

Henry County Board of Education

Basic Financial Statements,
Supplementary Information,
And Independent Auditor's Reports

Year Ended June 30, 2012

Henry County Board of Education
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Year Ended June 30, 2012

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Independent Auditor's Report

Henry County Board of Education
New Castle, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Henry County Board of Education, as of and for the year ended June 30, 2012, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Board's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the provisions of *Office of Management and Budget Circular A-133*, conducted in accordance with *Audits of States, Local Governments, and Non-profit Organizations* and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I of the Independent Auditor's Contract – General Audit Requirements, Appendix II of the Independent Auditor's Contract – State Audit Requirements, and Appendix III of the Independent Auditor's Contract – Audit Extension Request, Appendix IV of the Independent Auditor's Contract – Instructions for Completion and Electronic Submission of the Audit Report*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Henry County Board of Education, as of June 30, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2012, on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 6 and 28 through 29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and *other knowledge* we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board's basic financial statements. The combining and individual nonmajor fund financial statements 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 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the

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financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board's basic financial statements. The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Charles T. Mitchell Co.

October 17, 2012

Henry County Board of Education – New Castle, Ky.
Management’s Discussion and Analysis (MD&A)
Year Ended June 30, 2012

This section of the Henry County School District’s (District) annual financial report presents our discussion and analysis of the District’s financial performance during the fiscal year that ended on June 30, 2012. This reporting model uses both government-wide financial and fund financial statements. Please read it in conjunction with the additional information found within the body of the audit.

Financial Highlights

- The beginning cash balance for FY 2012 for the District was \$8,144,370. This total includes revenues from all funds. The ending cash balance was \$4,840,222.37.
- The District maintained all operations successfully and purchased two new buses with a cost of \$185,672.
- Phase I of the renovation/addition of New Castle Elementary continued during this fiscal year. The Henry County Early Childhood Center was opened as part of this project. The Early Childhood Center houses all head start and preschool classes for the district. A new administrative suite and improved parking and traffic circulation was also completed. At the end of this year costs were \$672,666.81.
- Phase II of the renovation/addition of New Castle Elementary continued during this fiscal year. New ceilings and lighting, new floor tile, renovated restroom facilities, renovation of the library, a new geothermal heating and cooling system, four new classrooms and two new restrooms, and a renovated kitchen and cafeteria are included in this phase of construction. At the end of this year costs were \$3,230,481.57.

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to the District’s basic financial statements. The District’s basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District’s finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District’s assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District’s net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt are also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 7 and 8 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are our vending and food service operations. All other activities of the District are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 9 through 17 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 18 through 27 of this report.

Government-wide Financial Analysis

Net assets may serve over time as a useful indicator of a governmental financial position. In the case of the District, assets exceeded liabilities by \$6,957,761 for Governmental Activities, and \$836,814 for Business-Type Activities as of June 30, 2012.

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net Assets for the period ending June 30, 2012 as compared to June 30, 2011:

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Current & Other Assets	\$ 4,611,959	\$ 8,224,574	\$ 460,665	\$ 444,999	\$ 5,072,624	\$ 8,669,573
Capital Assets	<u>29,018,902</u>	<u>26,807,623</u>	<u>382,781</u>	<u>244,709</u>	<u>29,401,683</u>	<u>27,052,332</u>
Total Assets	<u>33,630,861</u>	<u>35,032,197</u>	<u>843,446</u>	<u>689,708</u>	<u>34,474,307</u>	<u>35,721,905</u>
Long-term Debt Outstanding	25,452,418	26,482,418	-	-	25,452,418	26,482,418
Other Liabilities	<u>1,202,679</u>	<u>1,086,895</u>	<u>6,632</u>	<u>-</u>	<u>1,209,311</u>	<u>1,086,895</u>
Total Liabilities	<u>26,655,097</u>	<u>27,569,313</u>	<u>6,632</u>	<u>-</u>	<u>26,661,729</u>	<u>27,569,313</u>
Net Assets						
Invested in Capital Assets, (net of related debt)	2,543,206	(587,377)	382,781	244,709	2,925,987	(342,668)
Restricted	647,351	5,511,898	27,944	444,999	675,295	5,956,897
Unrestricted	<u>3,785,207</u>	<u>2,538,363</u>	<u>426,089</u>	<u>-</u>	<u>4,211,296</u>	<u>2,538,363</u>
Total Net Assets	<u>\$ 6,975,764</u>	<u>\$ 7,462,884</u>	<u>\$ 836,814</u>	<u>\$ 689,708</u>	<u>\$ 7,812,578</u>	<u>\$ 8,152,592</u>

Comments on Budget Comparisons

- 1) Excluding on-behalf payments of \$3,102,215, the General Fund budget compared to actual revenue varied slightly from line item to line item with an ending actual balance being \$89,132 or .67% less than budgeted.
- 2) Actual General Fund expenditures, net of on-behalf payments of \$3,102,215 compared to budget expenditures, net of contingency allotments, was \$486,711 or 3.7% less than budget.

The following table presents a summary of revenue and expenses for the fiscal year ended June 30, 2012, for selected funds:

	Governmental		Business - Type		Total	
	Activities		Activities			
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Revenues						
Program Revenues:						
Charges for Services	\$ 11,338.00	\$ -	\$ 507,551	\$ 508,060	\$ 518,889	\$ 508,060
Operating Grants & Contributions	1,884,215	3,429,081	839,909	840,419	2,724,124	4,269,500
Capital Grants & Contributions	934,116	-	-	-	934,116	-
General Revenues:						
Property Taxes	4,144,117	4,202,128	-	-	4,144,117	4,202,128
Other Taxes	672,338	697,477	-	-	672,338	697,477
Investment Earnings	114,495	107,148	5,807	5,416	120,302	112,564
State & Formula Grants	9,640,958	8,789,766	12,863	13,160	9,653,821	8,802,926
Gain (Loss) on Sale of Assets	-	(55,982)	1,021	-	1,021	(55,982)
Capital Assets Purchased by General Fund	(3,943)	-	-	-	(3,943)	-
State On Behalf Payments	3,102,215	2,815,508	88,268	155,960	3,190,483	2,971,468
Miscellaneous	135,373	27,556	-	-	135,373	27,556
Total Revenues	\$ 20,635,222	\$ 20,012,682	\$ 1,455,419	\$ 1,523,015	\$ 22,090,641	\$ 21,535,697
Summary of Expenses						
Expenses						
Instruction	\$ 10,966,336	\$ 10,437,854	\$ -	\$ -	\$ 10,966,336	\$ 10,437,854
Support Services:						
Student	815,608	739,233	-	-	815,608	739,233
Instruction Staff	1,134,946	1,032,512	-	-	1,134,946	1,032,512
District Administrative	717,623	456,251	-	-	717,623	456,251
School Administrative	927,568	861,479	-	-	927,568	861,479
Business	893,173	743,497	-	-	893,173	743,497
Plant Operation & Maintenance	2,802,256	2,363,292	-	-	2,802,256	2,363,292
Student Transportation	1,630,558	1,603,100	-	-	1,630,558	1,603,100
Facilities Acquisition & Construction	-	-	-	-	-	-
Community Service Activities	188,928	196,407	-	-	188,928	196,407
Other	6,937	-	-	-	6,937	-
Interest on Long-Term Debt	1,038,409	1,005,987	-	-	1,038,409	1,005,987
Food Service Operation	-	-	1,308,313	1,420,036	1,308,313	1,420,036
Other	-	-	-	16,303	-	16,303
Total Expenses	\$ 21,122,342	\$ 19,439,612	\$ 1,308,313	\$ 1,436,339	\$ 22,430,655	\$ 20,875,951
Increase in Net Assets	(487,120)	573,070	147,106	86,676	(340,014)	659,746
Net Assets - Beginning	7,462,884	6,889,814	689,708	603,032	8,152,592	7,492,846
Net Assets - Ending	<u>\$ 6,975,764</u>	<u>\$ 7,462,884</u>	<u>\$ 836,814</u>	<u>\$ 689,708</u>	<u>\$ 7,812,578</u>	<u>\$ 8,152,592</u>

Budgetary Implications

In Kentucky the fiscal year for public schools is July 1-June 30; other programs, i.e. some federal, operate on a different fiscal calendar, but are reflected in the District overall budget. By law the budget must have a minimum 2 percent contingency. The District adopted a budget with \$2,393,922 in contingency overall.

The Henry County Board of Education believes that successful student achievement is the most important task of the school district. They are committed to making sound fiscal decisions to achieve the best educational opportunities for all students.

Capital Assets (Net of Depreciation and Amortization)

As of June 30, 2012, the District had invested \$29,000,899 in capital assets as reflected in the following table, which represents a net increase (additions, deductions and depreciation) of \$2,193,276. Additional detailed information on Capital Assets is available in the Notes to the Financial Statements.

	Governmental Activities		Business - Type Activities		Total	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Land	\$ 768,517	\$ 768,865	\$ -	\$ -	\$ 768,517	\$ 768,865
Buildings & Improvements	23,337,602	20,549,364	-	-	23,337,602	20,549,364
Technology Equipment	428,866	361,793	-	-	428,866	361,793
Vehicles	777,502	923,798	-	-	777,502	923,798
General Equipment	189,625	157,297	-	-	189,625	157,297
Construction in Progress	3,403,425	3,951,144	-	-	3,403,425	3,951,144
Food Service & Equipment	-	-	382,780	244,709	382,780	244,709
Bond Issuance Cost	113,365	95,362	-	-	113,365	95,362
	<u>\$ 29,018,902</u>	<u>\$ 26,807,623</u>	<u>\$ 382,780</u>	<u>\$ 244,709</u>	<u>\$ 29,401,682</u>	<u>\$ 27,052,332</u>

Debt Administration

At June 30, 2012, the District had \$26,475,696 in bonds outstanding. Of this amount, \$5,062,435 is to be paid from the KSFCC funding provided by the State. A total of \$1,125,696 is due within one year.

At June 30, 2011, the District had \$27,395,000 in bonds outstanding. Of this amount, \$5,819,809 is to be paid from the KSFCC funding provided by the State. A total of \$1,015,000 is due within one year.

Principal payments were made in the amount of \$980,000 representing the decrease in balance from 2011 to 2012.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Revenue Bonds Payable	<u>\$ 27,395,000</u>	<u>\$ 904,559</u>	<u>\$ 1,823,863</u>	<u>\$ 26,475,696</u>	<u>\$ 1,125,696</u>
Long-term Liabilities	<u>\$ 27,395,000</u>	<u>\$ 904,559</u>	<u>\$ 1,823,863</u>	<u>\$ 26,475,696</u>	<u>\$ 1,125,696</u>
	<u>\$ 27,395,000</u>	<u>\$ 904,559</u>	<u>\$ 1,823,863</u>	<u>\$ 26,475,696</u>	<u>\$ 1,125,696</u>

Government-wide Financial Statements

Henry County Board of Education
Statement of Net Assets
June 30, 2012

	Governmental Activities	Business- Type Activities	Total
Assets			
<u>Current Assets</u>			
Cash & Cash Equivalents	\$ 4,332,505	\$ 432,721	\$ 4,765,226
Inventory		27,944	27,944
Accounts Receivable	279,454	-	279,454
Total Current Assets	4,611,959	460,665	5,072,624
<u>Noncurrent Assets</u>			
Capital Assets & Intangible Costs	49,607,829	710,884	50,318,713
Less: Accumulated Depreciation & Amortization	(20,588,927)	(328,103)	(20,917,030)
Total Noncurrent Assets	29,018,902	382,781	29,401,683
Total Assets	\$ 33,630,861	\$ 843,446	\$ 34,474,307
Liabilities			
<u>Current Liabilities</u>			
Accounts Payable	\$ 38,163	\$ 6,632	\$ 44,795
Deferred Revenue	38,820		38,820
Current Portion of Bond Obligations	1,125,696		1,125,696
Current Portion of Accrued Sick Leave	-	-	-
Total Current Liabilities	1,202,679	6,632	1,209,311
<u>Noncurrent Liabilities</u>			
Noncurrent Portion of Bond Obligations	25,350,000		25,350,000
Noncurrent Portion of Accrued Sick Leave	102,418	-	102,418
Total Noncurrent Liabilities	25,452,418	-	25,452,418
Total Liabilities	\$ 26,655,097	\$ 6,632	\$ 26,661,729
Net Assets			
Invested in Capital Assets, Net of Related Debt	\$ 2,543,206	\$ 382,781	\$ 2,925,987
Restricted For:			
Capital Projects	255,479		255,479
Other Purposes: (nonexpendable)	391,872	27,944	419,816
Unrestricted	3,785,207	426,089	4,211,296
Total Net Assets	\$ 6,975,764	\$ 836,814	\$ 7,812,578

The notes to the basic financial statement are an integral part of this statement.

Henry County Board of Education
Statement of Activities
For the Year Ended June 30, 2012

Functions/Programs	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business- Type Activities	Total
Governmental Activities:							
Instruction	\$ 10,966,336	\$ 11,338	\$ 1,680,080	\$ -	\$ (9,274,918)	\$ -	\$ (9,274,918)
Support Services:							
Student	815,608				(815,608)		(815,608)
Instruction Staff	1,134,946				(1,134,946)		(1,134,946)
District Administrative	717,623				(717,623)		(717,623)
School Administrative	927,568				(927,568)		(927,568)
Business	893,173				(893,173)		(893,173)
Plant Operation & Maintenance	2,802,256				(2,802,256)		(2,802,256)
Student Transportation	1,630,558		49,218		(1,581,340)		(1,581,340)
Facilities Acquisition & Construction	-			934,116	934,116		934,116
Community Service Activities	188,928				(188,928)		(188,928)
Amortization	6,937				(6,937)		(6,937)
Interest on Long-Term Debt	1,038,409		154,917		(883,492)		(883,492)
Total Governmental Activities	21,122,342	11,338	1,884,215	934,116	(18,292,673)		(18,292,673)
Business-Type Activities:							
Food Service	1,308,313	507,551	839,909	-	-	39,147	39,147
Total Business-Type Activities	1,308,313	518,889	839,909	-	-	39,147	39,147
Total Primary Government	\$ 22,430,655	\$ 518,889	\$ 2,724,124	\$ 934,116	(18,292,673)	39,147	(18,253,526)
General Revenues:							
Taxes:							
Property Taxes					\$ 3,678,008	\$ -	\$ 3,678,008
Motor Vehicle Taxes					466,109		466,109
Utility Taxes					668,023		668,023
Other Taxes					4,315		4,315
Investment Earnings					114,495	5,807	120,302
State and Formula Grants					9,640,958	12,863	9,653,821
Gain/Loss on Sale of Assets					(3,943)	1,021	(2,922)
On Behalf Payments					3,102,215	88,268	3,190,483
Miscellaneous					135,373	-	135,373
Change in Net Assets					(487,120)	147,106	(340,014)
Net Assets - Beginning					7,462,884	689,708	8,152,592
Net Assets - Ending					\$ 6,975,764	\$ 836,814	\$ 7,812,578

The notes to the basic financial statement are an integral part of this statement.

Henry County Board of Education
Statement of Net Assets
Governmental Funds
June 30, 2012

	General Fund	Special Revenue	Nonmajor Governmental Funds	Totals Governmental Funds
Assets				
Cash & Cash Equivalents	\$ 4,137,272	\$ (60,246)	\$ 255,479	\$ 4,332,505
Accounts Receivable				
Accounts Receivable	180,388	99,066		279,454
Notes Receivable				
Due from Other Funds				
Total Assets	\$ 4,317,660	\$ 38,820	\$ 255,479	\$ 4,611,959
Liabilities & Fund Balances				
Liabilities:				
Accounts Payable	\$ 38,163	\$ -	\$ -	\$ 38,163
Deferred Revenue		38,820		38,820
Total Liabilities	38,163	38,820	-	76,983
Fund Balances				
Committed-Other	234,288			234,288
Committed-Future Construction	1,095,470			1,095,470
Restricted-Future Construction			255,479	255,479
Restricted-Sick Leave	157,584			157,584
Unassigned	2,792,155			2,792,155
Total Fund Balances	4,279,497	-	255,479	4,534,976
Total Liabilities & Fund Balances	\$ 4,317,660	\$ 38,820	\$ 255,479	\$ 4,611,959

The notes to the basic financial statement are an integral part of this statement.

Henry County Board of Education
Statement of Revenues, Expenditures, & Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2012

	General Fund	Special Revenue	Nonmajor Governmental Funds	Totals (Memorandum Only)
Revenues:				
Taxes:				
Property	\$ 3,071,582	\$ -	\$ 606,426	\$ 3,678,008
Motor Vehicle	377,889		88,220	466,109
Utilities	668,023			668,023
Other	4,315			4,315
Earnings on Investments	96,247	455	17,793	114,495
Other Local Revenues	29,707	14,004		43,711
Intergovernmental - State	12,147,848	644,543	934,116	13,726,507
Intergovernmental - Indirect Federal	11,096	1,668,984		1,680,080
Intergovernmental - Direct Federal	-	-	-	-
Total Revenues	16,406,707	2,327,986	1,646,555	20,381,248
Expenditures:				
Instruction	9,526,981	1,808,486		11,335,467
Support Services:				
Student	715,287	54,400		769,687
Instructional Staff	935,792	196,981		1,132,773
District Administration	710,025	-		710,025
School Administration	923,084	-		923,084
Business	420,730	-		420,730
Plant Operations & Maintenance	1,637,049	-		1,637,049
Student Transportation	1,322,580	148,896		1,471,476
Food Services	-	-		-
Community Service	28,721	159,307		188,028
Facilities Acquisition & Construction			3,903,149	3,903,149
Debt Service:				
Principal			731,991	731,991
Interest			883,492	883,492
Other	-	-	-	-
Total Expenditures	16,220,249	2,368,070	5,518,632	24,106,951
Excess (Deficit) of Revenues				
Over Expenditures	186,458	(40,084)	(3,872,077)	(3,725,703)
Other Financing Sources (Uses):				
Proceeds from the Sale of Assets	5,000			5,000
Proceeds from the Sale of Bonds				-
Operating Transfers In		40,084	103,000	143,084
Operating Transfers Out	(40,084)	-	-	(40,084)
Total Other Financing Sources(Uses)	(35,084)	40,084	103,000	108,000
Excess (Deficit) of Revenues & Other Financing Sources Over Expenditures & Other Financing Uses				
	151,374	-	(3,769,077)	(3,617,703)
Fund Balance June 30, 2011	4,128,123	-	4,024,556	8,152,679
Fund Balance June 30, 2012	\$ 4,279,497	\$ -	\$ 255,479	\$ 4,534,976

The notes to the basic financial statements are an integral part of this statement.

Henry County Board of Education
Reconciliation of the Statement of Net Assets -
Governmental Funds to the Statement of Net Assets
June 30, 2012

Total Fund Balance per Fund Financial Statements	\$ 4,534,976
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net assets.	29,018,902
Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave) are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net assets.	<u>(26,578,114)</u>
Net Assets for Governmental Activities	<u>\$ 6,975,764</u>

The notes to the basic financial statements are an integral part of this statement.

Henry County Board of Education
 Reconciliation of the Statement of Revenues, Expenditures &
 Changes in Fund Balances of Governmental Funds
 To the Statement of Activities
 For the Year Ended June 30, 2012

Net change in total fund balances per fund financial statements	\$	(3,617,703)
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which depreciation expense exceeds capital outlays this year.		2,400,828
Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net assets.		731,991
Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.		<u>(20,239)</u>
Change in net assets of governmental activities	\$	<u><u>(505,123)</u></u>

The notes to the basic financial statements are an integral part of this statement.

Henry County Board of Education
Statement of Net Assets
Proprietary Funds
June 30, 2012

	<u>Food Service Fund</u>
Assets	
<u>Current Assets</u>	
Cash and Cash Equivalents	\$ 432,721
Inventory	27,944
Accounts Receivable	-
Total Current Assets	<u>460,665</u>
<u>Noncurrent Assets</u>	
Capital Assets	710,884
Less: Accumulated Depreciation	<u>(328,103)</u>
Total Noncurrent Assets	<u>382,781</u>
Total Assets	<u><u>\$ 843,446</u></u>
Liabilities	
<u>Current Liabilities</u>	
Accounts Payable	\$ 6,632
Total Current Liabilities	<u>6,632</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	382,781
Restricted for Inventory	27,944
Unrestricted	<u>426,089</u>
Total Net Assets	<u>836,814</u>
Total Liabilities and Net Assets	<u><u>\$ 843,446</u></u>

The notes to the basic financial statements are an integral part of this statement.

Henry County Board of Education
Statement of Revenues, Expenses,
And Changes in Net Assets - Proprietary Funds
For the Year Ended June 30, 2012

	Food Service Fund
Operating Revenues:	
Lunchroom Sales	\$ 485,478
Other	22,073
Total Operating Revenues	<u>507,551</u>
Operating Expenses:	
Salaries and Wages	656,418
Materials & Supplies	508,826
Depreciation Expense	38,065
Other Operating Expenses	105,004
Total Operating Expenses	<u>1,308,313</u>
Operating Income (Loss)	<u>(800,762)</u>
Non-Operating Revenues (Expenses)	
Federal Grants	789,097
Sale of Assets	1,021
Donated Commodities	50,812
Other State Funding	101,131
Interest Income	5,807
Non-Operating Revenues (Expenses)	<u>947,868</u>
Change in Net Assets	147,106
Net Assets June 30, 2011	<u>689,708</u>
Net Assets June 30, 2012	<u><u>\$ 836,814</u></u>

The notes to the basic financial statements are an integral part of this statement.

Henry County Board of Education
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2012

	Food Service Fund
Cash Flows from Operating Activities:	
Cash received from lunchroom sales	\$ 485,478
Cash received from other activities	21,052
Cash payments to employees for services	(656,418)
Cash payments to suppliers for goods & services	(459,272)
Cash payments for other operating activities	<u>(105,004)</u>
Net cash from operating activities	<u>(714,164)</u>
Cash flows from Capital & Related Financial Activities:	
Purchases of Property, Plant and Equipment	<u>(167,463)</u>
Net cash used by capital & related financial activities	<u>(167,463)</u>
Cash Flows from NonCapital Financing Activities:	
Cash received from government grants	<u>890,228</u>
Net cash from noncapital financing activities	<u>890,228</u>
Cash Flows from Investing Activities:	
Interest on investments	<u>5,807</u>
Net cash from investing activities	<u>5,807</u>
Increase/(Decrease) in cash & cash equivalents	14,408
Cash & cash equivalents, June 30, 2011	<u>418,313</u>
Cash & cash equivalents, June 30, 2012	<u><u>\$ 432,721</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating Income (Loss)	\$ (800,762)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Donated Commodities included in Operating Expenses	50,812
Depreciation Expense	38,065
Changes in assets and liabilities:	
Gain on Sale of Asset	(1,021)
Increase in Inventories	<u>(1,258)</u>
Net Cash Used by Operating Activities	<u><u>\$ (714,164)</u></u>
Schedule of Non-Cash Transactions:	
Donated Commodities	<u>\$ 50,812</u>

The notes to the basic financial statements are an integral part of this statement.

Henry County Board of Education
Statement of Net Assets
Fiduciary Funds
June 30, 2012

	<u>Private Purpose Trust Funds</u>	<u>Agency Fund</u>	<u>Total</u>
Assets			
Cash and Cash Equivalents	\$ 74,997	\$ 204,703	\$ 279,700
Total Assets	<u>\$ 74,997</u>	<u>\$ 204,703</u>	<u>\$ 279,700</u>
Liabilities & Net Assets			
Liabilities			
Accounts Payable	\$ 162	\$ -	\$ 162
Total Liabilities	<u>162</u>	<u>-</u>	<u>162</u>
Net Assets			
Restricted For:			
Scholarships	\$ 74,835	\$ -	\$ 74,835
Student Groups	-	204,703	204,703
Total Net Assets	<u>74,835</u>	<u>204,703</u>	<u>279,538</u>
Total Liabilities & Net Assets	<u>\$ 74,997</u>	<u>\$ 204,703</u>	<u>\$ 279,700</u>

The notes to the basic financial statement re an integral part of this statement.

Henry County Board of Education
Statement of Changes in Net Assets
Fiduciary Funds
For the Year Ended June 30, 2012

	Private Purpose Trust Funds	Agency Fund	Total
Revenues:			
From Local Sources:			
Student Activities	\$ -	\$ 615,346	\$ 615,346
Interest Income	-	-	-
Other Local Revenues	32,597	-	32,597
Total Revenues	32,597	615,346	647,943
Expenditures:			
Other	7,546		7,546
Student Activities	-	643,003	643,003
Total Expenditures	7,546	643,003	650,549
Excess (Deficit) of Revenues Over Expenditures	25,051	(27,657)	(2,606)
Net Assets June 30, 2011	49,784	232,360	282,144
Net Assets June 30, 2012	\$ 74,835	\$ 204,703	\$ 279,538

The notes to the basic financial statement re an integral part of this statement.

Notes to the Basic Financial Statements

Note A – Summary of Significant Accounting Policies

Reporting Entity

The Henry County Board of Education (“Board”), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Henry County Board of Education (“District”). The District receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Henry County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Henry County Board of Education Finance Corporation

In a prior year the Board of Education resolved to authorize the establishment of the Henry County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the "Corporation") as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation’s Board of Directors.

Basis of Presentation

Government-wide Financial Statements – The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District’s governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

Note A – Summary of Significant Accounting Policies (Continued)

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards. This is a major fund of the District.
- (C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
 - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the district's facility plan.
 - 2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the district's facility plan.
 - 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.

II. Proprietary Fund Types (Enterprise Fund)

The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund.

The District applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

III. Fiduciary Fund Type (Agency and Private Purpose Trust Funds)

- A. The Agency fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.
- B. The Private Purpose Trust funds are used to report trust arrangements under which principal and income benefit individuals, private organizations or other governments.

Note A – Summary of Significant Accounting Policies (Continued)

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from non-exchange transactions must also be available before it can be recognized.

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Property Tax Revenues

Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of, normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

Note A – Summary of Significant Accounting Policies (Continued)

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	10-12 years
Furniture and fixtures	7 years
Rolling stock	15 years
Other	10 years

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term inter-fund loans are classified as “inter-fund receivables/payables”. These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive a calculated amount of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District’s past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account “accumulated sick leave payable” in the general fund. The non-current portion of the liability is not reported.

Budgetary Process

Budgetary Basis of Accounting: The District’s budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Each budget is prepared at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Note A – Summary of Significant Accounting Policies (Continued)

Inventories

On government-wide financial statements inventories are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

The food service fund uses the specific identification method.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the non-current portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventories and fixed assets.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

Note B - Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Note C – Cash & Cash Equivalents

At year-end, the carrying amount of the District's total cash and cash equivalents was \$5,044,926 and the bank balance was \$5,044,926. Of the total cash balance, \$250,000 was covered by Federal Depository insurance, with the remainder covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

Note D – Capital Assets and Bond Issuance Cost

Capital asset activity for the fiscal year ended June 30, 2012 was as follows:

Governmental Activities	Balance June 30, 2011	Additions	Deductions	Balance June 30, 2012
Land	\$ 768,865	\$	\$ (348)	\$ 768,517
Buildings & Improvements	37,173,852	4,488,206		41,662,058
Technology Equipment	1,052,395	233,552	(215,062)	1,070,885
Vehicles	2,308,660	20,869	(134,209)	2,195,320
General Equipment	326,845	57,698	(2,240)	382,303
Construction in Progress	3,951,144	3,903,148	(4,450,867)	3,403,425
Totals at Historical Cost	<u>45,581,761</u>	<u>8,703,473</u>	<u>(4,802,726)</u>	<u>49,482,508</u>
Less: Accumulated Depreciation				
Buildings & Improvements	16,624,488	1,699,968		18,324,456
Technology Equipment	690,602	158,330	(206,913)	642,019
Vehicles	1,384,862	167,165	(134,209)	1,417,818
General Equipment	169,548	24,577	(1,447)	192,678
Total Accumulated Depreciation	<u>18,869,500</u>	<u>2,050,040</u>	<u>(342,569)</u>	<u>20,576,971</u>
Bond Issuance Costs	100,381	24,940	-	125,321
Less: Accumulated Amortization	5,019	6,937	-	11,956
Totals at Historical Costs	<u>95,362</u>	<u>18,003</u>	<u>-</u>	<u>113,365</u>
Governmental Activities Capital Assets - Net	<u>\$ 26,807,623</u>	<u>\$ 6,671,436</u>	<u>\$ (4,460,157)</u>	<u>\$ 29,018,902</u>
<u>Business-Type Activities</u>				
Food Service & Equipment	\$ 553,124	\$ 177,157	\$ (30,674)	\$ 699,607
Technology Equipment	11,801	-	(525)	11,276
Totals at Historical Cost	<u>564,925</u>	<u>177,157</u>	<u>(31,199)</u>	<u>710,883</u>
Less: Accumulated Depreciation				
Food Service & Equipment	312,845	36,822	(29,653)	320,014
Technology Equipment	7,371	1,243	(525)	8,089
Total Accumulated Depreciation	<u>320,216</u>	<u>38,065</u>	<u>(30,178)</u>	<u>328,103</u>
Business Type Activities Capital Assets - Net	<u>\$ 244,709</u>	<u>\$ 139,092</u>	<u>\$ (1,021)</u>	<u>\$ 382,780</u>

Note E – Bonded Debt and Lease Obligations

The amount shown in the accompanying financial statements as current and non-current portions of bond obligations represent the District's future obligation to make bond payments relating to the bonds issued by the Fiscal Court of Henry County. The original amount of each issue, the issue date, and interest rates are summarized on the following page.

Note E – Bonded Debt and Lease Obligations (continued)

Issue	Original Principal Amount	Interest Rates	Principal Outstanding at June 30, 2012	Maturity Date
Series of November 1, 1998	1,280,000	3.75% - 4.3%	260,000	11/1/2012
Series of November 1, 2001	1,735,000	3.05% - 4.3%	965,000	11/1/2015
Series of July 1, 2005	1,100,000	2.85% - 3.75%	800,000	5/1/2017
Series of November 1, 2006	2,010,000	2.85% - 3.75%	1,510,000	6/1/2020
Series of October 1, 2007	15,290,000	4.00%-4.50%	14,190,000	10/1/2027
Series of April 1, 2010	4,505,000	1.75% - 6.00%	4,365,000	4/1/2030
Series of June 1, 2011	3,500,000	2.00% - 4.125%	3,491,137	7/1/2031
Series of February 15, 2012	905,000	2.00% - 4.125%	894,559	5/1/2024
	<u>\$ 30,325,000</u>		<u>\$ 26,475,696</u>	

Long-term liability activity for the year ended June 30, 2012 was as follows:

Year	Henry County School District		Kentucky School Facilities Construction Commission		Total
	Principal	Interest	Principal	Interest	
2013	757,481	850,871	368,215	177,429	\$ 2,153,996
2014	782,839	827,015	347,161	166,905	2,123,920
2015	812,394	796,504	357,606	156,396	2,122,900
2016	849,617	760,837	340,383	145,388	2,096,225
2017	881,575	728,475	348,425	134,736	2,093,211
2018	916,984	693,596	323,016	123,456	2,057,052
2019	953,457	657,879	331,543	112,937	2,055,816
2020	987,155	620,150	342,845	101,602	2,051,752
2021	1,033,117	576,148	236,883	89,473	1,935,621
2022	1,074,824	533,804	245,176	81,139	1,934,943
2023	1,116,166	489,029	253,834	72,437	1,931,466
2024	1,162,009	442,391	262,991	63,159	1,930,550
2025	1,215,986	392,126	204,014	53,248	1,865,374
2026	1,272,028	338,191	212,972	44,231	1,867,422
2027	1,327,607	281,079	222,393	34,694	1,865,773
2028	1,388,939	221,335	206,061	25,087	1,841,422
2029	1,421,326	190,040	138,674	17,157	1,767,197
2030	1,469,807	137,052	145,193	10,517	1,762,569
2031	1,002,388	60,785	97,612	5,147	1,165,932
2032	987,562	20,368	77,438	1,597	1,086,965
	<u>\$ 21,413,261</u>	<u>\$ 9,617,675</u>	<u>\$ 5,062,435</u>	<u>\$ 1,616,735</u>	<u>\$ 37,710,106</u>

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Revenue Bonds Payable	\$ 27,395,000	\$ 904,559	\$ 1,823,863	\$ 26,475,696	\$ 1,125,696
Long-term Liabilities	<u>\$ 27,395,000</u>	<u>\$ 904,559</u>	<u>\$ 1,823,863</u>	<u>\$ 26,475,696</u>	<u>\$ 1,125,696</u>
	<u>\$ 27,395,000</u>	<u>\$ 904,559</u>	<u>\$ 1,823,863</u>	<u>\$ 26,475,696</u>	<u>\$ 1,125,696</u>

Note F – Interest Expense

For the year ended June 30, 2012, cash expenditures for interest were \$1,038,409. Expenditures consist of bond issue interest of \$883,492 paid by the District and 154,917 paid by Kentucky School Facilities Construction Commission.

Note G – Retirement Plans

The District contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky.

Certified employees are covered under KTRS. Funding for the Plan is provided through payroll withholdings of 10.355% for employees hired prior to September 1, 2008 and 10.855% for those hired after and matching state contributions. The Commonwealth of Kentucky is required to contribute 13.605% of salaries for employees hired prior to September 1, 2008 and 14.105% for those hired after. The federal program that pays for salaries also pays the matching contributions. KTRS requires that members of KTRS occupy a position requiring either a four year college degree or certification by KY Department of Education (KDE).

Substantially all other employees (classified personnel) are covered under the County Employees Retirement System ("CERS"), a cost sharing, multiple-employer, public employers retirement system. Funding for the Plan is provided through payroll withholdings of 5% and 6% for employees hired after September 1, 2008 and a Board contribution of 18.96 of the employee's total compensation.

The Board's total payroll for the year was \$11,768,406. The payroll for employees covered under KTRS was \$8,760,708 and for CERS was \$3,007,698.

The contribution requirement for CERS for the year ended June 30, 2012 was \$631,255 which consisted of \$496,715 from the Board and \$135,540 from the employees. The contribution requirement for KTRS for the year ended June 30, 2012 was \$1,146,752 which consisted of \$180,677 from the Board and \$966,075 from the employees. For June 30, 2011 and 2010 the Board's contributions to CERS and KTRS were: CERS \$330,651 and \$403,116; KTRS \$140,547 and \$122,039.

Benefits under both plans will vary based on final compensation, years of service and other factors as fully described in the Plan documents.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the pensions' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among the plans and employers.

Ten-year historical trend information showing KTRS's and CERS's progress in accumulating sufficient assets to pay benefits when due is presented in their June 30, 2011 comprehensive annual financial reports. As the District is only one of several employers participating in the Plan, it is not practicable to determine the District's portion of the unfunded past service cost or the vested benefits of the District's portion of the Plan assets.

The District also offers employees the option to participate in a defined contribution plan under Section 403(B), 401(K) and 457 of the Internal Revenue Code. All regular full-time and part-time employees are eligible to participate and may contribute up to the maximum amount allowable by law. The District does not contribute to these plans.

Note H – Contingencies

The District receives funding from Federal, State and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor's review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

Note I - Litigation

The District is subject to various other legal actions in various stages of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate that there will be any material effect on the combined financial statements as a result of the cases presently in progress, except as described elsewhere in this report.

Note J – Insurance and Related Activities

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated and does include Workers' Compensation insurance.

Note K – Risk Management

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers' compensation, errors and omissions, and general liability coverage, the District purchases commercial insurance from Ohio Casualty Insurance Association.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note L – Deficit Operating Balances

There are no funds of the District that currently have a deficit fund balance.

Note M – Cobra

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school district at risk for a substantial loss (contingency).

Note N – Transfer of Funds

The following transfers were made during the year:

From Fund	To Fund	Purpose	Amount
General	Special	Technology Match	\$ 40,084
Capital Outlay	Construction	Construction	103,000

Note O – GASB 54 Adoption-Fund Equity

Beginning with fiscal year 2011, the Henry County Board of Education implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors (such as those through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.
- Committed fund balances are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the governments highest level of decision making-authority, which, for the District is the Board of Education. The Board of Education must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment.

Note O – GASB 54 Adoption-Fund Equity (cont)

- Assigned fund balances are those amounts that are constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed. The Board of Education allows program supervisors to complete purchase orders which result in encumbrance of funds. Assigned fund balances also includes (a) all remaining amounts(except negative balances) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose.
- Unassigned fund balance is the residual classification for the general fund. The classification represents fund balance that has not been assigned to the other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

The District considers unrestricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Also, the District has established the order of assigned, committed and restricted when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Note P – Subsequent Events

The District Food Service implemented a new Child Nutrition and Payment System(CNIPS) in 2012-2013.

Subsequent events have been evaluated through October 17, 2012 which is the date the financial statements were available to be issued.

Budgetary Comparison

Henry County Board of Education
 Combined Statement of Revenues,
 Expenditures, & Changes in Fund Balance
 Budget & Actual - General Fund
 For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Final Budget Variance Favorable (Unfavorable)
	Original	Final		
Revenues:				
From Local Sources:				
Taxes	\$ 3,996,366	\$ 4,186,748	\$ 4,121,809	\$ (64,939)
Earnings on Investments	50,000	50,000	96,247	46,247
Other Local Revenues	2,100	2,100	29,707	27,607
Intergovernmental - State	9,118,123	9,149,775	12,147,848	2,998,073
Intergovernmental - Indirect Federal	8,000	8,000	11,096	3,096
Intergovernmental - Direct Federal	-	-	-	-
Total Revenues	<u>13,174,589</u>	<u>13,396,623</u>	<u>16,406,707</u>	<u>3,010,084</u>
Expenditures:				
Instruction	7,293,856	7,434,241	9,526,981	(2,092,740)
Support Services:				
Student	604,800	608,063	715,287	(107,224)
Instructional Staff	799,101	793,903	935,792	(141,889)
District Administration	638,703	713,673	710,025	3,648
School Administration	786,116	786,089	923,084	(136,995)
Business	315,557	326,703	420,730	(94,027)
Plant Operations & Maintenance	1,569,530	1,702,385	1,637,049	65,336
Student Transportation	1,249,581	1,204,905	1,322,580	(117,675)
Central Office	-	-	-	-
Food Service	28,395	28,399	28,721	(322)
Community Service	-	-	-	-
Facilities Acquisition & Construction	-	-	-	-
Debt Service	-	-	-	-
Other	1,776,703	2,393,922	-	2,393,922
Total Expenditures	<u>15,062,342</u>	<u>15,992,283</u>	<u>16,220,249</u>	<u>(227,966)</u>
Excess (Deficit) of Revenues Over Expenditures	<u>(1,887,753)</u>	<u>(2,595,660)</u>	<u>186,458</u>	<u>2,782,118</u>
Other Financing Sources (Uses):				
Proceeds from the Sale of Assets	2,000	2,000	5,000	3,000
Operating Transfers In	-	-	-	-
Operating Transfers Out	(47,121)	(47,121)	(40,084)	(7,037)
Total Other Financing Sources (Uses)	<u>(45,121)</u>	<u>(45,121)</u>	<u>(35,084)</u>	<u>(4,037)</u>
Excess (Deficit) of Revenues & Other Financing Sources Over Expenditures & Other Financing Uses	<u>(1,932,874)</u>	<u>(2,640,781)</u>	<u>151,374</u>	<u>\$ 2,778,081</u>
Fund Balance June 30, 2011	<u>1,932,874</u>	<u>2,640,781</u>	<u>4,128,123</u>	
Fund Balance June 30, 2012	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,279,497</u>	

The notes to the basic financial statements are an integral part of this statement.

Henry County Board of Education
 Combined Statement of Revenues,
 Expenditures, and Changes in Fund Balance
 Budget & Actual - Special Revenue Fund
 For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance
	Original	Final		With Final Budget Favorable (Unfavorable)
Revenues:				
From Local Sources:				
Earnings on Investments	\$ -	\$ -	\$ 455	\$ 455
Other Local Revenues	10,000	14,000	14,004	4
Intergovernmental - State	681,957	666,328	644,543	(21,785)
Intergovernmental - Indirect Federal	1,002,135	1,163,791	1,668,984	505,193
Intergovernmental - Direct Federal	-	-	-	-
Total Revenues	<u>1,694,092</u>	<u>1,844,119</u>	<u>2,327,986</u>	<u>483,867</u>
Expenditures:				
Instruction	1,352,332	1,313,097	1,808,486	(495,389)
Support Services:				
Student	-	53,100	54,400	(1,300)
Instructional Staff	155,234	188,953	196,981	(8,028)
District Administration	-	-	-	-
School Administration	-	-	-	-
Business	-	-	-	-
Plant Operation & Maintenance	-	-	-	-
Student Transportation	55,616	176,783	148,896	27,887
Community Service	178,031	159,307	159,307	-
Other	-	-	-	-
Total Expenditures	<u>1,741,213</u>	<u>1,891,240</u>	<u>2,368,070</u>	<u>(476,830)</u>
Excess (Deficit) of Revenues Over Expenditures	<u>(47,121)</u>	<u>(47,121)</u>	<u>(40,084)</u>	<u>-</u>
Other Financing Sources (Uses):				
Operating Transfers In	47,121	47,121	40,084	(7,037)
Operating Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	<u>47,121</u>	<u>47,121</u>	<u>40,084</u>	<u>(7,037)</u>
Excess (Deficit) of Revenues & Other Financing Sources Over Expenditures & Other Financing Uses	-	-	-	<u>\$ (7,037)</u>
Fund Balance June 30, 2011	<u>-</u>	<u>-</u>	<u>-</u>	
Fund Balance June 30, 2012	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	

The notes to the basic financial statements are an integral part of this statement.

Supplementary Information
Combining Statements – Nonmajor Funds

Henry County Board of Education
Combining Balance Sheets - Nonmajor Governmental Funds
June 30, 2012

	FSPK Fund	Construction Fund	SEEK Capital Outlay Fund	Total Nonmajor Governmental Funds
Assets & Resources:				
Cash & Cash Equivalents	\$ -	\$ 242,200	\$ 13,279	\$ 255,479
Total Assets & Resources	\$ -	\$ 242,200	\$ 13,279	\$ 255,479
Liabilities & Fund Balances:				
Liabilities:				
Accounts Payable	\$ -	\$ -	\$ -	\$ -
Deferred Revenue	-	-	-	-
Total Liabilities	-	-	-	-
Fund Balances				
Committed-Other				-
Committed-Future Construction	-	242,200	13,279	255,479
Restricted-Future Construction				-
Unassigned				-
Total Fund Balances	-	242,200	13,279	255,479
Total Liabilities & Fund Balances	\$ -	\$ 242,200	\$ 13,279	\$ 255,479

The notes to the basic financial statement re an integral part of this statement.

Henry County Board of Education
Combining Statement of Revenues, Expenditures,
And Changes in Fund Balances - Nonmajor Governmental Funds
For the Year Ended June 30, 2012

	FSPK Fund	Construction Fund	SEEK Capital Outlay Revenue	Total Nonmajor Governmental Fund
Revenues:				
From Local Sources:				
Taxes:				
Property	\$ 606,426	\$ -	\$ -	\$ 606,426
Motor Vehicle	88,220			88,220
Earnings from Investments		17,793		17,793
Intergovernmental - State	733,700		200,416	934,116
Intergovernmental - Indirect Federal				
Intergovernmental - Direct Federal				-
Total Revenues	1,428,346	17,793	200,416	1,646,555
Expenditures:				
Facilities Acquisition & Construction		3,903,149		3,903,149
Debt Service				
Principal	717,887		14,104	731,991
Interest	710,459		173,033	883,492
Other				-
Total Expenditures	1,428,346	3,903,149	187,137	5,518,632
Excess (Deficit) of Revenues Over Expenditures	-	(3,885,356)	13,279	(3,872,077)
Other Financing Sources (Uses):				
Operating Transfers In		103,000		103,000
Operating Transfers Out				-
Total Other Financing Sources(Uses)	-	103,000	-	103,000
Excess (Deficit) of Revenues & Other Financing Sources Over Expenditures & Other Financing Uses	-	(3,782,356)	13,279	(3,769,077)
Fund Balance June 30, 2011	\$ -	4,024,556	\$ -	\$ 4,024,556
Fund Balance June 30, 2012	\$ -	\$ 242,200	\$ 13,279	\$ 255,479

The notes to the basic financial statement re an integral part of this statement.

Statements of Receipts, Disbursements, & Changes
In Fund Balances

Henry County High School &
Combined Middle & Elementary School
Activity Funds

Henry County Board of Education
Statement of Receipts, Disbursements, & Fund Balances
Henry County High School Activity Funds
For the Year Ended June 30, 2012

Accounts	Fund Balances June 30, 2011	Receipts	Disbursements	Fund Balances June 30, 2012
Academic Team	\$ 1,700	\$ 134	\$ 443	\$ 1,391
Art Club	166	-	-	166
Athletic	16,380	100,023	110,136	6,267
Athletic Field House	150	-	150	-
Athletic Fund Raiser	56	-	56	-
Athletic Trainer	40	-	-	40
Band	2,967	3,779	6,491	255
Baseball	12,047	9,461	8,400	13,108
Basketball Little League	184	4,245	3,065	1,364
BETA	929	1,345	1,930	344
Boy's Basketball	2,977	9,320	11,288	1,009
Cat's Creations	716	5,267	4,590	1,393
Cheerleader	2,947	6,736	8,119	1,564
Civ Ed Leadership	500	-	399	101
Concession	11,248	15,440	18,792	7,896
Cross Country	787	6,224	4,298	2,713
Digital Photography & Media	482	200	185	497
Drink/Snack	2,976	3,328	3,973	2,331
FBLA	873	13,995	14,328	540
FCA	1,331	775	1,028	1,078
FFA	3,468	15,912	11,633	7,747
FFA Greenhouse	7,650	6,134	4,148	9,636
Fine Arts	1,464	22,799	18,673	5,590
Football	9,455	12,096	21,551	-
"For Club"	-	778	583	195
Freshman	-	1,880	654	1,226
FTA	779	-	-	779
Game Club	420	-	-	420
General	857	10,562	11,211	208
Gifted/Moved	1,537	1,657	2,019	1,175
Girl's Basketball	4,460	11,187	9,566	6,081
Girl's Golf	1,968	5,376	4,027	3,317
Girls Soccer	2,906	714	2,220	1,400
Golf	1,364	2,083	2,212	1,235
HCHS Bus Schship	-	1,845	1,120	725
Instructional	-	16,880	16,880	-
Judy Lea Memorial	490	500	741	249
Junior	1,395	1,184	1,689	890
KUNA	88	3,285	2,997	376
KY Youth Association	131	4,470	4,587	14
Library	832	1,010	1,414	428
Locks	3,340	1,535	2,233	2,642
Math (Calculator Rentals)	40	65	-	105
NAC	233	-	-	233
National Honor Soc.	497	690	712	475
Parking Passes/Permits	676	815	405	1,086
PEP Club	244	547	475	316
Project Graduation	430	5,737	6,097	70
PTO (Academic Booster Club)	518	-	251	267
ROTC General	7,989	12,865	12,537	8,317
School Pictures	3,482	1,021	1,710	2,793
Science Club	577	-	-	577
Senior	1,645	21,797	22,929	513
Soccer	-	219	219	-
Social Studies	131	-	-	131
Softball	842	4,984	4,552	1,274
Sophomore	315	644	315	644
Spanish	79	200	231	48
Student Council	995	47	-	1,042
Teacher's Lounge Drink	514	1,503	1,863	154
Technology Student Assoc.	170	1,328	1,498	-
Textbooks	1,428	833	2,084	177
Track	2,849	24,405	22,628	4,626
TV/Media	591	2,727	1,504	1,814
Vocational Trans	32	215	185	62
Volleyball	1,796	6,983	7,080	1,699
Wildcat Den Spirit Bookstore	261	33	-	294
Wildcat Publishing	60	-	-	60
Yearbook/Journalism	9,836	12,127	10,155	11,808
	<u>\$ 138,290</u>	<u>401,944</u>	<u>415,259</u>	<u>\$ 124,975</u>

Henry County Board of Education
Statement of Receipts, Disbursements, & Fund Balances
Middle & Elementary Schools
For the Year Ended June 30, 2011

<u>School</u>	Cash Balances June 30, 2011	Receipts	Disbursements	Fund Balances June 30, 2012
Campbellsburg Elementary School	\$ 12,190	\$ 23,916	\$ 21,550	14,556
Eastern Elementary School	12,492	38,068	31,894	18,666
New Castle Elementary School	15,180	35,871	34,592	16,459
Henry County Middle School	<u>39,659</u>	<u>86,803</u>	<u>82,073</u>	<u>44,389</u>
Total	<u>\$ 79,521</u>	<u>\$ 184,659</u>	<u>\$ 170,108</u>	<u>\$ 94,071</u>

Schedule of Expenditures of Federal Awards

Henry County Board of Education
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2012

	CFDA Number	Pass-Through Number	Disbursements
<u>U.S. Department of Education</u>			
Title I, Grants to Local Educational Agencies	84.010	3100002 11	\$ 386,847
Title I, Grants to Local Educational Agencies	84.010	3100202 10	27,191
Title I, Grants to Local Educational Agencies	84.010	3100002 10	119,104
Title I, Grants to Local Educational Agencies	84.010	3100202 10	<u>103,513</u>
Total			<u>636,655</u>
Title I, Vocational Education_Basic Grants to States	84.048	4621232 11	16,422
Title I, Vocational Education_Basic Grants to States	84.048	4621132 10	948
Title I, Vocational Education_Basic Grants to States	84.048	4621032 09	736
Title I, Vocational Education_Basic Grants to States	84.048	4621210 11	2,204
Title I, Vocational Education_Basic Grants to States	84.048	3710	5,114
Title I, Vocational Education_Basic Grants to States	84.048	3711	13,100
Title I, Vocational Education_Basic Grants to States	84.048	3712	<u>11,764</u>
			<u>50,288</u>
Title I, Part C, Migrant Education_State Grant Program	84.011	3110002 11	45,499
Title I, Part C, Migrant Education_State Grant Program	84.011	3110002 10	<u>8,895</u>
Total			<u>54,394</u>
Special Education Cluster:			
Special Education_Grants to States	84.027	3810002 11	356,977
Special Education_Grants to States	84.027	3810002 10	28,102
Special Education_Preschool Grants	84.173	3800002 11	4,476
Special Education_Preschool Grants	84.173	3800002 10	<u>4,172</u>
Total			<u>393,727</u>
Education Jobs Fund - ARRA	84.410	EJOB00 10	<u>392,490</u>
Education for Homeless Children	84.387	4990002 09	<u>5,720</u>
Title I - ARRA	84.389	4100002 09	<u>21,947</u>
IDEA B - ARRA	84.391	4810002 09	<u>1,132</u>
BOSS- Education Technology	84.318	3210002 10	<u>88</u>
Improving Teacher Quality State Grants	84.367	3230002 11	97,920
Improving Teacher Quality State Grants	84.367	3230002 10	<u>14,620</u>
Total			<u>112,540</u>
Total U.S. Department of Education			<u>\$ 1,668,981</u>
Passed through the Kentucky Department of Education			

Henry County Board of Education
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2012

	CFDA Number	Pass-Through Number	Disbursements
<u>U.S. Department of Agriculture</u>			
Child Nutrition Cluster:			
National School Breakfast Program	10.553	7750002 12	245,592
National School Lunch Program	10.555	7750002 11-12	543,505
			789,097
Food Donations	10.555	057502 12	50,812
Total U.S. Department of Agriculture Passed through the Kentucky Department of Education			\$ 839,909
Total Federal Financial Awards			\$ 2,508,890

Note A – Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Henry County School District 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 basic financial statements.

Note B – Non-cash Donations

Food donations listed as CFDA# 10.555 are non-cash assistance received in the form of USDA food commodities.

Schedule of Findings & Questioned Costs

Section I-Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? No
- Significant deficiencies identified that are not considered to be material weaknesses? None Reported

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? No
- Significant deficiencies identified that are not considered to be material weakness(es)? None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.0101	Title I
10.555	Child Nutrition Cluster
84.027, 84.173	Special Education Cluster
84.410	Edujobs

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? Yes

Section II – Financial Statement of Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

There were no prior year audit findings.

Internal Auditors 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*



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Internal Auditors 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*

Henry County Board of Education
New Castle, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Henry County Board of Education, as of and for the year ended June 30, 2012, which collectively comprise Board's basic financial statements and have issued our report thereon dated October 17, 2012. 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, conducted in accordance with Audits of States, Local Governments, and Non-Profit Organizations, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the Independent Auditor's Contract – General Audit Requirements, Appendix II of the Independent Auditor's Contract – State Audit Requirements, and Appendix III of the Independent Auditor's Contract – Electronic Submission.

Internal Control Over Financial Reporting

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

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported to the Board, in a separate letter dated October 17, 2012.

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

Charles T. Mitchell Co.

October 17, 2012

Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program & On Internal Control
Over Compliance in Accordance with OMB CIRCULAR A-133



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Applicable to Each Major Program & On Internal Control
Over Compliance in Accordance with OMB CIRCULAR A-133

Henry County Board of Education
New Castle, Kentucky

Compliance

We have audited 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 the Board's major federal programs for the year ended June 30, 2012. The Board's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Board's management. Our responsibility is to express an opinion on the Board's compliance based on our audit.

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

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, 2012.

Internal Control Over Compliance

Management of the Board is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Board's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance 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 Board'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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Charles T. Mitchell Co.

October 17, 2012

Management Letter Comments



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We have examined the financial statements of Henry County Board of Education for the year ended June 30, 2012 and have issued our report thereon dated October 17, 2012. As part of our examination, we made a study and evaluation of the Henry County Board of Education's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the Henry County Board of Education's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The management of the Henry County Board of Education is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the system to dispatch its duties.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the Henry County Board of Education taken as a whole. We noted no matters involving internal control over financial reporting and its operation that we considered to be material weaknesses.

Follow-Up On Prior Year Recommendations

1. None noted in prior year.

Current Year Recommendations

1. During our audit of activity funds, it was noted certain ticket sales forms were missing required signature. We recommend that school offices complete Redbook training.

Managements Response:

District school staff received Redbook training in the new fiscal year.

We have enjoyed working with the management and staff of the Henry County Board of Education and look forward to a continuing, mutually productive relationship. Please call us if you have any questions concerning this letter or if we can be of any other assistance.

Respectfully submitted:

Charles T. Mitchell Co.

October 17, 2012