

FLORENCE CITY BOARD OF EDUCATION

FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

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, 2009, 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 4 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, 2009, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2009, 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.



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The management's discussion and analysis and budgetary comparison information on pages 3 through 10 and page 36, 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 cursive script that reads "The Watkins Johnsey Professional Group, P.C." The signature is written in black ink and is positioned above the printed name of the firm.

The Watkins Johnsey Professional Group, P.C.
December 11, 2009

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, 2009. 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 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 2009, the Board experienced a negative General Fund operation of \$800,233 resulting in a General Fund balance of \$599,274 on an accrual/budgetary basis. Local revenues exceeded budgeted amount by \$863,563. 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 \$2,171,270 to \$17,750,872. This was the net result of principal reductions of the Series 2006 warrants, principal reductions and refinancing of the Series 1998-A warrants, and proceeds from a capital lease obligation. The principal payment amount due within one year is \$381,018. The issuance of General Obligation School Warrants, Series 2009-A, in the amount of \$5,550,000 replaced the Series 1998-A warrants and proceeds of \$2,607,122 from a new capital lease are for energy efficiency projects in all Florence City School facilities.

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**

	Governmental Activities	
	2009	2008
Current and other assets	\$ 12,360,911	\$ 13,341,074
Capital assets (net)	43,975,665	40,466,672
Total assets	\$ 56,336,576	\$ 53,807,746
Current and other liabilities	\$ 3,687,792	\$ 4,549,308
Long-term liabilities	17,369,854	15,037,696
Total liabilities	\$ 21,057,646	\$ 19,587,004
Net assets:		
Invested in capital assets, net of related debt	\$ 29,034,515	\$ 31,032,794
Restricted for debt service	30,046	28,015
Unrestricted	6,214,369	3,159,933
Total net assets	\$ 35,278,930	\$ 34,220,742

The Board's total assets exceeded total liabilities by \$35,278,930 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 \$6,214,369 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**

	Governmental Activities	
	2009	2008
<u>Revenues</u>		
Program revenues:		
Charges for services	\$ 2,736,850	\$ 2,816,031
Operating grants and contributions	25,279,679	28,066,239
Capital grants and contributions	2,371,964	2,914,616
General revenues:		
Property taxes	7,618,622	7,402,481
Sales taxes	5,458,864	5,564,614
Alcohol beverage taxes	62,500	60,712
Other taxes	1,061,656	1,101,122
Grants and contributions not restricted for specific programs	1,135,999	1,200,138
Other general revenues	1,934,816	1,640,554
Total revenues	<u>\$ 47,660,950</u>	<u>\$ 50,766,507</u>
<u>Expenses</u>		
Instructional services	\$ 26,454,036	\$ 27,295,214
Instructional support services	7,214,597	7,097,666
Operation and maintenance services	4,547,098	4,527,929
Student transportation services	1,702,836	1,721,221
Food services	2,732,742	2,700,114
General administrative services	1,226,269	1,166,291
Interest and fiscal charges	690,478	441,280
Other	2,034,706	2,108,725
Total expenses	<u>\$ 46,602,762</u>	<u>\$ 47,058,440</u>
Change in net assets	\$ 1,058,188	\$ 3,708,067
Net assets, beginning	<u>34,220,742</u>	<u>30,512,675</u>
Net assets, ending	<u><u>\$ 35,278,930</u></u>	<u><u>\$ 34,220,742</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 (63.8%).

- Operating grants and contributions contribute 83% of program revenues and 53% 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 \$17,272,457 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 (56.8%).

- 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 \$8.8 million. Approximately \$600,000 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 decreased by \$800,233. This was due primarily to proration declared by the State Department of Education and the reduction in local sales taxes.

Overall, the Board's governmental funds had less revenue than expenditures at the end of the fiscal year, thereby negatively impacting total fund balance by \$3,384,715. Other Financing Sources (Uses) contributed \$3,047,153 to the overall \$(337,562) net change in fund balance. The issuance of a capital lease obligation accounted for approximately \$2.6 million of this change.

General Fund Budgetary Highlights

The original 2009 fiscal year budget, adopted in August 2008, 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 June 2009.

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 a decrease in expenditures of \$168,734 and a decrease in revenues of \$1,921,237.

- Amendment #1 was necessary to budget the changes due to proration and state allocations not budgeted with the original budget: Foundation Program, Children First, At-Risk, and High Hopes. Modifications were also necessary due to capital projects changes and federal program carry-over funds.

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

Capital Assets and Debt Administration

Capital Assets - At September 30, 2009 the Board had approximately \$44 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.)

Capital Assets (net of accumulated depreciation)

	Governmental Activities	
	September 30,	
	2009	2008
Land	\$ 935,076	\$ 935,076
Construction in progress	7,275,160	2,692,541
Land improvements	1,283,868	1,152,333
Buildings and improvements	33,414,820	34,491,383
Vehicles and equipment	1,066,741	1,195,339
Total	\$ 43,975,665	\$ 40,466,672

Construction in progress at year-end included the new Science Wing and Soccer Complex at Florence High School and the new Gymnatorium at Forest Hills Elementary.

Long-Term Debt - At year-end, the Board had \$17.7 million in warrants and capital lease obligations outstanding. This increase is the net result of debt service principal payments and the issuance of new debt for energy efficiency 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:

Outstanding Long-Term Debt

	Governmental Activities		
	For the Year Ended September 30, 2009		
	Beginning Balance	Net Change	Ending Balance
Warrants Payable and Capital Lease Obligation	\$ 15,579,602	\$ 2,171,270	\$ 17,750,872

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 2009-2010 fiscal year.

- The slowing economy has had dramatic effects on the state Education Trust Fund (ETF). The 2009-2010 state allocation was prorated by 7.5%. Further reductions are not expected but are possible during the fiscal year. No additional funds are available from the "Rainy Day" fund due to all monies being used during the 2008-2009 fiscal year. Locally, sales tax revenues have decreased and are not expected to return to normal levels at this time. However, National Alabama has started production in their new railcar plant located in the Shoals. The process of employing approximately 1,800 employees has begun. 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.
- Although sales tax revenues were down during the 2008-2009 year, the effect of employment increases may contribute to an increase in 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 2010 scholastic year is up approximately 1%. This is the third year in the last four 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 remained the same at \$752 per employee per month in fiscal year 2009. This cost is expected to increase in 2010. Retirement matching increased to 12.51% from 12.07%. We expect another significant increase for fiscal year 2010.

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 **Connie Roberts, 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, 2009**

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 4,470,884
Investments-unrestricted	4,046,232
Receivables (net)	3,541,731
Inventories	69,418
Investments-restricted	30,046
Deferred charges (net)	202,600
Capital assets (net)	43,975,665
Total assets	<u>\$ 56,336,576</u>
LIABILITIES	
Accounts payable and accrued expenses	\$ 3,277,637
Deferred revenues	29,137
Long-term liabilities:	
Portion due or payable within one year	381,018
Portion due or payable after one year	17,369,854
Total liabilities	<u>\$ 21,057,646</u>
NET ASSETS	
Invested in capital assets, net of related debt	\$ 29,034,515
Restricted for debt service	30,046
Unrestricted	6,214,369
Total net assets	<u><u>\$ 35,278,930</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, 2009**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities
Governmental activities:					
Instructional services	\$ 26,454,036	\$ 521,564	\$ 18,680,635	\$ 2,264,309	\$ (4,987,528)
Instructional support services	7,214,597	133,685	1,732,570	80,342	(5,268,000)
Operation and maintenance services	4,547,098	17,255	1,678,202		(2,851,641)
Student transportation services	1,702,836	59,377	1,263,167		(380,292)
Food services	2,732,742	1,928,448	111,502		(692,792)
General administrative services	1,226,269	5,142	82,640	27,313	(1,111,174)
Other	2,034,706	71,379	1,730,963		(232,364)
Interest and fiscal charges	690,478				(690,478)
Total governmental activities	<u>\$ 46,602,762</u>	<u>\$ 2,736,850</u>	<u>\$ 25,279,679</u>	<u>\$ 2,371,964</u>	<u>\$ (16,214,269)</u>
General revenues:					
Taxes:					
					\$ 6,275,547
					1,343,075
					5,458,864
					62,500
					1,061,656
					1,135,999
					183,707
					1,751,109
					<u>\$ 17,272,457</u>
					\$ 1,058,188
					34,220,742
					<u>\$ 35,278,930</u>

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

**FLORENCE CITY BOARD OF EDUCATION
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2009**

	<u>General Fund</u>	<u>Capital Projects- All Sources</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 1,471,491	\$ 4,305,730	\$ 1,120,765	\$ 6,897,986
Investments		4,046,232	30,046	4,076,278
Receivables (net)	1,656,982	1,280,162	604,587	3,541,731
Interfund receivables	35,124			35,124
Inventories			69,418	69,418
Total assets	<u>\$ 3,163,597</u>	<u>\$ 9,632,124</u>	<u>\$ 1,824,816</u>	<u>\$ 14,620,537</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Cash deficit	\$	\$ 2,005,848	\$ 421,254	\$ 2,427,102
Accounts payable and accrued expenses	2,535,186	200,419	542,032	3,277,637
Interfund payables			35,124	35,124
Deferred revenues	29,137			29,137
Total liabilities	<u>\$ 2,564,323</u>	<u>\$ 2,206,267</u>	<u>\$ 998,410</u>	<u>\$ 5,769,000</u>
Fund balances				
Reserved for:				
Inventories	\$	\$	\$ 69,418	\$ 69,418
Encumbrances		29,519		29,519
Unreserved, reported in:				
General fund	599,274			599,274
Special revenue funds			707,850	707,850
Debt service fund			49,138	49,138
Capital projects funds		7,396,338		7,396,338
Total fund balances	<u>\$ 599,274</u>	<u>\$ 7,425,857</u>	<u>\$ 826,406</u>	<u>\$ 8,851,537</u>
Total liabilities and fund balances	<u>\$ 3,163,597</u>	<u>\$ 9,632,124</u>	<u>\$ 1,824,816</u>	<u>\$ 14,620,537</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, 2009**

Total fund balance—governmental funds	\$	8,851,537
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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	\$ 74,466,567	
Accumulated depreciation	(30,490,902)	43,975,665

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		202,600
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Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.

Warrants payable	\$ (15,295,552)	
Capital lease obligation	(2,607,122)	
Unamortized debt discount, premium, issuance costs, and loss on current refunding	151,802	(17,750,872)

Net assets of governmental activities	\$	<u>35,278,930</u>
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FLORENCE CITY BOARD OF EDUCATION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	<u>General</u>	<u>Capital Projects- All Sources</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
State sources	\$ 20,326,007	\$ 2,069,165	\$ 322,269	\$ 22,717,441
Federal sources	59,210		6,295,396	6,354,606
Local sources	13,743,583	2,578,994	1,969,816	18,292,393
Other sources	90,907		205,602	296,509
Total revenues	<u>\$ 34,219,707</u>	<u>\$ 4,648,159</u>	<u>\$ 8,793,083</u>	<u>\$ 47,660,949</u>
EXPENDITURES				
Instructional services	\$ 21,197,003	\$ 415,177	\$ 3,598,018	\$ 25,210,198
Instructional support services	6,231,523	80,193	807,689	7,119,405
Operation and maintenance services	4,131,163	249,393	15,821	4,396,377
Student transportation services	1,524,379		178,457	1,702,836
Food services	10,216		3,008,042	3,018,258
General administrative services	1,060,655	27,250	81,661	1,169,566
Capital outlay		5,050,444	45,078	5,095,522
Debt service			1,298,796	1,298,796
Other expenditures	349,520		1,685,186	2,034,706
Total expenditures	<u>\$ 34,504,459</u>	<u>\$ 5,822,457</u>	<u>\$ 10,718,748</u>	<u>\$ 51,045,664</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (284,752)</u>	<u>\$ (1,174,298)</u>	<u>\$ (1,925,665)</u>	<u>\$ (3,384,715)</u>
OTHER FINANCING SOURCES (USES)				
Indirect cost	\$ 339,458			\$ 339,458
Proceeds from capital lease obligation		2,607,122		2,607,122
Proceeds of refunding debt			5,550,000	5,550,000
Discount on debt issued			(58,727)	(58,727)
Payment to refunded debt escrow agent			(5,390,700)	(5,390,700)
Transfers in	25,596		1,824,875	1,850,471
Transfers out	(880,535)	(945,294)	(24,642)	(1,850,471)
Total other financing sources (uses)	<u>\$ (515,481)</u>	<u>\$ 1,661,828</u>	<u>\$ 1,900,806</u>	<u>\$ 3,047,153</u>
Net change in fund balances	<u>\$ (800,233)</u>	<u>\$ 487,530</u>	<u>\$ (24,859)</u>	<u>\$ (337,562)</u>
Fund balances—beginning	<u>1,399,507</u>	<u>6,938,327</u>	<u>851,265</u>	<u>9,189,099</u>
Fund balances—ending	<u>\$ 599,274</u>	<u>\$ 7,425,857</u>	<u>\$ 826,406</u>	<u>\$ 8,851,537</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, 2009**

Total net change in fund balances—governmental funds \$ (337,562)

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	\$ 5,095,522	
Depreciation expense	(1,586,529)	3,508,993

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	\$ 540,926	
Payment to refunded debt escrow agent	5,390,700	
Proceeds of refunding debt	(5,550,000)	
Proceeds from capital lease obligation	(2,607,122)	
Discount on debt issued	58,727	
Payment of debt issuance costs	71,893	
Amortization of debt discount, premium, issuance costs, and loss on current refunding	(18,367)	(2,113,243)

Change in net assets of governmental activities \$ 1,058,188

**FLORENCE CITY BOARD OF EDUCATION
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
SEPTEMBER 30, 2009**

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 137,568
Total assets	<u>\$ 137,568</u>
LIABILITIES	
Due to external organizations	\$ 137,568
Total liabilities	<u>\$ 137,568</u>

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

**FLORENCE CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009**

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, 2009
(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, 2009
(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, 2009
(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:

Description	Capitalization Thresholds	Estimated Useful Lives
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.

Leases

For capital leases, acquisition costs are recorded as expenditures with an offsetting entry to other financing sources.

FLORENCE CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009
(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 or redemption premium 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, 2009
(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 2008-2009 fiscal year was August 15, 2008. The Board approved its original budget on August 19, 2008 and submitted the budget on August 20, 2008.

B. Deficit Fund Balances in Individual Funds

The Board has a deficit fund balance in one (1) of its Capital Projects funds. The Board plans to liquidate this deficit 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, 2009
(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, 2009:

Capital projects:		
PSCA-State paid	\$	17
Other governmental:		
ARRA-Headstart		1,431
ARRA-COBRA		614
Food services		205,788
Head Start		29,494
Head Start in-kind match		131,245
School Improvement Grant		66,407
Local schools-public funds		472,021

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, 2009, 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.

**FLORENCE CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009
(Continued)**

NOTE 4—INTERFUND RECEIVABLES AND PAYABLES

Details of interfund receivables and payables were as follows:

	Interfund Receivables General Fund
Interfund Payables	
Other governmental	\$ 35,124

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

NOTE 5—RECEIVABLES AND PAYABLES

Receivables at September 30, 2009 were as follows:

Governmental Activities	Due from Other Governments	Others	Accrued Interest	Totals
General fund	\$ 1,641,677	\$ 15,305	\$ —	\$ 1,656,982
Capital projects-all sources	1,118,220	82,477	79,465	1,280,162
Other governmental	604,587			604,587
Total	\$ 3,364,484	\$ 97,782	\$ 79,465	\$ 3,541,731

Payables at September 30, 2009 were as follows:

Governmental Activities	Vendors	Salaries and Benefits	Accrued Interest	Totals
General fund	\$ 139,868	\$ 2,395,318	\$ —	\$ 2,535,186
Capital projects-all sources	154,042		46,377	200,419
Other governmental	9,054	507,485	25,493	542,032
Total	\$ 302,964	\$ 2,902,803	\$ 71,870	\$ 3,277,637

**FLORENCE CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009
(Continued)**

NOTE 6—INTERFUND TRANSFERS

Interfund transfers for the year ended September 30, 2009 consisted of the following:

		Transfer from			Total
		General Fund	Capital Projects- All Sources	Other Governmental	
Transfer to	General fund	\$ —	\$ 7,230	\$ 18,366	\$ 25,596
	Other governmental	880,535	938,064	6,276	1,824,875
	Total	<u>\$ 880,535</u>	<u>\$ 945,294</u>	<u>\$ 24,642</u>	<u>\$ 1,850,471</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.

NOTE 7—CAPITAL ASSETS

Capital asset activity for the fiscal year was as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Nondepreciable assets:				
Land	\$ 935,076	\$ —	\$ —	\$ 935,076
Construction in progress	2,692,541	4,880,141	297,522	7,275,160
Depreciable assets:				
Land improvements—exhaustible	1,992,088	228,976		2,221,064
Buildings and building improvements	53,951,625	176,212		54,127,837
Machinery, equipment, vehicles, furniture, and fixtures	9,799,715	107,715		9,907,430
Total capital assets	<u>\$ 69,371,045</u>	<u>\$ 5,393,044</u>	<u>\$ 297,522</u>	<u>\$ 74,466,567</u>
Less accumulated depreciation:				
Land improvements—exhaustible	\$ 839,755	\$ 97,441	\$ —	\$ 937,196
Buildings and building improvements	19,460,242	1,252,775		20,713,017
Machinery, equipment, vehicles, furniture, and fixtures	8,604,376	236,313		8,840,689
Total accumulated depreciation	<u>\$ 28,904,373</u>	<u>\$ 1,586,529</u>	<u>\$ —</u>	<u>\$ 30,490,902</u>
Capital assets (net)	<u>\$ 40,466,672</u>	<u>\$ 3,806,515</u>	<u>\$ 297,522</u>	<u>\$ 43,975,665</u>

**FLORENCE CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009
(Continued)**

NOTE 7—CAPITAL ASSETS (Continued)

Depreciation expense was charged to the following functions/programs:

<u>Governmental Activities</u>	
Instructional services	\$ 1,243,839
Instructional support services	95,192
Operation and maintenance services	150,720
Food services	53,942
General administrative services	42,836
Total depreciation expense	<u><u>\$ 1,586,529</u></u>

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 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Governmental Activities</u>					
General Obligation School					
Warrants, Series 1998-A	\$ 5,690,000	\$ —	\$ 5,690,000	\$ —	\$ —
Capital Outlay Pool					
Warrants, Series 2006	3,711,478		135,926	3,575,552	141,481
Unamortized debt premium	82,504		4,714	77,790	4,715
Tax Anticipation School					
Warrants, Series 2008	6,170,000			6,170,000	—
Unamortized debt discount	(74,380)		(3,734)	(70,646)	(3,735)
General Obligation School					
Warrants, Series 2009-A		5,550,000		5,550,000	255,000
Unamortized debt discount		(58,727)	(1,958)	(56,769)	(5,873)
Unamortized loss on current refunding		(105,700)	(3,523)	(102,177)	(10,570)
Capital Lease Obligation		2,607,122		2,607,122	—
Total	<u><u>\$ 15,579,602</u></u>	<u><u>\$ 7,992,695</u></u>	<u><u>\$ 5,821,425</u></u>	<u><u>\$ 17,750,872</u></u>	<u><u>\$ 381,018</u></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%. In June 2009, these warrants were currently refunded.

**FLORENCE CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009
(Continued)**

NOTE 8—LONG-TERM OBLIGATIONS (Continued)

In June 2009, the City of Florence, Alabama issued General Obligation School Warrants, Series 2009-A in the amount of \$5,550,000 for the purpose of currently refunding the General Obligation School Warrants, Series 1998-A. These warrants bear interest rates of 1.00% to 3.45% 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.

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

Fiscal Year Ending September 30	Warrants Payable		Total Debt Service to Maturity
	Principal	Interest	
2010	\$ 396,481	\$ 568,659	\$ 965,140
2011	687,037	556,839	1,243,876
2012	704,074	542,046	1,246,120
2013	716,852	523,523	1,240,375
2014	740,370	502,680	1,243,050
2015-2019	4,068,148	2,105,706	6,173,854
2020-2024	4,367,406	1,367,136	5,734,542
2025-2028	3,615,184	366,812	3,981,996
Totals	<u>\$ 15,295,552</u>	<u>\$ 6,533,401</u>	<u>\$ 21,828,953</u>

FLORENCE CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009
(Continued)

NOTE 8—LONG-TERM OBLIGATIONS (Continued)

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.

	<u>Issuance Costs</u>	<u>Premium</u>	<u>Discount</u>	<u>Loss on Current Refunding</u>
QZAB Certificates of				
Participation (at issuance)	\$ 52,464	\$ —	\$ —	\$ —
Amount amortized in prior years	28,419			
Current year amortization	5,246			
Balance to be amortized	<u>\$ 18,799</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Capital Outlay Pool Warrants,				
Series 2006 (at issuance)	\$ 28,309	\$ 94,291	\$ —	\$ —
Amount amortized in prior years	3,538	11,787		
Current year amortization	1,415	4,714		
Balance to be amortized	<u>\$ 23,356</u>	<u>\$ 77,790</u>	<u>\$ —</u>	<u>\$ —</u>
Tax Anticipation School Warrants,				
Series 2008 (at issuance)	\$ 96,158	\$ —	\$ 74,692	\$ —
Amount amortized in prior years	401		312	
Current year amortization	4,808		3,734	
Balance to be amortized	<u>\$ 90,949</u>	<u>\$ —</u>	<u>\$ 70,646</u>	<u>\$ —</u>
General Obligation School Warrants,				
Series 2009-A (at issuance)	\$ 71,893	\$ —	\$ 58,727	\$ 105,700
Amount amortized in prior years				
Current year amortization	2,397		1,958	3,523
Balance to be amortized	<u>\$ 69,496</u>	<u>\$ —</u>	<u>\$ 56,769</u>	<u>\$ 102,177</u>

**FLORENCE CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009
(Continued)**

NOTE 9—LEASES

A. 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, 2009 amounted to \$78,295.

Future minimum annual rental payments are as follows:

Fiscal Year Ending September 30	Amount
2010	\$ 23,335
2011	3,193
Total	\$ 26,528

B. Capital Lease

In September 2009, the Board entered into a lease agreement as lessee to finance certain building improvements and related equipment under an energy management project. The economic substance of this lease is that the Board is financing the acquisition of the asset through the lease. Accordingly, the asset and liability under the capital lease have been recorded at the present value of minimum lease payments discounted at an interest rate of 4.97%. As of September 30, 2009, the entire proceeds from the capital lease were held in an escrow account to be disbursed as the project is completed.

Obligations under the capital lease at September 30, 2009 are as follows:

Fiscal Year Ending September 30	Amount
2011	\$ 254,715
2012	254,715
2013	254,715
2014	254,715
2015	254,715
2016-2020	1,273,573
2021-2025	1,273,570
Total minimum lease payments	\$ 3,820,718
Less: Amount representing interest	1,213,596
Present value of net minimum lease payments	\$ 2,607,122

FLORENCE CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009
(Continued)

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. Thirteen such claims or related settlements have occurred in the past three years.

FLORENCE CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009
(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, 2009
(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:

<u>Fiscal Year Ended September 30,</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Total percentage of covered payroll	17.07%	16.75%	14.36%
<u>Contributions</u>			
Percentage contributed by the Board	12.07%	11.75%	9.36%
Percentage contributed by the employees	5.00%	5.00%	5.00%
Amount contributed by the Board	\$ 2,914,216	\$ 2,880,796	\$ 2,149,183
Amount contributed by the employees	1,207,216	1,225,872	1,148,073
Total contributions	<u>\$ 4,121,432</u>	<u>\$ 4,106,668</u>	<u>\$ 3,297,256</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.

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.

**FLORENCE CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009
(Continued)**

NOTE 13—POSTEMPLOYMENT BENEFITS PLAN (Continued)

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.	
Tobacco surcharge	23.00
PEEHIP Supplemental Plan	-
Optional Plans (Hospital Indemnity, Cancer, Dental, and Vision) - up to two optional plans can be taken by retirees at no cost, if the retiree is not taking one of the Hospital Medical Plans or combining allocations. Otherwise, these plans can be purchased for \$38.00 per month per plan.	

Surviving Spouse Rates:

Surviving Spouse/Non-Medicare Eligible	585.00
Surviving Spouse/Non-Medicare Eligible and Dependent Non-Medicare Eligible	717.00
Surviving Spouse/Non-Medicare Eligible and Dependent Medicare Eligible	676.00
Surviving Spouse/Medicare Eligible	290.00
Surviving Spouse/Medicare Eligible and Dependent Non-Medicare Eligible	422.00
Surviving Spouse/Medicare Eligible and Dependent Medicare Eligible	381.00

Participating school systems are required to contribute at a rate established annually by the Legislature, currently \$752 per active employee per month. For the year, 27.32% (\$205.45) 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 has no responsibility for the payment of healthcare benefits, beyond the payment of the premium, for retired employees.

The following table presents the annual required contribution and the percentage contributed. Contributions will be presented prospectively until the required three years are presented.

Fiscal Year Ended	Annual Required Contribution	Percentage Contributed
2009	\$ 1,383,499	100%
2008	1,453,549	100%

FLORENCE CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009
(Continued)

NOTE 14—CONTINGENCIES AND COMMITMENTS

The Board is a defendant in various claims and/or lawsuits. The outcome of these matters is uncertain as of the date of this report. The management and legal counsel are of the opinion that any settlement resulting from such litigation would not have a material adverse affect on the financial condition of the Board.

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, 2009, the Board was obligated under construction contracts for capital improvements. Open contracts for construction totaled \$11,462,577 of which \$7,275,160 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, 2009 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, 2009**

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note A)	Variance with Final Budget— Positive (Negative)
	Original	Final		
REVENUES				
State sources	\$ 22,708,634	\$ 20,787,397	\$ 20,326,007	\$ (461,390)
Federal sources	54,340	54,340	59,210	4,870
Local sources	12,880,020	12,880,020	13,743,583	863,563
Other sources			90,907	90,907
Total revenues	\$ 35,642,994	\$ 33,721,757	\$ 34,219,707	\$ 497,950
EXPENDITURES				
Instructional services	\$ 21,467,139	\$ 21,530,570	\$ 21,273,089	\$ 257,481
Instructional support services	6,432,137	6,413,052	6,251,479	161,573
Operation and maintenance services	4,166,769	4,168,198	4,133,268	34,930
Student transportation services	1,573,697	1,453,136	1,524,379	(71,243)
Food services			10,216	(10,216)
General administrative services	1,101,289	1,153,442	1,060,997	92,445
Capital outlay	6,060	29,642		29,642
Other expenditures	606,286	436,603	355,162	81,441
Total expenditures	\$ 35,353,377	\$ 35,184,643	\$ 34,608,590	\$ 576,053
Excess (deficiency) of revenues over expenditures	\$ 289,617	\$ (1,462,886)	\$ (388,883)	\$ 1,074,003
OTHER FINANCING SOURCES (USES)				
Indirect cost	\$ 332,100	\$ 332,000	\$ 339,458	\$ 7,458
Transfers in	309,814	1,378,427	25,596	(1,352,831)
Transfers out	(1,040,314)	(1,938,927)	(880,535)	1,058,392
Total other financing sources (uses)	\$ (398,400)	\$ (228,500)	\$ (515,481)	\$ (286,981)
Net change in fund balances	\$ (108,783)	\$ (1,691,386)	\$ (904,364)	\$ 787,022
Fund balances—beginning	2,620,393	3,864,867	3,864,867	—
Fund balances—ending	\$ 2,511,610	\$ 2,173,481	\$ 2,960,503	\$ 787,022

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	\$ 34,608,590
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	(104,131)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	<u>\$ 34,504,459</u>

SINGLE AUDIT SECTION

**FLORENCE CITY BOARD OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

	CFDA Number	Federal Expenditures
<u>U.S. Department of Health and Human Services</u>		
Direct Program:		
<i>Head Start Cluster:</i>		
Head Start	93.600	\$ 1,205,148
ARRA-Head Start	93.708	1,431
Total U. S. Department of Health and Human Services		\$ 1,206,579
<u>U.S. Department of Defense</u>		
Direct Program:		
Army Junior ROTC	12.	\$ 56,941
Total U. S. Department of Defense		\$ 56,941
<u>U.S. Department of Labor</u>		
Direct Program:		
ARRA-COBRA Premium Assistance (See Note 2)	17.151	\$ 614
Total U. S. Department of Labor		\$ 614
<u>U.S. Department of Education</u>		
Passed through State Department of Education:		
<i>Special Education Cluster:</i>		
Special Education-Grants to States	84.027	\$ 881,311
Special Education-Preschool Grants	84.173	47,244
ARRA-Special Education-Grants to States, Recovery Grant	84.391	38,648
<i>Subtotal Special Education Cluster</i>		\$ 967,203
<i>Title I, Part A Cluster:</i>		
Title I Grants to Local Educational Agencies	84.010	\$ 1,687,491
ARRA-Title I Grants to Local Educational Agencies, Recovery Grant	84.389	153,134
<i>Subtotal Title I, Part A Cluster</i>		\$ 1,840,625
Career and Technical Education-Basic Grants to States	84.048	107,102
Safe and Drug-Free Schools and Communities-State Grants	84.186	27,649
Education for Homeless Children and Youth	84.196	27,045
Tech-Prep Education	84.243	6,358
Twenty-First Century Community Learning Centers	84.287	50,000
State Grants for Innovative Programs	84.298	344
Education Technology State Grants	84.318	68,482
Advanced Placement Program	84.330	386
English Language Acquisition Grants	84.365	24,676
Improving Teacher Quality State Grants	84.367	365,471
School Improvement Grants	84.377	66,407
Total U. S. Department of Education		\$ 3,551,748

The accompanying notes are an integral part of this schedule.

**FLORENCE CITY BOARD OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2009
(Continued)**

	CFDA Number	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Passed through State Department of Education:		
<i>Child Nutrition Cluster:</i>		
School Breakfast Program	10.553	\$ 361,771
National School Lunch Program (See Note 2)	10.555	1,175,070
Total U. S. Department of Agriculture		\$ 1,536,841
<u>Social Security Administration</u>		
Passed through State Department of Education:		
Social Security-Disability Insurance	96.001	\$ 1,883
Total Social Security Administration		\$ 1,883
TOTAL EXPENDITURES OF FEDERAL AWARDS		\$ 6,354,606

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, 2009**

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 federal and state awarding agencies.



Charles L. Watkins, CPA
M. Buddy Johnsey, III, 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, 2009, which collectively comprise the Florence City Board of Education's basic financial statements and have issued our report thereon dated December 11, 2009. 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 11, 2009.

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 11, 2009



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

Member of
American Institute of CPA's
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**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, 2009. 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, 2009. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2009-1 and 2009-2.



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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.

Florence City Board of Education's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Florence City Board of Education's response and, accordingly, we express no opinion on it.

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.



The Watkins Johnsey Professional Group, P.C.
December 11, 2009

**FLORENCE CITY BOARD OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

Section I—Summary of Auditors' Results

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.	Head Start Cluster
84.	Special Education Cluster
84.	Title I, Part A Cluster
84. 367	Improving Teacher Quality State Grants

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

Section II—Financial Statement Findings

None to be reported.

**FLORENCE CITY BOARD OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009
(Continued)**

Section III—Federal Award Findings and Questioned Costs

Finding #2009-1	U.S. Department of Education	CFDA Number	84.
	Title I, Part A Cluster		
Type:	Compliance Finding		
Criteria:	2 CFR Part 225, OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments", Attachment B, paragraph 8.h.(3) states that where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.		
Condition:	In our review of employee time and effort documentation, we noted that the required certifications had only been obtained once during the fiscal year.		
Questioned Costs:	The questioned costs, if any, were incalculable.		
Context:	The Board had 21 employees that were subject to these provisions.		
Possible Asserted Effect:	The Board is not in compliance with federal regulations relating to the Allowable Costs/Cost Principles.		
Recommendation:	We recommend the Board review current policies and procedures to ensure that required certifications are obtained, when applicable.		
Response:	Management agrees.		
Finding #2009-2	U.S. Department of Education	CFDA Number	84.
	Special Education—Grants to States (IDEA, Part B)		
Type:	Compliance Finding		
Criteria:	34 CFR §300.203 states that funds provided to a Local Educational Agency (LEA) under Part B of the Act cannot be used, except under certain limited circumstances as provided in 34 CFR §300.204, to reduce the level of expenditures for the education of children with disabilities made by the LEA from local funds below the level of those expenditures for the preceding fiscal year.		
Condition:	In our review of the LEA's computations to substantiate Maintenance of Effort, the LEA failed to achieve the required Maintenance of Effort.		
Questioned Costs:	\$ 10,428		
Context:	The finding appears to represent an isolated instance.		
Possible Asserted Effect:	A refund of these costs from a non-federal source may be required by the awarding agency.		
Recommendation:	We recommend the Board monitor expenditures to ensure that Maintenance of Effort is achieved.		
Response:	Management agrees.		

**FLORENCE CITY BOARD OF EDUCATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

Federal Award Findings

Finding #2008-1	U.S. Department of Agriculture
	CFDA Number 10.
Condition:	In our review of time and effort documentation, we noted one employee failed to maintain documentation supporting the distribution of salary or wages.
Recommendation:	The auditor recommended that the Board review current policies and procedures to ensure that required supporting documentation is maintained, when applicable.
Current Status:	Corrective action was taken.

FLORENCE CITY SCHOOLS

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Superintendent:
Kendy Behrends, Ed.D.

Futures Take Flight

Corrective Action Plan
December 9, 2009

Florence City Schools respectfully submits the following corrective action plan for the year ended September 30, 2009.

Name and address of independent public accounting firm: Watkins Johnsey Professional Group, P.C., 516 E. Mobile Street, Florence, AL 35630.

Audit Period: 10/1/2008 – 9/30/2009

Finding # 2009-1

Employees were not provided the forms necessary to certify participation in the Title I program as required by the semi-annual requirements.

Response: Chief School Finance Officer and Federal Program Director were responsible parties.

Corrective Action Plan: The Chief School Finance Officer and Federal Program Director will ensure that all employees receive the semi-annual certification forms in order to comply with federal regulations.

Anticipated Completion Date: First reporting requirement completed, second requirement is scheduled for March 2010.

Finding #2009-2

The Board failed to achieve the required Maintenance of Effort (MOE) for the Special Education program for fiscal year 2008-2009.

Response: Special Education positions were reduced due to budget cuts. The Chief School Finance Officer is responsible for verifying MOE is being met.

Corrective Action Plan: The Board of Education will ensure MOE is met for the 2009-2010 fiscal year.

Anticipated Completion Date: September 30, 2010