10,796,865	9,768,678	4,810,174	4,404,129
Educational Media Services	4,755,916	5,053,182	1,023,051	1,519,697
General Administration	2,197,342	1,779,620	-2,350,973	-2,328,951
School Administration	20,987,849	20,834,657	12,878,966	13,861,859
Business Administration	1,199,165	1,268,260	1,195,608	1,265,668
Maintenance and Operation of Plant	28,675,612	27,687,711	28,627,189	27,654,250
Student Transportation Services	15,831,873	14,825,301	13,181,414	12,866,768
Central Support Services	1,006,152	1,093,773	1,002,932	1,091,501
Other Support Services	2,557,577	2,920,015	2,140,847	2,308,215
Operations of Non-Instructional Services				
Enterprise Operations	-	-	-40,910	-745,540
Community Services	2,144,626	2,172,330	-1,166,336	-884,821
School Nutrition	17,267,729	16,693,393	460,580	309,628
Interest on Short-Term and Long-Term Debt	6,035,979	8,446,712	6,035,979	8,446,712
Total Expenses	$366,932,458	$369,575,636	$158,448,847	$168,106,303

FINANCIAL ANALYSIS OF THE SCHOOL SYSTEM'S FUNDS

The School System's governmental funds are accounted for using the modified accrual basis of accounting. The governmental funds had total revenues of $389 million and total expenditures of $448.9 million. Included in the expenditures of $448.9 million were approximately $58.4 million of debt service expenditures.

Major Funds:

General Fund

The General Fund is the operating fund of the School System. Revenue from state and federal sources accounted for 65% of the School System's revenue. The other 35% is from local sources, primarily ad valorem taxes. In fiscal year 2013, state and federal funding increased by $10.1 million. Local revenues declined by $7.7 million. This was the result of the continued decline in the local tax digest's value. The School System'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 System 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 $53.6 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 System. Special Purpose Local Option Sales Tax (SPLOST) collections accounted for 62% of the Debt Service Fund revenue. The other 38% is from ad valorem taxes. For fiscal year 2013, the debt service millage rate was 3.628 mills.

General Fund Budgeting Highlights

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

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

For the General Fund, actual revenues (budgetary basis) of $293.3 million were 104% of the final budgeted amount of $282.3 million due to higher than expected local tax collections. The final actual expenditures (budgetary basis) of $294.3 were .34% of the final budgeted amount of $293.3 million.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At fiscal year ended June 30, 2013, the School System had $642.9 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 2013	**Fiscal Year 2012**
Land	$30,563,155	$30,563,155
Construction in Progress	46,144,255	4,669,694
Buildings and Improvements	545,762,307	556,742,516
Land Improvements	8,987,167	9,933,128
Infrastructure	2,966,212	3,053,666
Equipment	8,551,931	9,268,286
Total	$642,975,027	$614,230,445

Debt

At fiscal year ended June 30, 2013, the School System had $238.6 million in long term liabilities outstanding. Table 5 summarizes the School System's liabilities as compared to the prior fiscal year.

Table 5

Long Term Liabilities at June 30

	Governmental Activities	
	Fiscal Year 2013	**Fiscal Year 2012**
Bonds Payable	$236,223,021	$290,223,759
Compensated Absences	1,169,773	1,555,864
Workers Compensation Claims Payable	1,173,935	1,633,337
Other Claims Payable	-	1,550
Total	$238,566,729	$293,414,510

At June 30, 2013, the School System's assigned bond ratings were 'Aa2' and 'AA' as determined by Moody's Investor Services, Inc. and Standard and 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 System. The State of Georgia has continued to impose austerity reductions to all school systems. The School System's austerity reductions in state funding over the past eleven years have totaled $155.9 million.

- Local Tax Digest – The value of the ad valorem tax digest has decreased for four consecutive years. The total decline during those four years was 36%, approximately $42 million. Despite these conditions, the School System's General Fund balance at June 30, 2013 was $48.7 million. The ad valorem tax digest for FY14 increased by 1.03% and projections for FY15 are an increase of 15%. The Henry County School System continues to maintain a strong financial position and we remain optimistic about the ability of the School System to maximize all of the financial resources to provide a quality education to our students.

- Health Insurance – The School System expected a significant increase in state health insurance employer rates in 2015. The Governor has recognized that rising employer health insurance costs is a major issue for school systems. The Governor will have a working group review the issue and the planned 2015 increase will not go into effect.

- Capital Improvements – The School System plans capital improvements as future capital needs arise due to increased student population, facility repair, and maintenance needs. Specific capital expenditure plans are formalized in conjunction with individual general obligation bond issues, 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 System regularly monitors anticipated capital outlay needs.

CONTACTING THE SCHOOL SYSTEM'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens' taxpayers, investors and creditors with a general overview of the School 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 POSITION
JUNE 30, 2013

	Governmental Activities
ASSETS	
Cash and cash equivalents	$ 38,181,135
Investments	102,201,772
Intergovernmental receivables	32,591,137
Inventories	369,264
Capital assets, nondepreciable	76,707,410
Capital assets, depreciable (net of accumulated depreciation)	566,267,617
Total assets	816,318,335
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on refunding	3,543,419
	3,543,419
LIABILITIES	
Accounts payable	22,405,492
Accrued interest	2,656,766
Accrued payroll and payroll withholdings	38,481,346
Unearned revenue	453,701
Workers' compensation claims payable due within one year	1,107,530
Workers' compensation claims payable due in more than one year	66,405
Compensated absences due within one year	841,293
Compensated absences due in more than one year	328,480
General obligation bonds due within one year	27,405,301
General obligation bonds due in more than one year, net of unamortized premium	208,817,720
Total liabilities	302,564,034
DEFERRED INFLOWS OF RESOURCES	
Unearned revenues - grants	-
Total deferred inflows of resources	-
NET POSITION	
Net investment in capital assets	474,285,469
Restricted for debt service	16,440,238
Restricted for program activities	4,680,543
Unrestricted	21,891,470
Total net position	$ 517,297,720

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, 2013

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 Position: Governmental Activities
Governmental activities:					
Instruction	$ 244,922,893	$ 1,525,461	$ 157,973,910	$ 1,453,870	$ (83,969,652)
Pupil services	8,552,880	-	1,872,206	-	(6,680,674)
Improvement of instructional services	10,796,865	-	5,986,691	-	(4,810,174)
Educational media services	4,755,916	-	3,732,865	-	(1,023,051)
General administration	2,197,342	-	4,548,315	-	2,350,973
School administration	20,987,849	-	8,108,883	-	(12,878,966)
Business services	1,199,165	-	3,557	-	(1,195,608)
Maintenance and operations	28,675,612	-	48,423	-	(28,627,189)
Student transportation	15,831,873	-	2,650,459	-	(13,181,414)
Central support services	1,006,152	-	3,220	-	(1,002,932)
Other support services	2,557,577	-	416,730	-	(2,140,847)
School nutrition	17,267,729	3,822,003	12,985,146	-	(460,580)
Enterprise operations	-	40,910	-	-	40,910
Community services	2,144,626	3,310,962	-	-	1,166,336
Interest on long-term debt	6,035,979	-	-	-	(6,035,979)
Total governmental activities	366,932,458	8,699,336	198,330,405	1,453,870	(158,448,847)
General revenues:					
Property taxes					110,923,203
Sales taxes					30,079,983
Other taxes					3,278,825
Grants and contributions not restricted to specific programs					23,129,850
Local school activity					9,523,504
Unrestricted investment earnings					223,659
Total general revenues					177,159,024
Change in net position					18,710,177
Net position, beginning of year, restated					498,587,543
Net position, end of year					$ 517,297,720

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

HENRY COUNTY BOARD OF EDUCATION

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013

ASSETS	General	Debt Service	Special Revenue	Capital Projects	Total Governmental Funds
Cash	$ 22,703,333	$ 1,270,015	$ 9,833,016	$ 4,374,771	$ 38,181,135
Investments	40,186,556	12,249,541	-	49,765,675	102,201,772
Due from other governments	27,840,528	3,116,956	1,633,653	-	32,591,137
Due from other funds	805,565	-	-	-	805,565
Inventories	-	-	369,264	-	369,264
Total assets	$ 91,535,982	$ 16,636,512	$ 11,835,933	$ 54,140,446	$ 174,148,873
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
LIABILITIES					
Accounts payable	$ 5,774,762	$ 500	$ 1,031,621	$ 15,598,609	$ 22,405,492
Due to other funds	-	-	805,565	-	805,565
Accrued payroll and payroll withholdings	36,228,023	-	2,253,323	-	38,481,346
Unearned revenue	-	-	453,701	-	453,701
Total liabilities	42,002,785	500	4,544,210	15,598,609	62,146,104
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - property taxes	807,747	195,774	-	-	1,003,521
Total deferred inflows of resources	807,747	195,774	-	-	1,003,521
FUND BALANCES					
Fund balances:					
Nonspendable for inventories	-	-	369,264	-	369,264
Restricted for:					
Program activities	-	-	4,311,279	-	4,311,279
Debt service	-	16,440,238	-	-	16,440,238
Capital projects	-	-	-	38,541,837	38,541,837
Committed to school activity funds	-	-	2,352,495	-	2,352,495
Assigned:					
For subsequent year's budget	12,418,735	-	-	-	12,418,735
Program activities	-	-	258,685	-	258,685
Unassigned	36,306,715	-	-	-	36,306,715
Total fund balances	48,725,450	16,440,238	7,291,723	38,541,837	110,999,248
Total liabilities, deferred inflows of resources, and fund balances	$ 91,535,982	$ 16,636,512	$ 11,835,933	$ 54,140,446	$ 174,148,873

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 POSITION JUNE 30, 2013

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

Fund balances - total governmental funds	$	110,999,248
Capital assets		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Cost of the assets		800,338,525
Accumulated depreciation		(157,363,498)
Revenues		
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.		1,003,521
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 position. Long-term liabilities at year end consist of the following:		
Bonds payable		(221,685,000)
Accrued interest payable		(2,656,766)
Unamortized premium		(14,538,021)
Unamortized deferred charge on refunding		3,543,419
Compensated absences		(1,169,773)
Workers' compensation claims payable		(1,173,935)
Net position - governmental activities.	$	517,297,720

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, 2013

	General	Debt Service	Special Revenue	Capital Projects	Total Governmental Funds
REVENUES					
Local sources	$ 101,757,516	$ 48,276,685	$ 16,675,060	$ -	$ 166,709,261
State sources	190,394,112	-	488,010	1,453,870	192,335,992
Federal sources	2,226,391	-	27,552,851	-	29,779,242
Interest income	66,209	37,494	1,009	118,947	223,659
Total revenues	294,444,228	48,314,179	44,716,930	1,572,817	389,048,154
EXPENDITURES					
Current:					
Instruction	206,440,318	-	17,916,386	-	224,356,704
Pupil services	7,363,059	-	1,197,231	-	8,560,290
Improvement of instructional services	4,875,588	-	5,983,270	-	10,858,858
Educational media services	4,751,281	-	-	-	4,751,281
General administration	1,673,395	-	149,646	-	1,823,041
School administration	20,864,064	-	97	-	20,864,161
Business services	1,216,756	2,000	-	-	1,218,756
Maintenance and operations	28,502,598	-	2,897	-	28,505,495
Student transportation	15,008,425	-	37,645	-	15,046,070
Central support services	1,015,676	-	800	-	1,016,476
Other support services	2,140,848	-	416,729	-	2,557,577
School nutrition	-	-	17,109,670	-	17,109,670
Community service	-	-	2,144,626	-	2,144,626
Capital outlay	-	-	-	51,743,022	51,743,022
Debt service:					
Principal retirement	-	46,890,000	-	-	46,890,000
Interest and fiscal charges	-	9,609,009	-	1,872,375	11,481,384
Total expenditures	293,852,008	56,501,009	44,958,997	53,615,397	448,927,411
Excess (deficiency) of revenues over (under) expenditures	592,220	(8,186,830)	(242,067)	(52,042,580)	(59,879,257)
OTHER FINANCING SOURCES (USES)					
Proceeds from sale of assets	67,923	-	-	-	67,923
Transfers in	6,007,541	-	290,811	-	6,298,352
Transfers out	(290,811)	(6,000,000)	(7,541)	-	(6,298,352)
Total other financing sources (uses)	5,784,653	(6,000,000)	283,270	-	67,923
Net change in fund balances	6,376,873	(14,186,830)	41,203	(52,042,580)	(59,811,334)
FUND BALANCE, beginning of year	42,348,577	30,627,068	7,250,520	90,584,417	170,810,582
FUND BALANCE, end of year	$ 48,725,450	$ 16,440,238	$ 7,291,723	$ 38,541,837	$ 110,999,248

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, 2013

Amounts reported for governmental activities in the statement of activities are different because:		
Net change in fund balances - total governmental funds.	$	(59,811,334)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.		
Total capital outlay		45,360,427
Total depreciation		(16,168,545)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net position.		(447,300)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(3,405,519)
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 Position, 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 Position. The amount of the items that make up these differences in the treatment of long-term debt and related items are as follows:		
Principal repayments on general obligation bonds		46,890,000
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. The adjustments for these items are as follows:		
Change in compensated absences		386,091
Change in accrued interest on general obligation bonds		606,937
Change in workers' compensation claim liability		459,402
Change in other claims payable		1,550
Amortization of premium on general obligation bonds		7,110,738
Amortization of deferred loss on refunding		(2,272,270)
Change in net position - governmental activities.	$	18,710,177

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, 2013

	Budget			Variance With
	Original	Final	Actual	Final Budget
REVENUES				
Local sources	$ 91,667,269	$ 91,667,269	$ 101,757,516	$ 10,090,247
State sources	188,400,165	188,400,165	189,205,795	805,630
Federal sources	2,185,895	2,185,895	2,226,391	40,496
Interest income	25,000	25,000	66,209	41,209
Total revenues	282,278,329	282,278,329	293,255,911	10,977,582
EXPENDITURES				
Current:				
Instruction	207,026,461	207,026,461	206,885,219	141,242
Pupil services	7,127,850	7,127,850	7,379,020	(251,170)
Improvement of instructional services	4,628,072	4,628,072	4,862,390	(234,318)
Educational media services	4,829,050	4,829,050	4,762,180	66,870
General administration	1,587,211	1,587,211	1,670,614	(83,403)
School administration	20,867,264	20,867,264	20,907,558	(40,294)
Business services	1,311,867	1,311,867	1,213,199	98,668
Maintenance and operations	28,655,705	28,655,705	28,457,072	198,633
Student transportation	14,034,330	14,034,330	15,055,983	(1,021,653)
Central support services	1,051,888	1,051,888	1,012,456	39,432
Other support services	2,138,702	2,138,702	2,140,848	(2,146)
Total expenditures	293,258,400	293,258,400	294,346,539	(1,088,139)
Deficiency of revenues under expenditures	(10,980,071)	(10,980,071)	(1,090,628)	9,889,443
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of assets	-	-	67,923	67,923
Transfers in	-	-	6,007,541	6,007,541
Transfers out	-	-	(290,811)	(290,811)
Total other financing sources (uses)	-	-	5,784,653	5,784,653
Net change in fund balances	$ (10,980,071)	$ (10,980,071)	$ 4,694,025	$ 15,674,096

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, 2013

	Budget			Variance With
	Original	Final	Actual	Final Budget
REVENUES				
Local sources	$ 47,000,000	$ 47,000,000	$ 48,276,685	$ 1,276,685
Interest income	-	-	37,494	37,494
Total revenues	47,000,000	47,000,000	48,314,179	1,314,179
EXPENDITURES				
Current:				
Business services	-	-	2,000	(2,000)
Debt service:				
Principal retirement	46,890,000	46,890,000	46,890,000	-
Interest and fiscal charges	11,482,163	11,482,163	9,609,009	1,873,154
Total expenditures	58,372,163	58,372,163	56,501,009	1,871,154
Deficiency of revenues under expenditures	(11,372,163)	(11,372,163)	(8,186,830)	3,185,333
OTHER FINANCING USES				
Transfers out	-	-	(6,000,000)	(6,000,000)
Total other financing uses	-	-	(6,000,000)	(6,000,000)
Net change in fund balances	$ (11,372,163)	$ (11,372,163)	$ (14,186,830)	$ (2,814,667)

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, 2013

	Budget			Variance With
	Original	Final	Actual	Final Budget
REVENUES				
Local sources	$ 20,643,225	$ 20,643,225	$ 16,675,060	$ (3,968,165)
State sources	432,708	432,708	488,010	55,302
Federal sources	24,655,251	24,655,251	27,552,851	2,897,600
Interest income	-	-	1,009	1,009
Total revenues	45,731,184	45,731,184	44,716,930	(1,014,254)
EXPENDITURES				
Current:				
Instruction	21,275,415	21,275,415	17,883,726	3,391,689
Pupil services	311,262	311,262	1,195,049	(883,787)
Improvement of instructional services	3,390,807	3,390,807	5,972,363	(2,581,556)
General administration	274,228	274,228	149,646	124,582
School administration	-	-	97	(97)
Maintenance and operations	-	-	2,897	(2,897)
Student transportation	-	-	37,645	(37,645)
Central support services	-	-	800	(800)
Other support services	60,939	60,939	416,729	(355,790)
School nutrition	16,830,286	16,830,286	17,078,481	(248,195)
Community service	4,305,825	4,305,825	2,144,626	2,161,199
Total expenditures	46,448,762	46,448,762	44,882,059	1,566,703
Deficiency of revenues under expenditures	(717,578)	(717,578)	(165,129)	552,449
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	290,811	290,811
Transfers out	-	-	(7,541)	(7,541)
Total other financing sources (uses)	-	-	283,270	283,270
Net change in fund balances	$ (717,578)	$ (717,578)	$ 118,141	$ 835,719

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, 2013

	Agency Fund Student Activities
ASSETS	
Cash	$ 309,467
Total assets	$ 309,467
LIABILITIES	
Due to others	$ 309,467
Total liabilities	$ 309,467

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 position 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 System 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 Fund*** accounts 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.

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Cash and Investments

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

E. Receivables and Payables

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

F. On-Behalf Payments

The State of Georgia makes certain 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, 2013 was $805,866.

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 expenditure when used rather than when purchased.

H. Non-Monetary Transactions

The School System received from the United States Department of Agriculture through the Georgia Department of Education approximately $1,037,939 in donated food commodities for its lunchroom programs. The federally assigned value of these commodities is reflected as a revenue and an expenditure in the financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Property, plant and equipment are depreciated using the straight line method over the estimated useful life of the asset. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

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

J. Deferred Outflows / Inflows of Resources

The School System implemented GASB Statements No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 65, *Items Previously Reported as Assets and Liabilities*, as of July 1, 2012. These new standards establish accounting and financial reporting for deferred outflows / inflows of resources and the concept of net position as the residual of all other elements presented in a statement of net position.

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense / expenditure) until then. The School System only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of the refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded debt or the refunding debt.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Deferred Outflows / Inflows of Resources (Continued)

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of fund balance that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The School System has one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source: property taxes. These amounts are deferred and will be recognized as an inflow of resources in the period in which the amounts become available.

K. 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 position. 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.

L. 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. 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 position."

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 a minimum, intended to be used for the purpose of that fund.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Fund Equity (Continued)

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.

Net position represents the difference between assets and liabilities in reporting which utilizes the economic resources measurement focus. Investment in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used (i.e., the amount that the School System has spent) for the acquisition, construction or improvement of those assets. Net position is reported as restricted using the same definition as used for restricted fund balance as described in the section above. All other net position is reported as unrestricted.

N. 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/expenditures 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 Fund. 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	$	6,376,873
Adjustments for:		
State QBE revenue		(382,451)
Salaries and employee benefits		(1,300,397)
State paid employee benefit revenue		(805,866)
State paid employee benefit expenditures		805,866
Budget basis net change in fund balance	$	4,694,025

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	$	41,203
Adjustments for salaries and employee benefits		76,939
Budget basis net change in fund balance	$	118,142

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 AAAf 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, 2013, the School System's investment in Georgia Fund 1 was rated AAAf by Standard & Poor's.

At June 30, 2013, the School System had the following investments:

Investment	Maturities		Fair Value
Georgia Fund 1	43 day weighted average	$	102,201,772

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, 2013, 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, 2013, 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	$ 28,199,672	$ 3,177,179	$ 1,633,653	$ 33,010,504
Less allowance for uncollectible	(359,144)	(60,223)	-	(419,367)
Net total receivable	$ 27,840,528	$ 3,116,956	$ 1,633,653	$ 32,591,137

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 August 1, 2012, billed on August 13, 2012, and payable on or before November 16, 2012. Henry County may place liens on property once the related tax payments become delinquent. The property tax receivable allowance is equal to 8% of outstanding property taxes at June 30, 2013, net of amounts collected within 60 days of year end.

During the fiscal year ended June 30, 2013, the method for assessing state ad valorem taxes on motor vehicles was changed whereby the tax is assessed and collected at the time of purchase, rather than annually on the respective payer's date of birth. Tax on vehicles purchased prior to the change in state law are still due annually on the respective payer's date of birth.

NOTE 6. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013, 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	4,669,694	44,025,868	(447,300)	(2,104,007)	46,144,255
Total	35,232,849	44,025,868	(447,300)	(2,104,007)	76,707,410
Capital assets, being depreciated:					
Buildings and improvements	665,271,818	-	-	2,104,007	667,375,825
Land improvements	22,410,946	-	-	-	22,410,946
Infrastructure	3,484,220	-	-	-	3,484,220
Machinery and equipment	30,167,635	1,334,559	(1,142,070)	-	30,360,124
Total	721,334,619	1,334,559	(1,142,070)	2,104,007	723,631,115
Less accumulated depreciation for:					
Buildings and improvements	(108,529,302)	(13,084,216)	-	-	(121,613,518)
Land improvements	(12,477,818)	(945,961)	-	-	(13,423,779)
Infrastructure	(430,554)	(87,454)	-	-	(518,008)
Machinery and equipment	(20,899,349)	(2,050,914)	1,142,070	-	(21,808,193)
Total	(142,337,023)	(16,168,545)	1,142,070	-	(157,363,498)
Total capital assets, being depreciated, net	578,997,596	(14,833,986)	-	2,104,007	566,267,617
Governmental activities capital assets, net	$ 614,230,445	$ 29,191,882	$ (447,300)	$ -	$ 642,975,027

NOTE 6. CAPITAL ASSETS (CONTINUED)

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

Governmental activities:		
Instruction	$	13,982,454
Educational media services		4,850
School administration		239,237
Maintenance and operations		224,689
Student transportation		1,555,668
School nutrition		161,647
Total depreciation expense - governmental activities	$	16,168,545

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.

General obligation bonds at June 30, 2013, consisted of the following:

Series	Coupon Rate	Maturities		Balance
2004	3.50% - 5.00%	2013 to 2015	$	17,350,000
2007	4.375%	2025		13,060,000
2011	2.00% - 5.00%	2013 to 2023		91,275,000
2012	1.00% - 5.00%	2013 to 2018		100,000,000
			$	221,685,000

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
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	31,445,000	4,350,563	35,795,563
2019-2023	53,680,000	12,270,113	65,950,113
2024-2025	25,325,000	1,152,594	26,477,594
Total	$ 221,685,000	$ 47,835,870	$ 269,520,870

Changes in long-term debt related to governmental activities for the year ended June 30, 2013 are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable	$ 268,575,000	$ -	$ (46,890,000)	$ 221,685,000	$ 21,695,000
Plus unamortized bond premium	21,648,759	-	(7,110,738)	14,538,021	5,710,301
Bonds payable, net	290,223,759	-	(54,000,738)	236,223,021	27,405,301
Workers' compensation claims payable	1,633,337	865,643	(1,325,045)	1,173,935	1,107,530
Other claims payable	1,550	-	(1,550)	-	-
Compensated absences	1,555,864	869,371	(1,255,462)	1,169,773	841,293
Governmental activities Long-term liabilities	$ 293,414,510	$ 1,735,014	$ (56,582,795)	$ 238,566,729	$ 29,354,124

Restricted fund balance of $16,440,238 is available in the Debt Service Fund to service the general obligation bonds.

Compensated absences, workers' compensation 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, 2013, is as follows:

Due to/from other funds:

Due To	Due From General Fund
Special Revenue Fund	$ 805,565

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	Debt Service Fund	Special Revenue Fund	Total
General Fund	$ -	$ 6,000,000	$ 7,541	$ 6,007,541
Special Revenue Fund	290,811	-	-	290,811
	$ 290,811	$ 6,000,000	$ 7,541	$ 6,298,352

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.

During fiscal year 2011, proceeds from the special purpose local option sales tax (SPLOST) in effect at the time were insufficient to fund the annual debt service requirements of the Series 2007A Bonds, which were secured by SPLOST, requiring a transfer from the General Fund. In fiscal year 2013, the School System determined excess proceeds from the SPLOST in effect during fiscal year 2011 were currently on hand, and a transfer to the General Fund was made in February 2013 to reimburse the General Fund for part of the debt service payment made on the Series 2007A bonds in fiscal year 2011.

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 6.00% of their annual covered salary to the plan and the School System is required to contribute 11.41% of current covered payroll. Covered employees' contributions for the years ended June 30, 2013, 2012, and 2011, were $11,242,638, $10,729,632 and $10,883,439, respectively. The School System's contributions to TRS for the years ended June 30, 2013, 2012, and 2011, were $21,167,096, $19,945,859, and $20,138,900, 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. Total contributions from employees of the School System made during the year ended June 30, 2013, totaled $33,090.

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, 2013, for School System employees was $560,426.

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.

There were 814 employees covered under PSERS for the year ended June 30, 2013.

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, 2013 were as follows:

For certified personnel:

Period	Contribution
July 2012 - February 2013	$912.34 per member per month
March 2013 - June 2013	$937.34 per member per month

For non-certified school personnel:

Period	Contribution
July 2012 - June 2013	$446.20 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, 2013, 2012, and 2011 were $31,092,097, $31,525,478, and $29,694,920, 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, 2012 and June 30, 2013 for which the School System is self-insured are as follows:

Workers' Compensation	June 30, 2013	June 30, 2012
Unpaid claims, beginning of fiscal year	$ 1,633,337	$ 1,518,725
Incurred claims (including IBNRs)	865,643	1,620,086
Claim payments and changes in estimates	(1,325,045)	(1,505,474)
Unpaid claims, end of fiscal year	$ 1,173,935	$ 1,633,337

NOTE 11. RISK MANAGEMENT (CONTINUED)

Unemployment Compensation	June 30, 2013	June 30, 2012
Unpaid claims, beginning of fiscal year	$ -	$ -
Incurred claims (including IBNRs)	97,123	116,121
Claim payments and changes in estimates	(97,123)	(116,121)
Unpaid claims, end of fiscal year	$ -	$ -

NOTE 12. COMMITMENTS AND CONTINGENCIES

In addition to the liabilities enumerated in the balance, at June 30, 2013, the School System has contractual commitments on uncompleted contracts of approximately $53,863,310.

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, 2013, may be impaired. In the opinion of the School System, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

NOTE 13. CHANGE IN ACCOUNTING PRINCIPLE

In conjunction with the implementation of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the School System is required to change its accounting treatment of debt issuance costs. The new standard requires that debt issuance costs be recognized as an expense in the period incurred rather than capitalized and recognized as an expense (amortized) in a systematic and rational manner over the duration of the related debt as was the required treatment in prior reporting periods.

NOTE 13. CHANGE IN ACCOUNTING PRINCIPLE (CONTINUED)

Therefore, in conjunction with the implementation of Statement No. 65, the following restatement was required to the beginning net position of Governmental Activities to properly recognize debt issuance costs as expenses in the periods in which they were incurred:

Net position, Governmental Activities, previously reported	$	499,806,149
Recognition of issuance costs incurred in prior periods		(1,218,606)
Beginning net position, Governmental Activities, restated	$	498,587,543

NOTE 14. SUBSEQUENT EVENT

In November 2013, the School System issued $15,000,000 Henry County School District (Georgia) General Obligation Bonds, Series 2013 for the purpose of financing the costs of acquiring, constructing, and equipping new schools, acquiring school buses, acquiring instructional and administrative technology improvements, and adding to, renovating, and improving existing school facilities. Interest rates range from 2.00% to 5.00%. Payments are due semiannually on each June 1 and December 1, beginning June 1, 2014 through 2024.

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, 2013

	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	$ 51,743,022	$ 58,158,304
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	51,743,022	$ 72,158,304
Interest, bond issuance costs and fees paid for with bond funds				1,872,375	
Total expenditures, Capital Projects Fund				$ 53,615,397	

COMPLIANCE SECTION

MAULDIN & JENKINS
CERTIFIED PUBLIC ACCOUNTANTS, LLC

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

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

We have audited, 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, 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, 2013, and the related notes to the financial statements, which collectively comprise the Henry County Board of Education's basic financial statements and have issued our report thereon dated March 14, 2014. Our report includes a reference to the changes in accounting principle resulting from the implementation of Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Henry County Board of Education's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Henry County Board of Education's internal control.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2013-1 and 2013-2 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 from 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.*

Henry County Board of Education's Response to Findings

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.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mauldin & Jenkins, LLC

Macon, Georgia
March 14, 2014

MAULDIN & JENKINS
CERTIFIED PUBLIC ACCOUNTANTS, LLC

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

We have audited the Henry County Board of Education's compliance 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, 2013. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Henry County Board of Education's major federal programs based on our audit of the types of compliance requirements referred to above. 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 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Henry County Board of Education's compliance.

Opinion on Each Major Federal Program

In our opinion, 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, 2013.

Report on Internal Control Over Compliance

Management of the Henry County Board of Education is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Henry County Board of Education's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance 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.

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 control 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. 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Mauldin & Jenkins, LLC

Macon, Georgia
March 14, 2014

HENRY COUNTY BOARD OF EDUCATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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	$ 2,861,941
National School Lunch Program	10.555	9,635,194
Total U.S Department of Agriculture		12,497,135
U. S. DEPARTMENT OF DEFENSE:		
Direct Federal Award		
Junior ROTC	12.unknown	685,877
U. S. DEPARTMENT OF EDUCATION:		
Passed through Georgia Department of Education:		
Title I, Part A Cluster	84.010	5,268,272
Title II, Part A - Improving Teacher Quality	84.367	728,357
Title II, Part A - Advanced Placement Grant	84.367	10,720
		739,077
Title III - Limited English Proficient	84.365	122,374
ARRA - School Improvement Grant Cluster	84.388	1,248,700
ARRA - Race to the Top	84.395	770,602
Education Jobs Fund	84.410	16,178
Special Education Cluster:		
IDEA Flowthrough	84.027	6,416,446
IDEA Preschool	84.173	162,128
Total Special Education Cluster		6,578,574
Vocational Education - Basic Grants to States	84.048	277,746
Education for Homeless Children and Youth Cluster	84.196	47,485
Total U.S. Department of Education		15,069,008
Total Expenditures of Federal Awards		$ 28,252,020

HENRY COUNTY BOARD OF EDUCATION

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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 $1,037,939 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, 2013

A. SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditor's report issued	Unmodified
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?	____ yes _X_ no
Significant deficiencies identified not considered to be material weaknesses?	____ yes _X_ none reported
Type of auditor's report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section 510(a)?	____ yes _X_ 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
	U.S. Department of Education:
84.395	ARRA- Race to the Top

HENRY COUNTY BOARD OF EDUCATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

A. SUMMARY OF AUDIT RESULTS (CONTINUED)

Dollar threshold used to distinguish between Type A and Type B programs:	$847,561
Auditee qualified as low-risk auditee?	____ yes __X__ no

B. FINDINGS: FINANCIAL STATEMENTS AUDIT

2013-1. Recording of Accounts Payable

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

Condition: During our audit of accounts payable, we noted disbursements made subsequent to year end which should have been recorded as accounts payable at June 30, 2013. Additionally, we noted amounts recorded as accounts payable for which the related goods were not received until subsequent to June 30, 2013.

Context: We addressed this matter with School System officials, who agreed adjustments were necessary to properly reflect the balances of accounts payable and interfund payables at June 30, 2013.

Effect: Audit adjustments were required in various funds of the School System including:

- Entries to the General Fund resulting in increases in assets of $2,325,988, liabilities of $1,520,423, a decrease in expenditures of $794,017, and an increase in revenues of $11,548;
- Entry to the Capital Projects Fund resulting in a decrease in liabilities and a decrease in expenditures of $312,324;
- Entries to the Special Revenue fund resulting in increases in assets of $1,018,675 and liabilities of $1,030,025 and an increase to expenditures of $11,351.

Recommendation: We recommend the School System strengthen internal controls in the area of accounts payable cutoff, including interfund payables, in order to better identify amounts which should be recorded as payable at the end of each financial reporting cycle.

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 accounts payable.

HENRY COUNTY BOARD OF EDUCATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

2013-2. Cash Management, Grant Administration, and Deferred Revenue

Criteria: Generally accepted accounting principles require the reporting of amounts as revenue and expenditures in the period to which they relate and when the underlying transaction occurs. When amounts are available but do not otherwise meet the criteria for revenue recognition, generally accepted accounting principles require these amounts to be reported as deferred revenue.

Condition: The School System withdrew grant funds from the grantor agency in excess of the grant expenditures. At June 30, 2013, this excess had not been utilized for the grant program. Additionally, the School System improperly transferred funds from the special revenue fund to the general fund as a result of the excess withdrawals and errors in the posting of prior year audit adjustments.

Context: We addressed this matter with School System officials, who agreed that the excess amount drawn should be recorded as deferred revenue at June 30, 2013.

Effect: Audit adjustments were required in various funds of the School System including:

- Entry to the General Fund resulting in a decrease in assets and a decrease to other financing sources of $508,236;
- Entries to the Special Revenue Fund resulting in an increase in assets of $504,663, an increase in liabilities of $453,701, an increase to other financing sources of $531,402, a decrease to revenues of $395,995, and an increase to expenditures of $84,445.

Recommendation: We recommend the School System strengthen internal controls in the area of cash management, grant administration and deferred revenue to ensure the School System only requests reimbursements from grants for amounts already expended.

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

HENRY COUNTY BOARD OF EDUCATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

C. FINDINGS: FEDERAL PROGRAMS AUDIT

No findings reported.

HENRY COUNTY BOARD OF EDUCATION

SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

2012-1. 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.

Auditee Response/Status: Resolved

2012-2. 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.

Auditee Response/Status: Resolved

2012-3. 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.

Auditee Response/Status: Resolved

2012-4. 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.

Auditee Response/Status: Resolved