

STEPHENS COUNTY BOARD OF EDUCATION
TOCCOA, GEORGIA

ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2013
(Including Independent Auditor's Reports)

STEPHENS COUNTY BOARD OF EDUCATION

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STEPHENS COUNTY BOARD OF EDUCATION

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FINANCIAL

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

August 6, 2014

Honorable Nathan Deal, Governor
Members of the General Assembly
Members of the State Board of Education
and
Superintendent and Members of the
Stephens 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 Stephens 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 Stephens 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 Stephens County Board of Education adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus - An Amendment of GASB Statements No. 14 and No. 34* and 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 these matters.

Other Matters

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information. Accounting principles generally accepted in the United States of America require that the Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual, as presented on page 27 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 as required by section 50-6-6(a) of the Official Code of Georgia Annotated. We provided basic accounting assistance limited to services such as preparing draft financial statements that were based on the School District's chart of accounts and general ledgers including any adjusting, correcting, and closing entries that have been approved by the School District's management; prepared draft notes to the financial statements based on information determined and approved by the School District's management; and prepared trial balances based on the School District's chart of accounts.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Stephens County Board of Education's basic financial statements. The accompanying supplementary information, consisting of Schedules 2 through 5, 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 August 6, 2014, on our consideration of the Stephens 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 Stephens 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

STEPHENS COUNTY BOARD OF EDUCATION

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

EXHIBIT "A"

	GOVERNMENTAL ACTIVITIES
ASSETS	
Cash and Cash Equivalents	$ 656,230.04
Investments	4,003,527.19
Accounts Receivable, Net	
Taxes	799,331.15
State Government	3,703,362.22
Federal Government	210,297.79
Other	53,793.92
Inventories	54,515.13
Capitalized Bond and Other Debt Issuance Costs	231,276.32
Capital Assets, Non-Depreciable	2,708,973.00
Capital Assets, Depreciable (Net of Accumulated Depreciation)	84,637,315.83
Total Assets	$ 97,058,622.59
LIABILITIES	
Accounts Payable	$ 317,077.19
Salaries and Benefits Payable	4,428,157.05
Short-Term Debt	1,926,000.00
Interest Payable	166,132.11
Long-Term Liabilities	
Due Within One Year	2,373,024.90
Due in More Than One Year	16,245,957.53
Total Liabilities	$ 25,456,348.78
NET POSITION	
Net Investment in Capital Assets	$ 69,126,217.54
Restricted for	
Continuation of Federal Programs	423,620.63
Debt Service	2,810,052.11
Capital Projects	341,450.64
Unrestricted (Deficit)	-1,099,067.11
Total Net Position	$ 71,602,273.81

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

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

	EXPENSES	CHARGES FOR SERVICES
GOVERNMENTAL ACTIVITIES		
Instruction	$ 27,894,616.91	$ 2,206.65
Support Services		
Pupil Services	1,608,399.95	
Improvement of Instructional Services	474,516.58	
Educational Media Services	738,061.76	
General Administration	680,349.40	
School Administration	2,251,427.16	
Business Administration	593,774.82	
Maintenance and Operation of Plant	2,664,986.37	
Student Transportation Services	2,284,958.41	
Central Support Services	266,497.33	
Other Support Services	93,891.49	
Operations of Non-Instructional Services		
Enterprise Operations	400,679.85	261,315.28
Community Services	1,195.23	87,678.38
Food Services	2,265,235.29	419,807.77
Interest on Short-Term and Long-Term Debt	663,894.01	
Total Governmental Activities	$ 42,882,484.56	$ 771,008.08
General Revenues		
Taxes		
Property Taxes		
For Maintenance and Operations		
Sales Taxes		
Special Purpose Local Option Sales Tax		
For Capital Projects		
Other Sales 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 Position - End of Year		

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

PROGRAM REVENUES		NET (EXPENSES)
OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	REVENUES AND CHANGES IN NET POSITION
$ 17,625,651.53		$ -10,266,758.73
456,644.04		-1,151,755.91
153,347.40		-321,169.18
464,601.00		-273,460.76
704,955.41		24,606.01
948,106.00		-1,303,321.16
		-593,774.82
1,004,725.00		-1,660,261.37
778,721.10		-1,506,237.31
		-266,497.33
68,771.43		-25,120.06
		-139,364.57
		86,483.15
1,786,364.70		-59,062.82
	$ 84,331.00	-579,563.01
$ 23,991,887.61	$ 84,331.00	$ -18,035,257.87
		$ 11,395,039.78
		3,104,226.22
		70,624.08
		686,575.29
		116,366.95
		1,806,512.18
		$ 17,179,344.50
		$ -855,913.37
		72,458,187.18
		$ 71,602,273.81

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

EXHIBIT "C"

	GENERAL FUND	DISTRICT-WIDE CAPITAL PROJECTS FUND	DEBT SERVICE FUND	TOTAL
ASSETS				
Cash and Cash Equivalents	$ 2,323,903.99			$ 2,323,903.99
Investments	89,178.60	$ 959,247.12	$ 2,955,101.47	4,003,527.19
Accounts Receivable, Net				
Taxes	540,981.64	258,349.51		799,331.15
State Government	2,633,398.02	1,069,964.20		3,703,362.22
Federal Government	210,297.79			210,297.79
Other	32,711.17			32,711.17
Inventories	54,515.13			54,515.13
Total Assets	$ 5,884,986.34	$ 2,287,560.83	$ 2,955,101.47	$ 11,127,648.64
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Cash Overdraft		$ 1,667,673.95	$ 0.00	$ 1,667,673.95
Accounts Payable	$ 317,077.19			317,077.19
Salaries and Benefits Payable	4,428,157.05			4,428,157.05
Short-Term Debt	1,926,000.00			1,926,000.00
Deposits and Deferred Revenue	10,752.34			10,752.34
Total Liabilities	$ 6,681,986.58	$ 1,667,673.95	$ 0.00	$ 8,349,660.53
FUND BALANCES				
Nonspendable	$ 54,515.13			$ 54,515.13
Restricted	369,105.50	$ 619,886.88	$ 2,955,101.47	3,944,093.85
Unassigned (Deficit)	-1,220,620.87			-1,220,620.87
Total Fund Balances	$ -797,000.24	$ 619,886.88	$ 2,955,101.47	$ 2,777,988.11
Total Liabilities and Fund Balances	$ 5,884,986.34	$ 2,287,560.83	$ 2,955,101.47	$ 11,127,648.64

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

STEPHENS 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")		$ 2,777,988.11
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 as assets in governmental funds. These assets consist of:		
Land	$ 2,708,973.00	
Land Improvements	3,311,788.75	
Buildings	98,501,010.05	
Equipment	6,250,537.83	
Accumulated Depreciation	-23,426,020.80	
Total Capital Assets		87,346,288.83
Taxes that are not available to pay for current period expenditures are deferred in the governmental funds.		
Property Taxes		10,752.34
Qualified School Construction Bond interest subsidy not earned in the current period and therefore not reported as a receivable on the fund level.		21,082.75
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	$ -12,620,000.00	
Intergovernmental Agreement	-5,690,000.00	
Accrued Interest Payable	-166,132.11	
Bond Issuance Costs, Net of Amortization	231,276.32	
Compensated Absences Payable	-68,857.90	
Bond Premiums, Net of Amortization	-240,124.53	
Total Long-Term Liabilities		-18,553,838.22
Net Position of Governmental Activities (Exhibit "A")		$ 71,602,273.81

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

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

EXHIBIT "E"

	GENERAL FUND	DISTRICT-WIDE CAPITAL PROJECTS FUND	DEBT SERVICE FUND	TOTAL
REVENUES				
Property Taxes	$ 11,475,750.11			$ 11,475,750.11
Sales Taxes	70,624.08	$ 3,160,170.17		3,230,794.25
State Funds	20,124,400.84			20,124,400.84
Federal Funds	4,554,062.06			4,554,062.06
Charges for Services	771,008.08			771,008.08
Investment Earnings	4,529.42	1,762.35	$ 110,075.18	116,366.95
Miscellaneous	1,806,512.18		84,331.00	1,890,843.18
Total Revenues	$ 38,806,886.77	$ 3,161,932.52	$ 194,406.18	$ 42,163,225.47
EXPENDITURES				
Current				
Instruction	$ 26,457,985.97			$ 26,457,985.97
Support Services				
Pupil Services	1,608,399.95			1,608,399.95
Improvement of Instructional Services	474,516.58			474,516.58
Educational Media Services	738,061.76			738,061.76
General Administration	680,349.40			680,349.40
School Administration	2,251,427.16			2,251,427.16
Business Administration	549,285.04	$ 1,525.00	$ 1,952.50	552,762.54
Maintenance and Operation of Plant	2,611,026.90	25,222.60		2,636,249.50
Student Transportation Services	2,043,267.03			2,043,267.03
Central Support Services	266,497.33			266,497.33
Other Support Services	93,891.49			93,891.49
Enterprise Operations	400,679.85			400,679.85
Community Services	1,195.23			1,195.23
Food Services Operation	2,240,576.89			2,240,576.89
Capital Outlay		323,803.96		323,803.96
Debt Services				
Principal			2,235,000.00	2,235,000.00
Interest	20,549.80		700,316.00	720,865.80
Total Expenditures	$ 40,437,710.38	$ 350,551.56	$ 2,937,268.50	$ 43,725,530.44
Excess of Revenues over (under) Expenditures	$ -1,630,823.61	$ 2,811,380.96	$ -2,742,862.32	$ -1,562,304.97
OTHER FINANCING SOURCES (USES)				
Transfers In			$ 2,852,937.50	$ 2,852,937.50
Transfers Out	$ -309,945.00	$ -2,542,992.50		-2,852,937.50
Total Other Financing Sources (Uses)	$ -309,945.00	$ -2,542,992.50	$ 2,852,937.50	$ 0.00
Net Change in Fund Balances	$ -1,940,768.61	$ 268,388.46	$ 110,075.18	$ -1,562,304.97
Fund Balances - Beginning	1,143,768.37	351,498.42	2,845,026.29	4,340,293.08
Fund Balances - Ending	$ -797,000.24	$ 619,886.88	$ 2,955,101.47	$ 2,777,988.11

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

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

EXHIBIT "F"

Total Net Change in Fund Balances - Governmental Funds (Exhibit "E")		$ -1,562,304.97
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	$ 257,313.19	
Depreciation Expense	-1,665,022.56	
Excess of Capital Outlay over Depreciation Expense		-1,407,709.37
Taxes reported in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		-136,654.28
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 details of this difference in the current period are as follows:		
Amortization of Bond Issuance Costs	$ -41,012.28	
Amortization of Bond Premium	48,024.90	
Total Bond Issuance Costs		7,012.62
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		2,235,000.00
Interest expense reported in the Statement of Activities is recorded as incurred, whereas interest expense in the governmental fund statements is reported when paid.		8,946.89
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		-204.26
Change in Net Position of Governmental Activities (Exhibit "B")		$ -855,913.37

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

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

EXHIBIT "G"

	AGENCY FUNDS
ASSETS	
Cash and Cash Equivalents	$ 75,689.78
Investments	27,665.26
Total Assets	$ 103,355.04
LIABILITIES	
Funds Held for Others	$ 103,355.04

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 Stephens 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.

BLENDED COMPONENT UNIT

The Stephens County School Building Authority was created by House Bill 837 during the 2005 session of the Georgia General Assembly. The purpose of the Authority is to provide, acquire, construct, equip, maintain, and operate public service facilities, to acquire the necessary property therefore, both real and personal, and to lease or sell any or all of such facilities, including real and personal property for the benefit of the Stephens County School District. The Authority consists of five members appointed by the governing authority of the Stephens County School District.

The Stephens County School Building Authority is a component unit of the Stephens County Board of Education and as such the Authority's financial activity has been blended with the Stephens County Board of Education's basic financial statements.

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 Stephens 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.

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) 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 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 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, both restricted and unrestricted resources are 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. 61, *The Financial Reporting Entity: Omnibus - An Amendment of GASB Statements No. 14 and No. 34*. The provisions of this Statement modify certain requirements for inclusion of component units in the financial reporting entity. The effects of the adoption of this statement did not change the reporting of the School District's blended component unit, Stephens County School Building Authority. There were no other applicable reporting changes for the School District.

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 the 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, 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 Stephens County Board of Commissioners adopted the property tax levy for the 2012 tax digest year (calendar year) on September 15, 2012 (levy date) based on property values as of January 1, 2012. Taxes were due on November 15, 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 Stephens 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 $11,377,929.37.

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

School Operations	18.40 mills

Additionally, Title Ad Valorem Tax revenues, at the fund reporting level, amounted to $97,820.74 during fiscal year ended June 30, 2013.

SALES TAXES

Education Special Purpose Local Option Sales Tax, at the fund reporting level, during the year amounted to $3,160,170.17 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 (first-in, first-out). 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.

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 is 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:

	Capitalization Policy	Estimated Useful Life
Land	Any Amount	N/A
Land Improvements	$ 10,000.00	20 to 80 years
Buildings and Improvements	$ 10,000.00	25 to 80 years
Equipment	$ 10,000.00	8 to 50 years
Intangible Assets	$ 100,000.00	5 to 100 years

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.

COMPENSATED ABSENCES

Members of the Teachers' Retirement System of Georgia (TRS) may apply unused sick leave toward early retirement. The liability for early retirement will be borne by TRS rather than by the individual school districts. Otherwise, sick leave does not vest with the employee, and no liability is reported in the School District's financial statements.

Vacation leave of 15 days is awarded on a fiscal year basis 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 20 days.

	Beginning of Year Liability	Increases	Decreases	End of Year Liability
2011	$ 69,894.41	$ 73,383.47	$ 78,026.39	$ 65,251.49
2012	$ 65,251.49	$ 76,984.25	$ 73,582.10	$ 68,653.64
2013	$ 68,653.64	$ 70,591.74	$ 70,387.48	$ 68,857.90

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 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 budget or finance committee, or the Superintendent, or designee, 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.

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

Nonspendable		
Inventories		$ 54,515.13
Restricted		
Continuation of Federal Programs	$ 369,105.50	
Capital Projects	619,886.88	
Debt Service	2,955,101.47	3,944,093.85
Unassigned		-1,220,620.87
Fund Balance, June 30, 2012		$ 2,777,988.11

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.

DEFICIT FUND BALANCES

The fund reporting a deficit fund balance at June 30, 2013, is as follows:

Fund Type/Fund Name	Deficit Balance
Unassigned General Fund	$ 1,220,620.87

The General Fund reported a deficit fund balance of $1,220,620.87 at June 30, 2013. To address this deficit, it is plausible for Stephens County Board of Education to have a reduction of school calendar days as well as a reduction of staff through attrition. In addition, there is the possibility of a rollup of the millage rate. All of these factors are dependent upon the school system's fiscal year 2014 General Fund balance which we are in continuous efforts in discovering.

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, special revenue, 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, 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.

The Superintendent is authorized by the Board to approve adjustments of no more than 5 percent of the amount budgeted for expenditures in any budget function for any fund. The Superintendent shall report any such adjustments to the Board. If expenditure of funds in any budget function for any fund is anticipated to be more than 5 percent of the budgeted amount, the Superintendent shall request Board approval for the budget amendment. Any position or expenditure not previously approved in the annual budget that exceeds $10,000.00 shall require Board approval unless the Superintendent deems the position or purchase an emergency. In such case, the expenditure shall be reported to the Board at its regularly scheduled meeting. Under no circumstance is the Superintendent or other staff person authorized to spend funds that exceed the total budget without approval by the Board.

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 (O.C.G.A.) 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 (O.C.G.A. Section 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.

CATEGORIZATION OF DEPOSITS

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 $4,441,016.80. The bank balances were entirely covered by depository insurance or collateralized with securities held by the pledging financial institution in the School District's name.

CATEGORIZATION OF INVESTMENTS

At June 30, 2013, the carrying value of the School District's total investments was $959,247.12, which is materially the same as fair value. This investment consisted entirely of funds invested in the Georgia Fund 1, formerly referred to as LGIP, administered by the State of Georgia, Office of the State Treasurer which 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 http://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 AAAf 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

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	$ 2,708,973.00			$ 2,708,973.00
Construction in Progress	42,564,281.55	$ 224,835.19	$ 42,789,116.74	0.00
Total Capital Assets Not Being Depreciated	$ 45,273,254.55	$ 224,835.19	$ 42,789,116.74	$ 2,708,973.00
Capital Assets Being Depreciated				
Buildings and Improvements	$ 55,711,893.31	$ 42,789,116.74	$ 0.00	$ 98,501,010.05
Equipment	6,218,059.83	32,478.00		6,250,537.83
Land Improvements	3,311,788.75			3,311,788.75
Less Accumulated Depreciation for:				
Buildings and Improvements	14,607,388.93	1,253,970.50		15,861,359.43
Equipment	4,421,811.57	344,134.08		4,765,945.65
Land Improvements	2,731,797.74	66,917.98		2,798,715.72
Total Capital Assets, Being Depreciated, Net	$ 43,480,743.65	$ 41,156,572.18	$ 0.00	$ 84,637,315.83
Governmental Activity Capital Assets - Net	$ 88,753,998.20	$ 41,381,407.37	$ 42,789,116.74	$ 87,346,288.83

Current year depreciation expense by function is as follows:

Instruction		$ 1,370,140.17
Support Services		
Maintenance and Operation of Plant	$ 28,532.61	
Student Transportation Services	241,691.38	270,223.99
Food Services		24,658.40
		$ 1,665,022.56

NOTE 7: INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2013, consisted of the following:

	Transfers From	
Transfer to	General Fund	District-wide Capital Projects
Debt Service Fund	$ 309,945.00	$ 2,542,992.50

Transfers are used to move property tax revenues collected by the General Fund and sales tax revenues collected by the Capital Projects Fund to the Debt Service Fund as needed to meet scheduled debt service requirements.

NOTE 8: 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, and errors or omissions. The School District has not incurred losses (settlements) which exceeded the School District's insurance coverage in any of the past three years. During fiscal year 2013, the School District decided to stop carrying commercial insurance for the risk associated with acts of God because of its prohibitive cost and began covering all claim settlements and judgments out of its General Fund resources. The School District did not experience any losses related to this risk during the fiscal year.

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 liability being reported when it is probable that a loss has occurred, and the amount of that loss can be reasonably estimated.

Changes in the unemployment 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	$ 0.00	$ 24,058.00	$ 24,058.00	$ 0.00
2013	$ 0.00	$ 1,956.00	$ 1,956.00	$ 0.00

The School District participates in the Georgia Education Workers' Compensation Trust, a public entity risk pool organized on December 1, 1991, to develop, implement and administer a program of workers' compensation self-insurance for its member organizations. The School District pays an annual premium to the Trust for its general worker's compensation insurance coverage. Specific excess of loss insurance coverage is provided through an agreement by the Trust with the Safety National Casualty Company to provide coverage for potential losses sustained by the Trust in excess of $1 million loss per occurrence, up to the statutory limit. Employers' Liability insurance coverage is also provided with limits of $2 million. The Trust covers the first $1 million of each Employers liability claim with Safety National providing additional Employers Liability limits up to a $2 million per occurrence maximum. Safety National Casualty Company also provides $2 million in aggregate coverage to the Trust, attaching at 110% of the loss fund and based on the Fund's annual normal premium.

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

Position Covered	Amount
Superintendent	$ 100,000.00

NOTE 9: SHORT-TERM DEBT

The School District obtains temporary loans in advance of property tax collections, depositing the proceeds in its General Fund. This short-term debt is to provide cash to provide cash for operations until property tax collections are received by the School District. Article IX, Section V, Paragraph V of the Constitution of the State of Georgia limits the aggregate amount of short-term debt to 75 percent of the total gross income from taxes collected in the preceding year and requires all short-term debt to be repaid no later than December 31 of the calendar year in which the debt was incurred.

Short-term debt activity for the fiscal year is as follows:

	Beginning Balance	Issued	Redeemed	Ending Balance
Temporary Loans	$ 0.00	$ 4,726,000.00	$ 2,800,000.00	$ 1,926,000.00

NOTE 10: LONG-TERM DEBT

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.

INTERGOVERNMENTAL CONTRACT

The Stephens County Board of Education entered into a contract with the Stephens County School Building Authority dated August 5, 2005 and December 15, 2010, for the issuance of bonds to provide funds to Liberty Elementary School, Crossroads Education Center, Big A Elementary School, Eastanollee Elementary School and Toccoa Elementary School capital outlay projects of the School District. Under the terms of the contracts, the Stephens County School Building Authority issued $5,690,000.00 less issuance costs of $121,050.00 in bonds on behalf of the School District. The obligation of the School District is absolute and unconditional so long as any of the bonds remain outstanding. Under the contract, the School District will exercise its power of taxation to the extent necessary to pay the amounts required to be paid by the contract.

GENERAL OBLIGATION DEBT OUTSTANDING

General Obligation Bonds currently outstanding are as follows:

Purpose	Interest Rates	Amount
General Government - Series 2008	4.0% - 5.0%	$ 9,295,000.00
General Government - Series 2009	3.5% - 5.0%	3,325,000.00
		$ 12,620,000.00

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

	Governmental Activities				
	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013	Due Within One Year
G. O. Bonds	$ 14,855,000.00		$ 2,235,000.00	$ 12,620,000.00	$ 2,325,000.00
Compensated Absences (1)	68,653.64	$ 70,591.74	70,387.48	68,857.90	
Intergovernmental Agreement	5,690,000.00			5,690,000.00	
Bond Premiums Amortized	288,149.43		48,024.90	240,124.53	48,024.90
	$ 20,901,803.07	$ 70,591.74	$ 2,353,412.38	$ 18,618,982.43	$ 2,373,024.90

(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:

	Intergovernmental Agreement	
	Principal	Interest
Fiscal Year Ended June 30:		
2014		$ 84,331.00
2015		84,331.00
2016		84,331.00
2017		84,331.00
2018		84,331.00
2019 - 2021	$ 5,690,000.00	210,827.50
Total Principal and Interest	$ 5,690,000.00	$ 632,482.50

	General Obligation Debt		Unamortized
	Principal	Interest	Bond Premium
Fiscal Year Ended June 30:			
2014	$ 2,325,000.00	$ 532,172.50	$ 48,024.90
2015	2,415,000.00	444,985.00	48,024.90
2016	2,520,000.00	324,235.00	48,024.90
2017	2,625,000.00	217,135.00	48,024.90
2018	2,735,000.00	112,135.00	48,024.93
Total Principal and Interest	$ 12,620,000.00	$ 1,630,662.50	$ 240,124.53

NOTE 11: ON-BEHALF PAYMENTS

The School District has recognized revenues and costs in the amount of $2,627,070.20 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 $2,529,624.00

Paid to the Teachers' Retirement System of Georgia
For Teachers' Retirement System (TRS) Employer's Cost
In the amount of $4,870.20

Office of the State Treasurer
Paid to the Public School Employees' Retirement System
For Public School Employees' Retirement (PSERS) Employer's Cost
In the amount of $92,576.00

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 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, 2013, contributions also vary based on years of service. On average, members with five years or more of service as of January 1, 2013, 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, 2013, 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.

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%	$ 4,347,321.61
2012	100%	$ 4,199,851.16
2011	100%	$ 3,969,688.08

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.

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%	$ 2,554,049.81
2012	100%	$ 2,447,326.58
2011	100%	$ 2,462,743.41

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 September 1998, Stephens County Board of Education began an employer paid 403(b) annuity plan for the group of employees covered under the Public School Employees' 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 Lincoln Financial Group as the provider of this plan. For each employee covered under PSERS, the Board began contributing to the plan an amount equal to the amount contributed by the employee (a match), not to exceed $25.00 per employee, per month.

The employee becomes vested in the plan with five years of experience. Employees who had already achieved five years of experience at the time the plan was implemented were vested upon enrollment.

Funds accumulated in the employer paid accounts are only available to the employee upon termination of employment and five years of service to Stephens County Board of Education. If an employee terminates employment prior to achieving five years of service, they receive 20% of the employer contributions for each year of completed service (20% for year 1, 40% for year 2, 60% for year 3 and 80% for year 4). The remaining 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%	$	25,350.00
2012	100%	$	26,615.00
2011	100%	$	26,162.50

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STEPHENS 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	VARIANCE
	ORIGINAL (1)	FINAL (1)	AMOUNTS	OVER/UNDER
REVENUES				
Property Taxes	$ 11,193,515.00	$ 11,195,015.00	$ 11,475,750.11	$ 280,735.11
Sales Taxes			70,624.08	70,624.08
State Funds	21,903,426.00	21,962,762.00	20,124,400.84	-1,838,361.16
Federal Funds	717,683.00	4,654,288.55	4,554,062.06	-100,226.49
Charges for Services	81,250.00	533,817.05	771,008.08	237,191.03
Investment Earnings	9,500.00	9,500.00	4,529.42	-4,970.58
Miscellaneous	75,000.00	75,000.00	1,806,512.18	1,731,512.18
Total Revenues	$ 33,980,374.00	$ 38,430,382.60	$ 38,806,886.77	$ 376,504.17
EXPENDITURES				
Current				
Instruction	$ 26,989,047.00	$ 27,433,965.51	$ 26,457,985.97	$ 975,979.54
Support Services				
Pupil Services	1,393,699.00	1,420,691.56	1,608,399.95	-187,708.39
Improvement of Instructional Services	586,675.00	568,122.78	474,516.58	93,606.20
Educational Media Services	712,135.00	712,142.01	738,061.76	-25,919.75
General Administration	697,252.00	717,456.26	680,349.40	37,106.86
School Administration	2,156,100.00	2,156,100.00	2,251,427.16	-95,327.16
Business Administration	245,251.00	245,251.00	549,285.04	-304,034.04
Maintenance and Operation of Plant	2,669,169.00	2,561,130.97	2,611,026.90	-49,895.93
Student Transportation Services	1,811,643.00	1,931,806.79	2,043,267.03	-111,460.24
Central Support Services	167,932.00	167,432.00	266,497.33	-99,065.33
Other Support Services	70,324.00	96,643.63	93,891.49	2,752.14
Enterprise Operations			400,679.85	-400,679.85
Community Services			1,195.23	-1,195.23
Food Services Operation	97,151.00	2,503,333.75	2,240,576.89	262,756.86
Debt Service			20,549.80	-20,549.80
Total Expenditures	$ 37,596,378.00	$ 40,514,076.26	$ 40,437,710.38	$ 76,365.88
Excess of Revenues over (under) Expenditures	$ -3,616,004.00	$ -2,083,693.66	$ -1,630,823.61	$ 452,870.05
OTHER FINANCING USES				
Other Uses			-309,945.00	-309,945.00
Net Change in Fund Balances	$ -3,616,004.00	$ -2,083,693.66	$ -1,940,768.61	$ 142,925.05
Fund Balances - Beginning	4,653,850.88	1,900,655.60	1,143,768.37	-756,887.23
Adjustments	20,342.62	-1,032.55		1,032.55
Fund Balances - Ending	$ 1,058,189.50	$ -184,070.61	$ -797,000.24	$ -612,929.63

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 budgeted revenues or expenditures of the various principal accounts and Stephens-Franklin Teacher's Credit Union. The actual revenues and expenditures of the various principal accounts are $1,224,994.66 and $1,212,365.05, respectively. The actual revenues and expenditures of the Stephens-Franklin Teacher's Credit Union are $405,630.04 and $374,531.68, respectively.

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.

FUNDING AGENCY PROGRAM/GRANT		CFDA NUMBER	PASS-THROUGH ENTITY ID NUMBER	EXPENDITURES IN PERIOD	
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	$ 2,147,613.23	(1)
Total Child Nutrition Cluster				$ 2,147,613.23	
Forest Service Schools and Roads Cluster					
Pass-Through From Office of the State Treasurer					
Schools and Roads - Grants to States		10.665	N/A	(3)	
Total U. S. Department of Agriculture				$ 2,147,613.23	
Education, U. S. Department of					
Special Education Cluster					
Pass-Through From Georgia Department of Education					
Special Education					
Grants to States	*	84.027	N/A	$ 1,059,535.32	
Preschool Grants	*	84.173	N/A	23,842.12	
Total Special Education Cluster				$ 1,083,377.44	
Title I, Part A Cluster					
Pass-Through From Georgia Department of Education					
Title I Grants to Local Educational Agencies		84.010	N/A	$ 1,152,255.55	
Other Programs					
Pass-Through From Georgia Department of Education					
Career and Technical Education - Basic Grants to States		84.048	N/A	$ 47,953.87	
Improving Teacher Quality State Grants		84.367	N/A	189,317.23	
Rural Education		84.358	N/A	71,679.31	
Twenty-First Century Community Learning Centers		84.287	N/A	341,363.29	
Total Other Programs				$ 650,313.70	
Total U. S. Department of Education				$ 2,885,946.69	
Health and Human Services, U. S. Department of					
Child Care and Development Fund Cluster					
Pass-Through From Bright From the Start:					
Georgia Department of Early Care and Learning					
Child Care and Development Block Grant		93.575	N/A	$ 2,000.00	
Defense, U. S. Department of					
Direct					
Department of the Army					
R.O.T.C. Program				$ 39,999.33	
Total Expenditures of Federal Awards				$ 5,075,559.25	

N/A = Not Available

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 $72,025.24.
(2) Expenditures for the funds earned on the School Breakfast Program ($482,879.66) were not maintained separately and are included in the 2013 National School Lunch Program.
(3) Funds earned on this program, in the amount of $17,327.29, do not require reporting of expenditures.

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 Stephens 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.

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

SCHEDULE "3"

AGENCY/FUNDING	GOVERNMENTAL FUND TYPE GENERAL FUND
GRANTS	
Bright From the Start:	
Georgia Department of Early Care and Learning	
Pre-Kindergarten Program	$ 297,577.47
Education, Georgia Department of	
Quality Basic Education (1)	
Direct Instructional Cost	
Kindergarten Program	1,439,980.00
Kindergarten Program - Early Intervention Program	307,749.00
Primary Grades (1-3) Program	2,782,738.00
Primary Grades - Early Intervention (1-3) Program	694,463.00
Upper Elementary Grades (4-5) Program	1,232,197.00
Upper Elementary Grades - Early Intervention (4-5) Program	478,152.00
Middle School (6-8) Program	2,640,193.00
High School General Education (9-12) Program	1,828,602.00
Vocational Laboratory (9-12) Program	962,077.00
Students with Disabilities	3,955,789.00
Gifted Student - Category VI	1,158,603.00
Remedial Education Program	278,938.00
Alternative Education Program	195,320.00
English Speakers of Other Languages (ESOL)	49,705.00
Media Center Program	464,601.00
20 Days Additional Instruction	137,396.00
Staff and Professional Development	86,474.00
Indirect Cost	
Central Administration	669,153.00
School Administration	948,106.00
Facility Maintenance and Operations	1,004,725.00
Amended Formula Adjustment	-3,314,083.00
Categorical Grants	
Pupil Transportation	
Regular	586,662.00
Nursing Services	74,556.00
Education Equalization Funding Grant	669,248.00
Other State Programs	
Food Services	61,276.00
Math and Science Supplements	33,814.25
Preschool Handicapped Program	106,500.00
Teachers' Retirement	4,870.20
Vocational Education	150,444.04
Office of the State Treasurer	
Public School Employees' Retirement	92,576.00
CONTRACTS	
Education, Georgia Department of	
Communities in Schools	11,200.00
Human Resources, Georgia Department of	
Family Connection	34,798.88
	$ 20,124,400.84

(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 $2,529,624.00 are included as part of the Quality Basic Education revenue allotments above.

See notes to the basic financial statements.

STEPHENS 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) (5)	AMOUNT EXPENDED IN PRIOR YEARS (3) (4) (5)	TOTAL COMPLETION COST	EXCESS PROCEEDS NOT EXPENDED	ESTIMATED COMPLETION DATE
Acquiring, constructing and equipping a new high school;	$ 20,000,000.00	$ 41,360,000.00	$ 224,835.19	$ 40,281,067.88			December 31, 2014
Rehabilitating, repairing, renovating, extending and improving existing schools and related facilities useful or desirable in connection therewith, including without limitation, additional classrooms, roof replacements and repairs, mechanical system repairs and replacements, wiring and infrastructure modifications, renovations and improvements to physical education and athletic facilities;	75,000.00	125,891.79	116,847.95	9,043.84			December 31, 2014
Acquisition of school buses, vehicles and transportation equipment.	270,000.00	321,097.00		321,097.00	$ 321,097.00	$ 0.00	Completed
Retiring outstanding general obligation debt of the School District previously incurred and issued with respect to capital outlay projects in the amount not to exceed $15,457,805.00 comprised of the principal and interest on the School District's Series 2008 and 2009 Bonds and the payments coming due on the 2010 Qualified School Construction Bonds coming due in the years 2013 through 2018;	15,457,805.00	15,457,805.00	497,379.16				December 31, 2017
Rehabilitating, repairing, renovating, extending and improving existing schools and related facilities useful or desirable in connection therewith, including without limitation, additional classrooms, roof replacements and repairs, mechanical system repairs and replacements, wiring and infrastructure modifications, renovations and improvements to physical education and athletic facilities;	2,507,195.00	2,011,925.00					December 31, 2017
Acquiring, installing and improving system-wide instructional and administrative technology, including but not limited to, information systems hardware, associated software and accessories and infrastructure at all District facilities related to these technology acquisitions and improvements;	300,000.00	250,000.00					December 31, 2017
Acquiring system-wide equipment and furnishings, including but not limited to, safety and security equipment, food service, vocational, fine arts, physical education and athletic equipment;	200,000.00	200,000.00					December 31, 2017
Acquisition of school buses, vehicles and transportation equipment.	35,000.00	80,000.00					December 31, 2017
	$ 38,845,000.00	$ 59,806,718.79	$ 839,062.30	$ 40,611,208.72	$ 321,097.00	$ 0.00	

(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 Stephens 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	$ 2,536,627.19
Current Year	615,985.00
Total	$ 3,152,612.19

(5) In addition to the expenditures shown above, the School District has incurred bond issuance costs and related paying agent fees associated with bond debt service for the above projects as follows:

Prior Years	$ 6,814.79
Current Year	3,477.50
Total	$ 10,292.29

See notes to the basic financial statements.

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STEPHENS COUNTY BOARD OF EDUCATION
GENERAL FUND - QUALITY BASIC EDUCATION PROGRAMS (QBE)
ALLOTMENTS AND EXPENDITURES - BY PROGRAM
YEAR ENDED JUNE 30, 2013

SCHEDULE "5"

DESCRIPTION	ALLOTMENTS FROM GEORGIA DEPARTMENT OF EDUCATION (1) (2) (3)	ELIGIBLE QBE PROGRAM COSTS SALARIES	OPERATIONS	TOTAL
Direct Instructional Programs				
Kindergarten Program	$ 1,665,982.00	$ 596,348.60	$ 27,961.71	$ 624,310.31
Kindergarten Program-Early Intervention Program	381,398.00	566,769.40	2,323.89	569,093.29
Primary Grades (1-3) Program	3,292,222.00	2,135,951.70	37,373.54	2,173,325.24
Primary Grades-Early Intervention (1-3) Program	794,145.00	1,465,319.22	7,428.35	1,472,747.57
Upper Elementary Grades (4-5) Program	1,474,786.00	1,243,273.00	25,256.16	1,268,529.16
Upper Elementary Grades-Early Intervention (4-5) Program	546,963.00	989,690.21	4,917.38	994,607.59
Middle School (6-8) Program	3,118,294.00	3,151,353.46	63,739.53	3,215,092.99
High School General Education (9-12) Program	2,144,738.00	2,904,944.63	98,694.89	3,003,639.52
Vocational Laboratory (9-12) Program	1,124,067.00	821,150.51	129,293.86	950,444.37
Students with Disabilities	4,638,565.00			
Category I		100,815.94		100,815.94
Category II		535,346.56		535,346.56
Category III		2,274,448.86	24,016.31	2,298,465.17
Category IV		-68,099.66	4,975.36	-63,124.30
Category V		381,734.80		381,734.80
Gifted Student - Category VI	1,368,245.00	890,613.88	15,159.38	905,773.26
Remedial Education Program	352,452.00	468,674.51		468,674.51
Alternative Education Program	230,580.00	138,067.02	981.89	139,048.91
English Speakers of Other Languages (ESOL)	62,203.00	30,711.15	1,144.13	31,855.28
TOTAL DIRECT INSTRUCTIONAL PROGRAMS	$ 21,194,640.00	$ 18,627,113.79	$ 443,266.38	$ 19,070,380.17
Media Center Program	546,447.00	556,160.06	38,636.45	594,796.51
Staff and Professional Development	101,772.00	11,823.63	17,002.09	28,825.72
TOTAL QBE FORMULA FUNDS	$ 21,842,859.00	$ 19,195,097.48	$ 498,904.92	$ 19,694,002.40

(1) Comprised of State Funds plus Local Five Mill Share.

(2) Allotments do not include the impact of the State amended formula adjustment.

(3) Allotments do not include the State Health payments made by GDOE to the Department of Community Health for the certified employees.

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

August 6, 2014

Honorable Nathan Deal, Governor
Members of the General Assembly
Members of the State Board of Education
and
Superintendent and Members of the
Stephens 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 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 Stephens 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 Stephens County Board of Education's basic financial statements and have issued our report thereon dated August 6, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Stephens 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 Stephens County Board of Education's internal control. Accordingly, we do not express an opinion on the effectiveness of the Stephens County Board of Education's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items FS-7271-13-01, FS-7271-13-02, and FS-7271-13-03 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Stephens 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*.

We noted certain matters that we have reported to management of Stephens County Board of Education in a separate letter dated August 6, 2014.

Stephens County Board of Education's Response to Findings

Stephens County Board of Education did not provide comments in response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs.

Purpose of this Report

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

Respectfully submitted,



Greg S. Griffin
State Auditor

GSG:as
2013YB-42

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

August 6, 2014

Honorable Nathan Deal, Governor
Members of the General Assembly
Members of the State Board of Education
and
Superintendent and Members of the
Stephens 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 Stephens 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. Stephens 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 Stephens 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 Stephens 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 Stephens County Board of Education's compliance.

Basis for Qualified Opinion on Special Education Cluster

As described in the accompanying Schedule of Findings and Questioned Costs, Stephens County Board of Education did not comply with requirements regarding Special Education Cluster as described in item FA-7271-13-01 for Matching, Level of Effort, Earmarking. Compliance with such requirements is necessary, in our opinion, for Stephens County Board of Education to comply with requirements applicable to that program.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, Stephens 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 other major Federal programs identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items FA-7271-13-02 and FA-7271-13-03. Our opinion on each major Federal program is not modified with respect to these matters.

Stephens County Board of Education's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. Stephens County Board of Education's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of Stephens 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 Stephens 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 Stephens County Board of Education's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item FA-7271-13-01 to be a material weakness.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items FA-7271-13-02 and FA-7271-13-03 to be significant deficiencies.

Stephens County Board of Education's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. Stephens County Board of Education's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

GSG:as
2013SA-55

SECTION III

AUDITEE'S RESPONSE TO PRIOR YEAR FINDINGS AND QUESTIONED COSTS

STEPHENS 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

No matters were reported.

PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

SECTION IV

FINDINGS AND QUESTIONED COSTS

STEPHENS 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:
- Material weaknesses identified? — Yes
- Significant deficiency identified? — None Reported

Noncompliance material to financial statements noted: — No

Federal Awards

Internal Control over major programs:
- Material weakness identified? — Yes
- Significant deficiencies identified? — Yes

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

Unmodified for all major programs except for Special Education Cluster, which was qualified.

Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section 510(a)? — Yes

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
10.553, 10.555	Child Nutrition Cluster
84.027, 84.173	Special Education Cluster

Dollar threshold used to distinguish between Type A and Type B programs: $300,000.00

Auditee qualified as low-risk auditee? — No

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

Finding Control Number: FS-7271-13-01
Inadequate Controls Over the Reporting Process
Control Category: Financial Reporting
Internal Control Impact: Material Weakness

Description:
The School District did not prepare their financial statements in accordance with generally accepted accounting principles.

Criteria:
Chapter 22A *Annual Financial Reporting* of the Financial Management for Georgia Local Units of Administration provides that School Districts must prepare their financial statements in accordance with generally accepted accounting principles.

Condition:
The Department of Audits and Accounts provided basic accounting assistance limited to services such as preparing draft financial statements that were based on the entity's chart of accounts and general ledgers including any adjusting, correcting, and closing entries that have been approved by the entity's staff; prepared draft notes to the financial statements based on information determined and approved by management; and prepared trial balances based on the entity's chart of accounts.

Cause:
In discussing this deficiency with the School District, they stated that the cause was a direct result of the resignation of key accounting personnel who were knowledgeable in the preparation of financial statements. Personnel who were subsequently hired did not receive training in time to prepare the financial statements prior to the start of the audit engagement.

Effect or Potential Effect:
The School District did not comply with the requirements of the Department of Education regarding financial reporting. Material adjustments were necessary in order for the School District's financial statements to be in conformity with generally accepted accounting principles.

Recommendation:
The School District should establish and implement controls over the financial statement reporting process as required by the Financial Management for Georgia Local Units of Administration.

Views of Responsible Officials and Corrective Action Plans:

Management did not provide a response to this finding.

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

Finding Control Number:	FS-7271-13-02
	Inadequate Internal Control Procedures
Control Category:	Cash and Cash Equivalents
	Revenues/Receivables/Receipts
	Expenditures/Liabilities/Disbursements
	General Ledger
	Capital Assets
Internal Control Impact:	Material Weakness

Description:
The accounting procedures of the School District were insufficient to ensure that transactions were recorded accurately on the general ledger.

Criteria:
The School District's management is responsible for designing and maintaining internal controls that provide reasonable assurance that transactions are processed and recorded on the general ledger and financial statements.

Condition:
The following deficiencies were noted during our audit procedures:
Cash and Cash Equivalents

- No administrative review was performed on bank reconciliations.
- The General Operating account bank statements for October 2012 through June 30, 2013 were not reconciled to the General Ledger until March 2014. Numerous cash reconciling items totaling $2,134,675 were not adjusted to the general ledger in a timely manner. Finally, there was a variance between the June 30, 2013 bank reconciliation and the balance on the general ledger for this bank account of $231,577.
- The Regions Bank Investment, Local Government Investment Pool (LGIP), Vending Activity and School Food Service Banquet account were not reconciled to the general ledger for any month during the fiscal year.
- The Vocational High School account was not reconciled to the general ledger . This account was being reconciled to a separate ledger that had an ending cash balance at June 30, 2013 of $25,325 less than the balance reported on the School District's general ledger.
- The Crossroads account was omitted from the School District's general ledger.
- The School District's general ledger reflected an overall deficit balance in the Interfund Cash account of $3,056,416. This account should always carry an overall balance of zero.
- Several club accounts maintained a negative balance at year-end. As a result, funds from other agency accounts were used to cover the balances. This use of funds violates the custodial nature of agency funds.

Revenues/Receivables/Receipts

- Monthly Special Purpose Local Option Sales Tax receipts totaling $3,160,170 were not recorded on the School District's general ledger.
- Interest income earned on the Investment accounts was not recorded on the general ledger in the amount of $111,838.
- On-behalf donations of $181,777 were not recorded on the general ledger.

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

- School Food Service Banquet account revenues of $23,146 were not recorded on the general ledger.
- Federal program grant revenues were not accrued for expenditures incurred on reimbursement based grants during fiscal year 2013 in the amount of $191,523.

Expenditures/Liabilities/Disbursements

- School Food Service Banquet account expenditures of $13,724 were not reported on the general ledger.
- Debt Service principal and interest payments totaling $2,627,327 were not reported on the general ledger.
- Accounts Payable was overstated by $5,719,767 due to the failure to record electronic payments to benefits vendors that were included on the bank statements.
- Salaries and Benefits payable were understated by $4,336,984 due to the failure to accrue July and August payroll related expenditures on 10-month and 11-month employees.
- On-behalf expenditures of $97,446 were not recorded on the general ledger.
- Notes Payable of $1,926,000 was not recorded on the general ledger.

General Ledger

- Several journal entries, required to tie beginning fund balances, for prior year transfers of cash between funds were not recorded on the School District's general ledger. These transfers totaled $835,120 between the General Fund and Capital Projects Fund.
- Current year cash transfer activity between banks were not recorded on the School District's general ledger. Transfers from the Local Government Investment Pool account to General Operating Account totaled $4,139,252. Transfers from General Operating to the Regions Investment account totaled $2,542,993.

Capital Assets

- The High School Construction in Progress completion totaling $42,789,117 was not capitalized as a building. Two equipment items totaling $32,478 were also not capitalized.
- Current year depreciation of $1,665,023 was not calculated or recorded to the financial statements for the fiscal year.

Cause:

In discussing this deficiency with the School District, management indicated that they failed to adequately monitor or review reports that would identify that day-to-day activities were being performed by accounting personnel.

Effect or Potential Effect:

Without satisfactory accounting controls and procedures in place, the School District could place itself in a position where potential misappropriation of assets could occur. The lack of controls could impact reporting of its financial position and results of operations. In addition, material errors and/or irregularities were not detected in a timely manner.

Recommendation:

The School District should review accounting procedures in place and design and implement procedures relative to the above control categories to strengthen the internal controls over the accounting functions.

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

Views of Responsible Officials and Corrective Action Plans:

Management did not provide a response to this finding.

Finding Control Number:	FS-7271-13-03
Control Category:	Budget Preparation/Execution Deficit Fund Balance Failure to Adopt a Balanced Budget
Internal Control Impact:	Material Weakness

Description:
The General Fund of the School District reported a deficit fund balance and failed to adopt a balance budget.

Criteria:
Chapter 25 *Reporting for LUAs with Governmental Fund Deficit Balances* of the Financial Management for Georgia Local Units of Administration states in part: "The seriousness of fund balance deficits cannot be overstated. The Georgia Department of Education requires those LUAs with deficit governmental fund balances to meet certain reporting requirements".

Chapter 32, *Preparing Operating Budgets* of the Financial Management for Georgia Local Units of Administration states in part: "The budget must be balanced for all budgeted funds. Total anticipated revenues should equal total estimated expenditures. In the event anticipated revenues are insufficient to fund anticipated essential expenditures, a portion of unreserved fund balance from previous years must be used to fund the short fall. In the event there is insufficient unreserved fund balance from previous years to fund anticipated expenditures, then such expenditures must be reduced to equal anticipated revenues plus available unreserved fund balance."

The Department of Audits and Accounts is required to report all instances of budget deficits in accordance with the Official Code of Georgia Annotated §20-2-67(a) which states: "When an audit by the Department of Audits and Accounts finds and reports irregularities or budget deficits in the fund accounting information regarding a local school system or a school within the local school system, the Department of Audits and Accounts shall report the findings of irregularities or budget deficits to the State Board of Education and the local board of education."

Condition:
The School District's General Fund reported a deficit unassigned fund balance in the amount of $1,220,620.87 at June 30, 2013. In addition, the School District's final budget for the General Fund was not balanced. Total anticipated revenues did not equal or exceed total estimated expenditures.

Cause:
The School District's General Fund incurred expenditures in excess of revenues during the year under review. Management did not properly monitor the financial situation during the fiscal year and make necessary adjustments to decrease expenditures. Management adopted an unbalance final budget for the General Fund.

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

Effect or Potential Effect:
The unassigned fund balance of the General Fund is not sufficient to meet the fund's obligations at June 30, 2013. This is a financial statement irregularity required to be reported in accordance with the Official Code of Georgia Annotated §20-2-67.

Recommendation:
The School District should establish policies and procedures to ensure that expenditures do not exceed availability of resources, so that in future periods the School District does not report a deficit fund balance. In addition, appropriate procedures should be implemented to ensure that the adopted budget for each budgeted fund is balanced as required.

Views of Responsible Officials and Corrective Action Plans:

Management did not provide a response to this finding.

III FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding Control Number:	FA-7271-13-01
	Failure to Meet Maintenance of Effort
Compliance Requirement:	MATCHING, LEVEL OF EFFORT, EARMARKING
Internal Control Impact:	Material Weakness
Compliance Impact:	Material Noncompliance
Federal Awarding Agency:	U. S. Department of Education
Pass-Through Agency:	Through Georgia Department of Education
CFDA Number and Title:	Special Education Cluster (CFDA 84.027)

Description:
The School District did not meet the maintenance of effort requirement for the Special Education Cluster.

Criteria:
The Compliance Supplement, Part 4 (SEC), III, G.2.1, IDEA, Part B indicate that funds received by a School District cannot be used, except under certain limited circumstances, to reduce the level of expenditures for the education of children with disabilities made by the School District from local funds below the level of those expenditures for the preceding fiscal year. To meet this requirement, a School District must spend, in any particular fiscal year, an amount of local funds, or a combination of State and federal funds, for the education of children with disabilities that is at least equal, on either an aggregate or per capita basis, to the amount of local funds, or a combination of State and local funds, expended for this purpose by the School District in the prior fiscal year.

Condition:
A review of maintenance and effort revealed that state and local funds for the education of children with disabilities decreased both in the aggregate and per pupil during the year under review.

III FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

	Fiscal Year 2013	Fiscal Year 2012
State and Local Expenditures	$ 4,760,035.00	$ 5,029,746.88
Number of Students	532	507
State and Local Expenditures per Student	$ 8,947.43	$ 9,920.61

Questioned Cost:
$269,711.88

Cause:
In a discussion with current management, the School District attributes this deficiency to policies and procedures established by prior management.

Effect or Potential Effect:
Failure to monitor expenditures for compliance with the maintenance of effort requirement resulted in material noncompliance with requirements of the Federal grant.

Recommendation:
The School District should implement adequate procedures to ensure that the maintenance of effort requirement is met regarding the education of children with disabilities. The Georgia Department of Education should review this matter to determine if a reclaim of funds is appropriate.

Views of Responsible Officials and Corrective Action Plans:

Management did not provide a response to this finding.

Finding Control Number:	FA-7271-13-02 Inadequate Internal Control Procedures
Compliance Requirement:	ACTIVITIES ALLOWED OR UNALLOWED ALLOWABLE COSTS/COST PRINCIPLES PERIOD OF AVAILABILITY OF FEDERAL FUNDS
Internal Control Impact:	Significant Deficiency
Compliance Impact:	Nonmaterial Noncompliance
Federal Awarding Agency:	U. S. Department of Agriculture
Pass-Through Entity:	Through Georgia Department of Education
CFDA Number and Title:	Child Nutrition Cluster (CFDA 10.553 and 10.555)

Description:
A review of expenditures charged to the Child Nutrition Cluster (CFDA 10.533 and 10.555) revealed that the School District failed to implement internal control procedures to ensure expenditures were properly documented and recorded in the correct grant period.

III FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Criteria:
Provisions of OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, require that "to be allowable under Federal awards, costs must be...authorized or not prohibited under state or local laws or regulations" and "supported by underlying documentation".

Condition:
The School District did not provide supporting documentation for expenditures which were also not recorded in the correct grant period.

Questioned Cost:
$1,193.02

Cause:
In a discussion with current management, the School District attributes this deficiency to policies and procedures established by prior management.

Effect or Potential Effect:
Failure to ensure that program expenditures are properly documented and recorded in the correct grant period resulted in noncompliance with requirements of the Federal grant.

Recommendation:
The School District should design controls and procedures to ensure that expenditures are properly documented and charged to the correct grant period. The Georgia Department of Education should review this matter to determine if a reclaim of funds is appropriate.

Views of Responsible Officials and Corrective Action Plans:

Management did not provide a response to this finding.

Finding Control Number:	FA-7271-13-03 Inadequate Internal Control Procedures
Compliance Requirements:	ACTIVITIES ALLOWED OR UNALLOWED ALLOWABLE COSTS/COST PRINCIPLES PERIOD OF AVAILABILITY OF FEDERAL FUNDS
Internal Control Impact:	Significant Deficiency
Compliance Impact:	Nonmaterial Noncompliance
Federal Awarding Agency:	U. S. Department of Education
Pass-Through Entity:	Through Georgia Department of Education
CFDA Number and Title:	Special Education Cluster (CFDA 84.027 and 84.173)

Description:
A review of expenditures and transactions charged to the Special Education Cluster (CFDA 84.027 and 84.173) program revealed that the School District failed to implement internal controls procedures to ensure expenditures were properly documented, recorded in the correct grant period and properly approved.

Criteria:
Provisions of OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, require that "to be allowable under Federal awards, costs must be...authorized or not prohibited under state or local laws or regulations" and "supported by underlying documentation".

III FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Condition:
The School District did not provide supporting documentation for expenditures which were also not recorded in the correct grant period. In addition, 22 of 25 expenditures tested were not properly approved.

Questioned Cost:
$6,895.05

Cause:
In a discussion with current management, the School District attributes this deficiency to policies and procedures established by prior management.

Effect or Potential Effect:
Failure to ensure that program expenditures are properly documented, recorded in the correct grant period and properly approved resulted in noncompliance with requirements of the Federal grant.

Recommendation:
The School District should design controls and procedures to ensure that expenditures are properly documented, charged to the correct grant period and are properly approved. The Georgia Department of Education should review this matter to determine if a reclaim of funds is appropriate.

Views of Responsible Officials and Corrective Action Plans:

Management did not provide a response to this finding.