Report on the

Houston County Commission

Houston County, Alabama

October 1, 2013 through September 30, 2014

Filed: December 25, 2015

Department of
Examiners of Public Accounts

50 North Ripley Street, Room 3201
P.O. Box 302251
Montgomery, Alabama 36130-2251
Website: www.examiners.alabama.gov

Ronald L. Jones, Chief Examiner

16-031

State of Alabama
Department of
Examiners of Public Accounts
P.O. Box 302251, Montgomery, AL 36130-2251
50 North Ripley Street, Room 3201
Montgomery, Alabama 36104-3833
Telephone (334) 242-9200
FAX (334) 242-1775

Ronald L. Jones
Chief Examiner

Honorable Ronald L. Jones
Chief Examiner of Public Accounts
Montgomery, Alabama 36130

Dear Sir:

Under the authority of the ***Code of Alabama 1975***, Section 41-5-21, I submit this report on the results of the audit of the Houston County Commission, Houston County, Alabama, for the period October 1, 2013 through September 30, 2014.

Respectfully submitted,

Glenda N. Bowens

Glenda N. Bowens
Examiner of Public Accounts

Sworn to and subscribed before me this
the 10 day of December, 2015.

Wendi M Watkins
Notary Public
Commission Expires 3/4/18
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Department of

Examiners of Public Accounts

SUMMARY

Houston County Commission
October 1, 2013 through September 30, 2014

The Houston County Commission (the "Commission") is governed by a five-member body elected by the citizens of Houston County. The members and administrative personnel in charge of governance of the Commission are listed on Exhibit 14. The Commission is the governmental agency that provides general administration, public safety, construction and maintenance of county roads and bridges, sanitation services, health and welfare services and educational services to the citizens of Houston County.

This report presents the results of an audit, the objectives of which were to determine whether the financial statements present fairly the financial position and results of financial operations and whether the Commission complied with applicable laws and regulations, including those applicable to its major federal financial assistance program. The audit was conducted 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 as well as the requirements of the Department of Examiners of Public Accounts under the authority of the ***Code of Alabama 1975***, Section 41-5-14.

An unmodified opinion was issued on the financial statements, which means that the Commission's financial statements present fairly, in all material respects, its financial position and the results of its operations for the fiscal year ended September 30, 2014.

Tests performed during the audit did not disclose any significant instances of noncompliance with applicable state and local laws and regulations.

The following officials/administrative personnel were invited to an exit conference to discuss the contents of this report: Mark Culver, Chairman; William J. Dempsey, Chief Administrative Officer; and Commissioners: Curtis Harvey, Doug Sinquefield, Jackie Battles, and Melinda S. McClendon. The following individuals attended the exit conference, held at the offices of the County Commission: Mark Culver, Chairman; William J. Dempsey, Chief Administrative Officer; and Commissioners: Curtis Harvey, Doug Sinquefield, Jackie Battles, and Melinda S. McClendon; and representatives of the Department of Examiners of Public Accounts: Cherie Raffle, Audit Manager; and Glenda Bowens, Examiner of Public Accounts.

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Independent Auditor's Report

Independent Auditor's Report

To: Members of the Houston County Commission and Chief Administrative Officer

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Houston County Commission, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the basic financial statements of the Houston County Commission as listed in the table of contents as Exhibits 1 through 8.

Management's Responsibility

The management of the Houston County Commission 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 did not audit the financial statements of the Houston County Water Authority, which is a discretely presented component unit and 100 percent of the assets, net position, and revenues of the discretely presented component unit. Those statements were audited by another auditor whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Houston County Water Authority, is based solely on the report of the other auditor. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting policies 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, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Houston County Commission, as of September 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 17 to the financial statements, during the fiscal year ended September 30, 2014, the Houston County Commission adopted Governmental Accounting Standards Board (GASB) Statement Number 65, ***Items Previously Reported as Assets and Liabilities***. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A), the Schedules of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Exhibits 9 and 10), and the Schedules of Funding Progress (Exhibits 11 and 12), 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 and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Houston County Commission's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (Exhibit 13) as required by U. S. Office of Management and Budget Circular A-133, ***Audits of States, Local Governments, and Non-Profit Organizations***, is presented for the purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying Schedule of Expenditures of Federal Awards 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 Schedule of Expenditures of Federal Awards 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 December 10, 2015, on our consideration of the Houston County Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with ***Government Auditing Standards*** in considering the Houston County Commission's internal control over financial reporting and compliance.

Ronald L. Jones

Ronald L. Jones
Chief Examiner
Department of Examiners of Public Accounts

Montgomery, Alabama

December 10, 2015

Management's Discussion and Analysis
(Required Supplementary Information)

Management's Discussion and Analysis

The Houston County Commission's discussion and analysis is a narrative overview that is designed to assist the reader in reviewing significant financial issues and activities of the County. The reader should also be able to identify the changes in the County's financial position and analyze the ability of the County to meet future challenges.

The Management's Discussion and Analysis (MD&A) focuses on the activities of the Houston County Commission for the fiscal year ended September 30, 2014. Please consider the information contained in this MD&A in conjunction with the County's financial statements for the same period. The MD&A report is required under Governmental Accounting Standards Board's (GASB) Statement Number 34, and includes comparisons of government-wide data to prior years.

Financial Highlights

- Houston County's assets exceeded its liabilities at the close of the fiscal year ended September 30, 2014 by $22,221,449.

- The County's total net position decreased by $3,880,601 or 14.87%. A detailed explanation of this decrease can be seen on page four (4) of this Management Discussion and Analysis.

- At of the end of the current fiscal year Houston County's governmental funds reported combined ending fund balances of $12,083,414, an increase of $3,760,189 or 45.18% from the prior year.

- Governmental Fund Revenues for the current fiscal year were $43,379,831 and were below current Expenditures of $48,739,914 by $5,360,083. Revenues from Other Financing Sources (Uses) of $9,120,272 helped offset part of the shortfall in Revenues vs. Expenditures.

- Total general long term debt for Houston County increased by $6,100,176 or 22.34% from the previous fiscal year. Total long term debt is now $34,734,676.

Overview of the Financial Statements

This Management's Discussion and Analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements are made up of the following components:

- Government-wide financial statements
- Fund financial statements
- Fiduciary funds statements
- Notes to the financial statements

This report also contains additional information that is relevant to the County's financial position.

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with an overview of the County's finances in a manner similar to those used by the private-sector businesses. The statement of net position includes all of the County's assets and liabilities. Current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The *statement of net position* presents information on all of the County's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference reported as *net position*. This statement combines and consolidates governmental fund's current financial resources (short-term spendable resources) with capital assets and long term debt. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the County is improving or deteriorating. To properly evaluate the overall health of the County you may need to consider other non-financial factors such as changes in the County's property tax base and the condition of the County's infrastructure, buildings and other facilities.

The *statement of activities* presents information focused on both gross and net costs and shows how the County's net position changed during the current fiscal year. This statement is intended to summarize and simplify the reader's analysis of cost of various governmental services and/or subsidy to various business-type activities. The governmental activities include most of the County's basic services including general government, public safety, highways and roads, sanitation, health and welfare, cultural and recreational, and education. The funding of these activities comes primarily from property taxes, sales taxes, gasoline taxes, and other miscellaneous revenues and charges for services.

Fund Financial Statements

Traditional users of governmental financial statements will find the Fund Financial Statements more familiar. Fund financial statements provide more detailed information about the County's funds, focusing on its major funds rather than the County as a whole. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Houston County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Governmental and fiduciary are the two categories of fund types used to keep track of specific sources of funding and spending on particular County programs. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *government funds* with similar information presented for *governmental activities* in the government-wide financial statements. In doing so readers may better understand the long-term impact of the County's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide reconciliation to aide in this comparison between *governmental funds* and *governmental activities*. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. Most of the County's basic services are included in *governmental funds.* Unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows, outflows and balances of spendable resources*. The governmental fund statements provide a detailed short-term view of the County's operations and the basic services it provides. Governmental funds statements assist the reader in determining the short-term financial resources available to finance future programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information in Exhibits 4 and 6 to reconcile the differences between them.

Houston County maintains many funds that are *governmental funds.* Separate information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund and the gasoline fund. These funds are deemed to be major funds. Data from the remaining funds are combined into a single aggregated presentation.

Fiduciary Funds Statements

Fiduciary funds are funds in which the County is the trustee, or fiduciary, for assets that belong to others, such as the Law Library Fund. The County is responsible for ensuring that the assets reported in these funds are used only for their intended purpose and by those to whom the assets belong. All the County's fiduciary activities are reported in a separate statement of fiduciary net position (Exhibit 7) and a statement of changes in fiduciary net position (Exhibit 8). The activities of these funds are excluded from the government-wide financial statements because their assets are not available for use by the County to finance its operations.

Notes to the Financial Statements

Notes to the financial statements, The notes provided in this report offer additional essential information to achieve a full understanding of the data provided in the government-wide and fund financial statements. The notes follow the exhibits contained in this report.

Required Supplementary Information

Required supplementary information is expressed in exhibits 9 and 10 which are Budget to Actual comparisons of the governmental major funds of the County. Houston County adopts an annual appropriated budget for its General and Gasoline Tax funds. The comparison exhibits are presented to demonstrate compliance with the general fund budget.

Government-wide Financial Analysis

The County governmental net position decreased by $3,880,601 during the current fiscal year. Management monitors net position because the variance is a useful indicator of the County's financial position. Houston County's total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by $22,221,449 as of the fiscal year ending September 30, 2014.

The following table reflects the condensed Statement of Net Position compared to the prior year.

Statement of Net Position
As of September 30, 2014

	Governmental Activities	
	2014	**2013**
Current & Other Assets	$27,164,483	$22,638,825
Capital Assets	44,232,354	45,330,498
Total Assets	71,396,837	67,969,323
Deferred Outflows of Resources	1,005,309	
Current & Other Liabilities	5,753,092	17,484,214
Long-term Liabilities	31,119,951	24,383,059
Total Liabilities	36,873,043	41,867,273
Deferred Inflows of Resources	13,307,654	
Net Position:		
Net Investment in Capital Assets	20,067,344	24,730,291
Unrestricted	(1,249,204)	(1,066,409)
Restricted	3,403,309	2,438,168
Total Net Position	$22,221,449	$26,102,050

The largest portion of Houston County's net position (90.31%) is in its capital assets (e.g., land, buildings, machinery, and equipment), less any related outstanding debt used to acquire those assets. These assets are not available for future spending. The County uses these capital assets to provide services to citizens. While the County's capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to pay for or liquidate these liabilities.

Statement of Activities

The following schedule compares the revenues and expenses for the current year. Government activities decreased the County's net position by $3,880,601.

Changes in Net Position
As of September 30, 2014

	Governmental Activities 2014	2013
REVENUES		
Program Revenues:		
Charges for Services	$8,648,006	$8,241,534
Operating Grants & Contributions	5,662,967	5,484,285
Capital Grants & Contributions	5,525,284	1,428,734
General Revenues:		
Property Taxes	15,431,435	15,410,534
General Sales Tax	5,793,852	5,675,586
County Gasoline Sales Tax	96,192	96,999
Misc. Taxes	1,369,499	926,585
Interest Revenue	27,460	35,898
Miscellaneous	880,874	1,352,337
Gain (Loss) on Disposition of Capital Assets	320,297	428,287
Total Revenues	$43,755,866	$39,080,779
EXPENSES		
Program Activities:		
General Government	$12,202,990	$8,465,949
Public Safety	14,513,422	14,301,374
Highways & Roads	15,326,155	11,047,201
Sanitation	1,910,775	1,929,052
Health & Welfare	1,216,199	1,212,412
Culture & Recreation	576,359	630,953
Education	729,250	599,250
Interest and Fiscal Charges	1,161,317	970,899
Total Expenses	$47,636,467	$39,157,090
Increase/(Decrease) in Net Position	($3,880,601)	($76,311)

The County's total revenues at $43,755,866 were up 11.96% vs. the prior year. Property taxes accounted for 35.27% of the total revenue of the County. Taxes as a whole represented 51.86% of the total revenue collected by the County for fiscal year ended September 30, 2014.

Expenses for all services of the County were $47,636,467 which represented an increase of 21.65% over prior year. 25.62% of expenses went for general government, 30.47% for public safety, 32.17% for highways and roads and 2.44% was spent on servicing the debt of the County.

Net Cost of Services

The net cost of services is a comparison of the total cost for government functions and programs and the net cost remaining after reducing the total cost by the revenue generated from the specific function or program. For the current year total cost of services were $47,636,467, an increase of 21.65% vs. prior year, and the combined charges for services plus operating and capital grants received were $19,836,257 leaving a net cost to the County of $27,800,210. The Net Cost represented an increase from prior year of $3,797,673 or 15.82%.

Charges for services amounted to $8,648,006, an increase of 4.93% over prior year, and grants and contributions totaled $11,188,251, an increase of 61.84% from prior year. The charges for services are payments made by those who received the services while grants and contributions are monies that were received from other governments and organizations that subsidized the functions or programs.

Function / Programs	Total Cost of Services	Net Cost of Services
General Government	$12,202,990	($7,951,050)
Public Safety	14,513,422	(11,790,490)
Highways and Roads	15,326,155	(4,582,477)
Sanitation	1,910,775	127,381
Health	728,742	(666,687)
Welfare	487,457	(487,457)
Culture and Recreation	576,359	(558,863)
Education	729,250	(729,250)
Interest and Fiscal Charges	1,161,317	(1,161,317)
Total Governmental Activities	**$47,636,467**	**($27,800,210)**

Financial Analysis of Fund Balances

The financial performance of the County as a whole is reflected in its governmental funds. The total governmental funds balances at the end of the fiscal year increased from $8,323,225 to $12,083,414. As noted in the Budgetary Highlights shown below, this increase of $3,760,189 or 45.18% comes primarily from the increase in General Fund.

The following table provides a summary of the changes in fund balances of the County's major funds as well as the combined Other Governmental Funds.

Fund	Beginning Fund Balance	Net Increase or (Decrease)	Ending Fund Balance
General Fund	$6,284,061	4,402,700	$10,686,761
Gasoline Fund	214,153	(88,296)	125,857
Other Governmental Funds	1,825,011	(554,215)	1,270,796
Totals	**$8,323,225**	**3,760,189**	**$12,083,414**

Highlights – Major Funds

- General Fund (including Budgetary Highlights)

As reflected in Exhibit 5, the ending General Fund balance was $10,686,761. This is compared to the final budget amount of $5,602,106. Budgeted expenditures were $25,190,467 vs. actual General Fund Expenditures of $28,286,796. 43.22% of general fund spending went toward Public Safety and 36.05% toward General Government expenditures. Total revenues were $29,516,766 vs. budgeted revenue of $19,891,451. 72.68% of total revenues come from taxes and 18.64% from charges for services.

- **Gasoline Tax Fund**

Fund balance for the Gasoline Fund decreased by $88,296 from the previous year. Exhibit 5 reflects the Gasoline Tax fund balance at the end of the year as $125,857. The majority of revenues came from intergovernmental sources (88.82%) and misc. revenues (9.20%). Total Gasoline fund expenditures were $13,206,607 with 85.94% being spent on highways and roads and 14.06% being spent on capital outlay and debt service.

Capital Asset and Debt Administration

Depreciation of assets other than land and construction in progress projects is recorded on an annual basis on the straight line method of depreciation.

The following table shows a reconciliation of capital assets for the year ended September 30, 2014.

Capital Assets

Total Capital Assets at October 1, 2013	$84,520,254
Infrastructure retroactive adjustments	0
Reclassification adjustments	0
Additions/Reclassifications	1,795,274
Retirements/Reclassifications	(1,217,494)
Total Capital Assets at September 30, 2014	**$85,098,034**

The following table shows total assets before and after depreciation.

Governmental Activities	Value 9/30/14 before Depreciation	Value 09/30/14 After Depreciation
Land plus infrastructure in progress	$4,704,876	$4,704,876
Infrastructure	22,965,968	17,025,506
Buildings and Improvements	38,776,884	17,486,502
Equipment and Furniture	3,892,994	353,568
Automobile and Construction Equipment	12,679,361	3,046,317
Equipment Under Capital Leases	2,077,951	1,615,585
Total Capital Assets	**$85,098,034**	**$44,232,354**

Debt Outstanding

At the end of September 2013, the County's general obligation warrants were $20,350,000. The September 2014 general obligation warrants increased $5,180,000, to a revised balance of $25,530,000.

Capital lease debt increased from $1,128,946 in 2012-2013 FY to $1,326,310 by the end of the 2013-2014 FY – a total increase of $197,364. This increase is primarily the result of leasing new equipment and vehicles.

The liability for compensated absences as of the end of the 2013-2014 FY was $989,341. This is an increase of $82,132 from the prior year.

The total of all general long term debt for the County as of September 30, 2014 was $34,734,676 up by $6,100,176 from the prior year ending balance of $27,305,589. This was an increase of 22.34%.

Based on the County's legal limits of debt at 5% of the net assessed value of property as of October 1, 2014, Houston County's assessed property value was $1,602,538,500. The maximum 5% debt limit was $80,126,925. With our total debt as of the end of the current fiscal year being $22,740,000 we were at 28.38% of our legal debt limit. This reflects an increase of .13% from the prior year margin.

See the notes to the financial statements for a full breakdown of outstanding long term debt.

Economic Factors

During the 2013-2014 budget year, the county derived 94.86% of revenues from taxes. There are two key factors related to the growth of tax revenue. First, the City of Dothan is a major business hub for our tri-state area (Georgia, Florida and Alabama). Houston County has historically had the highest per capita out-shopping (shoppers from outside Houston County) index in the State of Alabama. The 2005 out-shopper analysis conducted by Jacksonville University revealed that Houston County's index of 1.76 was the highest in the state with the next closest county being 1.34. This index indicates that Houston County is pulling in 1.76 purchasing dollars for each average dollar spent per capita in the state. Many people outside of Houston County are spending their dollars here and are paying sales taxes with their purchases. Houston County has historically experienced a solid growth in the revenue generated from sales tax collections. Sales tax collections for the fiscal year ending September 30, 2014 increased 2.08% compared to the prior year. However, this is attributed to the global economic circumstances. Construction of new retail businesses in Houston County continues to be positive with new expansions occurring each year. The second economic factor that is critical to the continued growth of revenue from taxes is the change in population and the construction related to that change. Houston County's 2010 census was 101,547, a growth of 11.53% vs. the 2000 population of approximately 88,000. With the addition of new retail stores in Houston County and continued population growth in the area, the economic growth and stability for the county appears positive in the foreseeable future.

Financial Information Contact

The County's financial statements are designed to provide our citizens, taxpayers, customers, creditors and readers with a general overview of the County's finances and to demonstrate the County's accountability. If you have questions about the report or need additional financial information, contact the Chief Administrative Officer at 462 North Oates Street, Dothan, Alabama 36303. The office is located on the 6th floor of the County Administration building.

Basic Financial Statements

Statement of Net Position
September 30, 2014

		Governmental Activities		Component Unit
Assets				
Current Assets				
Cash	$	10,003,802.13	$	115,555.00
Receivables (Note 4)		1,708,011.26		57,878.00
Ad Valorem Taxes Receivable		13,307,653.94		
Prepaid Items		113,885.59		
Total Current Assets		25,133,352.92		173,433.00
Noncurrent Assets				
Restricted Cash - Bond Reserves				354,185.00
Restricted Cash With Fiscal Agent		2,031,130.08		
Capital Assets (Note 5):				
Nondepreciable		4,704,876.06		
Depreciable, Net		39,527,477.53		5,809,252.00
Total Noncurrent Assets		46,263,483.67		6,163,437.00
Total Assets		71,396,836.59		6,336,870.00
Deferred Outflows of Resources				
Unamortized Deferred Loss on Refunding		1,005,309.55		293,579.00
Liabilities				
Current Liabilities				
Payables (Note 10)		1,255,544.19		26,944.00
Unearned Revenue		24,982.97		27,178.00
Accrued Wages Payable		492,887.66		
Accrued Interest Payable		364,952.55		
Notes Payable				8,444.00
Current Portion of Long-Term Debt:				
Warrants Payable		2,790,000.00		
Bonds Payable				126,955.00
Add: Unamortized Premium		116,046.65		
Capital Leases Payable		708,677.55		
Compensated Absences		98,934.07		
Total Current Liabilities	$	5,852,025.64	$	189,521.00

The accompanying Notes to the Financial Statements are an integral part of this statement.

		Governmental Activities		Component Unit
Noncurrent Liabilities				
Noncurrent Portion of Long-Term Debt:				
Warrants Payable	$	22,740,000.00	$	
Bonds Payable				5,675,000.00
Add: Unamortized Premium		218,078.36		
Capital Leases Payable		617,632.54		
Compensated Absences		890,406.59		
Net OPEB Obligation		6,554,899.97		
Total Noncurrent Liabilities		31,021,017.46		5,675,000.00
Total Liabilities		36,873,043.10		5,864,521.00
Deferred Inflows of Resources				
Unavailable Revenue - Property Taxes		13,307,653.94		
Net Position				
Net Investment in Capital Assets		20,067,343.89		134,252.00
Restricted for:				
Highways and Roads		140,690.19		
Sanitation		935,817.93		
Capital Projects		1,341,166.00		
Other Purposes		985,635.37		
Construction				673.00
Debt Service				354,185.00
Unrestricted		(1,249,204.28)		276,818.00
Total Net Position	$	22,221,449.10	$	765,928.00

Statement of Activities
For the Year Ended September 30, 2014

Functions/Programs		Expenses		Program Revenues: Charges for Services		Program Revenues: Operating Grants and Contributions
Primary Government						
Governmental Activities						
General Government	$	12,202,990.18	$	3,540,394.48	$	246,390.55
Public Safety		14,513,421.50		1,994,319.55		728,611.94
Highways and Roads		15,326,154.60		995,584.64		4,687,964.28
Sanitation		1,910,774.86		2,038,155.53		
Health		728,742.00		62,055.00		
Welfare		487,457.00				
Culture and Recreation		576,359.00		17,496.39		
Education		729,250.00				
Interest and Fiscal Charges		1,161,317.40				
Total Governmental Activities		47,636,466.54		8,648,005.59		5,662,966.77
Component Unit Activities						
Water Sales		986,456.00		801,943.00		
Total Component Unit Activities		986,456.00		801,943.00		
Total	$	48,622,922.54	$	9,449,948.59	$	5,662,966.77

General Revenues:

Taxes:

Property Taxes for General Purposes

General Sales Tax

County Gasoline Sales Tax

Miscellaneous Taxes

Gain on Sale of Capital Assets

Interest Revenue

Miscellaneous

Total General Revenues

Change in Net Position

Net Position - Beginning of Year

Net Position - End of Year

The accompanying Notes to the Financial Statements are an integral part of this statement.

	Net (Expenses) Revenues and Changes in Net Position	
Capital Grants and Contributions	Total Governmental Activities	Component Unit Activities
$ 465,155.07	$ (7,951,050.08)	$
	(11,790,490.01)	
5,060,128.65	(4,582,477.03)	
	127,380.67	
	(666,687.00)	
	(487,457.00)	
	(558,862.61)	
	(729,250.00)	
	(1,161,317.40)	
5,525,283.72	(27,800,210.46)	
		(184,513.00)
		(184,513.00)
$ 5,525,283.72	(27,800,210.46)	(184,513.00)
	15,431,435.49	
	5,793,851.52	
	96,191.87	
	1,369,499.43	
	320,297.00	
	27,460.30	1,000.00
	880,873.58	
	23,919,609.19	1,000.00
	(3,880,601.27)	(183,513.00)
	26,102,050.37	949,441.00
	$ 22,221,449.10	$ 765,928.00

Balance Sheet
Governmental Funds
September 30, 2014

	General Fund	Gasoline Tax Fund
Assets		
Cash	$ 8,418,448.96	$ 464,427.52
Cash With Fiscal Agent	2,031,130.08	
Receivables (Note 4)	954,288.98	526,537.64
Ad Valorem Taxes Receivable	12,717,542.94	
Prepaid Items	95,725.50	14,370.40
Total Assets	24,217,136.46	1,005,335.56
Liabilities, Deferred Inflows of Resources and Fund Balances		
Liabilities		
Payables (Note 10)	479,354.47	743,564.02
Unearned Revenue		
Accrued Wages Payable	333,478.28	135,914.14
Total Liabilities	812,832.75	879,478.16
Deferred Inflows of Resources		
Unavailable Revenue - Property Taxes	12,717,542.94	
Fund Balances		
Nonspendable:		
Prepaid Items	95,725.50	14,370.40
Restricted for:		
Public Safety	96,442.56	
Highways and Roads		
Sanitation	935,817.93	
Capital Projects	3,361,281.85	
Office of Sheriff		
Office of Revenue Commissioner		
Office of Judge of Probate	4,910.06	
Other Purposes		
Assigned to:		
Public Safety		
Highways and Roads		111,487.00
Other Purposes	2,713.67	
Unassigned	6,189,869.20	
Total Fund Balances	10,686,760.77	125,857.40
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 24,217,136.46	$ 1,005,335.56

The accompanying Notes to the Financial Statements are an integral part of this statement.

Other Governmental Funds		Total Governmental Funds
$	1,120,925.65	$ 10,003,802.13
		2,031,130.08
	227,184.64	1,708,011.26
	590,111.00	13,307,653.94
	3,789.69	113,885.59
	1,942,010.98	27,164,483.00
	32,625.70	1,255,544.19
	24,982.97	24,982.97
	23,495.24	492,887.66
	81,103.91	1,773,414.82
	590,111.00	13,307,653.94
	3,789.69	113,885.59
	345.60	96,788.16
	140,690.19	140,690.19
		935,817.93
		3,361,281.85
	59,809.48	59,809.48
	112,202.43	112,202.43
	246,400.69	251,310.75
	465,524.55	465,524.55
	243,080.68	243,080.68
		111,487.00
		2,713.67
	(1,047.24)	6,188,821.96
	1,270,796.07	12,083,414.24
$	1,942,010.98	$ 27,164,483.00

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Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
September 30, 2014

Total Fund Balances - Governmental Funds (Exhibit 3)			$ 12,083,414.24
Amounts reported for governmental activities in the Statement of Net Position (Exhibit 1) 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:			
Capital Assets, Net (Note 5)			44,232,353.59
Deferred Outflows of Resources are reported in the Statement of Net Position (Exhibit 1), but have no effect in the governmental funds:			
Deferred Outflows of Resources - Loss on Refunding			1,005,309.55
Certain liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. These liabilities at year-end consist of:			
	Amounts Due or Payable Within One Year	Amounts Due or Payable After One Year	
Warrants Payable	$ 2,790,000.00	$ 22,740,000.00	
Add: Unamortized Premium	116,046.65	218,078.36	
Capital Leases Payable	708,677.55	617,632.54	
Accrued Interest Payable	364,952.55		
Compensated Absences	98,934.07	890,406.59	
Net OPEB Obligation		6,554,899.97	
Total Long-Term Liabilities	$ 4,078,610.82	$ 31,021,017.46	(35,099,628.28)
Total Net Position - Governmental Activities (Exhibit 1)			$ 22,221,449.10

The accompanying Notes to the Financial Statements are an integral part of this statement.

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2014

	General Fund	Gasoline Tax Fund
Revenues		
Taxes	$ 21,452,888.34	$ 105,794.02
Licenses and Permits	252,390.00	77,343.58
Intergovernmental	1,571,933.75	8,196,143.29
Charges for Services	5,501,422.75	
Miscellaneous	738,131.55	848,959.15
Total Revenues	29,516,766.39	9,228,240.04
Expenditures		
Current:		
General Government	10,196,496.01	
Public Safety	12,224,912.80	
Highways and Roads	1,028,731.35	11,349,169.56
Sanitation	1,735,468.86	
Health	728,742.00	
Welfare	487,457.00	
Culture and Recreation	576,359.00	
Education	729,250.00	
Capital Outlay	196,250.70	1,532,180.54
Debt Service:		
Principal Retirement	240,119.56	317,068.01
Interest and Fiscal Charges	5,648.36	8,188.94
Debt Issuance Costs	137,360.20	
Total Expenditures	28,286,795.84	13,206,607.05
Excess (Deficiency) of Revenues Over Expenditures	1,229,970.55	(3,978,367.01)
Other Financing Sources (Uses)		
Transfers In		2,588,269.13
Sale of Capital Assets	55,495.00	547,250.00
Proceeds From Issuance of Debt	7,855,000.00	754,552.00
Discount on Warrants Issued	(93,922.85)	
Transfers Out	(4,643,842.85)	
Total Other Financing Sources (Uses)	3,172,729.30	3,890,071.13
Net Change in Fund Balances	4,402,699.85	(88,295.88)
Fund Balances - Beginning of Year	6,284,060.92	214,153.28
Fund Balances - End of Year	$ 10,686,760.77	$ 125,857.40

The accompanying Notes to the Financial Statements are an integral part of this statement.

Other Governmental Funds	Total Governmental Funds
$ 612,883.03	$ 22,171,565.39
	329,733.58
3,022,803.20	12,790,880.24
960,726.34	6,462,149.09
38,412.27	1,625,502.97
4,634,824.84	43,379,831.27
707,815.13	10,904,311.14
1,566,850.70	13,791,763.50
1,695,965.69	14,073,866.60
	1,735,468.86
	728,742.00
	487,457.00
	576,359.00
	729,250.00
11,106.54	1,739,537.78
2,675,000.00	3,232,187.57
589,773.14	603,610.44
	137,360.20
7,246,511.20	48,739,914.09
(2,611,686.36)	(5,360,082.82)
2,055,573.72	4,643,842.85
1,898.00	604,643.00
	8,609,552.00
	(93,922.85)
	(4,643,842.85)
2,057,471.72	9,120,272.15
(554,214.64)	3,760,189.33
1,825,010.71	8,323,224.91
$ 1,270,796.07	$ 12,083,414.24

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended September 30, 2014

Net Change in Fund Balances - Total Governmental Funds (Exhibit 5)		$ 3,760,189.33
Amounts reported for governmental activities in the Statement of Activities (Exhibit 2) are different because:		
Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay differed from depreciation expense in the current period:		
Capital Outlay Expenditures	$ 1,739,537.78	
Depreciation Expense	(2,609,073.00)	
Net Adjustment		(869,535.22)
In the Statement of Activities, only the gains and losses on the sale of capital assets are reported, whereas in the governmental funds, the proceeds from the sale increases financial resources. Thus, the changes in net position differs from the changes in fund balance by the book value of the capital assets sold.		(284,346.00)
Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities.		3,232,187.57
The fair market value of donated capital assets is reported as revenue in the Statement of Activities; however, they are not reported in the governmental funds.		55,737.00
Some of the capital assets acquired this year were financed with capital leases. The amount financed by the leases is reported in the governmental funds as a source of financing. On the other hand, the capital leases are not revenues in the Statement of Activities, but rather constitute long-term liabilities in the Statement of Net Position.		(754,552.00)
Issuing debt provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position.		$ (7,855,000.00)

The accompanying Notes to the Financial Statements are an integral part of this statement.

Premiums associated with debt issuance are not reported in the governmental funds in the year of issuance; however, they are reported in the Statement of Activities over the life of the warrants.		116,046.66
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 the governmental funds. These items consist of:		
Amortization of Deferred Loss on Refunding	$ (323,601.28)	
Net Increase in Compensated Absences	(82,131.22)	
Net Increase in Accrued Interest Payable	(118,869.29)	
Net Increase in Net OPEB Obligation	(756,726.82)	
Net Adjustment		(1,281,328.61)
Change in Net Position of Governmental Activities (Exhibit 2)		$ (3,880,601.27)

Statement of Fiduciary Net Position
September 30, 2014

		Private-Purpose Trust Funds		Agency Funds
Assets				
Cash	$	3,139,521.27	$	973,973.48
Due from External Parties		89,225.84		
Total Assets		3,228,747.11		973,973.48
Liabilities				
Due to External Parties		212,555.73		973,973.48
Accrued Wages Payable		978.73		
Total Liabilities		213,534.46	$	973,973.48
Net Position				
Held in Trust for Individuals, Organizations, and Other Governments	$	3,015,212.65		

The accompanying Notes to the Financial Statements are an integral part of this statement.

Statement of Changes in Fiduciary Net Position
For the Year Ended September 30, 2014

		Private-Purpose Trust Funds
Additions		
Intergovernmental	$	1,003,000.00
Charges for Services		1,139,011.20
Miscellaneous		1,017,304.18
Total Additions		3,159,315.38
Deductions		
General Administrative Expenses		3,348,944.67
Total Deductions		3,348,944.67
Changes in Net Position		(189,629.29)
Net Position - Beginning of Year		3,204,841.94
Net Position - End of Year	$	3,015,212.65

The accompanying Notes to the Financial Statements are an integral part of this statement.

Note 1 – Summary of Significant Accounting Policies

The financial statements of the Houston County Commission (the "Commission") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Reporting Entity

The Commission is a general purpose local government governed by separately elected commissioners. Generally accepted accounting principles (GAAP) require that the financial statements present the Commission (the primary government) and its component units. Component units are legally separate entities for which a primary government is financially accountable or other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Based on the application of the above criteria, the Houston County Water Authority (the "Authority") has been included in the accompanying financial statements as a discretely presented component unit. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate. The Authority was established to create a clean water supply and increase fire protection for the residents of Houston County. Its primary source of revenue is from sales of water to its customers. The Commission entered into an agreement with the Authority, providing that the Commission would be obligated to pay certain debt service payments in the event that the Authority did not have funds available to pay the debt.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the Commission. These statements include the financial activities of the primary government, 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 Commission'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. The Commission does not allocate indirect expenses to the various functions. Program revenues include (a) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or program 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 Commission's funds, including fiduciary funds. Separate statements for each fund category – governmental and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds in the Other Governmental Funds' column.

The Commission reports the following major governmental funds:

- ***General Fund*** – The General Fund is the primary operating fund of the Commission. It is used to account for all financial resources except those required to be accounted for in another fund. The Commission primarily received revenues from collections of property taxes, county sales tax, and other revenues collected by the State of Alabama and shared with the Commission. Also accounted for in the general fund are property taxes, motor vehicle taxes, and county casual sales tax for the Public Building, Roads, and Bridges Fund. A portion of these funds is transferred to Debt Service Funds for debt payments.

- ***Gasoline Tax Fund*** – This fund is used to account for the Commission's share of the statewide 7-cent gasoline tax, motor vehicle license and registration fees-base amount, mineral severance tax, and Walden gas tax. Revenues are earmarked for building and maintaining county roads.

The Commission reports the following governmental fund types in the Other Governmental Funds' column:

Governmental Fund Types

- ***Special Revenue Funds*** – These funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

- ***Debt Service Funds*** – These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest and for the accumulation of resources for principal and interest payments maturing in future years.

- ***Capital Projects Funds*** – These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlay, including the acquisition or construction of capital facilities and other capital assets.

The Commission reports the following fiduciary fund types:

Fiduciary Fund Types

- ***Private-Purpose Trust Funds*** – These funds are used to report all trust agreements under which principal and income benefit individuals, private organizations, or other governments.

- ***Agency Funds*** – These funds are used to report assets held by the Commission in a purely custodial capacity. The Commission collects these assets and transfers them to the proper individual, private organizations, or other government.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Commission considers revenues to be available if they are collected within sixty (60) days of the end of the current fiscal year. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. General long-term debt issued and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the Commission funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the Commission's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position/Fund Balances

1. Deposits and Investments

Cash includes cash on hand and demand deposits. State statutes authorize the County Commission to invest in obligations of the U. S. Treasury and securities of federal agencies and certificates of deposit. Amounts invested with fiscal agent are reported at fair value.

2. Receivables

Sales tax receivables are based on the amounts collected within 60 days after year-end. Sales tax receivables consist of taxes that have been paid by consumers in September. This tax is normally remitted to the Commission within the next 60 days.

Millage rates for property taxes are levied at the first regular meeting of the Commission in February of each year. Property taxes are assessed for property as of October 1 of the preceding year based on the millage rates established by the County Commission. Property taxes are due and payable the following October 1 and are delinquent after December 31. Amounts receivable, net of estimated refunds and estimated uncollectible amounts, are recorded for the property taxes levied in the current year. However, since the amounts are not available to fund current year operations, the revenue is deferred and recognized in the subsequent fiscal year when the taxes are both due and collectible and available to fund operations. Property tax revenue deferred is reported as a deferred inflow of resources.

Receivables in the General Fund also include sanitation receivables which are amounts due from customers at September 30th. Receivables due from other governments include amounts due from grantors for grants issued for specific programs and capital projects, amounts due from the State for gasoline taxes, court fees, money from municipalities for feeding of prisoners, and other miscellaneous items.

3. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Restricted Assets

Certain resources set aside for the repayment of general obligation warrants that are included in cash on the balance sheet are considered restricted assets because they are maintained separately and their use is limited by applicable warrant covenants.

5. Capital Assets

Capital assets, which include property, equipment, and infrastructure assets (e.g., roads, bridges, and similar items), are reported in the government-wide financial statements. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Major outlays of capital assets and improvements are capitalized as projects are constructed.

Depreciation on all assets is provided on the straight-line basis over the assets estimated useful life. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets reported in the government-wide statements are as follows:

	Capitalization Threshold	Estimated Useful Life
Buildings	$ 5,000	40 years
Equipment and Furniture	$ 5,000	5 – 10 years
Roads	$250,000	20 years
Bridges	$ 50,000	40 years
Automobiles	$ 5,000	5 years
Construction Equipment	$ 5,000	10 – 20 years
Equipment Under Capital Lease	$ 5,000	5 – 10 years

The majority of governmental activities infrastructure assets are roads and bridges. The Association of County Engineers has determined that due to the climate and materials used in road construction, the base of the roads in the county will not deteriorate and therefore should not be depreciated. The remaining part of the roads, the surface, will deteriorate and will be depreciated. The entire costs of bridges in the county will be depreciated.

6. Deferred Outflows of Resources

Deferred outflow of resources is reported in the government-wide financial statements. Deferred outflows of resources are defined as a consumption of net position by the government that is applicable to a future reporting period. Deferred outflows of resources increase net position, similar to assets.

7. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Bond/Warrant premiums and discounts are deferred and amortized over the life of the bonds. Bonds/Warrants payable are reported net of the applicable bond/warrant premium or discount. Bond/Warrant issuance costs are reported as an expense in the period incurred.

In the fund financial statements, governmental fund types recognize premiums and discounts, as well as issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Compensated Absences

The Commission has a standard leave policy for its full-time employees as to sick and annual leave.

Annual Leave

After the first six months through the tenth year, each employee is credited 3.08 hours of annual leave for each of the twenty-six bi-weekly pay periods, ten (10) days per year of continuous employment. Upon the completion of the tenth year through the twentieth year, each employee is credited 4.62 hours of annual leave for each bi-weekly pay period, fifteen (15) days per year of continuous employment. Upon completion of the twentieth year and thereafter, each employee is credited 6.16 hours of annual leave for each bi-weekly pay period, twenty (20) days per year of continuous employment. Unused annual leave credits may be accumulated and carried over into successive years by employees up to a maximum of fifteen (15) days. Upon separation or retirement, employees are paid for up to the maximum limit for accrued annual leave.

Sick Leave

Sick leave benefits with pay are provided for permanent full-time employees in the amount of twelve (12) workdays per fiscal year. All non-probationary, permanent full-time employees earn sick leave at a rate of 3.69 hours for each of the twenty-six bi-weekly pay periods of continuous employment. Unused sick leave credits may be accumulated and carried over into successive years by employees up to a maximum of sixty (60) days. All unused sick leave is forfeited upon separation and is not compensated to the employee, however, those employees who were hired into classified or unclassified positions before March 1, 1987, and who upon retirement have an accrued balance of sixty (60) days will be paid for one-half of that accrued balance, or thirty (30) days' pay, at the time of retirement.

Compensatory Leave

Compensatory leave is provided to permanent full-time employees in accordance with the Fair Labor Standards Act. Employees may accumulate up to eighty (80) hours maximum and are paid for compensatory leave in excess of the maximum hours stipulated. Compensatory leave is calculated at one and one-half times the regular hours.

The Commission uses the vesting method to accrue its sick leave liability. Under this method an accrual for the sick leave liability is based on the sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments upon retirement.

9. Deferred Inflows of Resources

Deferred inflows of resources are reported in the government-wide and governmental funds financial statements. Deferred inflows of resources are defined as an acquisition of net position/fund balances by the government that is applicable to a future reporting period. Deferred inflows of resources decrease net position/fund balances, similar to liabilities.

10. Net Position/Fund Balances

Net position is reported on the government-wide financial statements and is required to be classified for accounting and reporting purposes into the following net position categories:

- ***Net Investment in Capital Assets*** – Capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources attributable to acquisition, construction and improvement of those assets should also be included in this component. Any significant unspent related debt proceeds or deferred inflows of resources attributable to the unspent amount at year-end related to capital assets are not included in this calculation. Debt proceeds or deferred inflows of resources at the end of the reporting period should be included in the same net position amount (restricted, unrestricted) as the unspent amount.

- ***Restricted*** **–** Constraints imposed on net position by external creditors, grantors, contributors, laws or regulations of other governments, or law through constitutional provision or enabling legislation.

- ***Unrestricted*** **–** is the net amount of assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position. Net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of the Commission.

Fund balance measures the net financial resources available to finance expenditures of future periods. Under GASB Statement 54, fund balance is composed of the following:

- Nonspendable (Prepaid Items, etc.)
- Restricted (Gas Taxes, Grant Revenues, etc.)
- Committed (Jail Construction, Landfill Tipping Fees, Major Road Projects, etc.)
- Assigned (Law Enforcement, Minor Road Projects, etc.)
- Unassigned

Certain fund balance amounts are restricted in accordance with State and Federal laws and are generally held in Special Revenue Funds.

Fund balance of the County may be committed for a specific purpose by formal action of the Houston County Commission. Amendments or modifications of the committed fund balance must also be approved by formal action of the Houston County Commission.

Fund balance may also be assigned. When it is appropriate for fund balance to be assigned, the Commission delegates authority to the Commission Chairman or County Administrator.

In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, followed by committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

Note 2 – Stewardship, Compliance and Accountability

Budgets

Budgets are adopted on a basis of accounting consistent with accounting principles generally accepted in the United States of America (GAAP) for the General Fund. The Gasoline Tax Fund budgets certain interfund reimbursements as transfers rather than reductions of expenditures (GAAP). All other governmental funds adopt budgets on the modified accrual basis of accounting with the exception of capital projects funds, which adopt project-length budgets. All appropriations lapse at fiscal year-end.

The present statutory basis for county budgeting operations is the County Financial Control Act of 1935, as amended by Act Number 2007-488, Acts of Alabama. According to the terms of the law, at some meeting in September of each year, but in any event not later than October 1, the Commission must estimate the anticipated revenues, estimated expenditures and appropriations for the respective amounts that are to be used for each of such purposes. The appropriations must not exceed the total revenues available for appropriation plus any balances on hand. Expenditures may not legally exceed appropriations.

Budgets may be adjusted during the fiscal year when approved by the County Commission. Any changes must be within the revenues and reserves estimated to be available.

Note 3 – Deposits

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the Commission will not be able to cover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Commission's deposits at year-end were entirely covered by federal depository insurance or by the Security for Alabama Funds Enhancement Program (SAFE Program). The SAFE Program was established by the Alabama Legislature and is governed by the provisions contained in the ***Code of Alabama 1975***, Sections 41-14A-1 through 41-14A-14. Under the SAFE Program all public funds are protected through a collateral pool administered by the Alabama State Treasurer's Office. Under this program, financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC). If the securities pledged fail to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance.

Note 4 – Receivables

On September 30, 2014, receivables for the Commission's individual major funds and other governmental funds in the aggregate are as follows:

Governmental Funds	General Fund	Gasoline Tax Fund	Other Governmental Funds	Total Governmental Funds
Receivables:				
Accounts Receivable	$272,058.08	$ 58,219.01	$ 1,464.45	$ 331,741.54
Sales Tax	467,885.84			467,885.84
Intergovernmental	214,345.06	468,318.63	225,720.19	908,383.88
Total Receivables	$954,288.98	$526,537.64	$227,184.64	$1,708,011.26

Note 5 – Capital Assets

Capital asset activity for the year ended September 30, 2014, was as follows:

	Balance 10/01/2013	Additions/ Reclassifications	Retirements/ Reclassifications	Balance 09/30/2014
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	$ 3,914,452.06	$	$	$ 3,914,452.06
Infrastructure in Progress	220,368.46	570,055.54		790,424.00
Total Capital Assets, Not Being Depreciated	4,134,820.52	570,055.54		4,704,876.06
Capital Assets Being Depreciated:				
Infrastructure	22,965,968.16			22,965,968.16
Buildings and Improvements	38,776,883.53			38,776,883.53
Equipment and Furniture	3,979,595.33	81,732.84	(168,333.70)	3,892,994.47
Automobiles and Construction Equipment	13,339,587.09	388,934.40	(1,049,160.31)	12,679,361.18
Equipment Under Capital Lease	1,323,399.00	754,552.00		2,077,951.00
Total Capital Assets Being Depreciated	80,385,433.11	1,225,219.24	(1,217,494.01)	80,393,158.34
Less Accumulated Depreciation for:				
Infrastructure	(5,495,322.00)	(445,140.00)		(5,940,462.00)
Buildings and Improvements	(20,465,960.50)	(824,421.00)		(21,290,381.50)
Equipment and Furniture	(3,576,101.36)	(128,077.00)	164,751.70	(3,539,426.66)
Automobiles and Construction Equipment	(9,520,032.96)	(881,408.00)	768,396.31	(9,633,044.65)
Equipment Under Capital Lease	(132,339.00)	(330,027.00)		(462,366.00)
Total Accumulated Depreciation	(39,189,755.82)	(2,609,073.00)	933,148.01	(40,865,680.81)
Total Capital Assets Being Depreciated, Net	41,195,677.29	(1,383,853.76)	(284,346.00)	39,527,477.53
Governmental Activities Capital Assets, Net	$ 45,330,497.81	$ (813,798.22)	$ (284,346.00)	$ 44,232,353.59

Depreciation expense was charged to functions/programs of the primary government as follows:

	Current Year Depreciation Expense
Governmental Activities:	
General Government	$ 459,821.00
Public Safety	721,658.00
Highway and Roads	1,252,288.00
Sanitation	175,306.00
Total Depreciation Expense - Governmental Activities	$2,609,073.00

Capital asset activity for the Fiduciary Funds for the year ended September 30, 2014, was as follows:

	Balance 10/01/2013	Additions	Retirements	Balance 09/30/2014
Fiduciary Fund Activities:				
Capital Assets Being Depreciated:				
Equipment and Furniture	$ 40,342.70	$	$	$ 40,342.70
Automobiles	190,501.00		(24,152.50)	166,348.50
Total Capital Assets Being Depreciated	230,843.70		(24,152.50)	206,691.20
Less Accumulated Depreciation for:				
Equipment and Furniture	(40,342.70)			(40,342.70)
Automobiles	(190,501.00)		24,152.50	(166,348.50)
Total Accumulated Depreciation	(230,843.70)		24,152.50	(206,691.20)
Fiduciary Fund Activities Capital Assets, Net	$	$	$	$

Note 6 – Defined Benefit Pension

The Commission contributes to the Employees' Retirement System of Alabama, an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for the various state agencies and departments.

Substantially all employees of the Commission are members of the Employee's Retirement System of Alabama. Membership is mandatory for covered or eligible employees of the Commission. Benefits vest after 10 years of creditable service.

The provisions of Act Number 2012-377, Acts of Alabama, established a new defined benefit plan tier for employees (Tier 2). Tier 2 employees are those hired on or after January 1, 2013. Employees who were hired before January 1, 2013 are considered to be Tier 1 employees.

Vested Tier 1 employees may retire with full benefits at age 60 or after 25 years of service. Vested Tier 2 employees may retire after completing at least 10 years of service at the age of 62. Retirement benefits are calculated by two methods with the retiree receiving payment under the method which yields the highest monthly benefit. The methods are (1) Minimum Guaranteed, or (2) Formula, of which the Formula method usually produces the highest monthly benefit. Under this method Tier 1 retirees are allowed 2.0125% of their average final salary (best three of the last ten years) for each year of service, whereas Tier 2 retirees are allowed 1.6500% of their average final salary (best five of the last ten years) for each year of service with a benefit cap of 80% of the average final salary. Retirees may also elect to receive a reduced retirement allowance *(Special Privileges at Retirement)* in order to provide an allowance to a designated beneficiary after the member's death. Disability retirement benefits are calculated in the same manner. Pre-retirement death benefits in the amount of the annual salary for the fiscal year preceding death are provided to plan members.

The Employees' Retirement System was established as of October 1, 1945, under the provisions of Act Number 515, Acts of Alabama 1945, for the purpose of providing retirement allowances and other specified benefits for State employees, State police, and on an elective basis to all cities, counties, towns and quasi-public organizations. The responsibility for general administration and operation of the Employees' Retirement System is vested in the Board of Control. Benefit provisions are established by the ***Code of Alabama 1975***, Sections 36-27-1 through 36-27-103, as amended, Sections 36-27-120 through 36-27-139, as amended, and Sections 36-27B-1 through 36-27B-6. Authority to amend the plan rests with the Legislature of Alabama. However, the Legislature has granted the Commission authority to accept or reject various Cost-Of-Living-Adjustments (COLAs) granted to retirees.

The Retirement Systems of Alabama issues a publicly available financial report that includes financial statements and required supplementary information for the Employees' Retirement System of Alabama. That report may be obtained by writing to The Retirement Systems of Alabama, 201 South Union Street, Montgomery, Alabama 36130-2150.

B. Funding Policy

Tier I employees of the Commission, with the exception of full-time law enforcement officers, are required by statute to contribute 7.5 percent of their salary to the Employees' Retirement System. Tier II employees of the Commission, with the exception of full-time law enforcement officers, are required by statute to contribute 6 percent of their salary to the Employees' Retirement System. Full-time law enforcement officers are required by statute to contribute 8.5 percent of their salary to the Employees' Retirement System for Tier I and 7 percent of their salary for Tier II. The Commission is required to contribute the remaining amounts necessary to fund the actuarially determined contributions to ensure sufficient assets will be available to pay benefits when due. The contribution requirements of the Commission are established by the Employees' Retirement System based on annual actuarial valuations. The employer's contribution rate for the year ended September 30, 2014 was 6.94 percent for Tier I employees and 6.86 percent for Tier II employees based on changes in the actuarial valuation performed as of September 30, 2011.

C. Annual Pension Cost

For the year ended September 30, 2014, the Commission's annual pension cost of $933,956.69 was equal to the Commission's required and actual contribution. The required contribution was determined using the "entry age normal" method. The actuarial assumptions as of September 30, 2013, the latest actuarial valuation date, were: (a) 8 percent investment rate of return on present and future assets, and (b) projected salary increases ranging from 7.25 percent at age 20 to 3.75 percent at age 65. Both (a) and (b) include an inflation component of 3 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period as of September 30, 2013 was 30 years.

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
09/30/2014	$933,956	100%	$0
09/30/2013	$809,749	100%	$0
09/30/2012	$798,270	100%	$0

D. Funded Status and Funding Progress

As of September 30, 2013, the most recent actuarial valuation date, the plan was 67 percent funded. The actuarial accrued liability for benefits was $35,435,250 and the actuarial value of assets was $23,738,188 resulting in an unfunded actuarial accrued liability (UAAL) of $11,697,062. The covered payroll (annual payroll of active employees covered by the plan) was $12,857,387, and the ratio of the UAAL to the covered payroll was 91 percent.

The Schedule of Funding Progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Note 7 – Other Postemployment Benefits (OPEB)

A. Plan Description

The Houston County Commission contributes to the Local Government Health Insurance Program, an agent multiple-employer defined benefit postemployment healthcare plan administered by the State Insurance Board. The plan provides medical, dental, and drug insurance benefits to eligible retirees and their spouses. The ***Code of Alabama 1975***, Section 11-91-1 through 11-91-8, gives authority to the Commission to establish and amend benefit provisions. The plan does not issue a stand-alone financial report.

B. Funding Policy

The Commission's contributions were on a pay-as-you-go basis as of September 30, 2014. The Commission does not anticipate setting up a trust fund within the next two years to fund its postemployment medical insurance plan given the annual cost of the plan to the Commission.

The Commission and retirees are required to contribute monthly as follows for medical, dental, and drug insurance:

	Commission	Retiree
Individual Coverage – Non-Medicare Eligible	$586.53	$230.47
Individual Coverage – Medicare Eligible	$282.98	$111.02
Family Coverage – Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)	$715.26	$786.74
Family Coverage – Non-Medicare Eligible Retired Member and Dependent Medicare Eligible	$679.48	$539.52
Family Coverage – Medicare Eligible Retired Member and Dependent Non-Medicare Eligible	$532.71	$427.29
Family – Both Over 65	$436.21	$359.79

For fiscal year 2014, the Commission contributed $258,269.18 to cover approximately fifty-seven participants for medical, dental, and drug. Retirees contributed $132,427.80 for medical, dental, and drug coverage.

C. Annual OPEB Cost

For fiscal year 2014, the Commission's annual other postemployment benefit (OPEB) cost (expense) for medical and dental insurance was $1,015,776.00. The Commission's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014 is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
09/30/2014	$1,015,776	25.55%	$6,554,899.97
09/30/2013	$1,015,776	21.87%	$5,430,828.00
09/30/2012	$1,383,122	15.57%	$4,637,251.60

D. Funded Status and Funding Progress

The funding status of the plan as of September 30, 2013, the latest actuarial valuation date, was as follows:

Actuarial Accrued Liability (AAL)	$11,023,011
Actuarial Value of Plan Assets	0
Unfunded Actuarial Accrued Liability (UAAL)	$11,023,011
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0%
Covered Payroll (Active Plan Members)	$13,245,022
UAAL as a Percentage of Covered Payroll	83.22%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends. Amounts determined regarding the funding status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that will show whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

E. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial cost method used was the projected unit credit method. The actuarial assumptions included a four percent investment return assumption (or discount rate) and an annual healthcare cost trend rate of ten and one-half percent initially, reduced by decrements to an ultimate rate of five percent after seven years. It was assumed that seventy percent of future retirees under 65 years of age would elect medical, drug, and dental coverage; fifty percent of future retirees over 65 years of age would elect medical, drug, and dental coverage; twenty percent of future retirees with at least ten years of service and vested until age 60 would elect medical, drug, and dental coverage; and twenty percent would elect spouse medical, drug, and dental coverage. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open period. The unfunded actuarial accrued liability (UAAL) is being amortized over thirty years.

Note 8 – Construction and Other Significant Commitments

At September 30, 2014, the Commission was in the process of renovating various county buildings. These renovations were for certain energy conservation improvements to public buildings. The total contract cost of the projects was $5,180,119.00. At September 30, 2014, the remaining contract amount due was $1,170,619.36.

Note 9 – Contingent Liabilities

The Houston County Commission, the City of Dothan, and Dale County agreed to guarantee a bond issue for the Dothan-Houston County Airport Authority. In the event the Airport Authority defaults on the bond payment, the Commission will be responsible for 37.5 percent of the principal and interest on the bond due and payable in the fiscal year and 37.5 percent of such expenses, and any amount required to be paid by the City of Dothan and Dale County pursuant to its agreement with trustee, should the City of Dothan or Dale County fail to make such payments when requested by the trustee. This guarantee is renewable on a yearly basis. The amount owed on the bond issue at September 30, 2014 is $2,190,000.00.

Note 10 – Payables

On September 30, 2014, payables for the Commission's individual major funds and other governmental funds' in the aggregate are as follows:

	General Fund	Gasoline Tax Fund	Other Governmental Funds	Total
Payables:				
Accounts	$408,213.80	$636,738.17	$24,142.95	$1,069,094.92
Intergovernmental	71,140.67	106,825.85	8,482.75	186,449.27
Total	$479,354.47	$743,564.02	$32,625.70	$1,255,544.19

Note 11 – Lease Obligations

Capital Leases

The Commission is obligated under certain leases accounted for as capital leases. Assets under capital leases totaled $2,077,951.00 for governmental activities at September 30, 2014. If the Commission completes the lease payments according to the schedules below, which is the stated intent of the Commission, ownership of the leased equipment will pass to the Commission. The lease purchase contracts give the Commission the right to cancel the lease with 30 days written notice and payment of a pro rata share of the current year's lease payments. Until that time, the leased equipment will be identified separately on the balance sheet. The following is a schedule of future minimum lease payments under capital leases, together with the net present value of the minimum lease payments as of September 30.

Fiscal Year Ending	Governmental Activities
September 30, 2015	$ 721,276.70
2016	486,361.00
2017	135,877.87
Total Minimum Lease Payments	1,343,515.57
Less: Amount Representing Interest	(17,205.48)
Present Value of Net Minimum Lease Payments	$1,326,310.09

Note 12 – Long-Term Debt

In November 2004, General Obligation Refunding Warrants were issued to refund $20,560,000.00 of the 1999 General Obligation Warrants which were issued to provide funds for the acquisition and construction of a new county jail, construction and improvement of various county buildings, construction and improvement of public roads and bridges including the acquisition of equipment for use in connection therewith, and for public school improvements for the Houston County Board of Education and Dothan City Board of Education. The Series 2004 Warrants constitute general obligations of the County for the payment of which the full faith, credit, and taxing power of the County were irrevocably pledged.

In February 2008, General Obligation Warrants, Series 2008-A, were issued to provide funds for the acquisition and construction of capital improvements for the County's water system, public libraries, emergency management facilities, and public roads and bridges. The Warrants constitute general obligations of the County for the payment of which the full faith, credit, and taxing power of the County were irrevocably pledged.

In May 2013, the Commission issued General Obligation Refunding Series 2013-A Warrants in the amount of $10,500,000.00. The purpose of these warrants was to partially refund the General Obligation Refunding Series 2004 Warrants.

On March 18, 2014, the Commission issued General Obligation Warrants, Series 2014-A in the amount of $7,855,000.00. The purposes of issuing the Series 2014-A GO Warrants were: to reimburse or match funds for a grant to finance road and bridge improvements; and to finance the acquisition and construction of certain energy conservation improvements to public buildings and facilities.

The following is a summary of long-term debt transactions for the Commission for the year ended September 30, 2014:

	Debt Outstanding 10/01/2013	Issued/ Increased	Repaid/ Decreased	Debt Outstanding 09/30/2014	Amounts Due Within One Year
Governmental Activities:					
Warrants Payable:					
2004 General Obligation Refunding Warrants Payable	$ 3,695,000.00	$	$(1,800,000.00)	$ 1,895,000.00	$1,895,000.00
2008-A General Obligation Warrants	6,155,000.00		(620,000.00)	5,535,000.00	635,000.00
2013-A General Obligation Refunding Warrants Payable	10,500,000.00		(255,000.00)	10,245,000.00	260,000.00
2014-A General Obligation Warrants		7,855,000.00		7,855,000.00	
Add: Unamortized Premium	450,171.67		(116,046.66)	334,125.01	116,046.65
Total Warrants Payable	20,800,171.67	7,855,000.00	(2,791,046.66)	25,864,125.01	2,906,046.65
Other Liabilities:					
Compensated Absences	907,209.44	82,131.22		989,340.66	98,934.07
Net OPEB Obligation	5,798,173.15	756,726.82		6,554,899.97	
Capital Lease Contracts Payable	1,128,945.66	754,552.00	(557,187.57)	1,326,310.09	708,677.55
Total Other Liabilities	7,834,328.25	1,593,410.04	(557,187.57)	8,870,550.72	807,611.62
Governmental Activities Long-Term Liabilities	$28,634,499.92	$9,448,410.04	$(3,348,234.23)	$34,734,675.73	$3,713,658.27

Payments on the warrants payable are made by the Debt Service Funds with funds transferred from the General Fund. The capital lease liability will be liquidated by the General Fund.

The compensated absences liability attributable to the governmental activities will be liquidated by the General Fund (77%), Gasoline Tax Fund (20%), and Non-Major Funds (3%).

The following is a schedule of debt service requirements to maturity:

	Governmental Activities				
	General Obligation Warrants		Capital Lease Contracts Payable		Total Principal and Interest
Fiscal Year Ending	Principal	Interest	Principal	Interest	Requirements
September 30, 2015	$ 2,790,000.00	$ 716,844.39	$ 708,677.55	$12,599.15	$ 4,228,121.09
2016	2,825,000.00	594,388.76	482,236.06	4,124.94	3,905,749.76
2017	2,885,000.00	520,113.76	135,396.48	481.39	3,540,991.63
2018	2,950,000.00	456,388.76			3,406,388.76
2019	2,495,000.00	389,063.76			2,884,063.76
2020-2024	4,415,000.00	1,557,587.55			5,972,587.55
2025-2029	3,985,000.00	945,515.04			4,930,515.04
2030-2034	3,185,000.00	349,175.00			3,534,175.00
Total	$25,530,000.00	$5,529,077.02	$1,326,310.09	$17,205.48	$32,402,592.59

On July 1, 2009, the Houston County Water Authority (the "Authority") issued Series 2009A Water Revenue Bonds in the amount of $2,210,000.00. The purpose of this issue was to construct a water main down the Highway 231 South corridor. Also, the Houston County Commission (the "Commission") under provisions of an agreement with the Authority is obligated to pay any amount by which the debt service on the Series 2009A Bonds exceeds the available funds in the Bond Fund of the Authority.

On March 1, 2013, the Authority issued new bonds in the amount of $1,200,000.00. The purpose of this issue was to advance refund the Authority's 2008 issue and to partially advance refund 2007, 2009A and 2009B issues. Also, the Houston County Commission (the "Commission") under provisions of an agreement with the Authority is obligated to pay any amount by which the debt service on the Series 2013 Bonds exceeds the available funds in the Bond Fund of the Authority.

	Houston County Water Authority, Inc. Series 2009A and Series 2013 Bonds Payable		
Fiscal Year Ending	Principal	Interest	Total Principal and Interest
September 30, 2015	$ 45,000.00	$ 142,505.00	$ 187,505.00
2016	50,000.00	140,843.00	190,843.00
2017	50,000.00	138,993.00	188,993.00
2018	50,000.00	134,190.00	184,190.00
2019	55,000.00	143,030.00	198,030.00
Thereafter	2,850,000.00	2,067,562.00	4,917,562.00
Total	$3,100,000.00	$2,767,123.00	$5,867,123.00

Deferred Outflows on Refunding and Premiums

The Commission had a deferred loss on refunding and a premium in connection with the issuance of its 2004, 2008-A, and 2013-A General Obligation Refunding Warrants. The deferred loss on refunding and premium on the 2004 General Obligation Warrants are being amortized using the straight-line method over a period of fifteen years. The premium on the 2008-A General Obligation Warrants is being amortized using the straight-line method over a period of twenty years. The deferred loss on refunding and premium on the Series 2013-A General Obligation Refunding Warrants are being amortized using the straight-line method over a period of twenty years.

	Deferred Outflows on Refunding	Premiums
Deferred Outflows on Refunding and Premiums	$ 2,916,494.33	$1,351,721.03
Amount Amortized Prior Years	(1,587,583.50)	(901,549.36)
Balance Deferred Outflows on Refunding and Premiums	1,328,910.83	450,171.67
Current Amount Amortized	(323,601.28)	(116,046.66)
Balance Deferred Outflows on Refunding and Premiums	$ 1,005,309.55	$ 334,125.01

Prior Year Defeasance of Debt

In prior years, the Commission partially defeased $9,775,000.00 of its Series 2004 General Obligation Refunding Warrants by placing the proceeds of the General Obligation Warrants, Series 2013-A in an irrevocable trust to provide for all future debt service payments of the Series 2004 General Obligation Refunding Warrants. Accordingly, the trust account assets and the liability for the defeased debt are not included on the Commission's financial statements. At September 30, 2014, the total of $9,775,000.00 of warrants outstanding are considered defeased.

Note 13 – Risk Management

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission has general liability insurance through the Association of County Commissions of Alabama (ACCA) Liability Self Insurance Fund, a public entity risk pool. The Fund is self-sustaining through member contributions. The Commission pays an annual premium based on the Commission's individual claims experience and the experience of the Fund as a whole. Coverage is provided up to $1,000,000 per claim for a maximum total coverage of $3,000,000 in aggregate. Defense costs are included in the limits of the coverage. Employment practices liability coverage provides up to $1,000,000 per occurrence with a $5,000 deductible for loss only. Defense costs are included in the limits of the coverage. Equitable Defense coverage per occurrence is limited to $100,000 plus a 50/50 share of the next $150,000, capped at $175,000.

The Commission has workers' compensation insurance through the Association of County Commissions of Alabama (ACCA) Workers' Compensation Self Insurance Fund, a public entity risk pool. Premiums are based on a rate per $100 of remuneration for each class of employee which is adjusted by an experience modifier for the individual county less a 4.86% discount. At year-end, pool participants are eligible to receive refunds of unused premiums and the related investment earnings. The Commission may qualify for additional discounts based on losses and premium size.

The Commission purchases commercial insurance for its other risks of loss, including property and casualty insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The Commission has employee health insurance coverage through the Local Government Health Insurance Program, administered by the State Employee's Health Insurance Board (SEHIB). The plan, administered by Blue Cross/Blue Shield which functions as a public entity pool risk, is self-sustaining through member premiums. Monthly premiums are determined annually by the plan's actuary and are based on the pool's claims experience, considering any remaining fund balance on hand available for claims.

The Commission purchases commercial life insurance of $15,000 for the majority of their employees through Prudential Life Insurance. The Commission paid premiums of $2.55 for each active employee at the beginning of each month. Based on age, Prudential will decrease employee coverage and premium.

Note 14 – Interfund Transfers

The amounts of interfund transfers during the fiscal year ended September 30, 2014, were as follows:

	Transfers In		
	Gasoline Tax Fund	Other Governmental Funds	Totals
Transfers Out:			
General Fund	$2,588,269.13	$2,055,573.72	$4,643,842.85

The Commission transfers funds in the General Fund to the Debt Service Funds to pay current year debt requirements. Funds will be transferred from the General Fund to the Gasoline Fund as needed for projects.

Note 15 – Related Organizations

A majority of the members of the Board of the Houston County Industrial Development Authority, the Houston County Port Authority, the Improvement District of Houston County-Country Crossing Project, Cooperative District of Houston County-Country Crossing Project, and the Houston County Health Care Authority are appointed by the Houston County Commission. The Commission, however, is not financially accountable, because it does not impose its will and have a financial benefit or burden relationship, for these agencies and these agencies are not considered part of the Commission's financial reporting entity. These agencies are considered related organizations of the Commission.

Note 16 – Subsequent Events

On February 1, 2015, the Commission issued General Obligation Warrants, Series 2015, in the amount of $4,090,000.00. The purpose of these warrants was to refund a portion of the County's outstanding General Obligation Warrants, Series 2008-A, and to pay the costs of issuing the Series 2015 Warrants. A portion of the savings to be realized from the refunding may be used by the County to finance a portion of various capital projects of the County.

Note 17 – Reclassification

During the fiscal year ended September 30, 2014, the Houston County Commission adopted GASB Statement Number 65, ***Items Previously Reported as Assets and Liabilities***, (GASB 65), which established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources (expenses/expenditures) or inflows of resources (revenues), certain items that were previously reported as assets and liabilities. The implementation of GASB 65 resulted in the reclassification of certain items previously reported as assets and liabilities.

Required Supplementary Information

Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
For the Year Ended September 30, 2014

	Budgeted Amounts		Actual Amounts
	Original	Final	Budgetary Basis
Revenues			
Taxes	$ 11,990,508.00	$ 11,990,508.00	$ 11,841,898.00
Licenses and Permits	192,300.00	192,300.00	252,390.00
Intergovernmental	1,359,160.00	1,489,070.00	1,527,441.00
Charges for Services	5,670,668.00	5,670,668.00	5,499,979.00
Miscellaneous	545,990.00	548,905.00	738,124.20
Total Revenues	19,758,626.00	19,891,451.00	19,859,832.20
Expenditures			
Current:			
General Government	6,381,548.00	7,220,941.00	10,196,496.01
Public Safety	12,601,797.00	12,794,315.00	12,224,912.80
Highways and Roads			1,028,731.35
Sanitation	2,014,816.00	2,014,816.00	1,735,468.86
Health	751,030.00	751,030.00	728,742.00
Welfare	468,110.00	468,110.00	487,457.00
Culture and Recreation	558,835.00	558,835.00	576,359.00
Education	729,250.00	729,250.00	729,250.00
Capital Outlay	400,500.00	400,500.00	196,250.70
Debt Service:			
Principal Retirement	247,063.00	247,063.00	240,119.56
Interest and Fiscal Charges	5,607.00	5,607.00	5,648.36
Debt Issuance Costs			137,360.20
Total Expenditures	24,158,556.00	25,190,467.00	28,286,795.84
Excess (Deficiency) of Revenues Over Expenditures	(4,399,930.00)	(5,299,016.00)	(8,426,963.64)
Other Financing Sources (Uses)			
Transfers In	13,979,335.00	15,321,335.00	9,622,954.83
Sale of Capital Assets	6,000.00	6,000.00	55,495.00
Proceeds From Issuance of Debt			7,855,000.00
Discount on Warrants Issued			(93,922.85)
Transfers Out	(8,960,047.00)	(10,302,047.00)	(4,643,842.85)
Total Other Financing Sources (Uses)	5,025,288.00	5,025,288.00	12,795,684.13
Net Change in Fund Balances	625,358.00	(273,728.00)	4,368,720.49
Fund Balances - Beginning of Year	5,875,834.00	5,875,834.00	6,187,242.62
Fund Balances - End of Year	$ 6,501,192.00	$ 5,602,106.00	$ 10,555,963.11

	Budget to GAAP Differences	Actual Amounts GAAP Basis
(1)	$ 9,610,990.34	$ 21,452,888.34
		252,390.00
(1)	44,492.75	1,571,933.75
(1)	1,443.75	5,501,422.75
(1)	7.35	738,131.55
	9,656,934.19	29,516,766.39
		10,196,496.01
		12,224,912.80
		1,028,731.35
		1,735,468.86
		728,742.00
		487,457.00
		576,359.00
		729,250.00
		196,250.70
		240,119.56
		5,648.36
		137,360.20
		28,286,795.84
	9,656,934.19	1,229,970.55
(2)	(9,622,954.83)	
		55,495.00
		7,855,000.00
		(93,922.85)
		(4,643,842.85)
	(9,622,954.83)	3,172,729.30
	33,979.36	4,402,699.85
(3)	96,818.30	6,284,060.92
	$ 130,797.66	$ 10,686,760.77

Schedule of Revenues, Expenditures and Changes in Fund Balances Budget and Actual - General Fund For the Year Ended September 30, 2014

Explanation of Differences Between Actual Amounts Budgetary Basis and Actual Amounts GAAP Basis:

Some amounts are combined with the General Fund for reporting purposes, but are budgeted separately.

(1) Revenues	
Public Buildings, Roads and Bridges Fund	$ 9,655,483.09
Dealer License Fees (Probate) Fund	1,451.10
(2) Transfers In	
Public Buildings, Roads and Bridges Fund	
Net Increase in Fund Balance - Budget to GAAP	

(3) The amount reported as "fund balance" on the budgetary basis of accounting derives from the basis of accounting used in preparing the Commission's budget. This amount differs from the fund balance reported in the Statement of Revenues, Expenditures and Changes in Fund Balances because of the effect of transactions such as those described above.

$	9,656,934.19
	(9,622,954.83)
$	33,979.36

Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Gasoline Tax Fund
For the Year Ended September 30, 2014

	Budgeted Amounts		Actual Amounts
	Original	Final	Budgetary Basis
Revenues			
Taxes	$	$	$
Licenses and Permits	76,000.00	76,000.00	75,843.58
Intergovernmental	4,882,789.00	2,430,367.00	2,963,776.01
Miscellaneous	71,602.00	77,669.00	85,960.07
Total Revenues	5,030,391.00	2,584,036.00	3,125,579.66
Expenditures			
Current:			
Highways and Roads	9,626,860.00	8,744,883.00	7,168,897.93
Capital Outlay	140,500.00	278,600.00	1,532,180.54
Debt Service:			
Principal Retirement	580,033.00	580,033.00	317,068.01
Interest and Fiscal Charges	13,828.00	13,828.00	8,188.94
Total Expenditures	10,361,221.00	9,617,344.00	9,026,335.42
Excess (Deficiency) of Revenues Over Expenditures	(5,330,830.00)	(7,033,308.00)	(5,900,755.76)
Other Financing Sources (Uses)			
Transfers In	4,730,830.00	7,311,521.00	4,457,857.08
Sale of Capital Assets	600,000.00	742,500.00	547,250.00
Proceeds From Issuance of Debt			754,552.00
Total Other Financing Sources (Uses)	5,330,830.00	8,054,021.00	5,759,659.08
Net Change in Fund Balances		1,020,713.00	(141,096.68)
Fund Balances - Beginning of Year			141,096.68
Fund Balances - End of Year	$	$ 1,020,713.00	$

	Budget to GAAP Differences	Actual Amounts GAAP Basis
(4)	$ 105,794.02	$ 105,794.02
(4)	1,500.00	77,343.58
(4) (7)	5,232,367.28	8,196,143.29
(1) (4)	762,999.08	848,959.15
	6,102,660.38	9,228,240.04
(2) (5) (7)	4,180,271.63	11,349,169.56
		1,532,180.54
		317,068.01
		8,188.94
	4,180,271.63	13,206,607.05
	1,922,388.75	(3,978,367.01)
(3) (6)	(1,869,587.95)	2,588,269.13
		547,250.00
		754,552.00
	(1,869,587.95)	3,890,071.13
	52,800.80	(88,295.88)
(8)	73,056.60	214,153.28
	$ 125,857.40	$ 125,857.40

Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Gasoline Tax Fund
For the Year Ended September 30, 2014

Explanation of Differences Between Actual Amounts Budgetary Basis and Actual Amounts GAAP Basis:

The modified accrual basis of accounting (GAAP) requires that interfund reimbursements received for expenditures properly applicable to other funds be accounted for as reductions of expenditures in the fund that is reimbursed. Likewise, excess reimbursements received from those funds constitute revenue to the fund receiving the excess reimbursements. These differences, while affecting individual line items, had no effect on overall fund balance.

(1) The Commission budgets excess reimbursements received for expenditures properly applicable to other funds as transfers in rather than on the modified accrual basis (GAAP).

(2) The Commission budgets payments made from the Gasoline Tax Fund and properly applicable to other funds, as expenditures of the Gasoline Tax Fund rather than on the modified accrual basis of (GAAP).

(3) The Commission budgets reimbursements received by the Gasoline Tax Fund from other funds for expenditures properly applicable to those funds as transfers in rather than on the modified accrual basis (GAAP).

Some amounts are combined with the Gasoline Tax Fund for reporting purposes, but are budgeted separately.

(4) Revenues		
Public Highway and Traffic Fund	$	172,238.63
Severed Mineral Severance Tax Fund		9,612.32
Walden Gas Tax Fund		97,875.65

(5) Expenditures
Walden Gas Tax Fund

(6) Transfers In
Public Highway and Traffic Fund

(7) Some revenues and expenditures received from/paid by the State of Alabama on behalf of the Commission are not included for budgetary purposes:
ATRIP Revenues
ATRIP Expenditures

Net Increase in Fund Balance - Budget to GAAP

(8) The amount reported as "fund balance" on the budgetary basis of accounting derives from the basis of accounting used in preparing the Commission's budget. This amount differs from the fund balance reported in the Statement of Revenues, Expenditures and Changes in Fund Balances because of the effect of transactions such as those described above.

$	762,805.13
	933,160.56
	(1,695,965.69)
	279,726.60
	(53,303.54)
	(173,622.26)
	5,060,128.65
	(5,060,128.65)
$	52,800.80

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Schedule of Funding Progress
Defined Benefit Pension Plan
For the Year Ended September 30, 2014

Actuarial Valuation Date	Actuarial Value of Assets (*) (a)	Actuarial Accrued Liability (AAL) Entry Age (b) [1]	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
09/30/2013 [2] [5]	$23,738,188	$35,435,250	$11,697,062	67.0%	$12,857,387	91.0%
09/30/2012 [2] [4]	$22,392,140	$33,326,031	$10,933,891	67.2%	$11,834,000	92.4%
09/30/2011 [2] [3]	$22,430,799	$33,544,491	$11,113,692	66.9%	$12,623,516	88.0%

(1) Reflects liability for cost of living benefit increase granted on or after October 1, 1978.
(2) Reflects the impact of Act Number 2011-27, Acts of Alabama, as well as Act Number 2011-676, Acts of Alabama, which increases the member contribution rates by 2.25% beginning October 1, 2011 and by an additional 0.25% beginning October 1, 2012.
(3) Reflects changes in actuarial assumptions.
(4) Reflects changes to interest smoothing methodology.
(5) Reflects implementation of Board Funding Policy.

(*) The actuarial value of assets was set equal to the market value of assets as of September 30, 2012. Market Value of Assets as of September 30, 2013: $24,884,211.

Schedule of Funding Progress
Other Postemployment Benefits
For the Year Ended September 30, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
09/30/2013	$0	$11,023,011	$11,023,011	0%	$13,245,022	83.22%
09/30/2011	$0	$14,156,040	$14,156,040	0%	$12,607,712	112.28%
09/30/2009	$0	$11,856,239	$11,856,239	0%	$13,369,418	88.68%

Supplementary Information

Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2014

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number
U. S. Department of the Interior		
Direct Program		
Payments in Lieu of Taxes	15.226	N.A.
Total U. S. Department of the Interior		
U. S. Department of Health and Human Services		
Direct Program		
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	N.A.
Passed Through Alabama Department of Public Health		
Public Health Emergency Preparedness	93.069	14 SNS Grant
Total U. S. Department of Health and Human Services		
U. S. Department of Homeland Security		
Passed Through Alabama Department of Homeland Security		
Homeland Security Grant Program	97.067	2011 Grant
Homeland Security Grant Program	97.067	2012 Grant
Sub-Total Homeland Security Grant Program		
Passed Through Alabama Emergency Management Agency		
Disaster Grants - Public Assistance (Presidentially Declared Disasters) (M)	97.036	FEMA-4176-PA-AL
Hazard Mitigation Grants (HMPG)	97.039	DR 1971-314
Emergency Management Performance Grants	97.042	3EMF
Emergency Management Performance Grants	97.042	3EMS
Sub-Total Emergency Management Performance Grants		
Total U. S. Department of Homeland Security		
Other Federal Assistance		
U. S. Department of Justice		
Direct Program		
FBI - Overtime Reimbursement to Sheriff's Department	N.A.	N.A.
U. S. Task Force - Sheriff's Department Reimbursement	N.A.	N.A.
OCDETF/Sheriff OT	N.A.	#SE-ALM-057
Total U. S. Department of Justice		
Total Expenditures of Federal Awards		

(M) = Major Program
N.A. = Not Available or Not Applicable

The accompanying Notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

Assistance Period	Budget Total	Budget Federal Share	Revenue Recognized	Expenditures
10/01/2013-09/30/2014	$ 899.00	$ 899.00	$ 899.00	$ 899.00
	899.00	899.00	899.00	899.00
10/01/2013-09/30/2014	13,000.00	13,000.00	13,000.00	13,000.00
07/01/2013-04/30/2014	10,000.00	10,000.00	8,825.36	8,825.36
	23,000.00	23,000.00	21,825.36	21,825.36
09/01/2011-08/31/2014	83,765.74	83,765.74	32,218.20	32,218.20
09/01/2012-08/31/2014	56,459.73	56,459.73	56,459.73	56,459.73
	140,225.47	140,225.47	88,677.93	88,677.93
10/01/2013-09/30/2014	756,422.21	756,422.21	756,422.21	756,422.21
10/01/2013-09/30/2014	4,000.00	4,000.00	3,000.00	3,000.00
10/01/2013-09/30/2014	61,265.00	61,265.00	61,265.00	61,265.00
10/01/2013-09/30/2014	10,382.00	10,382.00	10,382.00	10,382.00
	71,647.00	71,647.00	71,647.00	71,647.00
	972,294.68	972,294.68	919,747.14	919,747.14
10/01/2013-09/30/2014	15,508.78	15,508.78	15,508.78	15,508.78
10/01/2013-09/30/2014	5,000.00	5,000.00	5,000.00	5,000.00
10/01/2013-09/30/2014	6,295.48	6,295.48	6,295.48	6,295.48
	26,804.26	26,804.26	26,804.26	26,804.26
	$ 1,022,997.94	$ 1,022,997.94	$ 969,275.76	$ 969,275.76

Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2014

Note 1 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Houston County Commission and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, ***Audits of States, Local Governments, and Non-Profit Organizations***. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

Additional Information

Commission Members and Administrative Personnel

October 1, 2013 through September 30, 2014

Commission Members		**Term Expires**
Hon. Mark Culver	Chairman	2018
Hon. Curtis Harvey	Member	2018
Hon. Doug Sinquefield	Member	2018
Hon. Jackie Battles	Member	2018
Hon. Melinda S. McClendon	Member	2014
Administrative Personnel		
Mr. William J. Dempsey	Chief Administrative Officer	Indefinite

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

Independent Auditor's Report

To: Members of the Houston County Commission and Chief Administrative Officer

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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Houston County Commission, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the Houston County Commission's basic financial statements and have issued our report thereon dated December 10, 2015. We did not audit the financial statements of the Houston County Water Authority, a discretely presented component unit of the Houston County Commission. Those financial statements were audited by another auditor in accordance with ***Government Auditing Standards*** and whose report thereon has been furnished to us. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, 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.

Ronald L. Jones
Ronald L. Jones
Chief Examiner
Department of Examiners of Public Accounts

Montgomery, Alabama

December 10, 2015

Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by OMB Circular A-133

Independent Auditor's Report

To: Members of the Houston County Commission and Chief Administrative Officer

Report on Compliance for Each Major Federal Program

We have audited the Houston County Commission'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 the Houston County Commission's major federal program for the year ended September 30, 2014. The Houston County Commission's major federal program is identified in the Summary of Examiner'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 the Houston County Commission's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States; and OMB Circular A-133, ***Audits of States, Local Governments, and Non-Profit Organizations***. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Houston County Commission'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 the major federal program. However, our audit does not provide a legal determination of the Houston County Commission's compliance.

Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by OMB Circular A-133

Opinion on Each Major Federal Program

In our opinion, the Houston County Commission complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2014.

Report on Internal Control Over Compliance

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

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

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

Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by OMB Circular A-133

The purpose of this report on internal control over compliance is solely to describe the scope of our testing on 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.

Ronald L. Jones
Chief Examiner
Department of Examiners of Public Accounts

Montgomery, Alabama

December 10, 2015

Section I – Summary of Examiner's Results

Financial Statements

Type of opinion issued:	Unmodified	
Internal control over financial reporting:		
Material weakness(es) identified?	______ Yes	__X__ No
Significant deficiency(ies) identified?	______ Yes	__X__ None reported
Noncompliance material to financial statements noted?	______ Yes	__X__ No

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	______ Yes	__X__ No
Significant deficiency(ies) identified?	______ Yes	__X__ None reported
Type of auditor's report issued on compliance for major programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	______ Yes	__X__ No

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)

Dollar threshold used to distinguish between Type A and Type B programs:	$300,000.00	
Auditee qualified as low-risk auditee?	______ Yes	__X__ No

Section II – Financial Statement Findings (GAGAS)

Ref. No.	Type of Finding	Finding/Noncompliance	Questioned Costs
		No matters were reportable.	

Section III – Federal Awards Findings and Questioned Costs

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
			No matters were reportable.	