

**FLORENCE CITY BOARD OF EDUCATION**

**FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2013**

# FLORENCE CITY BOARD OF EDUCATION

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## **FINANCIAL SECTION**



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## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Florence City Board of Education as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the Board of Education's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



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## **Opinions**

In our opinion, 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, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 11 and page 37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2013, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Florence City Board of Education's internal control over financial reporting and compliance.

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.  
Florence, Alabama  
December 27, 2013

**Florence City Schools**  
**Management's Discussion and Analysis (MD&A)**  
**For the Fiscal Year 2013**

**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, 2013. 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 and is included in this report.

**Financial Highlights**

For fiscal year 2013, the Board's Net Position decreased by \$140,059. The Board experienced a positive General Fund operation of \$912,230 resulting in a General Fund balance of \$3,821,148 on an accrual basis. Local revenues exceeded budgeted amount by \$1,932,127. This was the result of an increase in sales tax and property tax collections from prior year collections.

The Board had \$15,986,782 remaining from the 2012 Tax Anticipation Warrants at September 30, 2013. These funds will be used to complete the Florence Freshman Center and the addition and renovation to Florence High School along with other projects approved in the capital plan. Long-term debt reductions of \$1,293,868 brought the total Long-Term Debt to \$37,142,873 at the end of the fiscal year. The net result of principal reductions include principal reductions of the Series 2006 warrants, the Series 2009-A warrants, the Series 2012 warrants, and the capital lease obligation. The amount due within one year is \$1,307,212.

**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.

**Government-Wide Financial Statements**

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

**Florence City Schools**  
**Management's Discussion and Analysis (MD&A)**  
**For the Fiscal Year 2013**

The *Statement of Activities* provides information that shows how the Board's net position 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).

**Fund Financial Statements**

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 Position* 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)  
For the Fiscal Year 2013**

**Required Supplementary Information**

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 position is reported as Governmental Activities.

**FLORENCE CITY BOARD OF EDUCATION  
Net Position**

	<b>Governmental Activities</b>	
	<b>2013</b>	<b>2012</b>
Current and other assets	\$ 31,261,758	\$ 34,112,725
Capital assets (net)	51,844,042	48,495,802
Total assets	\$ 83,105,800	\$ 82,608,527
Current and other liabilities	\$ 5,876,172	\$ 4,511,776
Long-term liabilities	35,835,661	36,562,725
Total liabilities	\$ 41,711,833	\$ 41,074,501
Net position:		
Net investment in capital assets	\$ 29,967,426	\$ 30,207,481
Restricted	1,632,725	1,412,102
Unrestricted	9,793,816	9,914,443
Total net position	\$ 41,393,967	\$ 41,534,026

The Board's total net position was \$41,393,967 at the end of fiscal year 2013; a decrease of \$140,059 from the previous year. Net position restricted for capital projects/debt service totaled \$239,533, which is .58% of total net position. The majority of the Board's net position is invested in capital assets (land, buildings, and equipment) owned by the Board. These assets are not available for future expenditures since they will not be sold. Unrestricted net position — the part of net position that can be used to finance day-to-day operations without constraints established by enabling legislation, debt covenants, or other legal requirements — is \$9,793,816 or 23.66% of Total Net Position at the end of the fiscal year. The Board's total net position amount is indicative of the Board's ability to operate and pay bills for next year.

**Florence City Schools  
Management's Discussion and Analysis (MD&A)  
For the Fiscal Year 2013**

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

<b>FLORENCE CITY BOARD OF EDUCATION</b>		<b>Changes in Net Position</b>	
		<b>Governmental Activities</b>	
		<b>2013</b>	<b>2012</b>
<u>Revenues</u>			
Program revenues:			
Charges for services	\$	3,305,892	\$ 2,992,026
Operating grants and contributions		26,363,309	26,137,999
Capital grants and contributions		986,576	940,029
General revenues:			
Property taxes		8,525,365	8,434,081
Sales taxes		6,173,325	5,867,283
Alcohol beverage taxes		63,866	63,863
Other taxes		1,208,258	1,160,101
Grants and contributions not restricted for specific programs		1,517,235	1,426,116
Other general revenues		2,593,043	2,473,727
Total revenues	\$	<u>50,736,869</u>	<u>\$ 49,495,225</u>
<u>Expenses</u>			
Instructional services	\$	27,121,882	\$ 25,315,612
Instructional support services		8,038,420	7,177,828
Operation and maintenance services		5,346,074	4,270,339
Student transportation services		1,779,363	1,589,370
Food services		2,804,490	2,693,245
General administrative services		1,533,947	1,192,650
Interest and fiscal charges		1,248,543	1,010,851
Other		3,004,209	2,782,961
Total expenses	\$	<u>50,876,928</u>	<u>\$ 46,032,856</u>
Change in net position	\$	(140,059)	\$ 3,462,369
Net position, beginning		<u>41,534,026</u>	<u>38,071,657</u>
Net position, ending	\$	<u><u>41,393,967</u></u>	<u><u>\$ 41,534,026</u></u>

**Florence City Schools**  
**Management's Discussion and Analysis (MD&A)**  
**For the Fiscal Year 2013**

Program revenues, specifically operating grants and contributions, are the largest component of total revenues (60.42%).

- Operating grants and contributions contributed 86.00% of program revenues and 51.96% 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 \$20,081,092 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 (53.31%).

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

**Florence City Schools**  
**Management's Discussion and Analysis (MD&A)**  
**For the Fiscal Year 2013**

**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 \$26.3 million. Approximately \$3.8 million of this amount constitutes an unassigned fund balance of the general fund that is available as of the end of the fiscal year for spending on future operations.

**General Fund** - The general fund is the primary operating fund of the Board. The general fund balance increased by \$912,230. This was due primarily to increases in various state funding sources and local property and sales taxes. The general fund revenues increased by \$536,214 and expenditures increased by \$2,841,958.

Overall, the Board's governmental funds had more expenditures than revenue at the end of the fiscal year, thereby negatively impacting total fund balance by \$4,894,461. Other Financing Sources (Uses) contributed \$1,027,476 to the overall \$(3,866,985) net change in fund balance.

**General Fund Budgetary Highlights**

The original 2013 fiscal year budget, adopted on September 13, 2012, 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 exceeded 10% or when federal carryover amounts were confirmed. Over the course of the year, the Board revised the annual operating budget once on May 14, 2013.

The comparison of general fund original budget to the final amended budget is in this report. The differences between the original budget and the final amended budget of the Board were an increase in expenditures of \$577,122 and an increase in revenues of \$237,698.

- Amendment #1 was necessary to budget the changes due to proration and state allocations not budgeted with the original budget and modifications as necessary due to federal program carry-over funds. Additional capital outlay expenditures of \$1.96 million were added to the budget amendment as well.

**Florence City Schools  
Management's Discussion and Analysis (MD&A)  
For the Fiscal Year 2013**

**Capital Assets and Debt Administration**

*Capital Assets* - At year-end, the Board had approximately \$51.8 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.

*Capital Assets (net of accumulated depreciation)*

	<b>Governmental Activities</b>	
	<b>September 30,</b>	
	<b>2013</b>	<b>2012</b>
Land	\$ 935,076	\$ 935,076
Construction in progress	4,159,884	751,296
Land improvements	871,206	974,372
Buildings and improvements	45,037,154	45,005,093
Vehicles and equipment	840,722	829,965
Total	\$ 51,844,042	\$ 48,495,802

Construction in progress at year-end included the Forest Hills roofing project, the Florence Freshman Center located on the Florence High School campus, the Florence High School Soccer Complex, the Florence High School Baseball/Softball Complex, and the addition/renovation to the front of Florence High School.

*Long-Term Debt* - At year-end, the Board had \$37.1 million in warrants and capital leases. This decrease is the net result of the new capital lease less debt service principal payments. (Additional information on the Board's long-term debt is presented in the notes to the basic financial statements).

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

	<b>Beginning Balance</b>	<b>Net Change</b>	<b>Ending Balance</b>
Warrants Payable and Capital Lease Obligation	\$ 37,558,884	\$ (416,011)	\$ 37,142,873

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)  
For the Fiscal Year 2013**

**Economic Factors and Next Year's Budget**

The following are currently known economic factors considered in going into the 2013-2014 fiscal year:

- The economy is showing a slight rebound and an increase in funding from the state Education Trust Fund (ETF) is anticipated for 2013-2014. The increase will mainly be to provide raises to employees and cover increased cost of retirement. Local revenues have increased approximately 3.3% over prior year numbers.
- Unemployment in the City of Florence is currently at 5.7% according to the Chamber of Commerce.
- Navistar International Corporation leased the Railcar Plant in 2012 and has added additional jobs during this year. The Freight Car America leased approximately 25% of the building from Navistar and has employed approximately 100 people. More jobs are expected to be added in the upcoming year.
- Several manufacturing and engineering companies have expanded during the 2012-2013 fiscal year and more are expected. TASUS opened in the Industrial Park and North American Lighting added additional jobs. Local officials continue to recruit industry to the area.
- Retail stores and eating establishments in the Shoals area are on the rise and are expected to have a positive impact on local property and sales taxes. The businesses that have opened recently or are expected to open include Wal-Mart, Longhorn, Starbucks, along with several other restaurants. These new retail businesses are projected to boost the local economy.
- The RegionalCare Hospital Partners plan to build a \$250 million medical facility in the Shoals area within the next couple of years. This could potentially bring seventy new physicians to the area and several hundred support positions to provide services to the citizens of Florence and the surrounding area. This could have a significant impact on local revenues. Several new physicians have already moved to the Shoals area.
- The population of the City of Florence as of the 2010 census has increased when compared to the last ten-year census taken in 2000.
- Florence City Board of Education transferred the Head Start/Early Head Start programs to Community Action Partnership of North Alabama on October 14, 2013. This transfer was due to the government shutdown and the loss of funding for these programs.
- Florence City Board of Education continues to maintain a sound fiscal situation. The Board is looking for additional revenue sources to help ensure the continued stability of our funds.
- The new Freshman Center is currently under construction. An addition of an office complex to Florence High School has currently been bid and construction should begin in December 2013. The Soccer Complex to include locker rooms and concession stand is under construction at this time. Plans for a Baseball/Softball Complex are in the planning stage. These projects are being funded for with the Series 2012 Tax Anticipation Warrants issued during 2011-2012. It is the goal of the school system for all projects to be completed by the spring of 2015.

**Florence City Schools  
Management's Discussion and Analysis (MD&A)  
For the Fiscal Year 2013**

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 from the 2013-14 scholastic year is up approximately 2% from the 2012-2013 scholastic year. This is the seventh year in the last eight years 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.

***Health Care and Retirement Costs*** – Employee health insurance is provided through the Public Education Employees' Health Insurance Program (PEEHIP). PEEHIP employer costs remained the same at \$714 per employee per month for fiscal year 2013-2014. Retirement matching increased from 10.08% to 11.71% for Tier 1 employees and increased from 9.44% to 11.08% for Tier 2 employees for the fiscal year 2013-2014. Benefit costs are undetermined for fiscal year 2014-2015 at this time.

**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 Wallace, Assistant Superintendent/Chief School Finance Officer, P.O. Box 10, Florence, Alabama 35631** or by calling **256-768-3035** during our 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 POSITION  
SEPTEMBER 30, 2013**

	<u><b>Governmental Activities</b></u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 26,437,288
Receivables (net)	3,976,568
Inventories	71,838
Investments-restricted	367,759
Deferred charges (net)	408,305
Capital assets (net)	51,844,042
<b>Total assets</b>	<u>\$ 83,105,800</u>
<b>LIABILITIES</b>	
Accounts payable and accrued expenses	\$ 4,566,325
Deferred revenues	2,635
Long-term liabilities:	
Portion due or payable within one year	1,307,212
Portion due or payable after one year	35,835,661
<b>Total liabilities</b>	<u>\$ 41,711,833</u>
<b>NET POSITION</b>	
Net investment in capital assets	\$ 29,967,426
Restricted for:	
Debt service	239,533
Education	584,852
Food services	808,340
Unrestricted	9,793,816
<b>Total net position</b>	<u><u>\$ 41,393,967</u></u>

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

**FLORENCE CITY BOARD OF EDUCATION  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>			<b>Net (Expense) Revenue and Changes in Net Position</b>
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	<b>Total Governmental Activities</b>
Governmental activities:					
Instructional services	\$ 27,121,882	\$ 432,818	\$ 18,888,702	\$ 767,409	\$ (7,032,953)
Instructional support services	8,038,420	486,302	2,051,656	178,512	(5,321,950)
Operation and maintenance services	5,346,074	27,253	1,428,141		(3,890,680)
Student transportation services	1,779,363	45,474	1,293,859		(440,030)
Food services	2,804,490	2,228,914	175,334		(400,242)
General administrative services	1,533,947	8,978	83,103	40,655	(1,401,211)
Other	3,004,209	76,153	2,442,514		(485,542)
Interest and fiscal charges	1,248,543				(1,248,543)
Total governmental activities	<u>\$ 50,876,928</u>	<u>\$ 3,305,892</u>	<u>\$ 26,363,309</u>	<u>\$ 986,576</u>	<u>\$ (20,221,151)</u>
General revenues:					
Taxes:					
Property taxes for general purposes					\$ 7,026,720
Property taxes for capital purposes					1,498,645
Local sales taxes					6,173,325
Alcohol beverage taxes					63,866
Other taxes					1,208,258
Grants and contributions not restricted for specific programs					1,517,235
Interest earnings					56,381
Miscellaneous					2,536,662
Total general revenues					<u>\$ 20,081,092</u>
Change in net position					<u>\$ (140,059)</u>
Net position—beginning					41,534,026
Net position—ending					<u><u>\$ 41,393,967</u></u>

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

**FLORENCE CITY BOARD OF EDUCATION  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2013**

	<u>General Fund</u>	<u>Capital Projects- All Sources</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 4,860,073	\$ 19,911,476	\$ 2,012,998	\$ 26,784,547
Investments			367,759	367,759
Receivables (net)	1,737,939	1,605,658	632,971	3,976,568
Interfund receivables	213,088			213,088
Inventories			71,838	71,838
<b>Total assets</b>	<u>\$ 6,811,100</u>	<u>\$ 21,517,134</u>	<u>\$ 3,085,566</u>	<u>\$ 31,413,800</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Cash deficit	\$	\$	\$ 347,259	\$ 347,259
Accounts payable and accrued expenses	2,989,952	758,352	818,021	4,566,325
Interfund payables			213,088	213,088
Deferred revenues			2,635	2,635
<b>Total liabilities</b>	<u>\$ 2,989,952</u>	<u>\$ 758,352</u>	<u>\$ 1,381,003</u>	<u>\$ 5,129,307</u>
Fund balances:				
Nonspendable:				
Inventories	\$	\$	\$ 71,838	\$ 71,838
Restricted for:				
Debt service			239,533	239,533
Education			584,852	584,852
Food services			808,340	808,340
Assigned to:				
Capital projects		20,758,782		20,758,782
Unassigned	3,821,148			3,821,148
<b>Total fund balances</b>	<u>\$ 3,821,148</u>	<u>\$ 20,758,782</u>	<u>\$ 1,704,563</u>	<u>\$ 26,284,493</u>
<b>Total liabilities and fund balances</b>	<u>\$ 6,811,100</u>	<u>\$ 21,517,134</u>	<u>\$ 3,085,566</u>	<u>\$ 31,413,800</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 POSITION  
SEPTEMBER 30, 2013**

**Total fund balance—governmental funds** \$ 26,284,493

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

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

Capital assets	\$ 88,919,003	
Accumulated depreciation	(37,074,961)	51,844,042

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 position.

Unamortized debt issuance costs		408,305
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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	\$ (34,509,108)	
Capital lease obligation	(592,257)	
Unamortized debt discount, premium, and loss on current refunding	(2,041,508)	(37,142,873)

**Net position of governmental activities** \$ 41,393,967

**FLORENCE CITY BOARD OF EDUCATION**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	<u>General Fund</u>	<u>Capital Projects- All Sources</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
State sources	\$ 20,917,504	\$ 809,772	\$ 196,194	\$ 21,923,470
Federal sources	2,618		7,156,791	7,159,409
Local sources	15,589,607	3,042,454	1,939,810	20,571,871
Other sources	290,881	700	790,537	1,082,118
<b>Total revenues</b>	<u>\$ 36,800,610</u>	<u>\$ 3,852,926</u>	<u>\$ 10,083,332</u>	<u>\$ 50,736,868</u>
<b>EXPENDITURES</b>				
Instructional services	\$ 21,544,451	\$ 1,037,985	\$ 3,160,050	\$ 25,742,486
Instructional support services	6,809,640	139,859	983,355	7,932,854
Operation and maintenance services	4,267,269	632,789	278,870	5,178,928
Student transportation services	1,679,158		100,205	1,779,363
Food services	3,795		2,864,675	2,868,470
General administrative services	1,299,826	31,863	133,895	1,465,584
Capital outlay	78,939	4,983,753	44,980	5,107,672
Debt service		300,132	2,242,279	2,542,411
Other expenditures	376,761		2,636,800	3,013,561
<b>Total expenditures</b>	<u>\$ 36,059,839</u>	<u>\$ 7,126,381</u>	<u>\$ 12,445,109</u>	<u>\$ 55,631,329</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>\$ 740,771</u>	<u>\$ (3,273,455)</u>	<u>\$ (2,361,777)</u>	<u>\$ (4,894,461)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Indirect cost	\$ 149,619	\$	\$	\$ 149,619
Proceeds from capital lease obligation		892,390		892,390
Discount on capital lease obligation		(14,533)		(14,533)
Transfers in	651,754		2,645,359	3,297,113
Transfers out	(629,914)	(2,597,647)	(69,552)	(3,297,113)
<b>Total other financing sources (uses)</b>	<u>\$ 171,459</u>	<u>\$ (1,719,790)</u>	<u>\$ 2,575,807</u>	<u>\$ 1,027,476</u>
<b>Net change in fund balances</b>	<u>\$ 912,230</u>	<u>\$ (4,993,245)</u>	<u>\$ 214,030</u>	<u>\$ (3,866,985)</u>
<b>Fund balances—beginning</b>	2,908,918	25,752,027	1,490,533	30,151,478
<b>Fund balances—ending</b>	<u>\$ 3,821,148</u>	<u>\$ 20,758,782</u>	<u>\$ 1,704,563</u>	<u>\$ 26,284,493</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, 2013**

**Total net change in fund balances—governmental funds** \$ (3,866,985)

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 outlay	\$ 5,107,672	
Depreciation expense	<u>(1,759,432)</u>	3,348,240

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 position. 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 position 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	\$ 1,151,984	
Proceeds from capital lease obligation	(892,390)	
Discount on capital lease obligation	14,533	
Amortization of debt discount, premium, issuance costs, and loss on current refunding	<u>104,559</u>	<u>378,686</u>

**Change in net position of governmental activities** \$ (140,059)

**FLORENCE CITY BOARD OF EDUCATION  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
SEPTEMBER 30, 2013**

	<b>Agency Funds</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 268,560
<b>Total assets</b>	<b>\$ 268,560</b>
 <b>LIABILITIES</b>	
Due to external organizations	\$ 268,560
<b>Total liabilities</b>	<b>\$ 268,560</b>

**FLORENCE CITY BOARD OF EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2013**

**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 position 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 governmental entities may report both governmental activities and business-type activities, the Board has no business-type activities.

The statement of net position 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, 2013**  
**(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 and report all financial resources not accounted for and reported 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 capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

The other governmental funds of the Board are used to account for and report (1) the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes; and (2) financial resources that are restricted, committed, or assigned to expenditure for principal, interest, and other debt service expenditures.

*Fiduciary Funds*—Fiduciary fund reporting focuses on net position and changes in net position. 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, 2013**  
**(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.

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

**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 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.

**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.

**FLORENCE CITY BOARD OF EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2013  
(Continued)**

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

**Inventories**

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories 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 position. Donated capital 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 normal maintenance and repairs 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:

<u>Description</u>	<u>Capitalization Thresholds</u>	<u>Estimated Useful Lives</u>
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, 2013**  
**(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 position. 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. Likewise, the loss on current refunding of debt is amortized under accrual accounting. The annual amortization of these debt-related items is included in the statement of activities. The unamortized portion is reported in the statement of net position.

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 hired prior to January 1, 2013 (i.e. Tier 1 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 to twelve (10-12) days of vacation per year with pay, depending upon their employment contract, and the Board allows these employees to carryover a maximum of (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, 2013**  
**(Continued)**

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

**Net Position**

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

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

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

**Fund Balance**

Fund balance is divided into five classifications based primarily on the extent to which the Board is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

*Nonspendable*—The nonspendable fund balance classification represents amounts that cannot be spent because they are either (1) not in spendable form or (2) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, such as inventories on hand and prepaid expenditures.

*Restricted*—The restricted fund balance classification represents amounts that have spending constraints placed on the use of resources that are either (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (2) imposed by law through constitutional provisions or enabling legislation.

*Committed*—The committed fund balance classification represents amounts that can only be used for specific purposes imposed by formal action (ordinance or resolution) of the Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (ordinance or resolution) it previously employed to commit those amounts. In contrast to fund balance that is restricted by enabling legislation, amounts in the committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by the Board, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints is not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

**FLORENCE CITY BOARD OF EDUCATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**  
**(Continued)**

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

*Assigned*—The assigned fund balance classification represents amounts that are constrained by the Board’s intent to be used for specific purposes, but are neither restricted nor committed. The Board authorizes the Superintendent or the Chief School Finance Officer to make a determination of the assigned amounts of fund balance. Except for the General Fund, the assigned fund balance classification represents all remaining amounts that are not classified as nonspendable and are neither restricted nor committed.

*Unassigned*—The unassigned fund balance classification represents the residual fund balance for the General Fund that has not been restricted, committed, or assigned to specific purposes. In other governmental funds, if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes, then the unassigned classification is used to report a negative fund balance.

When an expenditure is incurred for purposes for which both restricted or unrestricted (committed, assigned, and unassigned) amounts are available, it is the policy of the Board to consider restricted amounts to have been reduced first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the policy of the Board that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts.

**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 2012-2013 fiscal year was September 15, 2012. The Board approved and submitted its original budget on September 13, 2012.

**FLORENCE CITY BOARD OF EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2013  
(Continued)**

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

**B. Excess of Expenditures over Appropriations**

The following funds incurred expenditures in excess of appropriations of the following amounts for the year ended September 30, 2013:

<b>Capital projects-all sources:</b>	
Local fund sources	\$ 681,276
<b>Other governmental:</b>	
Head Start in-kind match	386,807
Debt service-local fund sources	109,198

**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, 2013, does not have any investments that require disclosure. However, under the terms of a bond indenture, the Board is required to deposit into certain restricted funds for debt service. These investments are governed by the bond indenture and are invested in U. S. Government securities.

**NOTE 4—INTERFUND RECEIVABLES AND PAYABLES**

Details of interfund receivables and payables were as follows:

	<b>Interfund Receivables</b>
<b>Interfund Payables</b>	General Fund
Other governmental	\$ 213,088
Total	\$ 213,088

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

**FLORENCE CITY BOARD OF EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2013  
(Continued)**

**NOTE 5—RECEIVABLES AND PAYABLES**

Receivables at September 30, 2013 were as follows:

<u>Governmental Activities</u>	<u>Due from Other Governments</u>	<u>Due from Others</u>	<u>Totals</u>
General fund	\$ 1,664,860	\$ 73,079	\$ 1,737,939
Capital projects-all sources	1,569,086	36,572	1,605,658
Other governmental	593,198	39,773	632,971
Total	<u>\$ 3,827,144</u>	<u>\$ 149,424</u>	<u>\$ 3,976,568</u>

Payables at September 30, 2013 were as follows:

<u>Governmental Activities</u>	<u>Vendors</u>	<u>Other Governments</u>	<u>Salaries and Benefits</u>	<u>Accrued Interest</u>	<u>Totals</u>
General fund	\$ 1,024,747	\$ 1,456	\$ 1,963,749	\$ —	\$ 2,989,952
Capital projects-all sources	758,352				758,352
Other governmental	279,478	5,996	404,096	128,451	818,021
Total	<u>\$ 2,062,577</u>	<u>\$ 7,452</u>	<u>\$ 2,367,845</u>	<u>\$ 128,451</u>	<u>\$ 4,566,325</u>

**NOTE 6—INTERFUND TRANSFERS**

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

		<u>Transfer from</u>			
		<u>General Fund</u>	<u>Capital Projects- All Sources</u>	<u>Other Governmental</u>	<u>Total</u>
<b>Transfer to</b>	General fund	\$ —	\$ 600,000	\$ 51,754	\$ 651,754
	Other governmental	629,914	1,997,647	17,798	2,645,359
	Total	<u>\$ 629,914</u>	<u>\$ 2,597,647</u>	<u>\$ 69,552</u>	<u>\$ 3,297,113</u>

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

**FLORENCE CITY BOARD OF EDUCATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**  
**(Continued)**

**NOTE 7—CAPITAL ASSETS**

Capital asset activity for the fiscal year was as follows:

<b><u>Governmental Activities</u></b>	<b><u>Beginning Balance</u></b>	<b><u>Additions</u></b>	<b><u>Retirements</u></b>	<b><u>Ending Balance</u></b>
Nondepreciable assets:				
Land	\$ 935,076	\$ —	\$ —	\$ 935,076
Construction in progress	751,296	4,598,671	1,190,083	4,159,884
Depreciable assets:				
Land improvements—exhaustible	2,221,065			2,221,065
Buildings and building improvements	70,022,727	1,548,734		71,571,461
Machinery, equipment, vehicles, furniture, and fixtures	9,881,167	150,350		10,031,517
<b>Total capital assets</b>	<b><u>\$ 83,811,331</u></b>	<b><u>\$ 6,297,755</u></b>	<b><u>\$ 1,190,083</u></b>	<b><u>\$ 88,919,003</u></b>
Less accumulated depreciation:				
Land improvements—exhaustible	\$ 1,246,693	\$ 103,166	\$ —	\$ 1,349,859
Buildings and building improvements	25,017,634	1,516,673		26,534,307
Machinery, equipment, vehicles, furniture, and fixtures	9,051,202	139,593		9,190,795
<b>Total accumulated depreciation</b>	<b><u>\$ 35,315,529</u></b>	<b><u>\$ 1,759,432</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 37,074,961</u></b>
<b>Capital assets (net)</b>	<b><u><u>\$ 48,495,802</u></u></b>	<b><u><u>\$ 4,538,323</u></u></b>	<b><u><u>\$ 1,190,083</u></u></b>	<b><u><u>\$ 51,844,042</u></u></b>

Depreciation expense was charged to the following functions/programs:

<b><u>Governmental Activities</u></b>	
Instructional services	\$ 1,379,395
Instructional support services	105,566
Operation and maintenance services	167,146
Food services	59,821
General administrative services	47,504
<b>Total depreciation expense</b>	<b><u><u>\$ 1,759,432</u></u></b>

**FLORENCE CITY BOARD OF EDUCATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**  
**(Continued)**

**NOTE 8—LONG-TERM OBLIGATIONS**

**A. Long-term Obligations Activity**

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b><u>Governmental Activities</u></b>					
Capital Outlay Pool					
Warrants, Series 2006	\$ 3,132,959	\$ —	\$ 161,851	\$ 2,971,108	\$ 170,370
Unamortized debt premium	63,646		4,714	58,932	4,715
Tax Anticipation School					
Warrants, Series 2008	6,170,000			6,170,000	—
Unamortized debt discount	(59,442)		(3,734)	(55,708)	(3,735)
General Obligation School					
Warrants, Series 2009-A	4,205,000		555,000	3,650,000	570,000
Unamortized debt discount	(39,151)		(5,872)	(33,279)	(5,873)
Unamortized loss on current refunding	(70,467)		(10,570)	(59,897)	(10,570)
Capital Outlay Pool					
Warrants, Series 2009-QSCB	1,533,000			1,533,000	—
Tax Anticipation School					
Warrants, Series 2012	20,320,000		135,000	20,185,000	135,000
Unamortized debt premium	2,303,339		159,769	2,143,570	159,769
Capital Lease Obligation	—	892,390	300,133	592,257	294,802
Unamortized debt discount	—	(14,533)	(2,423)	(12,110)	(7,266)
Total	<u>\$ 37,558,884</u>	<u>\$ 877,857</u>	<u>\$ 1,293,868</u>	<u>\$ 37,142,873</u>	<u>\$ 1,307,212</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. 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.

**FLORENCE CITY BOARD OF EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2013  
(Continued)**

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

The Board issued Tax Anticipation School Warrants, Series 2008, 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.

The Board issued Capital Outlay Pool Warrants, dated December 16, 2009, by entering into a Special Pool Loan Agreement with the Alabama Public School and College Authority (the "Authority"). The Authority issued Capital Improvement Pool Qualified School Construction Bonds, Series 2009-D and loaned a portion of the proceeds to the Board in the amount of \$1,533,000. The Board's allocation of debt issuance costs amounted to \$21,494. These warrants are payable solely out of, and secured by a pledge and assignment of, the capital purchase funds allocated annually to the Board from the Public School Fund. These warrants bear an interest rate of 1.865%. The Board shall deposit annual principal payments into a sinking fund with the fiscal paying agent. These funds, together with interest earnings thereon, will be used to pay the entire principal amount at maturity on December 15, 2025.

The Board issued Tax Anticipation School Warrants, dated March 1, 2012, in the amount of \$20,320,000 to acquire and construct certain capital improvements and to prepay the outstanding balance of the capital lease obligation. These warrants are payable solely out of, and secured by a pledge and assignment of, requisite proceeds of county sales taxes and ad valorem taxes. These warrants bear interest rates of 2.00% to 5.00% and will be fully paid on March 1, 2027.

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

<b>Fiscal Year Ending September 30</b>	<b>Warrants Payable</b>		<b>Total Debt Service to Maturity</b>
	<b>Principal</b>	<b>Interest</b>	
2014	\$ 875,370	\$ 1,363,795	\$ 2,239,165
2015	898,889	1,336,876	2,235,765
2016	2,023,148	1,287,300	3,310,448
2017	2,092,778	1,212,653	3,305,431
2018	2,177,037	1,130,027	3,307,064
2019-2023	12,364,443	4,177,216	16,541,659
2024-2028	14,077,443	1,139,296	15,216,739
Totals	<u>\$ 34,509,108</u>	<u>\$ 11,647,163</u>	<u>\$ 46,156,271</u>

**B. Debt Issuance Costs, Premiums, Discounts, and Loss on Current Refunding**

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. The loss on current refunding of debt is deferred and amortized using the straight-line method over the life of the new debt or the original remaining life of the old debt, whichever is less, in the government-wide statements.

**FLORENCE CITY BOARD OF EDUCATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**  
**(Continued)**

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

	<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	49,404			
Current year amortization	3,060			
Balance to be amortized	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Capital Outlay Pool Warrants, Series 2006 (at issuance)	\$ 28,309	\$ 94,291	\$ —	\$ —
Amount amortized in prior years	9,201	30,645		
Current year amortization	1,415	4,714		
Balance to be amortized	<u>\$ 17,693</u>	<u>\$ 58,932</u>	<u>\$ —</u>	<u>\$ —</u>
Tax Anticipation School Warrants, Series 2008 (at issuance)	\$ 96,158	\$ —	\$ 74,692	\$ —
Amount amortized in prior years	19,633		15,250	
Current year amortization	4,808		3,734	
Balance to be amortized	<u>\$ 71,717</u>	<u>\$ —</u>	<u>\$ 55,708</u>	<u>\$ —</u>
General Obligation School Warrants, Series 2009-A (at issuance)	\$ 71,893	\$ —	\$ 58,727	\$ 105,700
Amount amortized in prior years	23,965		19,576	35,233
Current year amortization	7,189		5,872	10,570
Balance to be amortized	<u>\$ 40,739</u>	<u>\$ —</u>	<u>\$ 33,279</u>	<u>\$ 59,897</u>
Capital Outlay Pool Warrants, Series 2009-QSCB (at issuance)	\$ 21,494	\$ —	\$ —	\$ —
Amount amortized in prior years	3,750			
Current year amortization	1,344			
Balance to be amortized	<u>\$ 16,400</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Tax Anticipation School Warrants, Series 2012 (at issuance)	\$ 292,646	\$ 2,396,538	\$ —	\$ —
Amount amortized in prior years	11,381	93,199		
Current year amortization	19,509	159,769		
Balance to be amortized	<u>\$ 261,756</u>	<u>\$ 2,143,570</u>	<u>\$ —</u>	<u>\$ —</u>
Capital Lease Obligation (at issuance)	\$ —	\$ —	\$ 14,533	\$ —
Amount amortized in prior years			—	
Current year amortization			2,423	
Balance to be amortized	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 12,110</u>	<u>\$ —</u>

**FLORENCE CITY BOARD OF EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2013  
(Continued)**

**NOTE 9—LEASE OBLIGATIONS**

**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, 2013 amounted to \$97,542.

Future minimum annual rental payments are as follows:

<u>Fiscal Year Ending September 30</u>	<u>Amount</u>
2014	\$ 29,088
2015	7,514
Total	<u>\$ 36,602</u>

**B. Capital Lease**

In May 2013, the Board entered into a lease agreement as lessee to finance the acquisition of computer equipment in the total amount of \$892,390 with an initial payment of \$300,133. The economic substance of this lease is that the Board is financing the acquisition through the lease. Accordingly, the capital lease has been recorded at the present value of minimum lease payments discounted at an interest rate of 2.59%.

Obligations under the capital lease at September 30, 2013 are as follows:

<u>Fiscal Year Ending September 30</u>	<u>Totals</u>
2014	\$ 300,132
2015	300,133
Total minimum lease payments	\$ 600,265
Less: Amount representing interest	8,008
Present value of net minimum lease payments	<u>\$ 592,257</u>

**FLORENCE CITY BOARD OF EDUCATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**  
**(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. Ten such claims or related settlements have occurred in the past three years.

**FLORENCE CITY BOARD OF EDUCATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**  
**(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 capital 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. During the 2012 regular session of the Alabama Legislature, Act 2012-377 was enacted to create a new defined benefit plan tier ("Tier 2") for employees with no previous creditable service hired on or after January 1, 2013. Any employees who had any creditable service prior to January 1, 2013 are referred to as "Tier 1" employees. Benefits vest after 10 years of creditable service. Tier 1 employees may retire with full benefits after 25 years of creditable service or at age 60 with 10 years of creditable service. Tier 2 employees may retire with full benefits at age 62 with 10 years of creditable 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) Guaranteed Minimum or (2) Formula, of which the Formula method usually produces the highest monthly benefit. Under this method, Tier 1 retirees are allowed 2.0125% of their average compensation for the three highest years of the last ten years of creditable service and Tier 2 retirees are allowed 1.65% of their average compensation for the five highest years of the last ten years of creditable service; however, the benefit is capped at 80% of the retiree's average final compensation. Disability retirement benefits are calculated in the same manner. Pre-retirement death benefits in the amount of the annual earnable compensation for the fiscal year preceding death are provided to plan members.

The Teachers' Retirement System was established as of September 15, 1939, 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 its 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, 2013  
(Continued)**

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

**B. Funding Policy**

Tier 1 employees are required to contribute seven and one-half percent (7.50%) of their annual covered salary. Effective October 1, 2012, the Board approved to reimburse Tier 1 employees for the .25% increase in their retirement contribution rate. Tier 2 employees are required to contribute six percent (6.00%) of their annual covered salary. The Board is required to contribute the remaining amounts necessary to fund the actuarially determined contributions to ensure sufficient assets will be available to pay benefits when due. Each year the Teachers' Retirement System recommends to the Alabama Legislature the contribution rate for the following fiscal year, with the Legislature setting this rate in the annual appropriation bill. The percentages of the contributions and the amount of contributions made by the Board and the Board's employees equal the required contributions for each year as follows:

<b><u>Fiscal Year Ended September 30,</u></b>	<b><u>2013</u></b>	<b><u>2012</u></b>	<b><u>2011</u></b>
Total percentage of covered payroll	17.56%	17.25%	17.51%
<b><u>Contributions—Tier 1 employees</u></b>			
Percentage contributed by the Board	10.08%	10.00%	12.51%
Percentage contributed by the employees	7.50%	7.25%	5.00%
<b><u>Contributions—Tier 2 employees</u></b>			
Percentage contributed by the Board	9.44%	—	—
Percentage contributed by the employees	6.00%	—	—
Amount contributed by the Board	\$ 2,533,544	\$ 2,388,462	\$ 3,079,959
Amount contributed by the employees	<u>1,777,527</u>	<u>1,731,633</u>	<u>1,230,999</u>
Total contributions	<u>\$ 4,311,071</u>	<u>\$ 4,120,095</u>	<u>\$ 4,310,958</u>

**NOTE 13—POSTEMPLOYMENT BENEFITS PLAN**

**A. Plan Description**

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

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

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

**FLORENCE CITY BOARD OF EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2013  
(Continued)**

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

**B. Funding Policy**

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

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

Retired Member Rates:

Individual Coverage/Non-Medicare Eligible	\$ 151.00
Family Coverage/Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)	391.00
Family Coverage/Non-Medicare Eligible Retired Member and Dependent Medicare Eligible	250.00
Individual Coverage/Medicare Eligible Retired Member	10.00
Family Coverage/Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)	250.00
Family Coverage/Medicare Eligible Retired Member and Dependent Medicare Eligible	109.00
Tobacco surcharge	28.00
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 also taking one of the Hospital Medical Plans.

Otherwise, retirees can purchase the Optional Plans at the normal monthly rate of \$38.00 or \$45.00 for family dental.

Members who retired on or after October 1, 2005 and before January 1, 2012, pay two percent of the employer premium for each year under 25 years of service, and for each year over 25 years of service, the retiree premium is reduced by two percent.

Employees who retire on or after January 1, 2012, with less than 25 years of service, are required to pay four percent for each year under 25 years of service. Additionally, non-Medicare eligible employees who retire on or after January 1, 2012 are required to pay one percent more for each year less than age 65 (age premium) and to pay the net difference between the active employee subsidy and the non-Medicare eligible retiree subsidy (subsidy premium). When the retiree becomes Medicare eligible, the age and subsidy premium no longer applies.

However, the years of service premium (if applicable to the retiree) will continue to be applied throughout retirement. These changes are being phased in over a five-year period.

Surviving Spouse Rates:

Surviving Spouse/Non-Medicare Eligible	671.00
Surviving Spouse/Non-Medicare Eligible and Dependent Non-Medicare Eligible	860.00
Surviving Spouse/Non-Medicare Eligible and Dependent Medicare Eligible	829.00
Surviving Spouse/Medicare Eligible	317.00
Surviving Spouse/Medicare Eligible and Dependent Non-Medicare Eligible	506.00
Surviving Spouse/Medicare Eligible and Dependent Medicare Eligible	475.00

**FLORENCE CITY BOARD OF EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2013  
(Continued)**

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

Participating school systems are required to contribute at a rate established annually by the Legislature, currently \$714 per active employee per month. For the year, 30.38% (\$216.90) 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.

<b>Fiscal Year Ended</b>	<b>Annual Required Contribution</b>	<b>Percentage Contributed</b>
2013	\$ 1,484,137	100%
2012	1,531,486	100%
2011	1,375,540	100%

**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 effect 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 that may be disallowed by the grantor cannot be determined at this time although the Board expects such amounts, if any, to be immaterial.

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, 2018. 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, 2013 was \$1,000,000.

As of September 30, 2013, open contracts for construction totaled \$8,544,597 of which \$4,152,886 had been recorded as cumulative construction in progress.

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

**FLORENCE CITY BOARD OF EDUCATION  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note A)	Variance with Final Budget— Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
State sources	\$ 20,852,643	\$ 20,941,841	\$ 20,917,504	\$ (24,337)
Federal sources	2,000	2,000	2,618	618
Local sources	13,508,980	13,657,480	15,589,607	1,932,127
Other sources	60,000	60,000	290,881	230,881
<b>Total revenues</b>	<b>\$ 34,423,623</b>	<b>\$ 34,661,321</b>	<b>\$ 36,800,610</b>	<b>\$ 2,139,289</b>
<b>EXPENDITURES</b>				
Instructional services	\$ 20,789,713	\$ 20,808,685	\$ 21,457,386	\$ (648,701)
Instructional support services	6,238,258	6,791,908	6,838,069	(46,161)
Operation and maintenance services	3,973,617	3,973,617	4,279,784	(306,167)
Student transportation services	1,472,876	1,472,876	1,677,238	(204,362)
Food services			3,795	(3,795)
General administrative services	1,102,723	1,102,723	1,304,020	(201,297)
Capital outlay			78,939	(78,939)
Other expenditures	371,509	376,009	375,338	671
<b>Total expenditures</b>	<b>\$ 33,948,696</b>	<b>\$ 34,525,818</b>	<b>\$ 36,014,569</b>	<b>\$ (1,488,751)</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>\$ 474,927</b>	<b>\$ 135,503</b>	<b>\$ 786,041</b>	<b>\$ 650,538</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Indirect cost	\$ 141,930	\$ 141,930	\$ 149,619	\$ 7,689
Transfers in	522,375	670,875	651,754	(19,121)
Transfers out	(915,605)	(814,105)	(629,914)	184,191
<b>Total other financing sources (uses)</b>	<b>\$ (251,300)</b>	<b>\$ (1,300)</b>	<b>\$ 171,459</b>	<b>\$ 172,759</b>
<b>Net change in fund balances</b>	<b>\$ 223,627</b>	<b>\$ 134,203</b>	<b>\$ 957,500</b>	<b>\$ 823,297</b>
<b>Fund balances—beginning</b>	<b>3,355,000</b>	<b>4,803,379</b>	<b>4,803,379</b>	<b>—</b>
<b>Fund balances—ending</b>	<b>\$ 3,578,627</b>	<b>\$ 4,937,582</b>	<b>\$ 5,760,879</b>	<b>\$ 823,297</b>

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

**Uses/outflows of resources**

Actual amounts (budgetary basis) available for expenditures shown as Total Expenditures on the budgetary comparison schedule	\$ 36,014,569
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	45,270
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	<u>\$ 36,059,839</u>

# **SINGLE AUDIT SECTION**

**FLORENCE CITY BOARD OF EDUCATION  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	<b>CFDA Number</b>	<b>Federal Expenditures</b>
<b><u>U.S. Department of Health and Human Services</u></b>		
Direct Program:		
Head Start	93.600	\$ 2,011,163
Total U. S. Department of Health and Human Services		\$ 2,011,163
<b><u>U.S. Department of Education</u></b>		
Passed through State Department of Education:		
<i>Special Education Cluster:</i>		
Special Education-Grants to States	84.027	\$ 1,044,431
Special Education-Preschool Grants	84.173	25,599
<i>Subtotal Special Education Cluster</i>		\$ 1,070,030
Title I Grants to Local Educational Agencies	84.010	\$ 1,758,850
Education for Homeless Children and Youth	84.196	25,000
Career and Technical Education-Basic Grants to States	84.048	83,585
English Language Acquisition Grants	84.365	45,696
Improving Teacher Quality State Grants	84.367	253,930
Total U. S. Department of Education		\$ 3,237,091
<b><u>U.S. Department of Agriculture</u></b>		
Passed through State Department of Education:		
<i>Child Nutrition Cluster:</i>		
School Breakfast Program	10.553	\$ 426,382
National School Lunch Program (See Note 2)	10.555	1,429,871
<i>Subtotal Child Nutrition Cluster</i>		\$ 1,856,253
Child and Adult Care Food Program	10.558	2,268
Fresh Fruit and Vegetable Program	10.582	50,016
Total U. S. Department of Agriculture		\$ 1,908,537
<b><u>Social Security Administration</u></b>		
Passed through State Department of Education:		
Social Security-Disability Insurance	96.001	\$ 2,618
Total Social Security Administration		\$ 2,618
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>		<b>\$ 7,159,409</b>

The accompanying notes are an integral part of this schedule.

**FLORENCE CITY BOARD OF EDUCATION**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**SEPTEMBER 30, 2013**

**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.



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Florence City Board of Education as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the Florence City Board of Education's basic financial statements, and have issued our report thereon dated December 27, 2013.

**Internal Control Over Financial Reporting**

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness – 2013-1.



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

### **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 27, 2013.

Florence City Board of Education's response to the finding identified in our audit is described in the accompanying Auditee Response/Corrective Action Plan. We did not audit the Florence City Board of Education's response and, accordingly, we express no opinion on it.

### **Purpose of this Report**

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



The Watkins Johnsey Professional Group, P.C.  
Florence, Alabama  
December 27, 2013



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

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

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

### Report on Compliance for Each Major Federal Program

We have audited the Florence City Board of Education's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Florence City Board of Education's major federal programs for the year ended September 30, 2013. Florence City Board of Education's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### Management's Responsibility

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

### Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Florence City Board of Education's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Florence City Board of Education's compliance.



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### **Opinion on Each Major Federal Program**

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

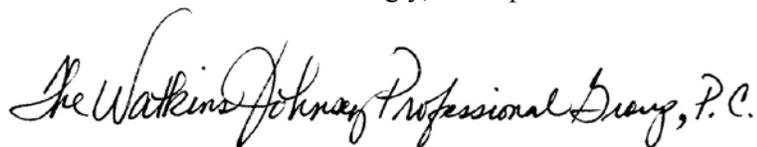
### **Report on Internal Control Over Compliance**

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

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

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

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



The Watkins Johnsey Professional Group, P.C.  
Florence, Alabama  
December 27, 2013

**FLORENCE CITY BOARD OF EDUCATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

**Section I—Summary of Auditor's Results**

*Financial Statements*

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified?   X   Yes        No
- Significant deficiency(ies) identified that are not considered to be material weaknesses?        Yes   X   No
- Noncompliance material to financial statements noted?        Yes   X   No

*Federal Awards*

Internal control over major programs:

- Material weakness(es) identified?        Yes   X   No
- Significant deficiency(ies) identified that are not considered to be material weaknesses?        Yes   X   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?        Yes   X   No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
93. 600	Head Start
84. 010	Title I Grants to Local Educational Agencies

Dollar threshold used to distinguish between type A and type B programs:   \$ 300,000  

Auditee qualified as low-risk auditee?        Yes   X   No

**Section II—Financial Statement Findings**

**Finding Number:** 2013-1

**Type:** Internal Control

**Criteria:** Accurate financial information is vital for the effective management of the Board.

**Condition:** The Board's internal control system did not reliably and consistently produce adjustments to bring the accounting records into alignment with U.S. generally accepted accounting principles. As a result, a material adjustment was required to be made to the accounting records subsequent to the start of the audit process.

**Recommendation:** We recommend the Board review its policies and procedures as it relates to the financial closing process to provide for greater accuracy of financial statements amounts.

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

None to be reported.

# FLORENCE CITY SCHOOLS

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**Superintendent:**  
Janet S. Womack, Ph.D.



## **Auditee Response/Corrective Action Plan**

The Florence City Board of Education respectfully submits the following Auditee Response/Corrective Action Plan for the year ended September 30, 2013.

### **Finding # 2013-1**

Contact persons responsible  
for corrective action:

Chief School Finance Officer

Recommendation:

The Board should review its current policies and procedures to ensure year-end financial information is accurate.

Auditee response:

The Board agrees with the finding.

Corrective action planned:

The Chief School Finance Officer will ensure that all accounting policies and procedures are followed to ensure accuracy in the financial statement presentation.

Anticipated completion date:

September 30, 2014