

**FLORENCE CITY BOARD OF EDUCATION**

**FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2008**

# FLORENCE CITY BOARD OF EDUCATION

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## **FINANCIAL SECTION**



Charles L. Watkins, CPA  
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## INDEPENDENT AUDITORS' REPORT

The Superintendent and Members of the Board  
Florence City Board of Education  
Florence, Alabama

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Florence City Board of Education as of and for the year ended September 30, 2008, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Florence City Board of Education's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the local school activity funds, which represent 1 percent and 2 percent, respectively, of the assets and revenues of the governmental activities. We also did not audit the financial statements of the fiduciary funds. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the local school activity funds, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, 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, each major fund, and the aggregate remaining fund information of the Florence City Board of Education as of September 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 13, the Florence City Board of Education adopted the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as of October 1, 2007.



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In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2008, on our consideration of the Florence City Board of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 10 and page 34, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Florence City Board of Education's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the Florence City Board of Education. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "The Watkins Johnsey Professional Group, P.C." The signature is written in a cursive, flowing style.

The Watkins Johnsey Professional Group, P.C.  
December 12, 2008

# **Florence City Schools**

## **Management's Discussion and Analysis (MD&A)**

### **Introduction**

The Management's Discussion and Analysis (MD&A) of the Florence City Board of Education's financial performance provides an overall review of the Board's financial activities for the fiscal year ended September 30, 2008. The intent of this discussion and analysis is to look at the Board's financial performance as a whole. Readers should also review the notes to the financial statements and the financial statements to enhance their understanding of the Florence City Board of Education's financial performance.

The MD&A is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments* issued in June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

### **Financial Highlights**

For fiscal year 2008, the Board experienced a positive General Fund operation of \$1,504,998 resulting in a General Fund balance of \$1,399,507 on an accrual/budgetary basis. Local revenues exceeded budgeted amount by \$1,880,769. This was the result of an unexpected increase in sales tax and much higher than budgeted property tax collections.

Long-term debt was increased by \$5,570,165 to \$15,579,602. This was the net result of principal reductions of the Series 1998-A and Series 2006 warrants and the issuance of Tax Anticipation School Warrants, Series 2008, in the amount of \$6,170,000. The principal payment amount due within one year is \$541,906. Proceeds of the new issue are for the completion of the Science Wing at Florence High School and new construction and renovation at Forest Hills Elementary School.

### **Overview of the Financial Statements**

This discussion and analysis serves as an introduction to the Board's basic financial statements, which are the government-wide financial statements, fund financial statements, and the notes to the financial statements. This report also includes supplementary information in addition to the basic financial statements themselves.

The first two statements are government-wide financial statements — the *Statement of Net Assets* and the *Statement of Activities*. These provide both long-term and short-term information about the Board's overall financial status. Although other governments may report governmental activities and business-type activities, the Board has no business-type activities.

The *Statement of Net Assets* presents information on all of the Board's assets less liabilities, which results in net assets. The statement is designed to display the financial position of the Board. Over time, increases and decreases in net assets help determine whether the Board's financial position is improving or deteriorating.

## **Florence City Schools Management's Discussion and Analysis (MD&A)**

The *Statement of Activities* provides information that shows how the Board's net assets changed as a result of the year's activities. The statement uses the accrual basis of accounting, which is similar to the accounting used by private-sector businesses. All of the revenues and expenses are reported regardless of the timing of when cash is received or paid. The statement identifies the extent to which each expenditure function draws from general revenues of the Board (primarily local taxes) or is financed through charges for services (such as lunchrooms) and intergovernmental aid (primarily federal programs and state appropriations).

The fund financial statements provide more detailed information about the Board's most significant funds — not the Board as a whole. A fund is a grouping of related accounts that is used to keep track of specific sources of funding and spending for particular purposes. The Board uses fund accounting to ensure and demonstrate fiscal accountability. Two kinds of funds — governmental funds and fiduciary funds — are presented in the fund financial statements.

Governmental funds - Most of the Board's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. The governmental funds statements — the *Balance Sheet* and the *Statement of Revenues, Expenditures, and Changes in Fund Balances* — are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Board's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information that explains the relationship (or differences) between them.

Fiduciary funds - Fiduciary funds are used to account for assets held by the Board in a trustee capacity or as an agent for others. Activities from fiduciary funds are not included in the government-wide financial statements because the Board cannot use these assets for its operations. Fiduciary funds of the Board, consisting of agency funds, are reported in the *Statement of Fiduciary Net Assets* using the accrual basis of accounting. Agency funds held by the Board involve only the receipt, temporary investment, and remittance of resources to individuals, private organizations, or other governments in a purely custodial capacity (assets equal liabilities). The agency funds reported by the Board include a payroll clearing account, an accounts payable clearing account, and student organization accounts such as clubs and classes.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements follow the basic financial statements.

## Florence City Schools Management's Discussion and Analysis (MD&A)

In addition to the basic financial statements and the accompanying notes, this report also presents certain *Required Supplementary Information* (RSI) other than the MD&A consisting of a budgetary comparison schedule for the general fund and each major special revenue fund that has a legally adopted annual budget. The schedule includes an accompanying note explaining the differences between actual amounts as reported on the basis of budgeting and the GAAP basis of reporting.

### **Financial Analysis of the Board as a Whole**

As noted earlier, the Florence City Board of Education has no business-type activities. Consequently, all of the Board's net assets are reported as Governmental Activities.

### **FLORENCE CITY BOARD OF EDUCATION**

#### **Net Assets**

|   | <b>Governmental Activities</b> |                      |
|---|--------------------------------|----------------------|
|   | <b>2008</b>                    | <b>2007</b>          |
| Current and other assets                        | \$ 13,341,074                  | \$ 5,078,629         |
| Capital assets (net)                            | 40,466,672                     | 39,267,184           |
| Total assets                                    | <u>\$ 53,807,746</u>           | <u>\$ 44,345,813</u> |
| Current and other liabilities                   | \$ 4,549,308                   | \$ 3,823,701         |
| Long-term liabilities                           | 15,037,696                     | 10,009,437           |
| Total liabilities                               | <u>\$ 19,587,004</u>           | <u>\$ 13,833,138</u> |
| Net assets:                                     |                                |                      |
| Invested in capital assets, net of related debt | \$ 31,032,794                  | \$ 29,313,225        |
| Restricted for debt service                     | 28,015                         | -                    |
| Unrestricted                                    | 3,159,933                      | 1,199,450            |
| Total net assets                                | <u>\$ 34,220,742</u>           | <u>\$ 30,512,675</u> |

The Board's total assets exceeded total liabilities by \$34,220,742 at the close of the fiscal year. The majority of the Board's net assets are invested in capital assets (land, buildings, and equipment) owned by the Board. Unrestricted net assets — the part of net assets that can be used to finance day-to-day operations without constraints established by enabling legislation, debt covenants, or other legal requirements — are \$3,159,933 at the end of the year.

**Florence City Schools  
Management's Discussion and Analysis (MD&A)**

The Board's total revenues and expenses are reflected in the following table:

**FLORENCE CITY BOARD OF EDUCATION  
Changes in Net Assets**

|   | <b>Governmental Activities</b> |                             |
|---|--------------------------------|-----------------------------|
|   | <b>2008</b>                    | <b>2007</b>                 |
| <u>Revenues</u>   |                                |                             |
| Program revenues:   |                                |                             |
| Charges for services  | \$ 2,816,031                   | \$ 2,667,102                |
| Operating grants and contributions                            | 28,066,239                     | 25,391,736                  |
| Capital grants and contributions                              | 2,914,616                      | 663,053                     |
| General revenues:   |                                |                             |
| Property taxes  | 7,402,481                      | 6,119,738                   |
| Sales taxes   | 5,564,614                      | 5,373,855                   |
| Alcohol beverage taxes  | 60,712                         | 53,934                      |
| Other taxes   | 1,101,122                      | 1,089,231                   |
| Grants and contributions not restricted for specific programs | 1,200,138                      | 1,159,131                   |
| Other general revenues  | 1,640,554                      | 1,544,686                   |
| Total revenues  | <u>\$ 50,766,507</u>           | <u>\$ 44,062,466</u>        |
| <u>Expenses</u>   |                                |                             |
| Instructional services  | \$ 27,295,214                  | \$ 25,275,948               |
| Instructional support services                                | 7,097,666                      | 6,976,017                   |
| Operation and maintenance services                            | 4,527,929                      | 4,537,724                   |
| Student transportation services                               | 1,721,221                      | 1,631,301                   |
| Food services   | 2,700,114                      | 2,367,425                   |
| General administrative services                               | 1,166,291                      | 1,245,510                   |
| Interest and fiscal charges                                   | 441,280                        | 462,844                     |
| Other   | 2,108,725                      | 2,022,082                   |
| Total expenses  | <u>\$ 47,058,440</u>           | <u>\$ 44,518,851</u>        |
| Change in net assets  | \$ 3,708,067                   | \$ (456,385)                |
| Net assets, beginning   | <u>30,512,675</u>              | <u>30,969,060</u>           |
| Net assets, ending  | <u><u>\$ 34,220,742</u></u>    | <u><u>\$ 30,512,675</u></u> |

## **Florence City Schools Management's Discussion and Analysis (MD&A)**

Program revenues, specifically operating grants and contributions, are the largest component of total revenues (66.5%).

- Operating grants and contributions contribute 83% of program revenues and 55% of total revenues. The major sources of revenues in this category are State foundation program funds, state transportation operating funds, and state and federal funds restricted for specific programs.
- Capital grants and contributions include state Public School Fund capital outlay funds.
- Charges for services include federal reimbursement for meals, student meal purchases, and local school revenues.

General revenues, primarily property taxes and sales taxes, are used to provide \$16,969,621 for expenses not covered by program revenues.

Instructional services expenses, primarily salaries and benefits for classroom teachers, are the largest functional expense of the Board (58%).

- In addition to teacher salaries and benefits, instructional services includes teacher aides, substitute teachers, textbooks, depreciation of instructional buildings, professional development, and classroom instructional materials, supplies, and technology equipment.
- Instructional support services includes salaries and benefits for school principals, assistant principals, media specialists, counselors, school secretaries, school bookkeepers, speech therapists, school nurses, and professional development expenses.
- Operation and maintenance services include utilities, security services, janitorial services, maintenance services, and depreciation of maintenance vehicles.
- Student transportation services include the regular, special education, and school-to-school portion of the transportation services provided by the private contractor.
- Food services includes salaries and benefits for cooks, servers, lunchroom managers, and cashiers, as well as donated and purchased food, food preparation and service supplies, kitchen and lunchroom equipment, and depreciation of equipment and facilities.
- General administrative services include salaries and benefits for the superintendent, assistants, clerical and financial staff, and other personnel that provide system-wide support for the schools. Also included are legal expenses, liability insurance, training for board members and general administrative staff, printing costs, and depreciation of central office equipment and facilities.
- Debt service includes interest and principal payments, on long-term debt issues and other expenses related to the issuance and continuance of debt issues.
- Other expenses includes the salaries and benefits for adult and continuing education teachers, preschool teachers and aides, extended day personnel, and community education instructors. Also included are the materials, supplies, equipment, related depreciation, and other expenses for operating programs outside of those for educating students in the K through 12 instructional programs.
- Special items are significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence.

## **Florence City Schools Management's Discussion and Analysis (MD&A)**

- Extraordinary items are significant transactions or other events that are both unusual in nature and infrequent in occurrence.

### **Financial Analysis of the Board's Funds**

The analysis of governmental funds serves the purpose of looking at what resources came into the funds, how they were spent, and what is available for future expenditures. Did the Board generate enough revenue to pay for current obligations? What is available for spending at the end of the year? The strong financial performance of the Board as a whole is reflected in its governmental funds as well. At the end of the fiscal year, the Board's governmental funds reported combined ending fund balances of \$9.2 million. Approximately \$1.4 million of this amount constitutes unreserved fund balance of the general fund that is available as of the end of the fiscal year for spending on future operations.

**General Fund** - The general fund is the primary operating fund of the Board. The general fund balance increased by \$1,504,998. This was due primarily to the unexpected increase in sales tax and a larger than expected increase in property tax revenues.

Overall, the Board's governmental funds had more revenues than expenditures at the end of the fiscal year, thereby contributing \$1,562,879 to the increase in the total fund balance. Other Financing Sources contributed \$6,426,770 to the overall \$7,989,649 net change in fund balance. The issuance of Tax Anticipation School Warrants accounted for approximately \$6.1 million of this change.

### **General Fund Budgetary Highlights**

The original 2008 fiscal year budget, adopted in August 2007, was based on a "bare bones" approach that reflected only guaranteed revenues and necessary expenditures since some of the state-funded programs had not been authorized at this point. The original budget figures were amended when expenditures exceed 10% or when federal carryover amounts were confirmed. Over the course of the year, the Board revised the annual operating budgets once in April 2008.

The comparison of general fund original budget to the final amended budget is in this report. The differences between the original budget and the final amended budget of the Board were an increase in expenditures of \$308,723 and an increase in revenues of \$267,081.

- Amendment #1 was necessary to budget the following state allocations: Children First, At-Risk, and High Hopes. Modifications were also necessary due to capital projects changes and federal program carry-over funds.

### **Capital Assets and Debt Administration**

**Capital Assets** - At September 30, 2008 the Board had approximately \$40.5 million invested in capital assets including land, buildings, equipment costing \$5,000 or more, vehicles, and construction in progress. This amount is net of accumulated depreciation to date. Increases during the year represent additions to those categories, while decreases represent retirements of assets during the year and depreciation of depreciable assets for the year. (Comparative year data was available to present the prior year's balance of capital assets, net of accumulated depreciation.)

**Florence City Schools  
Management's Discussion and Analysis (MD&A)**

*Capital Assets (net of accumulated depreciation)*

|                            | <b>Governmental Activities</b> |               |
|----------------------------|--------------------------------|---------------|
|                            | <b>September 30,</b>           |               |
|                            | <b>2008</b>                    | <b>2007</b>   |
| Land                       | \$ 935,076                     | \$ 935,076    |
| Construction in progress   | 2,692,541                      | 1,144,605     |
| Land improvements          | 1,152,333                      | 796,670       |
| Buildings and improvements | 34,491,383                     | 35,086,965    |
| Vehicles and equipment     | 1,195,339                      | 1,303,868     |
| Total                      | \$ 40,466,672                  | \$ 39,267,184 |

Construction in progress at year-end included the new Science Wing and Soccer Complex at Florence High School, parking lot expansion at Forest Hills Elementary, and gymnasium HVAC projects at Handy Head Start and Weeden Elementary.

**Long-Term Debt** - At year-end, the Board had \$15.6 million in warrants outstanding. This increase is the net result of debt service principal payments and the issuance of new debt for construction projects. (Additional information on the Board's long-term debt is presented in the notes to the basic financial statements).

Long-term debt activity for the year consisted of the following:

|                  | <b>Outstanding Long-Term Debt</b>            |                       |                           |
|------------------|--|-----------------------|---------------------------|
|                  | <b>Governmental Activities</b>               |                       |                           |
|                  | <b>For the Year Ended September 30, 2008</b> |                       |                           |
|                  | <b>Beginning<br/>Balance</b>                 | <b>Net<br/>Change</b> | <b>Ending<br/>Balance</b> |
| Warrants payable | \$ 10,009,437                                | \$ 5,570,165          | \$ 15,579,602             |

State law does not provide a limitation on the amount of debt that may be issued by Alabama school boards.

## Florence City Schools Management's Discussion and Analysis (MD&A)

**Economic Factors and Next Year's Budget** (This discussion may not include the possible effect of events that might happen. Only currently known facts, decisions, or conditions may be discussed.)

The following are currently known economic factors considered in going into the 2008-2009 fiscal year.

- The slowing economy has had dramatic effects on the state Education Trust Fund (ETF). The 2009 initial state allocation was approximately 3% less than 2008. Further reductions are expected sometime during the fiscal year. However, the passage of the "Rainy Day" amendment will help to offset a portion of the additional reductions. The amendment allows the state finance director, upon proration declaration by the governor, to transfer an amount of up to 6% of the ETF budget to the fund for education purposes. Locally, sales tax revenues are expected to slow. However, National Alabama is expected to start production in their new railcar plant located in the Shoals. The process of employing approximately 1,800 employees will begin soon. It is hoped that this will help to offset some local tax reductions. Local officials continue to recruit industry to the area and are currently working to find ways to benefit from the Department of Defense's military base realignment (BRAC) program that will move approximately 2,200 jobs immediately to a neighboring city.
- The population of the City of Florence as of the year 2000 census remained constant when compared to the last ten-year census taken in 1990.
- There was a slight increase in sales tax revenue as a result of the stronger economy and additional retail businesses. This trend is not expected to continue in 2009 but the effect of employment increase may contribute to local sales tax in 2010.
- Florence City Board of Education continues to maintain a sound fiscal situation while health care and retirement matching costs continue to increase.

At the time these financial statements were prepared and audited, the Board was aware of the following circumstances that could affect the Board's financial health in the future:

***Student Enrollment*** – Student enrollment for the 2009 scholastic year is up approximately 3%. This is the second year in the last three that enrollment has increased. Management is optimistic that the extensive curriculum, the stabilization of the district structure after consolidation, and additional jobs will continue to slightly increase enrollment.

***Medical and Retirement Costs*** - Employee health insurance is provided through the Public Education Employees' Health Insurance Program (PEEHIP). PEEHIP employer costs slightly decreased from \$775 to \$752 per employee per month in fiscal year 2009. This reduction is not expected to continue in 2010. Retirement matching increased to 12.07% from 11.75%. We expect another significant increase for fiscal year 2009.

### **Contacting the School Board's Financial Management**

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of the Board's finances and to show the Board's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact **Ken Davis, Chief School Finance Officer, 541 Riverview Drive, Florence, Alabama 35630** or by calling **256-768-3035** during regular office hours, Monday through Friday, from 7:30 a.m. to 4:00 p.m., central standard time.

**FLORENCE CITY BOARD OF EDUCATION  
STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2008**

|   | <u><b>Governmental<br/>Activities</b></u> |
|---|---|
| <b>ASSETS</b>                                   |   |
| Cash and cash equivalents                       | \$ 10,097,151                             |
| Receivables (net)                               | 2,979,531                                 |
| Inventories                                     | 91,804                                    |
| Investments-restricted                          | 28,015                                    |
| Deferred charges (net)                          | 144,573                                   |
| Capital assets (net)                            | 40,466,672                                |
| <b>Total assets</b>                             | <u>\$ 53,807,746</u>                      |
| <b>LIABILITIES</b>                              |   |
| Accounts payable and accrued expenses           | \$ 3,972,036                              |
| Deferred revenues                               | 35,366                                    |
| Long-term liabilities:                          |   |
| Portion due or payable within one year:         |   |
| Warrants payable                                | 541,906                                   |
| Portion due or payable after one year:          |   |
| Warrants payable                                | 15,037,696                                |
| <b>Total liabilities</b>                        | <u>\$ 19,587,004</u>                      |
| <b>NET ASSETS</b>                               |   |
| Invested in capital assets, net of related debt | \$ 31,032,794                             |
| Restricted for debt service                     | 28,015                                    |
| Unrestricted                                    | 3,159,933                                 |
| <b>Total net assets</b>                         | <u><u>\$ 34,220,742</u></u>               |

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

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**FLORENCE CITY BOARD OF EDUCATION  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

| <b>Functions/Programs</b>          | <b>Expenses</b>      | <b>Program Revenues</b>             |   |   | <b>Net (Expense)<br/>Revenue and<br/>Changes in<br/>Net Assets</b> |
|------------------------------------|----------------------|-------------------------------------|---|---|--|
|                                    |                      | <b>Charges<br/>for<br/>Services</b> | <b>Operating<br/>Grants and<br/>Contributions</b> | <b>Capital<br/>Grants and<br/>Contributions</b> | <b>Total<br/>Governmental<br/>Activities</b>                       |
| Governmental activities:           |                      |                                     |   |   |  |
| Instructional services             | \$ 27,295,214        | \$ 560,463                          | \$ 20,587,912                                     | \$ 2,853,080                                    | \$ (3,293,759)   |
| Instructional support services     | 7,097,666            | 138,879                             | 1,687,466   | 43,205  | (5,228,116)  |
| Operation and maintenance services | 4,527,929            | 16,163                              | 2,416,673   |   | (2,095,093)  |
| Student transportation services    | 1,721,221            | 70,946                              | 1,459,077   |   | (191,198)  |
| Food services                      | 2,700,114            | 1,903,261                           | 122,514   |   | (674,339)  |
| General administrative services    | 1,166,291            | 7,465                               | 82,156  | 18,331  | (1,058,339)  |
| Other                              | 2,108,725            |                                     |   |   | (2,108,725)  |
| Interest and fiscal charges        | 441,280              | 118,854                             | 1,710,441   |   | 1,388,015  |
| Total governmental activities      | <u>\$ 47,058,440</u> | <u>\$ 2,816,031</u>                 | <u>\$ 28,066,239</u>                              | <u>\$ 2,914,616</u>                             | <u>\$ (13,261,554)</u>   |
| General revenues:                  |                      |                                     |   |   |  |
| Taxes:                             |                      |                                     |   |   |  |
|                                    |                      |                                     |   |   | \$ 6,119,951   |
|                                    |                      |                                     |   |   | 1,282,530  |
|                                    |                      |                                     |   |   | 5,564,614  |
|                                    |                      |                                     |   |   | 60,712   |
|                                    |                      |                                     |   |   | 1,101,122  |
|                                    |                      |                                     |   |   | 1,200,138  |
|                                    |                      |                                     |   |   | 104,420  |
|                                    |                      |                                     |   |   | 1,300  |
|                                    |                      |                                     |   |   | 1,534,834  |
|                                    |                      |                                     |   |   | <u>\$ 16,969,621</u>   |
|                                    |                      |                                     |   |   | <u>\$ 3,708,067</u>  |
|                                    |                      |                                     |   |   | 30,512,675   |
|                                    |                      |                                     |   |   | <u>\$ 34,220,742</u>   |

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

**FLORENCE CITY BOARD OF EDUCATION  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2008**

|  | <u>General<br/>Fund</u> | <u>Capital Projects-<br/>All Sources</u> | <u>Other<br/>Governmental<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|--|-------------------------|--|---|---|
| <b>ASSETS</b>                              |                         |  |   |   |
| Cash and cash equivalents                  | \$ 3,177,425            | \$ 7,718,856                             | \$ 1,133,468                            | \$ 12,029,749                           |
| Investments                                |                         | 28,015                                   |   | 28,015                                  |
| Receivables (net)                          | 1,207,825               | 1,219,142                                | 552,564                                 | 2,979,531                               |
| Interfund receivables                      | 51,333                  |  | 584                                     | 51,917                                  |
| Inventories                                |                         |  | 91,804                                  | 91,804                                  |
| <b>Total assets</b>                        | <u>\$ 4,436,583</u>     | <u>\$ 8,966,013</u>                      | <u>\$ 1,778,420</u>                     | <u>\$ 15,181,016</u>                    |
| <b>LIABILITIES AND FUND BALANCES</b>       |                         |  |   |   |
| Liabilities                                |                         |  |   |   |
| Cash deficit                               | \$                      | \$ 1,586,281                             | \$ 346,317                              | \$ 1,932,598                            |
| Accounts payable and accrued expenses      | 3,001,662               | 441,405                                  | 528,969                                 | 3,972,036                               |
| Interfund payables                         | 48                      |  | 51,869                                  | 51,917                                  |
| Deferred revenues                          | 35,366                  |  |   | 35,366                                  |
| <b>Total liabilities</b>                   | <u>\$ 3,037,076</u>     | <u>\$ 2,027,686</u>                      | <u>\$ 927,155</u>                       | <u>\$ 5,991,917</u>                     |
| Fund balances                              |                         |  |   |   |
| Reserved for:                              |                         |  |   |   |
| Inventories                                | \$                      | \$                                       | \$ 91,804                               | \$ 91,804                               |
| Encumbrances                               | 355                     | 101,119                                  |   | 101,474                                 |
| Unreserved, reported in:                   |                         |  |   |   |
| General fund                               | 1,399,152               |  |   | 1,399,152                               |
| Special revenue funds                      |                         |  | 750,069                                 | 750,069                                 |
| Debt service fund                          |                         |  | 9,392                                   | 9,392                                   |
| Capital projects funds                     |                         | 6,837,208                                |   | 6,837,208                               |
| <b>Total fund balances</b>                 | <u>\$ 1,399,507</u>     | <u>\$ 6,938,327</u>                      | <u>\$ 851,265</u>                       | <u>\$ 9,189,099</u>                     |
| <b>Total liabilities and fund balances</b> | <u>\$ 4,436,583</u>     | <u>\$ 8,966,013</u>                      | <u>\$ 1,778,420</u>                     | <u>\$ 15,181,016</u>                    |

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

**FLORENCE CITY BOARD OF EDUCATION  
RECONCILIATION OF THE BALANCE SHEET  
OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2008**

|  |    |           |
|--|----|-----------|
| <b>Total fund balance—governmental funds</b> | \$ | 9,189,099 |
|--|----|-----------|

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.

|                          |                     |            |
|--------------------------|---------------------|------------|
| Capital assets           | \$ 69,371,045       |            |
| Accumulated depreciation | <u>(28,904,373)</u> | 40,466,672 |

Debt issuance costs are reported as a current expenditure in the governmental funds. However, in the statement of activities, debt issuance costs are deferred and amortized over the life of the debt and are included as deferred charges in the statement of net assets.

|                                 |  |         |
|---------------------------------|--|---------|
| Unamortized debt issuance costs |  | 144,573 |
|---------------------------------|--|---------|

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.

|                                     |                 |                     |
|-------------------------------------|-----------------|---------------------|
| Warrants payable                    | \$ (15,571,478) |                     |
| Unamortized debt (premium) discount | <u>(8,124)</u>  | <u>(15,579,602)</u> |

|  |    |                          |
|--|----|--------------------------|
| <b>Net assets of governmental activities</b> | \$ | <u><u>34,220,742</u></u> |
|--|----|--------------------------|

**FLORENCE CITY BOARD OF EDUCATION**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

|  | <u>General</u>       | <u>Capital Projects-<br/>All Sources</u> | <u>Other<br/>Governmental<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|--|----------------------|--|---|---|
| <b>REVENUES</b>  |                      |  |   |   |
| State sources  | \$ 23,236,882        | \$ 2,611,746                             | \$ 302,870                              | \$ 26,151,498                           |
| Federal sources  | 54,262               |  | 6,112,838                               | 6,167,100                               |
| Local sources  | 13,741,909           | 2,482,668                                | 1,794,400                               | 18,018,977                              |
| Other sources  | 106,959              |  | 320,673                                 | 427,632                                 |
| <b>Total revenues</b>  | <u>\$ 37,140,012</u> | <u>\$ 5,094,414</u>                      | <u>\$ 8,530,781</u>                     | <u>\$ 50,765,207</u>                    |
| <b>EXPENDITURES</b>  |                      |  |   |   |
| Instructional services                                       | \$ 22,134,631        | \$ 393,651                               | \$ 3,457,681                            | \$ 25,985,963                           |
| Instructional support services                               | 6,205,367            | 62,937                                   | 729,165                                 | 6,997,469                               |
| Operation and maintenance services                           | 3,981,451            | 373,002                                  | 14,828                                  | 4,369,281                               |
| Student transportation services                              | 1,550,818            |  | 170,403                                 | 1,721,221                               |
| Food services  | 8,563                |  | 2,964,772                               | 2,973,335                               |
| General administrative services                              | 977,775              | 25,000                                   | 111,526                                 | 1,114,301                               |
| Capital outlay   | 23,582               | 2,776,280                                | 69,589                                  | 2,869,451                               |
| Debt service   |                      | 96,158                                   | 966,424                                 | 1,062,582                               |
| Other expenditures   | 336,786              |  | 1,771,939                               | 2,108,725                               |
| <b>Total expenditures</b>                                    | <u>\$ 35,218,973</u> | <u>\$ 3,727,028</u>                      | <u>\$ 10,256,327</u>                    | <u>\$ 49,202,328</u>                    |
| <b>Excess (deficiency) of revenues<br/>over expenditures</b> | <u>\$ 1,921,039</u>  | <u>\$ 1,367,386</u>                      | <u>\$ (1,725,546)</u>                   | <u>\$ 1,562,879</u>                     |
| <b>OTHER FINANCING SOURCES (USES)</b>                        |                      |  |   |   |
| Indirect cost  | \$ 330,162           |  |   | \$ 330,162                              |
| Proceeds from sale of capital assets                         | 1,300                |  |   | 1,300                                   |
| Proceeds from issuance of long-term capital-related debt     |                      | 6,170,000                                |   | 6,170,000                               |
| Discount on debt issued                                      |                      | (74,692)                                 |   | (74,692)                                |
| Transfers in   | 291,819              |  | 1,746,810                               | 2,038,629                               |
| Transfers out  | (1,039,322)          | (901,328)                                | (97,979)                                | (2,038,629)                             |
| <b>Total other financing sources (uses)</b>                  | <u>\$ (416,041)</u>  | <u>\$ 5,193,980</u>                      | <u>\$ 1,648,831</u>                     | <u>\$ 6,426,770</u>                     |
| <b>Net change in fund balances</b>                           | <u>\$ 1,504,998</u>  | <u>\$ 6,561,366</u>                      | <u>\$ (76,715)</u>                      | <u>\$ 7,989,649</u>                     |
| <b>Fund balances—beginning</b>                               | (105,491)            | 376,961                                  | 927,980                                 | 1,199,450                               |
| <b>Fund balances—ending</b>                                  | <u>\$ 1,399,507</u>  | <u>\$ 6,938,327</u>                      | <u>\$ 851,265</u>                       | <u>\$ 9,189,099</u>                     |

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

**FLORENCE CITY BOARD OF EDUCATION  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

**Total net change in fund balances—governmental funds** \$ 7,989,649

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

|                      |              |           |
|----------------------|--------------|-----------|
| Capital outlays      | \$ 2,869,451 |           |
| Depreciation expense | (1,669,964)  | 1,199,487 |
|                      |              |           |

In the statement of activities, only the gain or loss on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the net book value of the capital assets sold.

|                                       |            |   |
|---------------------------------------|------------|---|
| Proceeds from sale of capital assets  | \$ (1,300) |   |
| Gain on disposition of capital assets | 1,300      | — |
|                                       |            |   |

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred on the statement of net assets and are amortized over the life of the debt. The net effect of these differences in the treatment of long-term debt and related items are detailed below.

|   |             |             |
|---|-------------|-------------|
| Repayment of debt principal             | \$ 520,741  |             |
| Proceeds from issuance of debt          | (6,170,000) |             |
| Discount on debt issued                 | 74,692      |             |
| Payment of debt issuance costs          | 96,158      |             |
| Amortization of debt premium (discount) | 4,403       |             |
| Amortization of debt issuance costs     | (7,063)     | (5,481,069) |
|   |             |             |

**Change in net assets of governmental activities** \$ 3,708,067

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

**FLORENCE CITY BOARD OF EDUCATION  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
SEPTEMBER 30, 2008**

|                               | <b>Agency<br/>Funds</b> |
|-------------------------------|-------------------------|
| <b>ASSETS</b>                 |                         |
| Cash and cash equivalents     | \$ 294,133              |
| <b>Total assets</b>           | <b>\$ 294,133</b>       |
| <br><b>LIABILITIES</b>        |                         |
| Due to external organizations | \$ 294,133              |
| <b>Total liabilities</b>      | <b>\$ 294,133</b>       |

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

**FLORENCE CITY BOARD OF EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008**

**NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The Florence City Board of Education (the “Board”) was organized under the laws of the State of Alabama. The Board is governed by six (6) members that are elected by district by the citizens of the City of Florence, Alabama for four-year terms. The Board is responsible for the general administration and supervision of the public school system. The Board provides educational services as authorized by state and federal guidelines.

A financial reporting entity is composed of the primary government and component units that are included to ensure the financial statements are not misleading. For financial reporting purposes, the Board's basic financial statements include all funds for which the Board is financially accountable. Financial accountability, as defined by the Governmental Accounting Standards Board, exists if (1) the Board appoints a voting majority of an organization's governing board, (2) is able to impose its will on that organization, or (3) there is a potential for the organization to provide specific financial benefits to or impose specific burdens on the Board. Additionally, a legally separate, tax-exempt organization should be reported as a component unit of a reporting entity if (1) the economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the primary government, (2) the primary government is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the organization, and (3) the economic resources received or held by the organization are significant to the primary government. Based on the application of these criteria, there are no component units that should be included as part of the financial reporting entity of the Board. The Board is a legally separate agency of the State of Alabama.

The financial statements of the Board have been prepared in conformity with U. S. generally accepted accounting principles (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 Board's accounting policies are described below.

**B. Basis of Presentation, Basis of Accounting**

**Basis of Presentation**

*Government-Wide Financial Statements*—The statement of net assets and the statement of activities display information about the Board as a whole. 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. Although other governments may report both governmental activities and business-type activities, the Board has no business-type activities.

The statement of net assets presents the financial condition of the governmental activities of the Board at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each function of the Board's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, clearly identifiable to a particular function. Program revenues include (a) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and (b) charges to recipients for goods and services offered by the programs. Revenues that are not classified as program revenues, including all local taxes, are presented as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental program is self-financing or draws from the general revenues of the Board.

**FLORENCE CITY BOARD OF EDUCATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**  
**(Continued)**

**NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Fund Financial Statements*—During the fiscal year, the Board segregates transactions related to certain Board functions or activities into separate funds in order to aid financial management and to demonstrate legal compliance. 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 other governmental funds. Fiduciary funds are reported by type.

The Board reports the following major governmental funds:

*General Fund*—The General Fund is the primary operating fund of the Board. It is used to account for all financial resources, except those required to be accounted for in another fund. The Board primarily receives revenues from the Education Trust Fund (ETF), appropriated by the State Legislature, and from local taxes. The State Department of Education allocated amounts appropriated from the ETF to the Board on a formula basis.

*Capital Projects-All Sources*—These funds account for the financial resources to be used for the acquisition or construction of capital facilities.

The other governmental funds of the Board account for grants and other resources and debt service of the Board whose use are restricted to a particular purpose.

*Fiduciary Funds*—Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is divided into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Board's agency funds account for various student-managed activities.

**Measurement Focus, Basis of Accounting**

*Government-Wide and Fiduciary Fund Financial Statements*—The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Board gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

**FLORENCE CITY BOARD OF EDUCATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**  
**(Continued)**

**NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Governmental Fund Financial Statements*—Governmental funds are reported using a current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when 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 Board considers revenues reported in the governmental funds (excluding state and federal reimbursements) to be available if the revenues are collected within thirty (30) days after year-end. Revenues from state and federal funds are considered available if transactions eligible for reimbursement have taken place. Expenditures generally are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.

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

**C. Asset, Liabilities, and Net Assets**

**Deposits and Investments**

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

The State Attorney General has issued a legal opinion that boards of education may not put public funds at risk by investing in companies not insured by the federal government.

**Restricted Assets**

Tax anticipation warrants issued by the Board require that certain amounts for debt service outlays be deposited into a restricted fund to pay the principal and interest on these warrants as they become due. These funds are invested in government securities, which are carried at fair market value.

**Receivables**

Revenues susceptible to accrual include property taxes, sales and use taxes, miscellaneous taxes, interest, interfund obligations, grant programs, and other miscellaneous receipts. Receivables due from other governments include amounts due from grantors for grants issued for specific programs and local taxes. No allowance for uncollectible accounts has been recorded, as all amounts are considered collectible.

**FLORENCE CITY BOARD OF EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008  
(Continued)**

**NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Property Tax Calendar**

Property taxes are assessed, collected, and remitted by the Lauderdale County Commission. Property taxes are assessed on property values as of October 1 of the preceding year based on the millage rates established by legislation. Property taxes are due and payable the following October 1 and are delinquent after December 31. After December 31, penalties and interest are assessed. If real property taxes are not paid by May 15 following the due date, State law requires a tax sale.

**Inventories**

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories of governmental funds are recorded as expenditures when purchased rather than capitalized as an asset. GAAP require only material balances of inventories accounted for using the purchase method to be reported as an asset in the appropriate governmental fund.

In the government-wide financial statements, inventories are recorded on an accrual basis using the consumption method. Expenses reflect the amount of materials and supplies consumed.

**Capital Assets**

Purchased or constructed capital assets are reported at cost or estimated historical cost in the statement of net assets. Donated assets are recorded at their estimated fair value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. The cost of repairs and maintenance that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays of capital assets and improvements are capitalized upon project completion. Capital assets are recorded as expenditures at the date of acquisition in the fund financial statements. The Board has no general infrastructure assets.

Depreciation of capital assets is computed using the straight-line method over the estimated useful life of the asset and reported in the statement of activities. Capitalization thresholds and estimated useful lives of capital assets reported in the government-wide statements are as follows:

| <b>Description</b>                                      | <b>Capitalization<br/>Thresholds</b> | <b>Estimated<br/>Useful Lives</b> |
|---|--------------------------------------|-----------------------------------|
| Land improvements-exhaustible                           | \$ 50,000                            | 20 years                          |
| Buildings and building improvements                     | 50,000                               | 7 – 50 years                      |
| Machinery, equipment, vehicles, furniture, and fixtures | 5,000                                | 5 – 20 years                      |

The capitalization threshold for land, construction in progress, and inexhaustible land improvements is \$1 or more. However, these capital assets are not depreciated.

**FLORENCE CITY BOARD OF EDUCATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**  
**(Continued)**

**NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Long-term Obligations**

In the government-wide financial statements, the unmatured principal of long-term debt and compensated absences are reported in the statement of net assets. Interest expense for long-term debt is reported in the statement of activities. For long-term debt issued after October 1, 2002, the related debt issuance costs, premiums, and discounts are amortized under accrual accounting and the annual amortization of these debt-related items is included in the statement of activities. The unamortized portion is reported on the statement of net assets.

In the fund financial statements, expenditures for debt principal, interest, and related costs are reported in the fiscal year the payment is made. The face amount of the debt issued and bond premiums during the year are reported as other financing sources. Any discount resulting from debt issuance is reported as an other financing use. Debt issuance costs are not shown as an other financing use, but are reported as debt service expenditures. The balance sheet does not reflect a liability for long-term debt.

**Compensated Absences**

For vacation leave and other compensated absences with similar characteristics, GASB Statement No. 16 requires the accrual of a liability as the benefits are earned by the employees if both of these conditions are met:

- a. The employees' rights to receive compensation are attributable to services already rendered.
- b. It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

An accrual for earned sick leave should be made only to the extent it is probable that the benefits will result in termination payments, rather than be taken as absences due to illness or other contingencies, such as medical appointments and funerals.

Board approved employees earn nonvesting sick leave at the rate of one (1) day per month worked. Employees may accumulate an unlimited number of sick leave days. Employees may use their accrued sick leave as membership service in determining the total years of creditable service in the teachers' retirement system, with no additional cost to the Board. Because employees do not receive compensation for unused sick leave at termination, no liability is recorded in the financial statements.

Board approved employees are provided two (2) days of personal leave per year with pay. The State provides funding, at the substitute rate, for up to two (2) days personal leave per employee per year. All employees are paid, at the Board's substitute rate, for up to two (2) days of unused personal leave. In addition, the Board allows up to three (3) additional days for certified employees, which shall be subject to the deduction of a substitute's pay at the Board rate. Any unused personal leave is converted to sick leave, thus, no liability is recorded in the financial statements. Because unused personal leave cannot be carried over to succeeding years, no liability for unpaid leave is accrued in the financial statements.

Certain employees are allowed ten (10) days of vacation per year with pay and the Board allows these employees to carryover a maximum of ten (10) days. Upon termination, employees are compensated for any unused vacation pay. The amount is considered immaterial and no liability has been recorded in these financial statements.

**FLORENCE CITY BOARD OF EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008  
(Continued)**

**NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Net Assets/Fund Equity**

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

- ◆ *Invested in capital assets, net of related debt*—Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. (Any significant unspent proceeds at year-end related to capital assets are reported as restricted funds.)
- ◆ *Restricted*—Constraints imposed on net assets by external creditors, grantors, contributors, laws or regulation of other government, or law through constitutional provision or enabling legislation.
- ◆ *Unrestricted*—Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board.

Fund equity is reported in the fund financial statements. Governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

**Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**NOTE 2—STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**A. Budgets**

Annual budgets are adopted for all governmental funds except the permanent funds. All annual appropriations lapse at fiscal year end. State law requires Alabama school boards to prepare and submit to the State Superintendent of Education the annual budget adopted by the local board of education. In accordance with the regulations of the State Board of Education, the due date for submission of the budget for the 2007-2008 fiscal year was August 15, 2007. The Board approved its original budget on August 14, 2007 and submitted the budget on August 15, 2007.

**B. Deficit Fund Balances in Individual Funds**

The Board has deficit fund balances in three (3) of its Capital Projects funds. The Board plans to liquidate these deficits with continuing sources of property and sales tax revenues and transfers from other Capital Projects funds.

**FLORENCE CITY BOARD OF EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008  
(Continued)**

**NOTE 2—STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)**

**C. Excess of Expenditures over Appropriations**

The following funds incurred expenditures in excess of appropriations of the following amounts for the year ended September 30, 2008:

|                            |    |         |
|----------------------------|----|---------|
| Capital projects:          |    |         |
| City Council appropriation | \$ | 334,477 |
| Sale of assets             |    | 176,211 |
| Other governmental:        |    |         |
| Food services              |    | 450,432 |
| Head Start in-kind match   |    | 127,623 |
| E-Rate/SLC refunds         |    | 174,139 |

**NOTE 3—DEPOSITS AND INVESTMENTS**

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the Board 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 Board'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*, §§ 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 Depository 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.

The Board has not adopted a formal investment policy and, as of September 30, 2008, does not have any investments that require disclosure. However, under the terms of a bond indenture, the Board is required to deposit into certain restricted funds for debt service. These investments are governed by the bond indenture and are invested in U. S. Government securities.

**NOTE 4—INTERFUND RECEIVABLES AND PAYABLES**

Details of interfund receivables and payables were as follows:

|                           | <b>Interfund Receivables</b> |                               |              |
|---------------------------|------------------------------|-------------------------------|--------------|
| <b>Interfund Payables</b> | <b>General<br/>Fund</b>      | <b>Other<br/>Governmental</b> | <b>Total</b> |
| Other governmental        | \$ 51,333                    | \$ 584                        | \$ 51,917    |

The interfund balances were used to report indirect costs paid to the General Fund and other reimbursements.

**FLORENCE CITY BOARD OF EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008  
(Continued)**

**NOTE 5—RECEIVABLES AND PAYABLES**

Receivables at September 30, 2008 were as follows:

| <u>Governmental Activities</u> | <u>Due from<br/>Other<br/>Governments</u> | <u>Others</u>    | <u>Totals</u>       |
|--------------------------------|---|------------------|---------------------|
| General fund                   | \$ 1,187,718                              | \$ 20,107        | \$ 1,207,825        |
| Capital projects-all sources   | 1,219,142                                 |                  | 1,219,142           |
| Other governmental             | 552,564                                   |                  | 552,564             |
| Total                          | <u>\$ 2,959,424</u>                       | <u>\$ 20,107</u> | <u>\$ 2,979,531</u> |

Payables at September 30, 2008 were as follows:

| <u>Governmental Activities</u> | <u>Vendors</u>    | <u>Salaries<br/>and Benefits</u> | <u>Accrued<br/>Interest</u> | <u>Totals</u>       |
|--------------------------------|-------------------|----------------------------------|-----------------------------|---------------------|
| General fund                   | \$ 504,223        | \$ 2,497,439                     | \$ —                        | \$ 3,001,662        |
| Capital projects-all sources   | 328,429           |                                  | 112,976                     | 441,405             |
| Other governmental             | 38,054            | 490,915                          |                             | 528,969             |
| Total                          | <u>\$ 870,706</u> | <u>\$ 2,988,354</u>              | <u>\$ 112,976</u>           | <u>\$ 3,972,036</u> |

**NOTE 6—INTERFUND TRANSFERS**

Interfund transfers for the year ended September 30, 2008 consisted of the following:

|                    |                    | <u>Transfer from</u>    |  |                               |                     |
|--------------------|--------------------|-------------------------|--|-------------------------------|---------------------|
|                    |                    | <u>General<br/>Fund</u> | <u>Capital Projects-<br/>All Sources</u> | <u>Other<br/>Governmental</u> | <u>Total</u>        |
| <b>Transfer to</b> | General fund       | \$ —                    | \$ 230,000                               | \$ 61,819                     | \$ 291,819          |
|                    | Other governmental | 1,039,322               | 671,328                                  | 36,160                        | 1,746,810           |
|                    | Total              | <u>\$ 1,039,322</u>     | <u>\$ 901,328</u>                        | <u>\$ 97,979</u>              | <u>\$ 2,038,629</u> |

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**FLORENCE CITY BOARD OF EDUCATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**  
**(Continued)**

**NOTE 7—CAPITAL ASSETS**

Capital asset activity for the fiscal year was as follows:

| <b><u>Governmental Activities</u></b>                      | <b><u>Beginning<br/>Balance</u></b> | <b><u>Additions</u></b>    | <b><u>Retirements</u></b>  | <b><u>Ending<br/>Balance</u></b> |
|--|-------------------------------------|----------------------------|----------------------------|----------------------------------|
| Nondepreciable assets:                                     |                                     |                            |                            |                                  |
| Land   | \$ 935,076                          | \$ —                       | \$ —                       | \$ 935,076                       |
| Construction in progress                                   | 1,144,605                           | 2,630,501                  | 1,082,565                  | 2,692,541                        |
| Depreciable assets:  |                                     |                            |                            |                                  |
| Land improvements—exhaustible                              | 1,555,620                           | 436,468                    |                            | 1,992,088                        |
| Buildings and building improvements                        | 53,278,706                          | 672,919                    |                            | 53,951,625                       |
| Machinery, equipment, vehicles,<br>furniture, and fixtures | 9,601,586                           | 212,129                    | 14,000                     | 9,799,715                        |
| <b>Total capital assets</b>                                | <b><u>\$ 66,515,593</u></b>         | <b><u>\$ 3,952,017</u></b> | <b><u>\$ 1,096,565</u></b> | <b><u>\$ 69,371,045</u></b>      |
| Less accumulated depreciation:                             |                                     |                            |                            |                                  |
| Land improvements—exhaustible                              | \$ 758,950                          | \$ 80,805                  | \$ —                       | \$ 839,755                       |
| Buildings and building improvements                        | 18,191,741                          | 1,268,501                  |                            | 19,460,242                       |
| Machinery, equipment, vehicles,<br>furniture, and fixtures | 8,297,718                           | 320,658                    | 14,000                     | 8,604,376                        |
| <b>Total accumulated depreciation</b>                      | <b><u>\$ 27,248,409</u></b>         | <b><u>\$ 1,669,964</u></b> | <b><u>\$ 14,000</u></b>    | <b><u>\$ 28,904,373</u></b>      |
| <b>Capital assets (net)</b>                                | <b><u>\$ 39,267,184</u></b>         | <b><u>\$ 2,282,053</u></b> | <b><u>\$ 1,082,565</u></b> | <b><u>\$ 40,466,672</u></b>      |

Depreciation expense was charged to the following functions/programs:

| <b><u>Governmental Activities</u></b> |                            |
|---------------------------------------|----------------------------|
| Instructional services                | \$ 1,309,252               |
| Instructional support services        | 100,198                    |
| Operation and maintenance services    | 158,646                    |
| Food services                         | 56,779                     |
| General administrative services       | 45,089                     |
| <b>Total depreciation expense</b>     | <b><u>\$ 1,669,964</u></b> |

**FLORENCE CITY BOARD OF EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008  
(Continued)**

**NOTE 8—LONG-TERM OBLIGATIONS**

**A. Long-term Obligations Activity**

The activity for the Board's long-term obligations for the fiscal year is as follows:

|  | <u>Beginning<br/>Balance</u> | <u>Additions</u>    | <u>Reductions</u> | <u>Ending<br/>Balance</u> | <u>Due Within<br/>One Year</u> |
|--|------------------------------|---------------------|-------------------|---------------------------|--------------------------------|
| <b><u>Governmental Activities</u></b>                |                              |                     |                   |                           |                                |
| General Obligation School<br>Warrants, Series 1998-A | \$ 6,080,000                 | \$ —                | \$ 390,000        | \$ 5,690,000              | \$ 405,000                     |
| Capital Outlay Pool<br>Warrants, Series 2006         | 3,842,219                    |                     | 130,741           | 3,711,478                 | 135,926                        |
| Unamortized debt premium                             | 87,218                       |                     | 4,714             | 82,504                    | 4,715                          |
| Tax Anticipation School<br>Warrants, Series 2008     |                              | 6,170,000           |                   | 6,170,000                 | —                              |
| Unamortized debt discount                            |                              | (74,692)            | (312)             | (74,380)                  | (3,735)                        |
| Total  | <u>\$ 10,009,437</u>         | <u>\$ 6,095,308</u> | <u>\$ 525,143</u> | <u>\$ 15,579,602</u>      | <u>\$ 541,906</u>              |

The Board is responsible for long-term repayments for general obligation debt issued by the City of Florence, Alabama. Although these warrants are general obligations of the City, retirement of principal and interest is being repaid by the Board under a cooperation agreement with the City. The General Obligation School Warrants, Series 1998-A, were issued for capital improvements. These warrants bear interest rates of 3.3% to 5.0% and will be fully paid on December 1, 2018.

The Board issued Capital Outlay Pool Warrants, dated March 16, 2006, by entering into a Special Pool Loan Agreement with the Alabama Public School and College Authority (the "Authority"). The Authority issued Capital Improvement Bonds, Series 2006 and loaned a portion of the proceeds to the Board in the amount of \$3,967,774. The Board's allocation of debt issuance costs and debt premium amounted to \$28,309 and \$94,291, respectively. These warrants are payable solely out of, and secured by a pledge and assignment of, the capital outlay funds allocated annually to the Board from the Public School Fund. These warrants bear an interest rate of 4.1879% and will be fully paid on March 1, 2026.

The Board issued Tax Anticipation School Warrants, dated September 1, 2008, in the amount of \$6,170,000 to construct certain capital improvements. These warrants are payable solely out of, and secured by a pledge and assignment of, requisite proceeds of county sales taxes. These warrants bear interest rates of 4.10% to 4.65% and will be fully paid on September 1, 2028.

**FLORENCE CITY BOARD OF EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008  
(Continued)**

**NOTE 8—LONG-TERM OBLIGATIONS (Continued)**

Debt service over the remaining term of the warrants is summarized as follows:

| <b>Fiscal<br/>Year Ending<br/>September 30</b> | <b>Warrants Payable</b> |                     | <b>Total Debt<br/>Service to<br/>Maturity</b> |
|--|-------------------------|---------------------|---|
|  | <b>Principal</b>        | <b>Interest</b>     |   |
| 2009   | \$ 540,926              | \$ 695,953          | \$ 1,236,879                                  |
| 2010   | 566,481                 | 670,739             | 1,237,220                                     |
| 2011   | 592,037                 | 644,723             | 1,236,760                                     |
| 2012   | 619,074                 | 616,887             | 1,235,961                                     |
| 2013   | 646,852                 | 586,669             | 1,233,521                                     |
| 2014-2018                                      | 3,757,222               | 2,666,331           | 6,423,553                                     |
| 2019-2023                                      | 4,284,443               | 1,551,435           | 5,835,878                                     |
| 2024-2028                                      | 4,564,443               | 563,833             | 5,128,276                                     |
| Totals   | <u>\$ 15,571,478</u>    | <u>\$ 7,996,570</u> | <u>\$ 23,568,048</u>                          |

**B. Bond Issuance Costs and Premiums**

For long-term debt issued after October 1, 2002, the related debt issuance costs, premiums, and discounts are amortized using the straight-line method over the life of the debt in the government-wide statements.

|  | <b>Issuance<br/>Costs</b> | <b>Premium</b>   | <b>Discount</b>  |
|--|---------------------------|------------------|------------------|
| QZAB Certificates of<br>Participation (at issuance)            | \$ 52,464                 | \$ —             | \$ —             |
| Amount amortized in prior years                                | 23,172                    |                  |                  |
| Current year amortization                                      | 5,247                     |                  |                  |
| Balance to be amortized  | <u>\$ 24,045</u>          | <u>\$ —</u>      | <u>\$ —</u>      |
| Capital Outlay Pool Warrants,<br>Series 2006 (at issuance)     | \$ 28,309                 | \$ 94,291        | \$ —             |
| Amount amortized in prior years                                | 2,123                     | 7,073            |                  |
| Current year amortization                                      | 1,415                     | 4,714            |                  |
| Balance to be amortized  | <u>\$ 24,771</u>          | <u>\$ 82,504</u> | <u>\$ —</u>      |
| Tax Anticipation School Warrants,<br>Series 2008 (at issuance) | \$ 96,158                 | \$ —             | \$ 74,692        |
| Amount amortized in prior years                                |                           |                  |                  |
| Current year amortization                                      | 401                       |                  | 312              |
| Balance to be amortized  | <u>\$ 95,757</u>          | <u>\$ —</u>      | <u>\$ 74,380</u> |

**FLORENCE CITY BOARD OF EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008  
(Continued)**

**NOTE 9—OPERATING LEASES**

The Board is committed under various leases for office equipment. These leases are considered, for accounting purposes, to be operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore, the results of the lease agreements are not reflected as part of the Board’s capital assets. The Board has no noncancelable operating leases. Lease expenditures for the fiscal year ended September 30, 2008 amounted to \$74,507.

Future minimum annual rental payments are as follows:

| Fiscal Year | Amount    |
|-------------|-----------|
| Ending      |           |
| 2009        | \$ 17,525 |

**NOTE 10—RISK MANAGEMENT**

The Board 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 Board has insurance for its buildings and contents through the State Insurance Fund (SIF) of the State of Alabama, Department of Finance, Division of Risk Management, which operates as a common risk management and insurance program for state-owned properties and boards of education. The Board pays an annual premium based on the amount of coverage. The SIF is self-insured up to \$3.5 million per occurrence and purchases commercial insurance for claims in excess of \$3.5 million. Errors and omissions insurance is purchased from the Alabama Risk Management for Schools (ARMS), a public entity risk pool. The ARMS collects the premiums and purchases excess insurance for any amount of coverage requested by pool participants in excess of the coverage provided by the pool. The Board purchases commercial insurance for vehicle liability and fidelity bonds. Settled claims in the past three years have not exceeded the commercial insurance coverage.

Employee health insurance is provided through the Public Education Employees’ Health Insurance Fund (PEEHIF) administered by the Public Education Employees’ Health Insurance Board. PEEHIF was established to provide a uniform plan of health insurance for current and retired employees of state educational institutions and is self-sustaining. Monthly premiums for employee and dependent coverage are set annually by the plan’s actuary and are based on anticipated claims in the upcoming year, considering any remaining fund balance on hand available for claims. The Board contributes the specified amount monthly to the PEEHIF for each employee. The Board’s contribution is applied against the employees’ premiums for the coverage selected and the employee pays any remaining premium.

The State Board of Adjustments is a state agency through which individuals can file claims against the Board to collect reimbursement for damages when all other means have been exhausted. The Board does not have insurance coverage for job-related injuries. Claims for employee job-related injuries may be filed with the State Board of Adjustment. The State Board of Adjustment determines if a claim is valid and determines the proper amount of compensation. Payments are made from state appropriated funds at no cost to the Board. Ten such claims or related settlements have occurred in the past three years.

**FLORENCE CITY BOARD OF EDUCATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**  
**(Continued)**

**NOTE 11—PAYMENTS OR SERVICES FURNISHED BY OTHER AGENCIES**

Certain payments or services are furnished by the State on behalf of the Board. Included in these items are payments from bond issue proceeds (Public School and College Authority), repayment of debt principal and interest from pledged Public School Funds, and donated fixed assets. These payments or services are reflected as revenues and expenditures on the Board's financial statements in the applicable funds for which they apply.

**NOTE 12—DEFINED BENEFIT PENSION PLAN**

**A. Plan Description**

The Board contributes to the Teachers' Retirement System of Alabama, a cost-sharing multiple-employer public employee retirement system for the various state-supported educational agencies and institutions. This plan is administered by the Retirement Systems of Alabama.

Substantially all employees of the Board are members of the Teachers' Retirement System. Membership is mandatory for covered or eligible employees of the Board. Benefits vest after 10 years of creditable service. Vested employees may retire with full benefits at age 60 or after 25 years of service. Retirement benefits are calculated by two methods with the retiree receiving payment under the method that 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 retirees are allowed 2.0125% of their average final salary (best three of the last ten years) for each year of service. 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 Teachers' Retirement System was established October 1, 1941, under the provisions of Act Number 419 of the Legislature of 1939, for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by state-supported educational institutions. The responsibility for general administration and operation of the Teachers' Retirement System is vested in the Board of Control (currently 14 members). Benefit provisions are established by the *Code of Alabama 1975*, §§ 16-25-1 through 16-25-170, as amended, and §§ 36-27B-1 through 36-27B-5, as amended.

The Retirement Systems of Alabama issues a publicly available financial report that includes financial statements and required supplementary information for the Teachers' Retirement System of Alabama. That report may be obtained by writing to The Retirement Systems of Alabama, P. O. Box 302150, Montgomery, Alabama 36130-2150.

**FLORENCE CITY BOARD OF EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008  
(Continued)**

**NOTE 12—DEFINED BENEFIT PENSION PLAN (Continued)**

**B. Funding Policy**

Employees are required to contribute five percent (5%) of their salary to the Teachers' Retirement System. The Board 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. Each year the Teachers' Retirement System recommends to the Alabama Legislature the contribution rate for the following fiscal year, with the Legislature setting this rate in the annual appropriation bill. The percentages of the contributions and the amount of contributions made by the Board and the Board's employees equal the required contributions for each year as follows:

| <b><u>Fiscal Year Ended September 30,</u></b> | <b><u>2008</u></b>  | <b><u>2007</u></b>  | <b><u>2006</u></b>  |
|---|---------------------|---------------------|---------------------|
| Total percentage of covered payroll           | 16.75%              | 14.36%              | 13.17%              |
| <b><u>Contributions</u></b>                   |                     |                     |                     |
| Percentage contributed by the Board           | 11.75%              | 9.36%               | 8.17%               |
| Percentage contributed by the employees       | 5.00%               | 5.00%               | 5.00%               |
| Amount contributed by the Board               | \$ 2,880,796        | \$ 2,149,183        | \$ 1,786,642        |
| Amount contributed by the employees           | 1,225,872           | 1,148,073           | 1,093,397           |
| Total contributions                           | <u>\$ 4,106,668</u> | <u>\$ 3,297,256</u> | <u>\$ 2,880,039</u> |

**NOTE 13—POSTEMPLOYMENT BENEFITS PLAN**

**A. Plan Description**

The Board contributes to the Alabama Retired Education Employees' Health Care Trust (AREEHCT), a cost-sharing multiple-employer defined benefit healthcare plan administered by the Public Education Employees' Health Insurance Board (PEEHIB). The Trust provides healthcare benefits to state and local school system retirees.

The Trust was established in 2007 under the provisions of Act 2007-16 as an irrevocable trust fund. *Code of Alabama 1975*, § 16-25A-4 provides the PEEHIB with the authority to amend the benefit provisions in order to provide reasonable assurance of stability in future years for the plan.

PEEHIB issues a publicly available financial report that includes financial statements and required supplementary information for the AREEHCT. That report may be obtained by writing to PEEHIB, c/o The Retirement Systems of Alabama, P. O. Box 302150, Montgomery, Alabama 36130-2150.

**FLORENCE CITY BOARD OF EDUCATION  
 NOTES TO FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2008  
 (Continued)**

**NOTE 13—POSTEMPLOYMENT BENEFITS PLAN (Continued)**

**B. Funding Policy**

*Code of Alabama 1975*, § 16-25A-8 provides that contribution requirements of the plan members and employers are established by the PEEHIB. Additionally, the code section requires that on or before January 1 preceding each regular meeting of the Legislature, the PEEHIB shall certify to the Governor and the Legislature the amount or amounts necessary to fund coverage for benefits for the following fiscal year for employees and retired employees as a monthly premium per active member per month. The Legislature then sets the premium rate in the annual appropriation bill.

The required monthly contribution rates for plan members are as follows:

Retired Member Rates:

|   |          |
|---|----------|
| Individual Coverage/Non-Medicare Eligible   | \$ 97.54 |
| Family Coverage/Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)   | 284.94   |
| Family Coverage/Non-Medicare Eligible Retired Member and Dependent Medicare Eligible  | 188.54   |
| Individual Coverage/Medicare Eligible Retired Member  | 1.14     |
| Family Coverage/Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)   | 188.54   |
| Family Coverage/Medicare Eligible Retired Member and Dependent Medicare Eligible  | 92.14    |
| For employees that retire other than for disability, for each year under 25 years of service, the retiree pays two percent of the employer premium and for each year over 25 years of service, the retiree premium is reduced by two percent of the employer premium. |          |

Surviving Spouse Rates:

|  |        |
|--|--------|
| Surviving Spouse/Non-Medicare Eligible                                     | 581.00 |
| Surviving Spouse/Non-Medicare Eligible and Dependent Non-Medicare Eligible | 713.00 |
| Surviving Spouse/Non-Medicare Eligible and Dependent Medicare Eligible     | 672.00 |
| Surviving Spouse/Medicare Eligible   | 299.00 |
| Surviving Spouse/Medicare Eligible and Dependent Non-Medicare Eligible     | 431.00 |
| Surviving Spouse/Medicare Eligible and Dependent Medicare Eligible         | 390.00 |

Participating school systems are required to contribute at a rate established annually by the Legislature, currently \$775 per active employee per month. For the year, 27.4% (\$212.35) of the employer's contributions were used to assist in funding retiree benefit payments. PEEHIB recommends the monthly employer premium to the Legislature and the Legislature sets the required employer allocation per employee. The Board's contributions to the AREEHCT for the year ended September 30, 2008 were \$1,453,549, which equaled the required contribution. Contributions will be presented prospectively until the required three years are presented.

The Board has no responsibility for the payment of healthcare benefits, beyond the payment of the premium, for retired employees.

**FLORENCE CITY BOARD OF EDUCATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**  
**(Continued)**

**NOTE 14—CONTINGENCIES AND COMMITMENTS**

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds or the general fund. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Board expects such amounts, if any, to be immaterial.

As of September 30, 2008, the Board was obligated under construction contracts for capital improvements. Open contracts for construction totaled \$5,150,670 of which \$2,620,208 had been recorded as construction in progress.

During the 2003 fiscal year, the Board entered into an agreement with the Alabama School Finance Cooperative to participate in the Qualified Zone Academy Bonds (QZAB) loan program and receive Certificates of Participation in the principal amount of \$1.0 million for capital improvements. Subsequently, the Board defeased these certificates by depositing funds into an irrevocable trust with an escrow agent to provide for the future debt service payments on the QZAB certificates when they mature on May 6, 2013. Accordingly, the trust account assets and the liability of the QZAB certificates are not included in the Board's financial statements. The outstanding balance of this defeased debt at September 30, 2008 was \$1,000,000.

**REQUIRED SUPPLEMENTARY INFORMATION  
OTHER THAN MD&A**

**FLORENCE CITY BOARD OF EDUCATION  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

|  | Budgeted Amounts     |                      | Actual<br>Amounts<br>(Budgetary Basis)<br>(See Note A) | Variance with<br>Final Budget—<br>Positive<br>(Negative) |
|--|----------------------|----------------------|--|--|
|  | Original             | Final                |  |  |
| <b>REVENUES</b>  |                      |                      |  |  |
| State sources  | \$ 22,859,240        | \$ 23,126,321        | \$ 23,236,882  | \$ 110,561   |
| Federal sources  | 40,000               | 40,000               | 54,262   | 14,262   |
| Local sources  | 12,832,508           | 12,832,508           | 13,741,909   | 909,401  |
| Other sources  |                      |                      | 106,959  | 106,959  |
| <b>Total revenues</b>  | <b>\$ 35,731,748</b> | <b>\$ 35,998,829</b> | <b>\$ 37,140,012</b>                                   | <b>\$ 1,141,183</b>                                      |
| <b>EXPENDITURES</b>  |                      |                      |  |  |
| Instructional services                                       | \$ 22,234,446        | \$ 22,430,021        | \$ 22,165,814  | \$ (264,207)   |
| Instructional support services                               | 6,364,201            | 6,431,653            | 6,476,958  | 45,305   |
| Operation and maintenance services                           | 3,873,373            | 3,873,373            | 4,059,605  | 186,232  |
| Student transportation services                              | 1,499,556            | 1,499,556            | 1,552,392  | 52,836   |
| Food services  |                      |                      | 8,563  | 8,563  |
| General administrative services                              | 1,113,628            | 1,095,876            | 1,045,598  | (50,278)   |
| Capital outlay   | 23,582               | 23,582               | 23,582   | —  |
| Other expenditures   | 368,609              | 432,057              | 343,352  | (88,705)   |
| <b>Total expenditures</b>                                    | <b>\$ 35,477,395</b> | <b>\$ 35,786,118</b> | <b>\$ 35,675,864</b>                                   | <b>\$ (110,254)</b>                                      |
| <b>Excess (deficiency) of revenues<br/>over expenditures</b> | <b>\$ 254,353</b>    | <b>\$ 212,711</b>    | <b>\$ 1,464,148</b>                                    | <b>\$ 1,251,437</b>                                      |
| <b>OTHER FINANCING SOURCES (USES)</b>                        |                      |                      |  |  |
| Indirect cost  | \$ 304,531           | \$ 304,162           | \$ 330,162   | \$ 26,000  |
| Proceeds from sale of capital assets                         |                      |                      | 1,300  | 1,300  |
| Transfers in   | 243,640              | 296,476              | 291,819  | (4,657)  |
| Transfers out  | (1,050,262)          | (1,008,163)          | (1,039,322)  | (31,159)   |
| <b>Total other financing sources (uses)</b>                  | <b>\$ (502,091)</b>  | <b>\$ (407,525)</b>  | <b>\$ (416,041)</b>                                    | <b>\$ (8,516)</b>  |
| <b>Net change in fund balances</b>                           | <b>\$ (247,738)</b>  | <b>\$ (194,814)</b>  | <b>\$ 1,048,107</b>                                    | <b>\$ 1,242,921</b>                                      |
| <b>Fund balances—beginning</b>                               | <b>2,424,498</b>     | <b>2,815,207</b>     | <b>2,816,760</b>                                       | <b>1,553</b>   |
| <b>Fund balances—ending</b>                                  | <b>\$ 2,176,760</b>  | <b>\$ 2,620,393</b>  | <b>\$ 3,864,867</b>                                    | <b>\$ 1,244,474</b>                                      |

**Note A—Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures**

**Uses/outflows of resources**

Actual amounts (budgetary basis) available for expenditures shown as Total

Expenditures on the budgetary comparison schedule \$ 35,675,864

Differences—budget to GAAP:

Salaries of teachers and other personnel with contracts of less than 12 months are paid over a 12-month period. Expenditures for salaries and related fringe benefits are budgeted based on the amount that will be paid from budgeted revenues. However, salaries and related fringe benefits earned but not paid are reported as expenditures on the financial statements

(456,891)

Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds

\$ 35,218,973

# **SINGLE AUDIT SECTION**

**FLORENCE CITY BOARD OF EDUCATION  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

|  | <b>CFDA<br/>Number</b> | <b>Federal<br/>Expenditures</b> |
|--|------------------------|---------------------------------|
| <b><u>U.S. Department of Health and Human Services</u></b> |                        |                                 |
| Direct Program:  |                        |                                 |
| Head Start   | 93.600                 | \$ 1,175,654                    |
| Total U. S. Department of Health and Human Services        |                        | \$ 1,175,654                    |
| <b><u>U.S. Department of Defense</u></b>                   |                        |                                 |
| Direct Program:  |                        |                                 |
| Army Junior ROTC   | 12.                    | \$ 52,246                       |
| Total U. S. Department of Health and Human Services        |                        | \$ 52,246                       |
| <b><u>U.S. Department of Education</u></b>                 |                        |                                 |
| Passed through State Department of Education:              |                        |                                 |
| <i>Special Education Cluster:</i>                          |                        |                                 |
| Special Education-Grants to States                         | 84.027                 | \$ 851,089                      |
| Special Education-Preschool Grants                         | 84.173                 | 45,344                          |
| <i>Subtotal Special Education Cluster</i>                  |                        | \$ 896,433                      |
| Title I Grants to Local Educational Agencies               | 84.010                 | 1,720,718                       |
| Career and Technical Education-Basic Grants to States      | 84.048                 | 81,891                          |
| Safe and Drug-Free Schools and Communities-State Grants    | 84.186                 | 33,258                          |
| Education for Homeless Children and Youth                  | 84.196                 | 24,577                          |
| Even Start-State Educational Agencies                      | 84.213                 | 140,000                         |
| Tech-Prep Education  | 84.243                 | 6,195                           |
| Twenty-First Century Community Learning Centers            | 84.287                 | 125,000                         |
| State Grants for Innovative Programs                       | 84.298                 | 7,084                           |
| Education Technology State Grants                          | 84.318                 | 19,423                          |
| English Language Acquisition Grants                        | 84.365                 | 26,272                          |
| Improving Teacher Quality State Grants                     | 84.367                 | 386,347                         |
| Total U. S. Department of Education                        |                        | \$ 3,467,198                    |
| <b><u>U.S. Department of Agriculture</u></b>               |                        |                                 |
| Passed through State Department of Education:              |                        |                                 |
| <i>Child Nutrition Cluster:</i>                            |                        |                                 |
| School Breakfast Program                                   | 10.553                 | \$ 335,519                      |
| National School Lunch Program (See Note 2)                 | 10.555                 | 1,134,467                       |
| Total U. S. Department of Agriculture                      |                        | \$ 1,469,986                    |
| <b><u>Social Security Administration</u></b>               |                        |                                 |
| Passed through State Department of Education:              |                        |                                 |
| Social Security-Disability Insurance                       | 96.001                 | \$ 2,016                        |
| Total Social Security Administration                       |                        | \$ 2,016                        |
| <b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>                |                        | <b>\$ 6,167,100</b>             |

The accompanying notes are an integral part of this schedule.

**FLORENCE CITY BOARD OF EDUCATION  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
SEPTEMBER 30, 2008**

**NOTE 1—BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Florence City Board of Education (the “Board”) 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 financial statements.

**NOTE 2—NON-CASH ASSISTANCE**

The Board is the recipient of certain non-cash assistance in the form of donated commodities received from the U.S. Department of Agriculture. Revenues and expenditures are recorded for the value of commodities received. In addition, the Board may receive certain other non-cash assistance from the State of Alabama.



Charles L. Watkins, CPA  
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**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**

The Superintendent and Members of the Board  
Florence City Board of Education  
Florence, Alabama

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Florence City Board of Education as of and for the year ended September 30, 2008, which collectively comprise the Florence City Board of Education's basic financial statements and have issued our report thereon dated December 12, 2008. Our report was modified to include a reference to other auditors. 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. Other auditors audited the financial statements of the local school activity funds and the fiduciary funds, as described in our report on the Florence City Board of Education's financial statements. The financial statements of the local school activity funds and the fiduciary funds were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Florence City Board of Education's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Florence City Board of Education's financial statements that is more than inconsequential will not be prevented or detected by the Florence City Board of Education's internal control.



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A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Florence City Board of Education's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### Compliance and Other Matters

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

We noted certain other matters that we reported to management of the Florence City Board of Education in a separate letter dated December 12, 2008.

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

A handwritten signature in black ink that reads "The Watkins Johnsey Professional Group, P.C." The signature is written in a cursive, flowing style.

The Watkins Johnsey Professional Group, P.C.  
December 12, 2008



Charles L. Watkins, CPA  
M. Buddy Johnsey, III, CPA

*Member of*  
American Institute of CPA's  
AICPA Private Companies  
Practice Section  
Alabama Society of CPA's

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Superintendent and Members of the Board  
Florence City Board of Education  
Florence, Alabama

Compliance

We have audited the compliance of the Florence City Board of Education with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2008. Florence City Board of Education's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Florence City Board of Education's management. Our responsibility is to express an opinion on the Florence City Board of Education's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 Florence City Board of Education's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Florence City Board of Education's compliance with those requirements.

In our opinion, the Florence City Board of Education complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2008. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2008-1.



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Internal Control Over Compliance

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

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

A handwritten signature in black ink that reads "The Watkins Johnsey Professional Group, P.C." The signature is written in a cursive, flowing style.

The Watkins Johnsey Professional Group, P.C.  
December 12, 2008

**FLORENCE CITY BOARD OF EDUCATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

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**Section I—Summary of Auditors' Results**

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*Financial Statements*

|   |             |                 |
|---|-------------|-----------------|
| Type of auditors' report issued:  | Unqualified |                 |
| Internal control over financial reporting:  |             |                 |
| • Material weakness(es) identified?   | ___ Yes     | ___ <u>X</u> No |
| • Significant deficiency(ies) identified that are not considered to be material weaknesses? | ___ Yes     | ___ <u>X</u> No |
| Noncompliance material to financial statements noted?                                       | ___ Yes     | ___ <u>X</u> No |

*Federal Awards*

|  |                  |                 |
|--|------------------|-----------------|
| Internal control over major programs:  |                  |                 |
| • Material weakness(es) identified?  | ___ Yes          | ___ <u>X</u> No |
| • Significant deficiency(ies) identified that are not considered to be material weaknesses?                        | ___ Yes          | ___ <u>X</u> No |
| Type of auditor's report issued on compliance for major programs:  | Unqualified      |                 |
| Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? | ___ <u>X</u> Yes | ___ No          |

Identification of major programs:

| CFDA Number(s) | Name of Federal Program or Cluster |
|----------------|------------------------------------|
| 93. 600        | Head Start                         |
| 84.            | Special Education Cluster          |
| 10.            | Child Nutrition Cluster            |

|  |                  |        |
|--|------------------|--------|
| Dollar threshold used to distinguish between type A and type B programs: | \$ 300,000       |        |
| Auditee qualified as low-risk auditee?                                   | ___ <u>X</u> Yes | ___ No |

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**Section II—Financial Statement Findings**

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None to be reported.

**FLORENCE CITY BOARD OF EDUCATION  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2008  
 (Continued)**

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**Section III—Federal Award Findings and Questioned Costs**

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|                                  |  |             |     |
|----------------------------------|--|-------------|-----|
| <b>Finding #2008-1</b>           | <b>U.S. Department of Agriculture</b>  | CFDA Number | 10. |
|                                  | Child Nutrition Cluster  |             |     |
| <b>Type:</b>                     | Compliance Finding   |             |     |
| <b>Criteria:</b>                 | 2 CFR Part 225, OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments", Attachment B, paragraph 8.h.(4),(5), and (6) states that when an employee works on multiple activities or cost objectives, the distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation, which (a) must reflect an after-the-fact distribution of the actual activity of the employee, (b) must account for the total activity for which the employee is compensated, (c) must be prepared at least monthly and must coincide with one or more pay periods, and (d) must be signed by the employee. |             |     |
| <b>Condition:</b>                | In our review of time and effort documentation, we noted one employee failed to maintain documentation supporting the distribution of salary or wages.   |             |     |
| <b>Questioned Costs:</b>         | The questioned costs, if any, were incalculable.   |             |     |
| <b>Context:</b>                  | The Board had two employees that were subject to these provisions.   |             |     |
| <b>Possible Asserted Effect:</b> | The Board is not in compliance with federal regulations relating to the Allowable Costs/Cost Principles.   |             |     |
| <b>Recommendation:</b>           | We recommend the Board review current policies and procedures to ensure that required supporting documentation is maintained, when applicable.   |             |     |