



HOUSTON COUNTY BOARD OF EDUCATION PERRY, GEORGIA

**ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2013**

(Including Independent Auditor's Reports)



HOUSTON COUNTY BOARD OF EDUCATION

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SECTION I
FINANCIAL



DEPARTMENT OF AUDITS AND ACCOUNTS

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Greg S. Griffin
STATE AUDITOR
(404) 656-2174

March 12, 2014

Honorable Nathan Deal, Governor
Members of the General Assembly
Members of the State Board of Education
and
Superintendent and Members of the
Houston County Board of Education

INDEPENDENT AUDITOR'S REPORT

Ladies and Gentlemen:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information (Exhibits A through H) of the Houston County Board of Education, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of

expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Houston County Board of Education, as of June 30, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 2 to the financial statements, in 2013, the Houston County Board of Education adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual, as presented on pages i through x and page 29 respectively, 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 regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Houston County Board of Education's basic financial statements. The accompanying supplementary information, consisting of Schedules 2 through 4, is presented for the purposes of additional analysis and is 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 not a required part of the basic financial statements.

The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2014, on our consideration of the Houston County Board of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Houston County Board of Education's internal control over financial reporting and compliance.

A copy of this report has been filed as a permanent record in the office of the State Auditor and made available to the press of the State, as provided for by Official Code of Georgia Annotated section 50-6-24.

Respectfully submitted,



Greg S. Griffin
State Auditor

GSG:as
2013ARL-11

**HOUSTON COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

The discussion and analysis of Houston County Board of Education's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2013. The intent of this discussion and analysis is to look at the School District's financial performance as a whole. Readers should also review the financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2013 are as follows:

- ❑ On the district-wide financial statements, net position increased \$3.5 million which represents a 1 percent increase from 2012. This total increase was due to governmental activities since the School District has no business-type activities.
- ❑ General revenues accounted for \$123.5 million in revenue or 44.4 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$154.3 million or 55.6 percent of total revenues of \$277.8 million.
- ❑ The School District had \$274.2 million in expenses related to governmental activities; only \$154.3 million of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes) of \$123.5 million were adequate to provide for these programs.
- ❑ Among major funds, the General Fund had \$256.7 million in revenues and other financing sources, and \$252.2 million in expenditures and other financing uses. The General Fund's balance increased to \$71.1 million.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Houston County Board of Education as a financial whole, or as an entire operating entity.

The *Statement of Net Position* and *Statement of Activities* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. *Fund financial statements* provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds. In the case of the Houston County Board of Education, the General Fund is by far the most significant fund.

Reporting the School District as a Whole

Statement of Net Position and the Statement of Activities

While this document contains the large number of funds used by the School District to provide programs and activities for the schools, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2013?" The *Statement of Net Position* and the *Statement of Activities* answer this question. These statements include all *assets* and *liabilities* using the economic resources focus and *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

**HOUSTON COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

These two statements report the School District's *net position* and changes in that position. This change in net position is important because it tells the reader that, for the School District as a whole, the *financial position* of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District's property tax base, facility conditions, required educational programs and other factors.

In the Statement of Net Position and the Statement of Activities, the School District has one distinct type of activity:

- Governmental Activities** - All of the School District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation, food service, after school program, principal's accounts and various others.

Reporting the School District's Most Significant Funds

Fund Financial Statements

Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund, Capital Projects Fund and the Debt Service Fund.

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

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

**HOUSTON COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

The School District as a Whole

The perspective of the statement of net position is of the School District as a whole. Table 1 provides a summary of the Board's net position for 2013 compared to fiscal year 2012.

		Governmental Activities	
		Fiscal Year 2013	Fiscal Year 2012
Table 1 Net Position (In Thousands)			
Assets			
Current and Other Assets	\$	130,516	\$ 163,303
Capital Assets, Net		<u>293,113</u>	<u>278,128</u>
Total Assets	\$	<u>423,629</u>	\$ <u>441,431</u>
Liabilities			
Current and Other Liabilities	\$	31,364	\$ 30,836
Long-Term Liabilities		<u>52,742</u>	<u>74,599</u>
Total Liabilities	\$	<u>84,106</u>	\$ <u>105,435</u>
Net Position			
Net Investment in Capital Assets	\$	258,667	\$ 246,312
Restricted		67,742	69,575
Unrestricted		<u>13,114</u>	<u>20,109</u>
Total Net Position	\$	<u><u>339,523</u></u>	\$ <u><u>335,996</u></u>

Total net position increased \$3.5 million to \$339.5 million.

Table 2 shows the changes in net position for fiscal year 2013 compared to the changes in net position for fiscal year 2012.

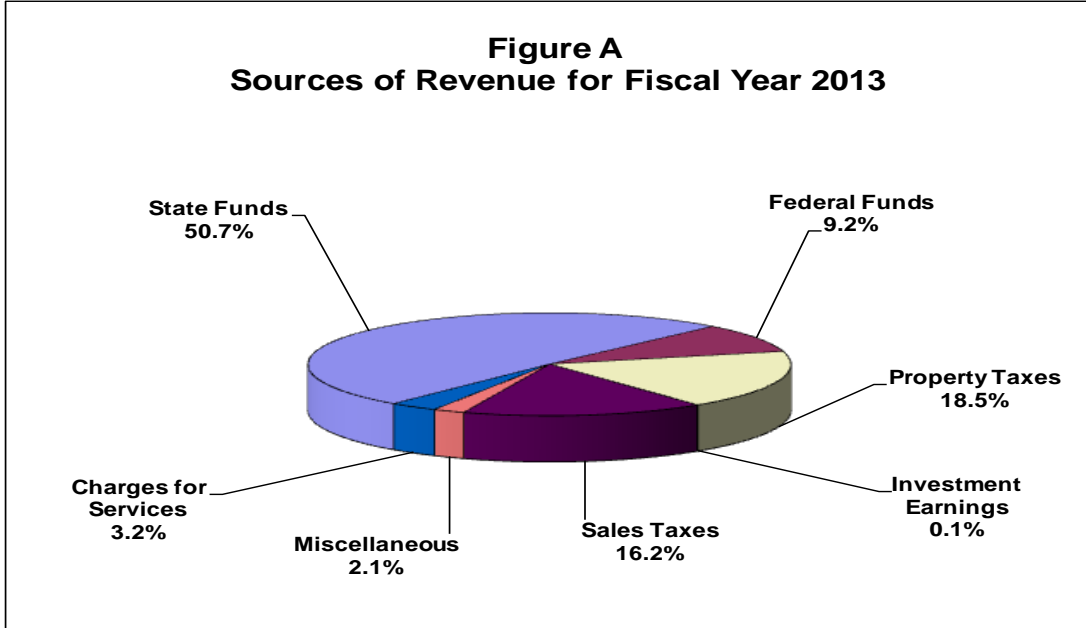
**HOUSTON COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**Table 2
Change in Net Position
(In Thousands)**

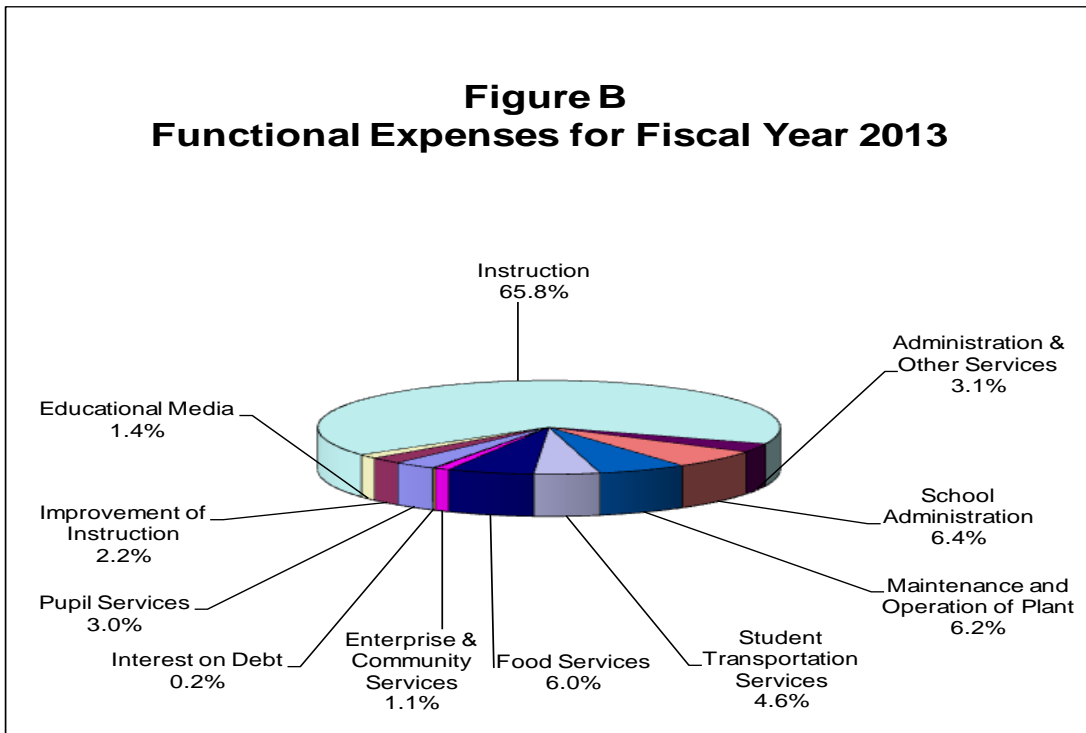
	Governmental Activities	
	Fiscal Year	Fiscal Year
	2013	2012
Revenues		
Program Revenues:		
Charges for Services	\$ 9,002	\$ 8,686
Operating Grants and Contributions	144,042	140,529
Capital Grants and Contributions	1,202	1,168
	<u>154,246</u>	<u>150,383</u>
Total Program Revenues	\$ 154,246	\$ 150,383
General Revenues:		
Taxes		
Property Taxes		
For Maintenance and Operations	\$ 49,881	\$ 49,807
Other Property Taxes	1,255	
Sales Taxes		
Local Option Sales Tax	21,920	21,974
Special Purpose Local Option Sales Tax		
For Debt Services and Capital Projects	21,919	21,972
Other Sales Tax	1,189	952
Grants and Contributions not		
Restricted to Specific Programs	21,323	21,316
Investment Earnings	153	138
Miscellaneous	5,889	4,700
	<u>123,529</u>	<u>120,859</u>
Total General Revenues	\$ 123,529	\$ 120,859
Total Revenues	\$ 277,775	\$ 271,242
Program Expenses:		
Instruction	\$ 180,301	\$ 173,521
Support Services		
Pupil Services	8,170	7,861
Improvement of Instructional Services	6,168	6,346
Educational Media Services	3,965	3,895
General Administration	1,344	1,358
School Administration	17,580	17,304
Business Administration	2,184	2,192
Maintenance and Operation of Plant	17,011	16,348
Student Transportation Services	12,647	10,212
Central Support Services	3,057	2,687
Other Support Services	1,870	1,378
Operations of Non-Instructional Services		
Enterprise Operations	2,107	2,251
Community Services	842	788
Food Services	16,577	17,183
Interest on Short-Term and Long-Term Debt	425	1,340
	<u>274,248</u>	<u>264,664</u>
Total Expenses	\$ 274,248	\$ 264,664
Increase in Net Position	\$ 3,527	\$ 6,578

**HOUSTON COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Figure A shows the funding sources for the revenues. 50.7 percent of the School District's revenues are derived from state grants. Property Taxes make up 18.5 percent of the total funding, while an additional 16.2 percent is earned from the county's sales taxes.



As shown in Figure B, Instruction comprised 65.8 percent of governmental program expenses. Administration and Other Services (3.1 percent) consist of the central office, business and warehouse, and other central operations of the School District. Interest expense equal to 0.2 percent of total expenses was attributable to capital leases and the outstanding bonds for capital projects.



**HOUSTON COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Governmental Activities

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services comparing fiscal year 2013 with fiscal year 2012. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Table 3 Governmental Activities (In Thousands)				
	Total Cost of Services		Net Cost of Services	
	Fiscal Year 2013	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2012
Instruction	\$ 180,301	\$ 173,521	\$ 72,604	\$ 67,262
Support Services:				
Pupil Services	8,170	7,861	4,748	4,664
Improvement of Instructional Services	6,168	6,346	2,188	2,274
Educational Media Services	3,965	3,895	779	1,219
General Administration	1,344	1,358	733	848
School Administration	17,580	17,304	11,319	11,859
Business Administration	2,184	2,192	1,706	1,779
Maintenance and Operation of Plant	17,011	16,348	9,930	9,463
Student Transportation Services	12,647	10,212	10,693	8,061
Central Support Services	3,057	2,687	2,376	2,132
Other Support Services	1,870	1,378	1,235	705
Operations of Non-Instructional Services:				
Enterprise Operations	2,107	2,251	637	676
Community Services	842	788	842	788
Food Services	16,577	17,183	-213	1,211
Interest on Short-Term and Long-Term Debt	425	1,340	425	1,340
Total Expenses	\$ 274,248	\$ 264,664	\$ 120,002	\$ 114,281

Although *program revenues* make up a majority of the funding, the School District is still dependent upon tax revenues for governmental activities. Approximately 40.3 percent of Instruction activities are supported through taxes and other general revenues, and for all governmental activities general revenue support is 43.8 percent.

The School District's Funds

The School District's governmental funds are accounted for using the modified accrual basis of accounting. Total governmental funds had revenues and other financing sources of \$279.8 million and expenditures and other financing uses of \$312.8 million. There was a decrease in the fund balance totaling \$33.0 million for the governmental funds as a whole. The General Fund increased by \$4.5 million due mainly to a change in how the state funded and charged for the employer's portion of employee's health insurance. The Capital Projects Funds had a decrease of \$16.8 million and Debt Service Funds had a decrease of \$20.7 million. The Capital Project Funds' decrease was due to the construction and renovation expenses that were funded from proceeds of a Special Purpose Local Option Sales Tax (SPLOST) and the sale of \$43.6 million in general obligation bonds

**HOUSTON COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

during fiscal year 2012 to be repaid by the proceeds SPLOST to be collected during fiscal years 2012 to 2017. The Debt Service Funds' decrease was attributable to the interest and principal payments due on the outstanding debt associated with previously issued general obligation bonds. The positive change in the fund balance of the General Fund for the year reflects that the School District was able to meet current costs.

General Fund Budgeting Highlights

The School District's budget is prepared in accordance with Georgia law. The most significant budgeted fund is the General Fund.

During the course of fiscal year 2013, the School District amended its General Fund budget as needed. The School District uses site-based budgeting. The budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the General Fund, the final budgeted *revenues and other financing sources* of \$259.1 million was greater than the original budgeted amount of \$255.0 million by \$4.1 million. The overall difference was mainly due to additional Federal grant awards of \$1.1 million and additional local revenues and intrafund transfers. The actual revenues and other financing sources of \$256.7 million was less than the budgeted amount by \$2.4 million due mainly to the elimination of intrafund transfers, offset by the recognition of a new capital lease in other financing sources.

The final budgeted *expenditures and other financing uses* of \$256.6 million was less than the original budgeted amount of \$256.8 million by \$0.2 million. This difference was due mainly to adjusting the budget to reflect the revised needs. The actual expenditures and other financing uses of \$252.2 million was \$4.4 million less than budgeted. The reduced expenditures were mainly a result of an adjustment removing intrafund transfers, reductions of expenditures by the School District, and the requirement to budget for specific Federal grants in advance of anticipated and actual need.

The differences in the beginning and ending budgeted fund balances to actual is the result of the School District's decision to include the Local Option Sales Taxes that had previously been reported as deferred as current and prior year revenues for report purposes.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2013, the School District had \$293.1 million invested in capital assets, net of depreciation, all in governmental activities. Table 4 shows fiscal year 2013 balances compared with fiscal year 2012 balances.

**HOUSTON COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Table 4			
Capital Assets			
(Net of Depreciation, in Thousands)			
	Governmental Activities		
	Fiscal Year 2013	Fiscal Year 2012	
Land	\$ 10,861	\$ 10,189	
Construction In Progress	24,709	2,071	
Building and Improvements	245,364	252,007	
Equipment	6,161	7,248	
Land Improvements	4,869	5,195	
Intangible Assets	1,149	1,418	
Total	\$ 293,113	\$ 278,128	

The overall capital assets increased in fiscal year 2013 by \$15.0 million due to the construction and renovation expenses included in the 2012 SPLOST during the current year.

Debt

At June 30, 2013, the School District had \$43.6 million in bonds outstanding with \$1.8 million due within one year, \$2.1 million in capital leases outstanding with \$0.3 million due within one year, \$2.6 million in compensated absences earned as of the end of the year, and \$4.5 million in unamortized bond premiums with \$0.2 million due with one year.

Table 5 summarizes the long-term debt outstanding at June 30, 2013, compared to fiscal year 2012 balances.

Table 5			
Debt at June 30			
(in Thousands)			
	Governmental Activities		
	Fiscal Year 2013	Fiscal Year 2012	
General Obligation Bonds	\$ 43,560	\$ 65,560	
Capital Leases	2,055	624	
Compensated Absences	2,639	2,611	
Unamortized Bond Premium	4,488	5,804	
Total	\$ 52,742	\$ 74,599	

**HOUSTON COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

At June 30, 2013, the School District's overall legal bonding authority was \$373.9 million based on the assessed value of taxable property as of December 31, 2012. The School District's bonds have assigned ratings of Aa1 and AA+. In addition, the State of Georgia limits the amount available to be spent each year on multiyear leases, purchase, or lease purchase contracts to 7.5 percent of the locally generated taxes for the maintenance and operation of the school system. Both the current year payments and subsequently scheduled payments are well below the \$5.4 million threshold.

Current Issues

The Houston County School District consists of 38 campuses located in Houston County, a fast-growing area with a population of approximately 146,136. Current enrollment is approximately 27,948 students in grades PK-12. Among Georgia's 159 counties, Houston ranks 15th in population, 15th in economics, 16th in income, and 119th in overall millage rate.

The State of Georgia experienced serious financial hardship over the past few years, and as a result, more pressure is being placed on the local school systems to prioritize their instructional programs and to fund them with additional locally generated revenues. In fiscal year 2003, the State enacted Austerity Reductions for the State allotments, resulting in a reduction of state revenues to the School District of approximately \$2.0 million in 2003, \$4.3 million in 2004, \$5.1 million in 2005, \$5.1 million in 2006, \$2.6 million in 2007, \$2.2 million in 2008, \$8.4 million in 2009, \$23.8 million in 2010, \$19.1 million in 2011, \$20 million in 2012 and \$20.2 million in 2013. Reductions in other state grants and programs resulted in the total reduction of state funding for 2013 reaching approximately \$36.8 million. For fiscal year 2014, additional austerity reductions of \$18.5 million have already been approved by the state for the School District. Since the austerity reductions were enacted, the reductions total \$131.4 million and the overall reduction of state funding is approximately \$223.4 million. While Houston County's class sizes remain below the state maximum recommendations, continued reductions in state funding combined with a growing system place a heavier burden on the locally generated taxes to help offset this loss of state funding. Despite these challenges, the Houston County Board of Education is strong financially, and we remain optimistic about the ability of the School District to maximize all of the financial resources to continue to provide a quality education to our students.

In the past, the county has thrived even during recent downturns in the economy. Sales tax revenue growth exceeded many other parts of Georgia, with shoppers paying seven percent tax on purchases. The School District experienced an average increase of 6.5 percent growth each year since 1984 for the System's Local Option Sales Tax collections. However, during the calendar year 2007, the county's sales tax growth slowed tremendously to only 3.6 percent. During calendar year 2008, the School District's collections continued to decrease to a rate of 2.3 percent below that of the prior year, resulting in the lowest growth in 11 years. In calendar year 2009, the collections rose to .3 percent over the 2008 collections. In calendar year 2010 collections continued to rise to 1.2 percent, and the increase was 1.8 and 3.2 percent respectively, in 2011 and 2012. During the 2013 fiscal year, changes in collecting sales tax on automobile purchases was enacted by the state legislature, further reducing the proceeds received in prior years. Although the collections are still well below the average growth rate, the School District remains optimistic and will continue to monitor this situation closely. The unemployment rate was 7.4 percent in 2010, and continues to be well below the state and national rates.

Houston County is home to Robins Air Force Base, Georgia's largest single industry. Robins Air Force Base had an estimated fiscal year 2012 economic impact on the State of Georgia of \$2.9 billion, with Houston County being by far the largest beneficiary of that impact. Other large employers located in the county include the Board of Education, Houston County Hospital Authority, Perdue Farms, Frito-Lay Company, Anchor Glass, and Wal-Mart Associates. Of Houston's employed residents, 62.8 percent work in county.

**HOUSTON COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Houston is Georgia's sixty-fifth largest county in total area. As one of the fastest growing counties in Georgia, Houston had a 15 percent population increase from 1980-1990, a 24 percent increase from 1990-2000, and a 26.3 percent increase from 2000-2010. The population as of the 2010 census was 139,900 and is projected to grow to 154,526 in 2015. This growth results in school system enrollment increases between 175 to 502 students for the past five years.

Houston has three municipalities: Centerville with a population of 7,531; Perry with 14,730; and Warner Robins with 70,712. The county also includes the communities of Bonaire, Clinchfield, Elko, Haynesville, Henderson, and Kathleen.

The median household income as of 2010 was \$54,977 per year. As of 2010, the per capita income was \$33,505. 87 percent of the county's adult population is a high school graduate or higher with over 24.4 percent having a bachelor degree or higher.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Stephen J. Thublin, Assistant Superintendent for Finance and Business Operations, at the Houston County Board of Education, P.O. Box 1850, 1100 Main Street, Perry, Georgia 31069. You may also email your questions to Stephen.Thublin@hcbe.net.

HOUSTON COUNTY BOARD OF EDUCATION

HOUSTON COUNTY BOARD OF EDUCATION
STATEMENT OF NET POSITION
JUNE 30, 2013

EXHIBIT "A"

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
Cash and Cash Equivalents	\$ 33,267,064.07
Investments	65,091,693.50
Accounts Receivable, Net	
Taxes	6,772,234.73
State Government	17,006,061.12
Federal Government	3,231,992.64
Other	313,321.10
Inventories	4,515,666.17
Deferred Charges	318,277.30
Capital Assets, Non-Depreciable	35,570,069.21
Capital Assets, Depreciable (Net of Accumulated Depreciation)	<u>257,542,683.29</u>
Total Assets	<u>\$ 423,629,063.13</u>
<u>LIABILITIES</u>	
Accounts Payable	\$ 3,606.86
Salaries and Benefits Payable	28,802,861.93
Interest Payable	538,593.82
Claims Incurred but not Reported (IBNR)	1,535,607.17
Retainages Payable	483,813.66
Long-Term Liabilities	
Due Within One Year	2,231,744.38
Due in More Than One Year	<u>50,509,903.40</u>
Total Liabilities	<u>\$ 84,106,131.22</u>
<u>NET POSITION</u>	
Net Investment in Capital Assets	\$ 258,667,490.92
Restricted for	
Continuation of Federal Programs	5,034,462.45
Debt Service	2,025,232.86
Capital Projects	25,496,530.85
Property Tax Rollback	35,185,465.15
Unrestricted	<u>13,113,749.68</u>
Total Net Position	<u>\$ 339,522,931.91</u>

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

HOUSTON COUNTY BOARD OF EDUCATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

	EXPENSES	CHARGES FOR SERVICES
<u>GOVERNMENTAL ACTIVITIES</u>		
Instruction	\$ 180,300,564.55	\$ 2,628,097.68
Support Services		
Pupil Services	8,170,337.34	
Improvement of Instructional Services	6,168,521.82	
Educational Media Services	3,964,760.30	
General Administration	1,344,322.70	
School Administration	17,580,401.35	
Business Administration	2,183,718.71	
Maintenance and Operation of Plant	17,011,435.07	5,162.87
Student Transportation Services	12,646,828.08	106,271.10
Central Support Services	3,056,745.30	
Other Support Services	1,869,780.34	
Operations of Non-Instructional Services		
Enterprise Operations	2,107,065.30	1,469,864.60
Community Services	841,721.56	
Food Services	16,576,705.03	4,792,607.88
Interest on Short-Term and Long-Term Debt	425,373.12	
	\$ 274,248,280.57	\$ 9,002,004.13
General Revenues		
Taxes		
Property Taxes		
For Maintenance and Operations		
Railroad Cars		
Title Ad Valorem Tax		
Sales Taxes		
Local Option Sales Tax		
Special Purpose Local Option Sales Tax		
For Debt Services		
For Capital Projects		
Intangible Recording Tax		
Real Estate Transfer Tax		
Grants and Contributions not Restricted to Specific Programs		
Investment Earnings		
Miscellaneous		
Total General Revenues		
Change in Net Position		
Net Position - Beginning of Year		
Net Positions - Ending of Year		

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

EXHIBIT "B"

PROGRAM REVENUES		NET (EXPENSES)
OPERATING	CAPITAL	REVENUES
GRANTS AND	GRANTS AND	AND CHANGES IN
CONTRIBUTIONS	CONTRIBUTIONS	NET POSITION
\$ 104,175,426.45	\$ 892,892.51	\$ -72,604,147.91
3,421,827.15	999.03	-4,747,511.16
3,978,770.15	1,618.36	-2,188,133.31
3,141,804.28	43,684.80	-779,271.22
611,369.94	293.52	-732,659.24
6,217,973.96	43,131.50	-11,319,295.89
460,801.12	16,619.96	-1,706,297.63
7,066,912.44	9,333.54	-9,930,026.22
1,773,920.57	73,785.00	-10,692,851.41
668,669.81	12,088.35	-2,375,987.14
634,661.73		-1,235,118.61
		-637,200.70
		-841,721.56
11,889,840.76	107,921.97	213,665.58
		-425,373.12
<u>\$ 144,041,978.36</u>	<u>\$ 1,202,368.54</u>	<u>\$ -120,001,929.54</u>
		\$ 49,880,694.34
		21,621.58
		1,233,144.39
		21,920,048.19
		3,348,331.26
		18,570,914.98
		998,531.90
		190,651.34
		21,322,703.13
		153,031.36
		<u>5,889,024.59</u>
		\$ <u>123,528,697.06</u>
		\$ 3,526,767.52
		<u>335,996,164.39</u>
		\$ <u><u>339,522,931.91</u></u>

HOUSTON COUNTY BOARD OF EDUCATION
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013

EXHIBIT "C"

	GENERAL FUND	DISTRICT- WIDE CAPITAL PROJECT FUNDS	DEBT SERVICE FUNDS	TOTAL
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 33,202,844.29	\$ 61,935.47	\$ 2,284.31	\$ 33,267,064.07
Investments	38,431,432.64	24,098,718.49	2,561,542.37	65,091,693.50
Accounts Receivable, Net				
Taxes	5,090,862.63	1,681,372.10		6,772,234.73
State Government	16,817,777.32	188,283.80		17,006,061.12
Federal Government	3,231,992.64			3,231,992.64
Other	313,321.10			313,321.10
Inventories	4,515,666.17			4,515,666.17
Total Assets	\$ 101,603,896.79	\$ 26,030,309.86	\$ 2,563,826.68	\$ 130,198,033.33
 <u>LIABILITIES AND FUND BALANCES</u>				
<u>LIABILITIES</u>				
Accounts Payable	\$ 3,606.86			\$ 3,606.86
Salaries and Benefits Payable	28,802,861.93			28,802,861.93
Retainages Payable		\$ 483,813.66		483,813.66
Deposits and Deferred Revenue	1,708,508.01			1,708,508.01
Total Liabilities	\$ 30,514,976.80	\$ 483,813.66		\$ 30,998,790.46
 <u>FUND BALANCES</u>				
Nonspendable	\$ 4,515,666.17			\$ 4,515,666.17
Restricted	39,131,412.49	\$ 25,496,530.85	\$ 2,563,826.68	67,191,770.02
Assigned	6,470,372.73	49,965.35		6,520,338.08
Unassigned	20,971,468.60			20,971,468.60
Total Fund Balances	\$ 71,088,919.99	\$ 25,546,496.20	\$ 2,563,826.68	\$ 99,199,242.87
Total Liabilities and Fund Balances	\$ 101,603,896.79	\$ 26,030,309.86	\$ 2,563,826.68	\$ 130,198,033.33

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

HOUSTON COUNTY BOARD OF EDUCATION
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2013

EXHIBIT "D"

Total Fund Balances - Governmental Funds (Exhibit "C") \$ 99,199,242.87

Amounts reported for Governmental Activities in the Statement of Net Position are different because:

Capital Assets used in Governmental Activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Land	\$ 10,861,359.31	
Construction in Progress	24,708,709.90	
Land Improvements	6,927,841.91	
Buildings	362,099,344.08	
Equipment	22,615,285.91	
Intangible Assets	2,693,144.38	
Accumulated Depreciation	<u>-136,792,932.99</u>	
Total Capital Assets		293,112,752.50

Taxes that are not available to pay for current period expenditures are deferred in the funds.

Property Taxes		1,708,508.01
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Other Long-Term Assets are not available to pay for current period expenditures and therefore, are deferred on the Statement of Net Position.

Deferred Charges - Capitalized Bond Issuance Costs		318,277.30
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Long-Term Liabilities, including Bonds Payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-Term Liabilities at year-end consist of:

Bonds Payable	\$ -43,560,000.00	
Accrued Interest	-538,593.82	
Capital Leases	-2,055,412.64	
Compensated Absences	-2,638,587.39	
Unamortized Bond Premiums	-4,487,647.75	
Claims and Judgments	<u>-1,535,607.17</u>	
Total Long-term Liabilities		<u>-54,815,848.77</u>

Net Position of Governmental Activities (Exhibit "A") \$ 339,522,931.91

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

HOUSTON COUNTY BOARD OF EDUCATION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2013

EXHIBIT "E"

	<u>GENERAL FUND</u>	<u>DISTRICT- WIDE CAPITAL PROJECT FUNDS</u>	<u>DEBT SERVICE FUNDS</u>	<u>TOTAL</u>
<u>REVENUES</u>				
Property Taxes	\$ 51,491,850.51			\$ 51,491,850.51
Sales Taxes	23,109,231.43	\$ 18,570,914.98	\$ 3,348,331.26	45,028,477.67
State Funds	139,874,883.69	1,128,583.54		141,003,467.23
Federal Funds	25,544,887.80			25,544,887.80
Charges for Services	9,002,004.13			9,002,004.13
Investment Earnings	95,815.75	48,923.11	8,292.50	153,031.36
Miscellaneous	5,905,469.59	2,250.00		5,907,719.59
	<u>255,024,142.90</u>	<u>19,750,671.63</u>	<u>3,356,623.76</u>	<u>278,131,438.29</u>
Total Revenues	\$	\$	\$	\$
<u>EXPENDITURES</u>				
Current				
Instruction	\$ 162,341,032.36	\$ 8,103,888.66		\$ 170,444,921.02
Support Services				
Pupil Services	8,159,311.24			8,159,311.24
Improvement of Instructional Services	6,150,660.28			6,150,660.28
Educational Media Services	3,482,619.69			3,482,619.69
General Administration	1,366,758.19			1,366,758.19
School Administration	17,104,367.38			17,104,367.38
Business Administration	1,956,101.40	5,537.95	\$ 1,627.50	1,963,266.85
Maintenance and Operation of Plant	16,913,297.60			16,913,297.60
Student Transportation Services	11,794,891.72			11,794,891.72
Central Support Services	2,556,150.97	367,177.51		2,923,328.48
Other Support Services	1,734,311.55			1,734,311.55
Enterprise Operations	2,107,065.30			2,107,065.30
Community Services	841,721.56			841,721.56
Food Services Operation	15,465,429.72			15,465,429.72
Capital Outlay		28,088,918.02		28,088,918.02
Debt Services				
Principal	255,399.15		22,000,000.00	22,255,399.15
Interest	15,859.83		2,021,979.56	2,037,839.39
	<u>252,244,977.94</u>	<u>36,565,522.14</u>	<u>24,023,607.06</u>	<u>312,834,107.14</u>
Total Expenditures	\$	\$	\$	\$
Excess of Revenues over (under) Expenditures	\$ 2,779,164.96	\$ -16,814,850.51	\$ -20,666,983.30	\$ -34,702,668.85
<u>OTHER FINANCING USES</u>				
Capital Leases	1,687,158.00			1,687,158.00
Net Change in Fund Balances	\$ 4,466,322.96	\$ -16,814,850.51	\$ -20,666,983.30	\$ -33,015,510.85
Fund Balances - Beginning	66,622,597.03	42,361,346.71	23,230,809.98	132,214,753.72
Fund Balances - Ending	<u>\$ 71,088,919.99</u>	<u>\$ 25,546,496.20</u>	<u>\$ 2,563,826.68</u>	<u>\$ 99,199,242.87</u>

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

HOUSTON COUNTY BOARD OF EDUCATION
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013

EXHIBIT "F"

Total Net Change in Fund Balances - Governmental Funds (Exhibit "E") \$ -33,015,510.85

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Capital Outlays are reported as expenditures in Governmental Funds. However, in the Statement of Activities, the cost of Capital Assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital Outlay	\$ 25,755,035.68	
Depreciation Expense	-10,723,860.20	
Excess of Capital Outlay over Depreciation Expense		15,031,175.48

Taxes reported in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. -356,390.20

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, donations, and disposals) is to decrease net assets. -46,157.29

Bond issuance costs, deferred gains on refundings and similar items when debt is first issued are reported as an expenditure in Governmental Funds, but are reported as deferred charges on the Statement of Net Position and amortized over the term of the debt, using the straight-line method. The detail of this difference in the current period is as follows:

Amortization of Bond Issuance Costs		-103,825.58
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Some of the Capital Assets acquired this year were financed with capital leases. In Governmental Funds, a capital lease arrangement is considered a source of financing, but in the Statement of Net Position, the lease obligation is reported as a Long-Term Liability. -1,687,158.00

Repayment of Long-Term Debt is reported as an expenditure in Governmental Funds, but the repayment reduces Long-Term Liabilities in the Statement of Net Position. In the current year, these amounts consist of:

Bond Principal Retirements	\$ 22,000,000.00	
Capital Lease Payments	255,399.15	
Amortization of Bond Premium	1,316,772.84	
Total Long-Term Debt Repayments		23,572,171.99

Interest expense reported in the Statement of Activities is recorded as incurred, whereas interest expense in the governmental fund statements is reported when paid. 295,693.43

Some items reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in Governmental Funds. These activities consist of:

Increase in Compensated Absences	\$ -27,762.67	
Increase in Claims and Judgments	-135,468.79	
Total Additional Expenditures		-163,231.46

Change in Net Position of Governmental Activities (Exhibit "B") \$ 3,526,767.52

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

HOUSTON COUNTY BOARD OF EDUCATION
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2013

EXHIBIT "G"

	<u>AGENCY FUNDS</u>
<u>ASSETS</u>	
Cash and Cash Equivalents	\$ 851,006.12
Accounts Receivable, Net	
Other	<u>113,869.24</u>
Total Assets	<u>\$ 964,875.36</u>
<u>LIABILITIES</u>	
Accounts Payable	\$ 510,401.96
Funds Held for Others	<u>454,473.40</u>
	<u>\$ 964,875.36</u>

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

Note 1: DESCRIPTION OF SCHOOL DISTRICT AND REPORTING ENTITY

REPORTING ENTITY

The Houston County Board of Education (School District) was established under the laws of the State of Georgia and operates under the guidance of a school board elected by the voters and a Superintendent appointed by the Board. The Board is organized as a separate legal entity and has the power to levy taxes and issue bonds. Its budget is not subject to approval by any other entity. Accordingly, the School District is a primary government and consists of all the organizations that compose its legal entity.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The School District's basic financial statements are collectively comprised of the District-wide financial statements, fund financial statements and notes to the basic financial statements of the Houston County Board of Education.

District-wide Statements:

The Statement of Net Position and the Statement of Activities display information about the financial activities of the overall School District, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the School District's governmental activities.

- Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expenses (expenses of the School District related to the administration and support of the School District's programs, such as office and maintenance personnel and accounting) are not allocated to programs.
- Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) 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, including all taxes, are presented as general revenues.

Fund Financial Statements:

The fund financial statements provide information about the School District's funds, including fiduciary funds. Eliminations have been made to minimize the double counting of internal activities. Separate statements for each category (governmental and fiduciary) are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

The School District reports the following major governmental funds:

- General Fund is the School District's primary operating fund. It accounts for and reports all financial resources not accounted for and reported in another fund.

- District-wide Capital Projects Fund accounts for and reports financial resources including Education Special Purpose Local Option Sales Tax (ESPLOST), Bond Proceeds and grants from Georgia State Financing and Investment Commission that are restricted, committed or assigned to the expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.
- Debt Service Fund accounts for and reports financial resources that are restricted, committed, or assigned including taxes (sales) legally restricted for the payment of general long-term principal and interest.

The School District reports the following fiduciary fund type:

- Agency funds account for assets held by the School District as an agent for various funds, governments, or individuals.

BASIS OF ACCOUNTING

The basis of accounting determines when transactions are reported on the financial statements. The District-wide governmental and fiduciary financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the School District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, sales taxes, grants and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from sales taxes is recognized in the fiscal year in which the underlying transaction (sale) takes place. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The School District uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The School District considers all revenues reported in the governmental funds to be available if they are collected within sixty days after year-end. The School District considers all intergovernmental revenues to be available if they are collected within 120 days after year-end. Property taxes, sales taxes and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term liabilities and acquisitions under capital leases are reported as other financing sources.

The School District funds certain programs by a combination of specific cost-reimbursement grants, categorical grants, and general revenues. Thus, when program costs are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the School District's policy to first apply grant resources to such programs, followed by cost-reimbursement grants, then general revenues.

NEW ACCOUNTING PRONOUNCEMENTS

In fiscal year 2013, the School District adopted the Governmental Accounting Standards Board (GASB) Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The provisions of this Statement establish accounting and financial reporting standards for governments who enter into Service Concession Arrangements (SCA) with other governmental or nongovernmental entities. As of June 30, 2013, the School District has not entered into any arrangements that meet the qualifications to be reported as a SCA in accordance with this standard.

In fiscal year 2013, the School District adopted the Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of this Statement incorporate certain accounting and financial reporting guidance into authoritative GASB literature.

In fiscal year 2013, the School District adopted the Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. The provisions of this Statement establish financial reporting standards for the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. The School District changed its presentation of net assets to net position for fiscal year 2013. There were no other applicable reporting changes for the School District.

CASH AND CASH EQUIVALENTS

COMPOSITION OF DEPOSITS

Cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition in authorized financial institutions. Official Code of Georgia Annotated Section 45-8-14 authorizes the School District to deposit its funds in one or more solvent banks, insured Federal savings and loan associations or insured chartered building and loan associations.

INVESTMENTS

COMPOSITION OF INVESTMENTS

Investments made by the School District in nonparticipating interest-earning contracts (such as certificates of deposit) and repurchase agreements are reported at cost. Participating interest-earning contracts and money market investments with a maturity at purchase of one year or less are reported at amortized cost. Both participating interest-earning contracts and money market investments with a maturity at purchase greater than one year and equity investments are reported at fair value. The Official Code of Georgia Annotated Section 36-83-4 authorizes the School District to invest its funds. In selecting among options for investment or among institutional bids for deposits, the highest rate of return shall be the objective, given equivalent conditions of safety and liquidity. Funds may be invested in the following:

- (1) Obligations issued by the State of Georgia or by other states,
- (2) Obligations issued by the United States government,
- (3) Obligations fully insured or guaranteed by the United States government or a United States government agency,
- (4) Obligations of any corporation of the United States government,

- (5) Prime banker's acceptances,
- (6) The Georgia Fund 1 administered by the State of Georgia, Office of State Treasurer
- (7) Repurchase agreements, and
- 8) Obligations of other political subdivisions of the State of Georgia.

The School District does not have a formal policy regarding investment policies that address credit risks, custodial credit risks, concentration of credit risks, interest rate risks or foreign currency risks.

RECEIVABLES

Receivables consist of amounts due from property and sales taxes, grant reimbursements due on Federal, State or other grants for expenditures made but not reimbursed and other receivables disclosed from information available. Receivables are recorded when either the asset or revenue recognition criteria has been met. Receivables recorded on the basic financial statements do not include any amounts which would necessitate the need for an allowance for uncollectible receivables.

PROPERTY TAXES

The Houston County Board of Commissioners fixed the property tax levy for the 2012 tax digest year (calendar year) on August 21, 2012 (levy date). Taxes were due on December 20, 2012 (lien date). Taxes collected within the current fiscal year or within 60 days after year-end on the 2012 tax digest are reported as revenue in the governmental funds for fiscal year 2013. The Houston County Tax Commissioner bills and collects the property taxes for the School District, withholds 2.5% of taxes collected as a fee for tax collection and remits the balance of taxes collected to the School District. Property tax revenues, at the fund reporting level, during the fiscal year ended June 30, 2013, for maintenance and operations amounted to \$50,237,084.54.

The tax millage rate levied for the 2012 tax year (calendar year) for the Houston County Board of Education was as follows (a mill equals \$1 per thousand dollars of assessed value):

School Operations	<u>13.34</u> mills
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Additionally, Title Ad Valorem Tax revenues, at the fund reporting level, amounted to \$1,233,144.39 during fiscal year ended June 30, 2013.

SALES TAXES

In 1982, the voters of Houston County approved a local amendment to the Constitution of the State of Georgia which limited the maximum allowable mill rate for ad valorem taxes levied by the District each year. The maximum allowable mill rate for the District in each year must be reduced by the mill rate which would yield on the digest for that year an amount equal to the amount received by the District in the immediately preceding year from the local sales and use tax. Local Option Sales Tax revenue, at the fund reporting level, during the fiscal year amounted to \$21,920,048.19 and was recorded in the General Fund. Local Option Sales Tax is to be used for the maintenance and operation of the School District, and the corresponding millage rate was adjusted accordingly.

Education Special Purpose Local Option Sales Tax, at the fund reporting level, during the year amounted to \$21,919,246.24 and is to be used for capital outlay for educational purposes or debt service. This sales tax was authorized by local referendum and the sales tax must be re-authorized at least every five years.

INVENTORIES

FOOD INVENTORIES

On the basic financial statements, inventories of donated food commodities used in the preparation of meals are reported at their Federally assigned value and purchased foods inventories are reported at cost (weighted average). The School District uses the consumption method to account for inventories whereby donated food commodities are recorded as an asset and as revenue when received, and expenses/expenditures are recorded as the inventory items are used. Purchased foods are recorded as an asset when purchased and expenses/expenditures are recorded as the inventory items are used.

SUPPLY INVENTORY

On the basic financial statements, inventories of consumable supplies and materials are reported at cost (weighted average). The School District uses the consumption method to account for inventories of consumable supplies whereby an asset is recorded when supplies are purchased and expenditures are recorded at the time the supplies are consumed.

CAPITAL ASSETS

Capital assets purchased, including capital outlay costs, are recorded as expenditures in the fund financial statements at the time of purchase (including ancillary charges). On the District-wide financial statements, all purchased capital assets are valued at cost where historical records are available and at estimated historical cost based on appraisals or deflated current replacement cost where no historical records exist. Donated capital assets are recorded at estimated fair market value on the date donated. Disposals are deleted at depreciated recorded cost. The cost of normal maintenance and repairs that do not add to the value of assets or materially extend the useful lives of the assets are not capitalized. Depreciation is computed using the straight-line method. The School District does not capitalize book collections or works of art. During the fiscal year under review, no events or changes in circumstances affecting a capital asset that may indicate impairment were known to the School District.

Capitalization thresholds and estimated useful lives of capital assets reported in the District-wide statements are as follows:

	<u>Capitalization Policy</u>	<u>Estimated Useful Life</u>
Land	All	N/A
Land Improvements	All	20 to 25 years
Buildings and Improvements	All	10 to 50 years
Equipment		
a. Vehicles	All	5 to 14 years
b. Other Machinery and Equipment	\$10,000.00 and any item necessary for insurance purposes	6 to 10 years
Intangible Assets	\$100,000.00 to \$1.0 million	10 to 20 years
Construction in Progress	All	N/A

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Depreciation is used to allocate the actual or estimated historical cost of all capital assets over estimated useful lives, with the exception of intangible assets which are amortized.

Amortization of intangible assets such as water, timber, and mineral rights, easements, patents, trademarks, copyrights and internally generated software is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 20 years.

COMPENSATED ABSENCES

Members of the Teachers Retirement System of Georgia (TRS) may apply unused sick leave toward early retirement in excess of sixty days. Employees retiring under the Teachers Retirement System of Georgia are eligible to be paid for up to sixty days of leave at a rate of \$22.50 per day, upon retirement. Employees retiring under the Public School Employees Retirement System will be eligible to sell all unused leave up to the one hundred day maximum accumulation, at \$22.50 per day. The employee must have a minimum of five consecutive years of employment with the School District, contiguous with retirement.

Public School Employees Retirement System employees who terminate employment may apply to sell unused leave in excess of forty-five days but not to exceed one hundred days at \$22.50 per day. The employee must have a minimum of five consecutive years of employment with the School District, contiguous to a voluntary termination.

Accrued vacation leave will be paid to all eligible employees at their daily rate up to a maximum of twenty days. Vacation leave of twelve days is awarded to all full time personnel employed on a twelve month basis. No other employees are eligible to earn vacation leave. Vacation leave not utilized during the fiscal year may be carried over to the next fiscal year, providing such vacation leave does not exceed twenty days.

	Beginning of Year Liability	Increases	Decreases	End of Year Liability
2011	\$ 2,127,076.86	\$ 1,745,785.41	\$ 1,391,751.71	\$ 2,481,110.56
2012	\$ 2,481,110.56	\$ 1,858,101.57	\$ 1,728,387.41	\$ 2,610,824.72
2013	\$ 2,610,824.72	\$ 1,867,716.35	\$ 1,839,953.68	\$ 2,638,587.39

GENERAL OBLIGATION BONDS

The School District issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. In the District-wide financial statements, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bond issuance costs are reported as deferred charges and amortized over the term of the debt.

In the fund financial statements, the School District recognizes bond premiums and discounts, as well as bond issuance costs during the fiscal year bonds are issued. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. General obligation bonds are direct obligations and pledge the full faith and credit of the government. The outstanding amount of these bonds is recorded in the Statement of Net Position.

NET POSITION

The School District's net position in the District-wide Statements is classified as follows:

Net investment in capital assets - This represents the School District's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.

Restricted net position - This represents resources for which the School District is legally or contractually obligated to spend resources for bus replacement, continuation of Federal programs, debt service and capital projects in accordance with restrictions imposed by external third parties.

Unrestricted net position - Unrestricted net position represents resources derived from property taxes, sales taxes, grants and contributions not restricted to specific programs, charges for services, and miscellaneous revenues. These resources are used for transactions relating to the educational and general operations of the School District, and may be used at the discretion of the Board to meet current expenses for those purposes.

FUND BALANCES

The School District's fund balances are classified as follows:

Nonspendable - Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - Constraints are placed on the use of resources are either (1) externally imposed conditions by creditors, grantors, contributors, or laws and regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation.

Committed - Amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Education. The Board of Education is the School District's highest level of decision-making authority, and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution approved by the Board. Committed fund balance also should incorporate contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts that are constrained by the School District's *intent* to be used for specific purposes, but are neither restricted nor committed. The intent should be expressed by (1) the Board of Education or (2) the Superintendent, or the Assistant Superintendent for Finance and Business Operations, to assign amounts to be used for specific purposes.

Unassigned - The residual classification for the General Fund. This classification represents fund balances that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund.

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Fund Balances of the Governmental Funds at June 30, 2013, are as follows:

Nonspendable					
Inventories				\$	4,515,666.17
Restricted					
Continuation of Federal Programs	\$	3,945,947.34			
Capital Projects		25,496,530.85			
Debt Service		2,563,826.68			
Property Tax Rollback		35,185,465.15			67,191,770.02
Assigned					
Local Capital Outlay Projects	\$	49,965.35			
School Activity Accounts		2,093,309.73			
Subsequent Period Expenditures		4,377,063.00			6,520,338.08
Unassigned					20,971,468.60
Fund Balance, June 30, 2013				\$	99,199,242.87

It is the goal of the Houston County Board of Education to achieve and maintain an unassigned fund balance in the general fund at fiscal year end of not less than 4% of budgeted expenditures, not to exceed 15% of the total budget of the subsequent fiscal year, net of any Committed Reserve Balance for capital expenditures, in compliance with O.C.G.A. §20-2-167(a)5. The School District should provide for the maintenance of annual expenditure increases necessary to provide a consistent educational environment satisfactory to its citizens. If the unassigned fund balance at fiscal year end falls below the goal, the School District shall develop a restoration plan to achieve and maintain the minimum fund balance.

When multiple categories of fund balance are available for expenditure, the School District will start with the most restricted category and spend those funds first before moving down to the next category with available funds.

USE OF ESTIMATES

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note 3: BUDGETARY DATA

The budget is a complete financial plan for the School District's fiscal year, and is based upon careful estimates of expenditures together with probable funding sources. The budget is legally adopted each year for the general, debt service, and capital projects funds. There is no statutory prohibition regarding over expenditure of the budget at any level. The budget for all governmental funds is prepared and adopted by fund and function. The legal level of budgetary control was established by the Board at the aggregate fund level. The budget for the General Fund was prepared in accordance with accounting principles generally accepted in the United States of America.

The budgetary process begins with the School District's administration presenting an initial budget for the Board's review. The administration makes revisions as necessary based on the Board's guidelines and a tentative budget is approved. After approval of this tentative budget by the Board,

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such budget is advertised at least once in a newspaper of general circulation in the locality, as well as the School District's website. At the next regularly scheduled meeting of the Board after advertisement, the Board receives comments on the tentative budget, makes revisions as necessary and adopts a final budget. The approved budget is then submitted, in accordance with provisions of Official Code of Georgia Annotated section 20-2-167(c), to the Georgia Department of Education. The Board may increase or decrease the budget at any time during the year. All unexpended budget authority lapses at fiscal year-end.

See Schedule 1 – General Fund Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget to Actual for a detail of any over/under expenditures during the fiscal year under review.

Note 4: DEPOSITS AND INVESTMENTS

COLLATERALIZATION OF DEPOSITS

Official Code of Georgia Annotated (OCGA) Section 45-8-12 provides that there shall not be on deposit at any time in any depository for a time longer than ten days a sum of money which has not been secured by surety bond, by guarantee of insurance, or by collateral. The aggregate of the face value of such surety bond and the market value of securities pledged shall be equal to not less than 110 percent of the public funds being secured after the deduction of the amount of deposit insurance. If a depository elects the pooled method (OCGA 45-8-13.1) the aggregate of the market value of the securities pledged to secure a pool of public funds shall be not less than 110 percent of the daily pool balance.

Acceptable security for deposits consists of any one of or any combination of the following:

- (1) Surety bond signed by a surety company duly qualified and authorized to transact business within the State of Georgia,
- (2) Insurance on accounts provided by the Federal Deposit Insurance Corporation,
- (3) Bonds, bills, notes, certificates of indebtedness or other direct obligations of the United States or of the State of Georgia,
- (4) Bonds, bills, notes, certificates of indebtedness or other obligations of the counties or municipalities of the State of Georgia,
- (5) Bonds of any public authority created by the laws of the State of Georgia, providing that the statute that created the authority authorized the use of the bonds for this purpose,
- (6) Industrial revenue bonds and bonds of development authorities created by the laws of the State of Georgia, and
- (7) Bonds, bills, notes, certificates of indebtedness, or other obligations of a subsidiary corporation of the United States government, which are fully guaranteed by the United States government both as to principal and interest or debt obligations issued by or securities guaranteed by the Federal Land Bank, the Federal Home Loan Bank, the Federal Intermediate Credit Bank, the Central Bank for Cooperatives, the Farm Credit Banks, the Federal Home Loan Mortgage Association, and the Federal National Mortgage Association.

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. At June 30, 2013, the bank balances were \$43,200,816.61. The bank balances were covered by Federal depository insurance or collateralized with securities held by the pledging financial institution in the School District's name.

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CATEGORIZATION OF INVESTMENTS

The School District's investments as of June 30, 2013, are presented below. All investments are presented by investment type and debt securities are presented by maturity.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturity</u>	
		<u>Less Than 1 Year</u>	<u>1 - 5 Years</u>
Debt Securities			
Certificates of Deposit	\$ 270,194.90	\$ <u>30,194.90</u>	\$ <u>240,000.00</u>
Investment Pools			
Office of State Treasurer			
Georgia Fund 1	<u>64,821,495.13</u>		
Total Investments	<u>\$ 65,091,690.03</u>		

The Georgia Fund 1, formerly referred to as LGIP, administered by the State of Georgia, Office of the State Treasurer is not required to be categorized since the School District did not own any specific identifiable securities in the pool. The investment policy of the State of Georgia, Office of the State Treasurer for the Georgia Fund 1 (Primary Liquidity Portfolio) does not provide for investment in derivatives or similar investments. Additional information on the Georgia Fund 1 is disclosed in the *State of Georgia* Comprehensive Annual Financial Report. This audit can be obtained from the Georgia Department of Audits and Accounts at www.audits.ga.gov/SGD/CAFR.html.

The Primary Liquidity Portfolio consists of Georgia Fund 1 which is not registered with the SEC as an investment company but does operate in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940. The investment is valued at the pool's share price, \$1.00 per share. The pool is an AAAM rated investment pool by Standard and Poor's. The weighted average maturity of Georgia Fund 1 may not exceed 60 days. The weighted average maturity for Georgia Fund 1 on June 30, 2013, was 43 days.

Note 5: NON-MONETARY TRANSACTIONS

The School District receives food commodities from the United States Department of Agriculture (USDA) for school breakfast and lunch programs. These commodities are recorded at their Federally assigned value. **See Note 2 – Inventories**

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Note 6: CAPITAL ASSETS

The following is a summary of changes in the Capital Assets during the fiscal year:

	Balances July 1, 2012	Increases	Decreases	Balances June 30, 2013
Governmental Activities				
Capital Assets, Not Being Depreciated:				
Land	\$ 10,188,888.77	\$ 672,470.54		\$ 10,861,359.31
Construction Work In Progress	2,071,207.41	25,504,884.98	\$ 2,867,382.49	24,708,709.90
Total Capital Assets, Not Being Depreciated	\$ 12,260,096.18	\$ 26,177,355.52	\$ 2,867,382.49	\$ 35,570,069.21
Capital Assets, Being Depreciated:				
Buildings and Building Improvements	\$ 359,904,432.13	\$ 2,194,911.95		\$ 362,099,344.08
Equipment	22,647,959.47	250,150.70	\$ 282,824.26	22,615,285.91
Land Improvements	6,927,841.91			6,927,841.91
Intangible Assets	2,693,144.38			2,693,144.38
Less: Accumulated Depreciation:				
Buildings and Building Improvements	107,897,403.54	8,838,182.52		116,735,586.06
Equipment	15,399,671.54	1,291,093.88	236,666.97	16,454,098.45
Land Improvements	1,733,477.96	325,269.36		2,058,747.32
Intangible Assets	1,275,186.72	269,314.44		1,544,501.16
Total Capital Assets, Being Depreciated, Net	\$ 265,867,638.13	\$ -8,278,797.55	\$ 46,157.29	\$ 257,542,683.29
Governmental Activity Capital Assets - Net	\$ 278,127,734.31	\$ 17,898,557.97	\$ 2,913,539.78	\$ 293,112,752.50

Capital assets being acquired under capital leases as of June 30, 2013, are as follows:

	Governmental Funds
Equipment	\$ 1,167,384.40
Less: Accumulated Depreciation	535,048.80
	\$ 632,335.60

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Current year depreciation expense by function is as follows:

Instruction		\$	7,810,291.88
Support Services			
Pupil Services	\$		8,738.70
Improvement of Instructional Services			14,156.10
Educational Media Services			382,118.81
General Administration			2,567.46
School Administration			377,279.01
Business Administration			145,377.80
Maintenance and Operation of Plant			81,642.16
Student Transportation Services			851,936.36
Central Support Services			105,739.02
			1,969,555.42
Food Services			944,012.90
			\$ 10,723,860.20

Note 7: RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors or omissions; job related illness or injuries to employees; acts of God and unemployment compensation.

The School District has obtained commercial insurance for risk of loss associated with torts, assets, errors or omissions, and acts of God. The School District has neither significantly reduced coverage for these risks nor incurred losses (settlements) which exceeded the School District's insurance coverage in any of the past three years.

The School District has established a limited risk management program for workers' compensation claims. The School District accounts for claims within the General Fund with expenses/expenditures and liabilities being reported when it is probable that a loss has occurred, and the amount of that loss can be reasonably estimated. An excess coverage insurance policy covers individual claims in excess of \$350,000.00 loss per occurrence, up to the statutory limit.

Changes in the workers' compensation claims liability during the last two fiscal years are as follows:

	Beginning of Year Liability	Claims and Changes in Estimates	Claims Paid	End of Year Liability
2012	\$ 1,907,371.47	\$ 634,636.45	\$ 1,141,869.54	\$ 1,400,138.38
2013	\$ 1,400,138.38	\$ 1,183,652.51	\$ 1,048,183.72	\$ 1,535,607.17

The School District is self-insured with regard to unemployment compensation claims. The School District accounts for claims within the General Fund with expenses/expenditures and liabilities being reported when it is probable that a loss has occurred, and the amount of that loss can be reasonably estimated.

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Changes in the unemployment compensation claims liability during the last two fiscal years are as follows:

	<u>Beginning of Year Liability</u>	<u>Claims and Changes in Estimates</u>	<u>Claims Paid</u>	<u>End of Year Liability</u>
2012	\$ 0.00	\$ 73,903.08	\$ 73,903.08	\$ 0.00
2013	\$ 0.00	\$ 35,761.95	\$ 35,761.95	\$ 0.00

The School District has purchased surety bonds to provide additional insurance coverage as follows:

<u>Position Covered</u>	<u>Amount</u>
Superintendent	\$ 50,000.00
Each Principal	\$ 50,000.00
All Employees (Blanket Bond)	\$ 250,000.00 - \$ 500,000.00

Note 8: OPERATING LEASES

Houston County Board of Education has entered into various leases as lessee for copiers, servers and mail equipment. These leases are considered for accounting purposes to be operating leases. Lease expenditures for the year ended June 30, 2013, for governmental funds amounted to \$6,360.00. Future minimum lease payments for these leases are as follows:

<u>Year Ending</u>	<u>Governmental Funds</u>
2014	\$ 5,760.00
2015	5,760.00
2016	<u>4,800.00</u>
Total	<u>\$ 16,320.00</u>

Note 9: LONG-TERM DEBT

CAPITAL LEASES

The Houston County Board of Education entered into various lease agreements for the purchase of buses and athletic equipment. These lease agreements qualify as capital leases for accounting purposes, and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception.

COMPENSATED ABSENCES

Compensated absences represent obligations of the School District relating to employees' rights to receive compensation for future absences based upon service already rendered. This obligation relates only to vesting accumulating leave in which payment is probable and can be reasonably estimated. Typically, the General Fund is the fund used to liquidate this long-term debt. The School District uses the vesting method to compute compensated absences.

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GENERAL OBLIGATION DEBT OUTSTANDING

General Obligation Bonds currently outstanding are as follows:

Purpose	Interest Rates	Amount
General Government - Series 2012	1.125% - 4.00%	\$ <u>43,560,000.00</u>

The changes in Long-Term Debt during the fiscal year ended June 30, 2013, were as follows:

	Governmental Activities					
	Balance				Balance	Due Within
	July 1, 2012	Additions	Deductions	June 30, 2013	One Year	
G. O. Bonds	\$ 65,560,000.00		\$ 22,000,000.00	\$ 43,560,000.00	\$ 1,765,000.00	
Capital Leases	623,653.79	\$ 1,687,158.00	255,399.15	2,055,412.64	284,910.17	
Compensated Absences (1)	2,610,824.72	1,867,716.35	1,839,953.68	2,638,587.39		
Bond Premium Amortized	5,804,420.59		1,316,772.84	4,487,647.75	181,834.21	
	<u>\$ 74,598,899.10</u>	<u>\$ 3,554,874.35</u>	<u>\$ 25,412,125.67</u>	<u>\$ 52,741,647.78</u>	<u>\$ 2,231,744.38</u>	

(1) The portion of Compensated Absences due within one year has been determined to be immaterial to the basic financial statements.

At June 30, 2013, payments due by fiscal year which includes principal and interest for these items are as follows:

Fiscal Year Ended June 30:	Capital Leases		General Obligation Debt		Unamortized
	Principal	Interest	Principal	Interest	Bond Premium
2014	\$ 284,910.17	\$ 11,625.11	\$ 1,765,000.00	\$ 1,565,681.26	\$ 181,834.21
2015	365,177.00	22,872.25	11,520,000.00	1,317,631.26	1,186,815.93
2016	371,698.38	16,350.87	9,885,000.00	889,531.26	1,018,374.61
2017	347,052.55	11,483.12	10,085,000.00	490,131.26	1,038,979.05
2018	341,424.08	7,493.43	10,305,000.00	144,215.63	1,061,643.95
2019	345,150.46	3,767.04			
Total Principal and Interest	<u>\$ 2,055,412.64</u>	<u>\$ 73,591.82</u>	<u>\$ 43,560,000.00</u>	<u>\$ 4,407,190.67</u>	<u>\$ 4,487,647.75</u>

Note 10: ON-BEHALF PAYMENTS

The School District has recognized revenues and costs in the amount of \$13,312,837.14 for health insurance and retirement contributions paid on the School District's behalf by the following State Agencies.

Georgia Department of Education
 Paid to the Georgia Department of Community Health
 For Health Insurance of Certificated Personnel
 In the amount of \$12,804,468.00

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Paid to the Teachers' Retirement System of Georgia
 For Teachers' Retirement System (TRS) Employer's Cost
 In the amount of \$63,507.14

Office of State Treasurer
 Paid to the Public School Employees' Retirement System
 For Public School Employees' Retirement (PSERS) Employer's Cost
 In the amount of \$444,862.00

Funds paid to the Georgia Department of Community Health by the Georgia Department of Education on behalf of the School District are reported as part of the Quality Basic Education revenue allotments on Schedule 3 – Schedule of State Revenue.

Note 11: SIGNIFICANT COMMITMENTS

The following is an analysis of significant outstanding construction or renovation contracts executed by the School District as of June 30, 2013, together with funding available:

Project	Unearned Executed Contracts	Funding Available From State
14-676-098	\$ 85,165.54	\$ 393,956.00
14-676-099	31,571.23	45,020.00
14-676-100	105,506.34	506,095.00
14-676-101	69,384.63	341,617.00
14-676-102	55,458.13	369,429.00
14-676-103	132,122.90	506,096.00
14-676-104	34,661.57	469,122.00
14-676-105	141,124.55	429,541.00
14-676-106	269,566.49	1,002,323.00
14-676-107	8,943,169.00	1,335,029.00
Hallway Carpet Replacement	315,720.82	
HVAC Replacement - Elberta Center	49,656.94	
HVAC Replacement - Northside High School	108,575.56	
McConnell Talbert Stadium Renovation	8,152.25	
New Elementary #11 (Langston Road)	12,570,220.34	
Perry Board Office Extension	871,484.92	
Rumble Academy Renovation	35,521.37	
Secured Vestibules - Various Schools	570,111.09	
Site Upgrade - Centerville Elementary School	319,992.00	
	<u>\$ 24,717,165.67</u>	<u>\$ 5,398,228.00</u>

The amounts described in this note are not reflected in the basic financial statements.

Note 12: SIGNIFICANT CONTINGENT LIABILITIES

Amounts received or receivable principally from the Federal government are subject to audit and review by grantor agencies. This could result in requests for reimbursement to the grantor agency for any costs which are disallowed under grant terms. The School District believes that such disallowances, if any, will be immaterial to its overall financial position.

The School District is a defendant in various legal proceedings pertaining to matters incidental to the performance of routine School District operations. The ultimate disposition of these proceedings is not presently determinable, but is not believed to be material to the basic financial statements.

Note 13: POST-EMPLOYMENT BENEFITS

Georgia School Personnel Post-employment Health Benefit Fund

Plan Description. The Georgia School Personnel Post-employment Health Benefit Fund (School OPEB Fund) is a cost-sharing multiple-employer defined benefit post-employment healthcare plan that covers eligible former employees of public school systems, libraries and regional educational service agencies. The School OPEB Fund provides health insurance benefits to eligible former employees and their qualified beneficiaries through the State Employees Health Benefit Plan administered by the Department of Community Health. The Official Code of Georgia Annotated (O.C.G.A.) assigns the authority to establish and amend the benefit provisions of the group health plans, including benefits for retirees, to the Board of Community Health (Board). The Department of Community Health, which includes the School OPEB Fund, issues a separate stand alone financial audit report and a copy can be obtained from the Georgia Department of Audits and Accounts.

Funding Policy. The contribution requirements of plan members and participating employers are established by the Board in accordance with the current Appropriations Act and may be amended by the Board. Contributions of plan members or beneficiaries receiving benefits vary based on plan election, dependent coverage, and Medicare eligibility and election. For members with fewer than five years of service as of January 1, 2012, contributions also vary based on years of service. On average, members with five years or more of service as of January 1, 2012, pay approximately 25 percent of the cost of the health insurance coverage. In accordance with the Board resolution dated December 8, 2011, for members with fewer than five years of service as of January 1, 2012, the State provides a premium subsidy in retirement that ranges from 0% for fewer than 10 years of service to 75% (but no greater than the subsidy percentage offered to active employees) for 30 or more years of service. The subsidy for eligible dependents ranges from 0% to 55% (but no greater than the subsidy percentage offered to dependents of active employees minus 20%). No subsidy is available to Medicare eligible members not enrolled in a Medicare Advantage Option. The Board of Community Health sets all member premiums by resolution and in accordance with the law and applicable revenue and expense projections. Any subsidy policy adopted by the Board may be changed at any time by Board resolution and does not constitute a contract or promise of any amount of subsidy.

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

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The combined active and retiree contribution rates established by the Board for employers participating in the School OPEB Fund were as follows for the fiscal year ended June 30, 2013:

For certificated teachers, librarians and regional educational service agencies and certain other eligible participants:

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

For non-certificated school personnel:

July 2012 - June 2013 \$446.20 per member per month

No additional contribution was required by the Board for fiscal year 2013 nor contributed to the School OPEB Fund to prefund retiree benefits. Such additional contribution amounts are determined annually by the Board in accordance with the School plan for other post-employment benefits and are subject to appropriation.

The School District's combined active and retiree contributions to the health insurance plans, which equaled the required contribution, for the current fiscal year and the preceding two fiscal years were as follows:

Fiscal Year	Percentage Contributed	Required Contribution
2013	100%	\$ 21,847,884.72
2012	100%	\$ 23,729,507.59
2011	100%	\$ 21,670,004.54

Note 14: RETIREMENT PLANS

TEACHERS RETIREMENT SYSTEM OF GEORGIA (TRS)

Plan Description. The TRS is a cost-sharing multiple-employer defined benefit plan created in 1943 by an act of the Georgia General Assembly to provide retirement benefits for qualifying employees in educational service. A Board of Trustees comprised of active and retired members and ex-officio State employees is ultimately responsible for the administration of TRS. The Teachers' Retirement System of Georgia issues a separate stand alone financial audit report and a copy can be obtained from the Georgia Department of Audits and Accounts.

On October 25, 1996, the Board created the Supplemental Retirement Benefits Plan of the Georgia Teachers' Retirement System (SRBP-TRS). SRBP-TRS was established as a qualified excess benefit plan in accordance with Section 415 of the Internal Revenue Code (IRC) as a portion of TRS. The purpose of SRBP-TRS is to provide retirement benefits to employees covered by TRS whose benefits are otherwise limited by IRC Section 415. Beginning July 1, 1997, all members and retired former members in TRS are eligible to participate in the SRBP-TRS whenever their benefits under TRS exceed the IRC Section 415 imposed limitation on benefits.

TRS provides service retirement, disability retirement, and survivor's benefits. The benefit structure of TRS is defined and may be amended by State statute. A member is eligible for normal service retirement after 30 years of creditable service, regardless of age, or after 10 years of service and attainment of age 60. A member is eligible for early retirement after 25 years of creditable service.

HOUSTON COUNTY BOARD OF EDUCATION
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2013

EXHIBIT "H"

Normal retirement (pension) benefits paid to members are equal to 2% of the average of the member's two highest paid consecutive years of service, multiplied by the number of years of creditable service up to 40 years. Early retirement benefits are reduced by the lesser of one-twelfth of 7% for each month the member is below age 60 or by 7% for each year or fraction thereof by which the member has less than 30 years of service. It is also assumed that certain cost-of-living adjustments, based on the Consumer Price Index, will be made in future years. Retirement benefits are payable monthly for life. A member may elect to receive a partial lump-sum distribution in addition to a reduced monthly retirement benefit. Death, disability and spousal benefits are also available.

Funding Policy. TRS is funded by member and employer contributions as adopted and amended by the Board of Trustees. Members become fully vested after 10 years of service. If a member terminates with less than 10 years of service, no vesting of employer contributions occurs, but the member's contributions may be refunded with interest. Member contributions are limited by State law to not less than 5% or more than 6% of a member's earnable compensation. Member contributions as adopted by the Board of Trustees for the fiscal year ended June 30, 2013, were 6.00% of annual salary. Employer contributions required for fiscal year 2013 were 11.41% of annual salary as required by the June 30, 2010, actuarial valuation. The employer contribution rate will increase to 12.28% effective July 1, 2013.

Employer contributions for the current fiscal year and the preceding two fiscal years are as follows:

Fiscal Year	Percentage Contributed	Required Contribution
2013	100%	\$ 16,362,109.23
2012	100%	\$ 14,443,215.27
2011	100%	\$ 13,964,970.70

PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (PSERS)

Bus drivers, lunchroom personnel, and maintenance and custodial personnel are members of the Public School Employees' Retirement System of Georgia. The System is funded by contributions by the employees and by the State of Georgia. The School District makes no contribution to this plan.

DEFINED CONTRIBUTION PLAN

In July 1999, Houston County Board of Education began an employer paid 403(b) annuity plan for the group of employees covered under the Public School Retirement System (PSERS). Recognizing that PSERS was a limited defined contribution and defined benefit plan which did not provide for an adequate retirement for this group of employees, it was the Board's desire to supplement the retirement of this group.

The Board selected AIG Valic as the provider of this plan. For each employee covered under PSERS, the Board began matching 50% of employee's contributions up to 5.0% of the employee's base pay. The employee becomes vested in the plan with 5 years of experience. Employees who had already achieved 5 years of experience at the time the plan was implemented were vested upon enrollment.

HOUSTON COUNTY BOARD OF EDUCATION
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2013

EXHIBIT "H"

Funds accumulated in the employer paid accounts are only available to the employee upon termination of employment and 5 years of service to Houston County Board of Education. If an employee terminates employment prior to achieving 5 years of service, funds paid on behalf of the non-vested employee are credited back to the Board.

Employer contributions for the current fiscal year and the preceding two fiscal years are as follows:

Fiscal Year	Percentage Contributed	Required Contribution
2013	100%	\$ 64,211.91
2012	100%	\$ 84,473.26
2011	100%	\$ 88,955.83

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HOUSTON COUNTY BOARD OF EDUCATION
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2013

SCHEDULE "1"

	NONAPPROPRIATED BUDGETS		ACTUAL AMOUNTS	VARIANCE OVER/UNDER
	ORIGINAL (1)	FINAL (1)		
REVENUES				
Property Taxes	\$ 50,665,000.00	\$ 51,175,000.00	\$ 51,491,850.51	\$ 316,850.51
Sales Taxes	22,566,903.00	23,051,903.00	23,109,231.43	57,328.43
State Funds	139,957,229.00	139,763,135.00	139,874,883.69	111,748.69
Federal Funds	24,976,571.14	26,026,990.14	25,544,887.80	-482,102.34
Charges for Services	8,014,694.16	8,409,694.16	9,002,004.13	592,309.97
Investment Earnings	103,236.00	109,236.00	95,815.75	-13,420.25
Miscellaneous	5,595,807.00	6,825,807.00	5,905,469.59	-920,337.41
Total Revenues	\$ 251,879,440.30	\$ 255,361,765.30	\$ 255,024,142.90	\$ -337,622.40
EXPENDITURES				
Current				
Instruction	\$ 163,822,643.00	\$ 162,268,867.00	\$ 162,341,032.36	\$ -72,165.36
Support Services				
Pupil Services	8,373,138.00	8,275,035.00	8,159,311.24	115,723.76
Improvement of Instructional Services	6,034,565.00	7,074,404.00	6,150,660.28	923,743.72
Educational Media Services	3,605,800.00	3,540,143.00	3,482,619.69	57,523.31
General Administration	1,596,678.00	1,580,537.00	1,366,758.19	213,778.81
School Administration	17,563,858.00	17,117,536.00	17,104,367.38	13,168.62
Business Administration	1,937,653.00	1,935,854.00	1,956,101.40	-20,247.40
Maintenance and Operation of Plant	16,954,462.00	16,941,066.00	16,913,297.60	27,768.40
Student Transportation Services	10,377,111.00	10,325,978.00	11,794,891.72	-1,468,913.72
Central Support Services	2,316,946.00	2,559,373.00	2,556,150.97	3,222.03
Other Support Services	1,980,455.69	1,795,130.69	1,734,311.55	60,819.14
Enterprise Operations	1,944,220.00	2,144,220.00	2,107,065.30	37,154.70
Community Services	735,000.00	850,000.00	841,721.56	8,278.44
Food Services Operation	16,308,482.83	16,308,482.83	15,465,429.72	843,053.11
Debt Service			271,258.98	-271,258.98
Total Expenditures	\$ 253,551,012.52	\$ 252,716,626.52	\$ 252,244,977.94	\$ 471,648.58
Excess of Revenues over (under) Expenditures	\$ -1,671,572.22	\$ 2,645,138.78	\$ 2,779,164.96	\$ 134,026.18
OTHER FINANCING SOURCES (USES)				
Other Sources	\$ 3,055,000.00	\$ 3,755,000.00	\$ 1,687,158.00	\$ -2,067,842.00
Other Uses	-3,210,000.00	-3,910,000.00		3,910,000.00
Total Other Financing Sources (Uses)	\$ -155,000.00	\$ -155,000.00	\$ 1,687,158.00	\$ 1,842,158.00
Net Change in Fund Balances	\$ -1,826,572.22	\$ 2,490,138.78	\$ 4,466,322.96	\$ 1,976,184.18
Fund Balances - Beginning	31,515,076.70	31,075,215.01	66,622,597.03	35,547,382.02
Fund Balances - Ending	\$ 29,688,504.48	\$ 33,565,353.79	\$ 71,088,919.99	\$ 37,523,566.20

Notes to the Schedule of Revenues, Expenditures and Changes in Fund Balances Budget and Actual

- (1) Original and Final Budget amounts do not include the Restricted Other - Property Tax Rollback fund balance in the beginning or ending fund balances.

The accompanying schedule of revenues, expenditures and changes in fund balances budget and actual is presented on the modified accrual basis of accounting which is the basis of accounting used in the presentation of the fund financial statements.

See notes to the basic financial statements.

HOUSTON COUNTY BOARD OF EDUCATION
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2013

SCHEDULE "2"

FUNDING AGENCY PROGRAM/GRANT	<u>CFDA NUMBER</u>	<u>PASS- THROUGH ENTITY ID NUMBER</u>	<u>EXPENDITURES IN PERIOD</u>
Agriculture, U. S. Department of			
Child Nutrition Cluster			
Pass-Through From Georgia Department of Education			
Food Services			
School Breakfast Program	* 10.553	N/A	(2)
National School Lunch Program	* 10.555	N/A	\$ <u>14,607,258.14</u> (1)
Total Child Nutrition Cluster			\$ 14,607,258.14
Other Programs			
Pass-Through From Georgia Department of Education			
Food Services			
Fresh Fruit and Vegetable Program	10.582	N/A	<u>17,075.90</u>
Total U. S. Department of Agriculture			\$ <u>14,624,334.04</u>
Education, U. S. Department of			
Impact Aid Cluster			
Direct			
Impact Aid	84.041		(3)
Special Education Cluster			
Pass-Through From Georgia Department of Education			
Special Education			
Grants to States	84.027	N/A	\$ 4,364,264.23
Preschool Grants	84.173	N/A	<u>101,801.87</u>
Total Special Education Cluster			\$ <u>4,466,066.10</u>
Title I, Part A Cluster			
Pass-Through From Georgia Department of Education			
Title I - Grants to Local Educational Agencies	84.010	N/A	\$ <u>5,496,482.86</u>
Other Programs			
Pass-Through From Georgia Department of Education			
Career and Technical Education - Basic Grants to Schools	84.048	N/A	\$ 211,604.00
Education for Homeless Children and Youth	84.196	N/A	23,413.81
Education Jobs Fund	84.410	N/A	10,390.00
English Language Acquisition Grants	84.365	N/A	160,508.53
Even Start - State Educational Agencies	84.213	N/A	11,925.74
Improving Teacher Quality State Grants	84.367	N/A	769,789.98
Mathematics and Science Partnerships	84.366	N/A	93,212.94
Migrant Education - State Grant Program	84.011	N/A	<u>103,310.38</u>
Total Other Programs			\$ <u>1,384,155.38</u>
Total U. S. Department of Education			\$ <u>11,346,704.34</u>
Environmental Protection Agency, U. S.			
Pass-Through From Georgia Department of Natural Resources			
ARRA - State Clean Diesel Grant Program	66.040	N/A	\$ <u>73,785.00</u>
Defense, U. S. Department of			
Direct			
R.O.T.C. Program			(4)
P.L. 102-375			(3)
Total Expenditures of Federal Awards			\$ <u>26,044,823.38</u>

N/A = Not Available

HOUSTON COUNTY BOARD OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2013

SCHEDULE "2"

Notes to the Schedule of Expenditures of Federal Awards

- (1) Includes the Federally assigned value of donated commodities for the Food Donation Program in the amount of \$1,176,712.96.
- (2) Expenditures for the funds earned on the School Breakfast Program (\$2,657,108.17) were not maintained separately and are included in the 2013 National School Lunch Program.
- (3) Funds earned on the Impact Aid Program and P.L. 102-375, in the amounts of \$1,714,651.33 and \$551,667.80, respectively do not require reporting of expenditures.
- (4) Expenditures for this program were supported by \$381,576.57 in Federal assistance and the balance from State and/or Local Funds.

Major Programs are identified by an asterisk (*) in front of the CFDA number.

The School District did not provide Federal Assistance to any Subrecipient.

The accompanying schedule of expenditures of Federal awards includes the Federal grant activity of the Houston County Board of Education and is presented on the modified accrual basis of accounting which is the basis of accounting used in the presentation of the fund financial statements.

See notes to the basic financial statements.

HOUSTON COUNTY BOARD OF EDUCATION
SCHEDULE OF STATE REVENUE
YEAR ENDED JUNE 30, 2013

SCHEDULE "3"

AGENCY/FUNDING	GOVERNMENTAL FUND TYPES		TOTAL
	GENERAL FUND	CAPITAL PROJECTS FUND	
GRANTS			
Bright from the Start:			
Georgia Department of Early Care and Learning			
Pre-Kindergarten Program	\$ 3,424,856.24		\$ 3,424,856.24
Education, Georgia Department of			
Quality Basic Education (1)			
Direct Instructional Cost			
Kindergarten Program	10,286,349.00		10,286,349.00
Kindergarten Program - Early Intervention Program	442,441.00		442,441.00
Primary Grades (1-3) Program	22,377,238.00		22,377,238.00
Primary Grades - Early Intervention (1-3) Program	1,014,167.00		1,014,167.00
Upper Elementary Grades (4-5) Program	10,532,411.00		10,532,411.00
Upper Elementary Grades - Early Intervention (4-5) Program	707,188.00		707,188.00
Middle Grades (6-8) Program	21,360.00		21,360.00
Middle School (6-8) Program	16,894,084.00		16,894,084.00
High School General Education (9-12) Program	14,891,030.00		14,891,030.00
Vocational Laboratory (9-12) Program	4,874,933.00		4,874,933.00
Students with Disabilities	17,474,164.00		17,474,164.00
Gifted Student - Category VI	9,964,801.00		9,964,801.00
Remedial Education Program	480,772.00		480,772.00
Alternative Education Program	1,358,521.00		1,358,521.00
English Speakers of Other Languages (ESOL)	1,339,817.00		1,339,817.00
Media Center Program	3,133,314.00		3,133,314.00
20 Days Additional Instruction	935,966.00		935,966.00
Staff and Professional Development	567,480.00		567,480.00
Indirect Cost			
Central Administration	3,200,513.00		3,200,513.00
School Administration	6,138,492.00		6,138,492.00
Facility Maintenance and Operations	7,040,892.00		7,040,892.00
Amended Formula Adjustment	-20,265,091.00		-20,265,091.00
Categorical Grants			
Pupil Transportation			
Regular	1,487,866.00		1,487,866.00
Nursing Services	444,575.00		444,575.00
Education Equalization Funding Grant	19,056,384.00		19,056,384.00
Other State Programs			
Food Services	413,338.00		413,338.00
Math and Science Supplements	181,464.31		181,464.31
Move on When Ready Grant	200.00		200.00
Preschool Handicapped Program	383,442.00		383,442.00
Teachers' Retirement	63,507.14		63,507.14
Vocational Education	518,547.00		518,547.00
Georgia State Financing and Investment			
Commission			
Reimbursement on Construction Projects		\$ 1,128,583.54	1,128,583.54
Office of State Treasurer			
Public School Employees' Retirement	444,862.00		444,862.00
CONTRACT			
Human Resources, Georgia Department of			
Family Connection	45,000.00		45,000.00
	<u>\$ 139,874,883.69</u>	<u>\$ 1,128,583.54</u>	<u>\$ 141,003,467.23</u>

(1) Payments to the Georgia Department of Community Health by the Georgia Department of Education on behalf of the School District in the amount of \$12,804,468.00 are included as part of the Quality Basic Education revenue allotments above.

See notes to the basic financial statements.

HOUSTON COUNTY BOARD OF EDUCATION
 SCHEDULE OF APPROVED LOCAL OPTION SALES TAX PROJECTS
 YEAR ENDED JUNE 30, 2013

SCHEDULE "4"

PROJECT	ORIGINAL ESTIMATED COST (1)	CURRENT ESTIMATED COSTS (2)	AMOUNT EXPENDED IN CURRENT YEAR (3) (4)	AMOUNT EXPENDED IN PRIOR YEARS (3) (4)	TOTAL COMPLETION COST	EXCESS PROCEEDS NOT EXPENDED	ESTIMATED COMPLETION DATE
2012 SPLOST							
(1) Acquiring instructional and administrative technology equipment		\$ 20,000,000.00	\$ 8,439,045.99	\$ 4,542,242.53	\$ 12,981,288.52		June 30, 2017
(2) Acquiring safety and security equipment		1,470,000.00	774,021.73	8,174.69	782,196.42		June 30, 2014
(3) Adding to, renovating, repairing, improving, and equipping existing school buildings and other buildings and facilities		45,357,183.00	14,059,117.74	943,242.37	15,002,360.11		June 30, 2017
(4) Acquiring, constructing, and equipping two replacement elementary schools		26,594,766.00	12,609,973.96	737,356.16	13,347,330.12		August 30, 2014
(5) Acquiring, constructing, and equipping a central transportation (bus) facility		5,800,000.00	0.00	0.00	0.00		June 30, 2016
(6) Acquiring, constructing, and equipping stadium and tennis facilities		10,655,398.00	0.00	0.00	0.00		June 30, 2017
(7) Acquiring any necessary property, both real and personal		1,000,000.00	672,470.54	75,414.00	747,884.54		June 30, 2017
(8) Paying (Legal and Administrative) expenses incident to accomplishing the foregoing		<u>480,588.00</u>	<u>5,360.00</u>	<u>445,588.22</u>	<u>450,948.22</u>		June 30, 2017
	<u>\$ 125,000,000.00</u>	<u>\$ 111,357,935.00</u>	<u>\$ 36,559,989.96</u>	<u>\$ 6,752,017.97</u>	<u>\$ 43,312,007.93</u>		

- (1) The School District's original cost estimate as specified in the resolution calling for the imposition of the Local Option Sales Tax.
- (2) The School District's current estimate of total cost for the projects. Includes all cost from project inception to completion.
- (3) The voters of Houston County approved the imposition of a 1% sales tax to fund the above projects and retire associated debt. Amounts expended for these projects may include sales tax proceeds, state, local property taxes and/or other funds over the life of the projects.
- (4) In addition to the expenditures shown above, the School District has incurred interest to provide advance funding for the above projects as follows:

Prior Years	\$ 0.00
Current Year	<u>1,468,979.56</u>
Total	<u>\$ 1,468,979.56</u>

See notes to the basic financial statements.

SECTION II

COMPLIANCE AND INTERNAL CONTROL REPORTS



DEPARTMENT OF AUDITS AND ACCOUNTS

270 Washington Street, S.W., Suite 1-156
Atlanta, Georgia 30334-8400

Greg S. Griffin
STATE AUDITOR
(404) 656-2174

March 12, 2014

Honorable Nathan Deal, Governor
Members of the General Assembly
Members of the State Board of Education
and
Superintendent and Members of the
Houston County Board of Education

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

Ladies and Gentlemen:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities each major fund, and the aggregate remaining fund information of Houston County Board of Education as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Houston County Board of Education's basic financial statements and have issued our report thereon dated March 12, 2014.

Internal Control Over Financial Reporting

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

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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

Respectfully submitted,



Greg S. Griffin
State Auditor

GSG:as
2013YB-10



DEPARTMENT OF AUDITS AND ACCOUNTS

270 Washington Street, S.W., Suite 1-156
Atlanta, Georgia 30334-8400

Greg S. Griffin
STATE AUDITOR
(404) 656-2174

March 12, 2014

Honorable Nathan Deal, Governor
Members of the General Assembly
Members of the State Board of Education
and
Superintendent and Members of the
Houston County Board of Education

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

Ladies and Gentlemen:

Report on Compliance for Each Major Federal Program

We have audited Houston 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 its major Federal programs for the year ended June 30, 2013. Houston County Board of Education's major Federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Houston County Board of Education's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the Houston County Board of Education's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of Houston County Board of Education's compliance.

Opinion on Each Major Federal Program

In our opinion, the Houston County Board of Education complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2013.

Report on Internal Control over Compliance

Management of Houston County Board of Education is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Houston County Board of Education's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Houston County Board of Education's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

Respectfully submitted,



Greg S. Griffin
State Auditor

SECTION III

AUDITEE'S RESPONSE TO PRIOR YEAR FINDINGS AND QUESTIONED COSTS

HOUSTON COUNTY BOARD OF EDUCATION
AUDITEE'S RESPONSE
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013

PRIOR YEAR FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

FINDING CONTROL NUMBER AND STATUS

FS-6761-12-01

Previously Reported Corrective Action Implemented

PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

SECTION IV
FINDINGS AND QUESTIONED COSTS

HOUSTON COUNTY BOARD OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013

I SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issue: Governmental Activities; General Fund; Capital Projects Fund; Debt Service Fund; Aggregate Remaining Fund Information	Unmodified
Internal control over financial reporting: <ul style="list-style-type: none">Material weakness identified?Significant deficiency identified?	No None Reported
Noncompliance material to financial statements noted:	No

Federal Awards

Internal Control over major programs: <ul style="list-style-type: none">Material weakness identified?Significant deficiency identified?	No None Reported				
Type of auditor's report issued on compliance for major programs: All major programs	Unmodified				
Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section 510(a)?	No				
Identification of major programs:					
<table><thead><tr><th><u>CFDA Numbers</u></th><th><u>Name of Federal Program or Cluster</u></th></tr></thead><tbody><tr><td>10.553, 10.555</td><td>Child Nutrition Cluster</td></tr></tbody></table>	<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>	10.553, 10.555	Child Nutrition Cluster	
<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>				
10.553, 10.555	Child Nutrition Cluster				
Dollar threshold used to distinguish between Type A and Type B programs:	\$860,781.57				
Auditee qualified as low-risk auditee?	Yes				

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

No matters were reported.

III FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.