

FLORENCE CITY BOARD OF EDUCATION

FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

FLORENCE CITY BOARD OF EDUCATION

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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, 2017, and the related notes to the financial statements, which collectively comprise the Florence City 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, 2017, 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, budgetary comparison information, and pension schedules on pages 4 through 12 and pages 43 through 45 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 Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 January 29, 2018, 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
January 29, 2018

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Florence City Schools

Management's Discussion and Analysis (MD&A)

For the Fiscal Year 2017

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, 2017. 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 2017, the Board's Net Position increased by a total of \$4,425,361. The Board experienced a positive General Fund operation of \$1,988,136 resulting in a General Fund balance of \$6,171,282 on the modified accrual basis. Local revenues exceeded budgeted amount by \$1,869,373. This was primarily the result of increases in sales tax and property tax collections.

The Board had \$592,674 of cash remaining from the 2012 Tax Anticipation Warrants and \$26,109,515 of cash remaining from the 2017 Tax Anticipation Warrants at September 30, 2017. These funds will be used to complete the Florence Middle School along with other projects approved in the capital plan. An additional pension liability of \$1,656,000 and the issuance of the 2017 Tax Anticipation School Warrants in the amount of \$35,939,152 along with long-term debt reductions of \$12,218,603, which included the advance refunding and redemption of \$8,510,000 of the 2012 Tax Anticipation Warrants, brought the total Long-Term Debt to \$100,280,530 at the end of the fiscal year. The net result of principal reductions include principal reductions of the Series 2009-A warrants, the Series 2012 warrants, the Series 2014-A warrants, the Series 2015 warrants, a bank note, and the capital lease obligations. The amount due within one year is \$2,698,291.

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, deferred outflows of resources, liabilities, and deferred inflows of resources. 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 2017

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 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.

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. RSI also includes certain pension schedules presented in accordance with professional standards.

**Florence City Schools
Management's Discussion and Analysis (MD&A)
For the Fiscal Year 2017**

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**

	Governmental Activities	
	2017	2016
Current and other assets	\$ 46,056,352	\$ 21,554,294
Capital assets (net)	66,899,750	59,906,969
Total assets	<u>\$ 112,956,102</u>	<u>\$ 81,461,263</u>
Deferred outflows of resources:		
Deferred expense on refunding debt	\$ 566,836	\$ 633,257
Pensions	7,066,368	5,953,992
Total deferred outflows of resources	<u>\$ 7,633,204</u>	<u>\$ 6,587,249</u>
Current and other liabilities	\$ 6,832,610	\$ 4,778,726
Long-term liabilities	100,280,530	74,903,981
Total liabilities	<u>\$ 107,113,140</u>	<u>\$ 79,682,707</u>
Deferred inflows of resources		
Pensions	\$ 1,500,000	\$ 815,000
Total deferred inflows of resources	<u>\$ 1,500,000</u>	<u>\$ 815,000</u>
Net position:		
Net investment in capital assets	\$ 36,458,494	\$ 32,059,651
Restricted	2,316,446	2,707,237
Unrestricted	(26,798,774)	(27,216,083)
Total net position	<u>\$ 11,976,166</u>	<u>\$ 7,550,805</u>

The Board's total net position was \$11,976,166 at the end of fiscal year 2017; an increase of \$4,425,361 from the previous year. Net position related to the net investment in capital assets and debt service totaled \$37,799,297. 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 generally not be sold. Unrestricted net position — the part of net position that can be used for operations without constraints established by enabling legislation, debt covenants, or other legal requirements — is \$(26,798,774). The Board's total net position amount is indicative of the Board's ability to operate for the next year.

**Florence City Schools
Management's Discussion and Analysis (MD&A)
For the Fiscal Year 2017**

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

FLORENCE CITY BOARD OF EDUCATION		Changes in Net Position	
		Governmental Activities	
		2017	2016
<u>Revenues</u>			
Program revenues:			
Charges for services	\$	3,570,236	\$ 3,768,415
Operating grants and contributions		27,999,786	26,028,302
Capital grants and contributions		6,038,759	1,002,527
General revenues:			
Property taxes		9,189,295	9,330,944
Sales taxes		8,234,677	6,826,945
Alcohol beverage taxes		58,402	58,287
Other taxes		151,879	1,290,073
Grants and contributions not restricted for specific programs		3,341,430	3,272,188
Interest earnings		102,265	43,424
Other general revenues		1,524,795	1,794,250
Total revenues	\$	<u>60,211,524</u>	<u>\$ 53,415,355</u>
<u>Expenses</u>			
Instructional services	\$	29,789,579	\$ 30,451,104
Instructional support services		8,788,816	8,632,434
Operation and maintenance services		5,479,117	5,936,235
Student transportation services		1,970,881	2,104,410
Food services		2,849,676	2,815,142
General administrative services		4,790,339	1,480,758
Interest and fiscal charges		1,441,619	1,083,279
Other		676,136	610,354
Total expenses	\$	<u>55,786,163</u>	<u>\$ 53,113,716</u>
Change in net position	\$	4,425,361	\$ 301,639
Net position, beginning		7,550,805	7,249,166
Net position, ending	\$	<u><u>11,976,166</u></u>	<u><u>\$ 7,550,805</u></u>

Florence City Schools Management's Discussion and Analysis (MD&A) For the Fiscal Year 2017

Program revenues, specifically operating grants and contributions, are the largest component of total revenues (62.46%).

- Operating grants and contributions contributed 74.45% of program revenues and 46.50% of total revenues. The major sources of revenues in this category are State foundation program funds, state transportation operating funds, and state and federal funds restricted for specific programs.
- Capital grants and contributions include state Public School Fund capital outlay funds.
- Charges for services include federal reimbursement for meals, student meal purchases, and local school revenues.

General revenues, primarily property taxes and sales taxes, are used to provide \$17,634,253 for expenses not covered by program revenues.

Capital grants and contributions increased by \$5,036,232 from fiscal year 2016 to fiscal year 2017. Of that amount, \$5,010,810 is related to the City of Florence returning Braly Stadium ownership back to Florence City Schools from where it had been held in trust by the City of Florence for the school system.

General administrative services increased by \$3,309,581 from fiscal year 2016 to fiscal year 2017. Of that amount, \$2,762,360 is related to the loss on the demolition and removal of the old Florence Middle School building. In accordance with GASB 34, the loss on the disposal of a capital asset should be charged against a general expense of the government. Therefore, this is why the loss is charged in this location on the financial statements.

Instructional services expenses, primarily salaries and benefits for classroom teachers, are the largest functional expense of the Board (53.40%).

- 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.

Florence City Schools
Management's Discussion and Analysis (MD&A)
For the Fiscal Year 2017

- 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.

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 \$39.2 million. Approximately \$6.1 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 \$1,988,136. This was due primarily to increases in state funding sources for payroll and fringe benefit costs. The general fund revenues increased by \$1,875,397 and expenditures increased by \$6,419.

Overall, the Board's governmental funds had more expenditures than revenues at the end of the fiscal year, thereby negatively impacting total fund balance by \$4,447,852. Other Financing Sources (Uses) contributed \$26,896,026 to the overall \$22,448,174 net change in fund balance.

General Fund Budgetary Highlights

The original 2017 fiscal year budget, adopted on September 13, 2016, 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 amounts 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 June 13, 2017.

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 \$211,502 and an increase in revenues of \$229,844.

- Amendment #1 was necessary to budget the changes due to state allocations not budgeted with the original budget and modifications as necessary due to federal program carry-over funds.

**Florence City Schools
Management's Discussion and Analysis (MD&A)
For the Fiscal Year 2017**

Capital Assets and Debt Administration

Capital Assets - At year-end, the Board had approximately \$66.9 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)

	Governmental Activities	
	September 30,	
	2017	2016
Land	\$ 1,191,673	\$ 1,191,673
Construction in progress	7,403,727	710,973
Land improvements	1,113,386	1,251,480
Buildings and improvements	55,944,820	55,578,646
Vehicles and equipment	1,246,144	1,174,197
Total	\$ 66,899,750	\$ 59,906,969

Construction in progress at year-end included the Florence Middle School project and the Florence High School gym project.

Long-Term Debt - At year-end, the Board had \$100.3 million in warrants, capital leases, notes payable, and net pension obligation. (Additional information on the Board's long-term debt is presented in the notes to the basic financial statements).

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

Outstanding Long-Term Debt

	Governmental Activities		
	For the Year Ended September 30, 2017		
	Beginning Balance	Net Change	Ending Balance
Warrants Payable, Capital Lease Obligations, Note Payable, and Net Pension Obligation	\$ 74,903,981	\$ 25,376,549	\$ 100,280,530

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 2017**

Economic Factors and Next Year's Budget

The following are currently known economic factors considered in going into the 2017-2018 fiscal year:

- The state economy is showing a slight growth, but due to a decrease of 2.86 earned units we expect a decrease in funding from the state Education Trust Fund (ETF) for the 2017-2018 fiscal year. The decrease will not be a large cause of concern to employment since enrollment only decreased by 66 students and appears to be based on a smaller than normal kindergarten class. Funds are available to continue to provide step raises to employees and cover increased cost of retirement and PEEHIP. Local revenues are remaining constant compared to prior year numbers.
- Unemployment in the City of Florence as of September 2017 was 3.9% according to the Chamber of Commerce. The unemployment rate in the City of Florence has decreased by 2% from September 2016.
- Retail stores and eating establishments in the Shoals area are steady with some businesses and establishments closing while others are opening. Sales tax revenue continues to remain steady or slightly increase, while property tax revenue has declined slightly with the closing of a large manufacturing company over a year ago. There are new retail businesses in the process of being built so the future of Florence City Schools funding appears to be stable for the time being.
- The RegionalCare Hospital Partners are in the process of building a \$250 million medical facility in the Florence area. 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. This will also impact property tax revenue for the City of Florence since this is a for-profit hospital.
- 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 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 Florence Middle School construction project is currently underway. This project will be funded with the balance of the Series 2012 Tax Anticipation Warrants issued during 2011-2012, Series 2017 Tax Anticipation Warrants issued during 2016-2017, and local money held by the board.

Florence City Schools
Management's Discussion and Analysis (MD&A)
For the Fiscal Year 2017

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 2017-18 scholastic year is down approximately 1.8% from the 2016-2017 scholastic year. Enrollment is down slightly the last two years and slight population changes are expected from year-to-year. Management is optimistic that the extensive curriculum, the stabilization of the district structure, the addition of a new middle school, 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 \$800 per employee per month for fiscal year 2017-2018. Retirement matching increased from 12.01% to 12.24% for Tier 1 employees and increased from 10.82% to 11.01% for Tier 2 employees for the fiscal year 2017-2018. Benefit costs are undetermined for fiscal year 2018-2019 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 **256-768-3036** during our office hours, Monday through Friday, from 7:30 a.m. to 4:00 p.m., central standard time.

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**FLORENCE CITY BOARD OF EDUCATION
STATEMENT OF NET POSITION
SEPTEMBER 30, 2017**

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 41,541,620
Receivables (net)	2,901,966
Inventories	97,807
Investments-restricted	1,510,994
Prepaid expenses	3,965
Capital assets (net)	66,899,750
Total assets	<u><u>\$ 112,956,102</u></u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred expense on refunding debt	\$ 566,836
Pensions	7,066,368
Total deferred outflows of resources	<u><u>\$ 7,633,204</u></u>
LIABILITIES	
Accounts payable and accrued expenses	\$ 6,789,482
Deferred revenues	43,128
Long-term liabilities:	
Portion due or payable within one year	2,698,291
Portion due or payable after one year	97,582,239
Total liabilities	<u><u>\$ 107,113,140</u></u>
DEFERRED INFLOWS OF RESOURCES	
Pensions	\$ 1,500,000
Total deferred inflows of resources	<u><u>\$ 1,500,000</u></u>
NET POSITION	
Net investment in capital assets	\$ 36,458,494
Restricted for:	
Debt service	1,340,803
Education	602,254
Food services	373,389
Unrestricted	(26,798,774)
Total net position	<u><u>\$ 11,976,166</u></u>

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

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**FLORENCE CITY BOARD OF EDUCATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities
Governmental activities:					
Instructional services	\$ 29,789,579	\$ 432,366	\$ 21,240,895	\$ 5,786,762	\$ (2,329,556)
Instructional support services	8,788,816	544,076	2,367,955	217,358	(5,659,427)
Operation and maintenance services	5,479,117	43,936	1,980,127	5,783	(3,449,271)
Student transportation services	1,970,881	158,137	1,741,194		(71,550)
Food services	2,849,676	2,305,978	167,989		(375,709)
General administrative services	4,790,339	2,962	89,936	28,856	(4,668,585)
Other	676,136	82,781	411,690		(181,665)
Interest and fiscal charges	1,441,619				(1,441,619)
Total governmental activities	<u>\$ 55,786,163</u>	<u>\$ 3,570,236</u>	<u>\$ 27,999,786</u>	<u>\$ 6,038,759</u>	<u>\$ (18,177,382)</u>
General revenues:					
Taxes:					
Property taxes for general purposes					\$ 7,606,603
Property taxes for capital purposes					1,582,692
Local sales taxes					8,234,677
Alcohol beverage taxes					58,402
Other taxes					151,879
Grants and contributions not restricted for specific programs					3,341,430
Interest earnings					102,265
Miscellaneous					1,524,795
Total general revenues					<u>\$ 22,602,743</u>
Change in net position					\$ 4,425,361
Net position—beginning					7,550,805
Net position—ending					<u><u>\$ 11,976,166</u></u>

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

**FLORENCE CITY BOARD OF EDUCATION
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2017**

	<u>General Fund</u>	<u>Capital Projects- All Sources</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 8,097,865	\$ 32,261,731	\$ 1,234,254	\$ 41,593,850
Investments	37,725		1,510,994	1,548,719
Receivables (net)	1,844,496	565,058	492,412	2,901,966
Interfund receivables	39,865		193	40,058
Inventories			97,807	97,807
Prepaid items			3,965	3,965
Total assets	<u>\$ 10,019,951</u>	<u>\$ 32,826,789</u>	<u>\$ 3,339,625</u>	<u>\$ 46,186,365</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Cash deficit	\$	\$	\$ 89,955	\$ 89,955
Accounts payable and accrued expenses	3,848,476	2,192,547	748,459	6,789,482
Interfund payables	193		39,865	40,058
Deferred revenues			43,128	43,128
Total liabilities	<u>\$ 3,848,669</u>	<u>\$ 2,192,547</u>	<u>\$ 921,407</u>	<u>\$ 6,962,623</u>
Fund balances:				
Nonspendable:				
Inventories and prepaid items	\$	\$	\$ 101,772	\$ 101,772
Restricted for:				
Debt service			1,340,803	1,340,803
Education			602,254	602,254
Food services			373,389	373,389
Assigned to:				
Capital projects		30,634,242		30,634,242
Unassigned	6,171,282			6,171,282
Total fund balances	<u>\$ 6,171,282</u>	<u>\$ 30,634,242</u>	<u>\$ 2,418,218</u>	<u>\$ 39,223,742</u>
Total liabilities and fund balances	<u>\$ 10,019,951</u>	<u>\$ 32,826,789</u>	<u>\$ 3,339,625</u>	<u>\$ 46,186,365</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, 2017**

Total fund balance—governmental funds		\$ 39,223,742
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	\$ 105,004,010	
Accumulated depreciation	<u>(38,104,260)</u>	66,899,750
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in governmental funds.		
Warrants and note payable	\$ (56,471,988)	
Capital lease obligations	(475,249)	
Unamortized debt discount and premium	(1,238,293)	
Pensions	<u>(42,095,000)</u>	(100,280,530)
Deferred outflows of resources related to pensions and bond refunding are not reported in governmental funds.		
Pensions	\$ 7,066,368	
Refunding debt	<u>566,836</u>	7,633,204
Deferred inflows of resources related to pensions are not reported in governmental funds.		
		<u>(1,500,000)</u>
Net position of governmental activities		<u><u>\$ 11,976,166</u></u>

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

FLORENCE CITY BOARD OF EDUCATION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	<u>General Fund</u>	<u>Capital Projects- All Sources</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
State sources	\$ 24,402,123	\$ 704,314	\$ 332,611	\$ 25,439,048
Federal sources	2,340		5,215,746	5,218,086
Local sources	17,129,838	4,998,931	2,034,207	24,162,976
Other sources	214,327		165,159	379,486
Total revenues	<u>\$ 41,748,628</u>	<u>\$ 5,703,245</u>	<u>\$ 7,747,723</u>	<u>\$ 55,199,596</u>
EXPENDITURES				
Instructional services	\$ 23,896,736	\$ 41,172	\$ 3,364,300	\$ 27,302,208
Instructional support services	7,235,225	288,343	866,484	8,390,052
Operation and maintenance services	5,093,542	239,097	11,261	5,343,900
Student transportation services	1,713,106		250,990	1,964,096
Food services	6,414		2,946,625	2,953,039
General administrative services	1,332,355	483,203	144,912	1,960,470
Capital outlay	48,074	6,692,754	15,895	6,756,723
Debt service		603,119	3,716,247	4,319,366
Other expenditures	403,032		254,562	657,594
Total expenditures	<u>\$ 39,728,484</u>	<u>\$ 8,347,688</u>	<u>\$ 11,571,276</u>	<u>\$ 59,647,448</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 2,020,144</u>	<u>\$ (2,644,443)</u>	<u>\$ (3,823,553)</u>	<u>\$ (4,447,852)</u>
OTHER FINANCING SOURCES (USES)				
Indirect cost	\$ 230,191			\$ 230,191
Payment to refunded debt escrow agent			(9,274,435)	(9,274,435)
Proceeds of refunding debt		35,685,000		35,685,000
Premium on refunding debt		254,152		254,152
Other financing sources	1,118			1,118
Transfers in	116,183		12,819,712	12,935,895
Transfers out	(379,500)	(12,440,212)	(116,183)	(12,935,895)
Total other financing sources (uses)	<u>\$ (32,008)</u>	<u>\$ 23,498,940</u>	<u>\$ 3,429,094</u>	<u>\$ 26,896,026</u>
Net change in fund balances	<u>\$ 1,988,136</u>	<u>\$ 20,854,497</u>	<u>\$ (394,459)</u>	<u>\$ 22,448,174</u>
Fund balances—beginning	4,183,146	9,779,745	2,812,677	16,775,568
Fund balances—ending	<u><u>\$ 6,171,282</u></u>	<u><u>\$ 30,634,242</u></u>	<u><u>\$ 2,418,218</u></u>	<u><u>\$ 39,223,742</u></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, 2017**

Total net change in fund balances—governmental funds		\$ 22,448,174
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	\$ 6,756,723	
Depreciation expense	<u>(2,012,392)</u>	4,744,331
In the statement of activities, only the gain or loss on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the net book value of the capital assets disposed.		
Loss on disposition of capital assets		(2,762,360)
In the statement of activities, the value of capital assets contributed to the Board are reported as revenue from capital contributions, but these are not reported as revenue in the governmental funds.		
		5,010,810
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 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	\$ 2,787,528	
Payment to refunded debt escrow agent	9,274,435	
Proceeds of refunding debt	(35,685,000)	
Premium on refunding debt	(254,152)	
Amortization of debt discount, premium, and deferred expense of refunding debt	<u>90,219</u>	(23,786,970)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Pensions		<u>(1,228,624)</u>
Change in net position of governmental activities		<u><u>\$ 4,425,361</u></u>

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

**FLORENCE CITY BOARD OF EDUCATION
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
SEPTEMBER 30, 2017**

	Agency Funds
ASSETS	
Cash and cash equivalents	\$ 227,183
Receivables (net)	492
Total assets	\$ 227,675
 LIABILITIES	
Accrued expenses	\$ 492
Due to external organizations	227,183
Total liabilities	\$ 227,675

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

**FLORENCE CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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, 2017
(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

Basis of accounting refers to the point at which revenues, expenditures, expenses, and transfers (and assets, deferred outflows of resources, liabilities, and deferred inflows of resources) are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied.

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, 2017
(Continued)**

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Assets, Liabilities, Deferred Outflows/Inflows, and Net Position/Fund Balance

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, 2017
(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:

Description	Capitalization Threshold	Estimated Useful Lives
Land improvements-exhaustible	\$ 50,000	20 years
Buildings and building improvements	50,000	7 – 50 years
Machinery, equipment, vehicles, furniture, and fixtures	5,000	5 – 20 years

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

Leases

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

FLORENCE CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017
(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.

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.

Debt Discounts, Premiums, and Issuance Costs

In the fund financial statements, debt discounts and debt premiums are treated as period costs in the year of issue. Debt premiums and discounts are shown as an “Other Financing Source/Use”.

In the government-wide financial statements, debt discounts and debt premiums are amortized over the term of the debt using the straight-line method. Debt discounts and premiums are presented as a reduction and increase, respectively, of the face amount of the long-term obligation.

Issuance costs, except any portion related to prepaid insurance costs, are recognized as an expenditure in the period incurred.

Deferred Inflow/Outflow from Current Refunding or Advance Refunding of Debt

In the government-wide financial statements, the difference between the re-acquisition price (new debt) and the net carrying value of the old debt on refunded debt transactions is recorded as a deferred inflow/outflow of resources and recognized as a component of interest expense using the straight-line method over the shorter of the remaining life of the old debt or the life of the new 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.

FLORENCE CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017
(Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of The Teachers' Retirement System of Alabama (TRS) and additions to/deductions from TRS's fiduciary net position have been determined on the same basis as they are reported by TRS. For this purpose, contributions are recognized as revenues when earned, pursuant to plan requirements, and benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. TRS's financial statements are prepared in accordance with GASB requirements. TRS is considered a component unit of the State of Alabama and is included in the State's Comprehensive Annual Financial Report.

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 regulations of other governments, or laws 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.

FLORENCE CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017
(Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

FLORENCE CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017
(Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 2016-2017 fiscal year was September 15, 2016. The Board approved and submitted its original budget on September 13, 2016.

Deficit Fund Balance in Individual Funds

As of September 30, 2017, the Board had deficit fund balances of \$87,650 in its IDEA-Part B Grant fund and \$179,425 in its Title I, Part A Grant fund. These deficit fund balances are the result of salary accruals and will be eliminated on October 1, 2017, when State appropriations for the upcoming fiscal year are available.

Excess of Expenditures over Appropriations

The following funds incurred expenditures in excess of appropriations of the following amount for the year ended September 30, 2017:

Other Governmental Funds:

Other Food Service Income-CAPNA	\$	203,211
Debt Service-Local Fund Sources		8,111,211

**FLORENCE CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017
(Continued)**

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, 2017, 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:

Interfund Payables	Interfund Receivables		
	General Fund	Other Governmental	Totals
General Fund	\$ -	\$ 193	\$ 193
Other governmental	39,865		39,865
Totals	\$ 39,865	\$ 193	\$ 40,058

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, 2017
(Continued)**

NOTE 5—RECEIVABLES AND PAYABLES

Receivables at September 30, 2017 were as follows:

Governmental Activities	Due from Other Governments	Due from Others	Totals
General Fund	\$ 1,709,919	\$ 134,577	\$ 1,844,496
Capital projects-all sources	565,058		565,058
Other governmental	460,168	32,244	492,412
Agency funds	492		492
Totals	<u>\$ 2,735,637</u>	<u>\$ 166,821</u>	<u>\$ 2,902,458</u>

Payables at September 30, 2017 were as follows:

Governmental Activities	Vendors	Due to Other Governments	Salaries and Benefits	Accrued Interest	Totals
General Fund	\$ 814,527	\$ 8,986	\$ 3,024,963	\$ -	\$ 3,848,476
Capital projects-all sources	2,189,259			3,288	2,192,547
Other governmental	154,394		421,416	172,649	748,459
Agency funds	492				492
Totals	<u>\$ 3,158,672</u>	<u>\$ 8,986</u>	<u>\$ 3,446,379</u>	<u>\$ 175,937</u>	<u>\$ 6,789,974</u>

NOTE 6—INTERFUND TRANSFERS

Interfund transfers for the year ended September 30, 2017 consisted of the following:

		Transfer from			
		Capital			
		General Fund	Projects- All Sources	Other Governmental	Totals
Transfer to	General Fund	\$ -	\$ -	\$ 116,183	\$ 116,183
	Other governmental	379,500	12,440,212		12,819,712
	Totals	<u>\$ 379,500</u>	<u>\$ 12,440,212</u>	<u>\$ 116,183</u>	<u>\$ 12,935,895</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, 2017
(Continued)**

NOTE 7—CAPITAL ASSETS

Capital asset activity for the fiscal year was as follows:

Governmental Activities	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable assets:				
Land	\$ 1,191,673	\$ -	\$ -	\$ 1,191,673
Construction in progress	710,973	6,692,754		7,403,727
Depreciable assets:				
Land improvements-exhaustible	2,863,387		285,836	2,577,551
Buildings and building improvements	87,027,139	4,784,370	6,064,251	85,747,258
Machinery, equipment, vehicles, furniture, and fixtures	9,373,835	290,409	1,580,443	8,083,801
Total capital assets	\$ 101,167,007	\$ 11,767,533	\$ 7,930,530	\$ 105,004,010
Less accumulated depreciation:				
Land improvements-exhaustible	\$ 1,611,907	\$ 102,401	\$ 250,143	\$ 1,464,165
Buildings and building improvements	31,448,493	1,743,939	3,389,994	29,802,438
Machinery, equipment, vehicles, furniture, and fixtures	8,199,638	166,052	1,528,033	6,837,657
Total accumulated depreciation	\$ 41,260,038	\$ 2,012,392	\$ 5,168,170	\$ 38,104,260
Capital assets (net)	\$ 59,906,969	\$ 9,755,141	\$ 2,762,360	\$ 66,899,750

Depreciation expense was charged to the following functions/programs:

Governmental Activities	Amount
Instructional services	\$ 1,612,731
Instructional support services	197,013
Operation and maintenance services	86,734
Food services	83,917
General administrative services	31,997
Total depreciation expense	<u>\$ 2,012,392</u>

**FLORENCE CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017
(Continued)**

NOTE 8—LONG-TERM LIABILITIES

Long-term Liabilities Activity

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

Governmental Activities	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation School					
Warrants, Series 2009-A	\$ 1,905,000	\$ -	\$ 615,000	\$ 1,290,000	\$ 635,000
Unamortized debt discount	(15,660)		(5,873)	(9,787)	(5,873)
Capital Outlay Pool					
Warrants, Series 2009-QSCB	1,533,000			1,533,000	
Tax Anticipation School					
Warrants, Series 2012	18,670,000		9,790,000	8,880,000	1,160,000
Unamortized debt premium	1,664,263		896,011	768,252	81,584
Capital Improvement Pool					
Refunding Bonds, Series 2014-A	2,279,257		191,852	2,087,405	198,889
Unamortized debt premium	317,645		32,860	284,785	32,860
Progress Bank Loan—					
Band Boosters	16,976		5,393	11,583	5,659
Tax Anticipation School					
Refunding Warrants, Series 2015	7,095,000		110,000	6,985,000	110,000
Unamortized debt discount	(61,032)		(5,346)	(55,686)	(5,346)
Tax Anticipation School					
Warrants, Series 2017		35,685,000		35,685,000	
Unamortized debt premium		254,152	3,423	250,729	10,269
Capital Lease Obligations	1,060,532		585,283	475,249	475,249
Net Pension Liability	40,439,000	1,656,000		42,095,000	
Totals	<u>\$ 74,903,981</u>	<u>\$ 37,595,152</u>	<u>\$ 12,218,603</u>	<u>\$ 100,280,530</u>	<u>\$ 2,698,291</u>

FLORENCE CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017
(Continued)

NOTE 8—LONG-TERM LIABILITIES (Continued)

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 at rates of 1.00% to 3.45% and will be fully paid on December 1, 2018.

The State of Alabama, Department of Education in connection with the Alabama Public School and College Authority issued the Capital Improvement Pool Refunding Bonds, Series 2014-A, in order to refund the Capital Improvement Bonds, Series 2006 issuance. The Board's portion of the debt was \$2,646,646 at the time of issuance, May 28, 2014. These warrants are payable solely out of, and secured by pledge and assignment of, the capital outlay funds allocated annually to the Board from the Public School Funds. These warrants bear interest at rates of 2.00% to 5.00% and will be fully paid on February 1, 2026.

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. 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, Series 2012, 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 at rates of 3.00% to 5.00% and will be fully paid on March 1, 2027. Upon the issuance of the Tax Anticipation School Warrants, Series 2017, the Board advance refunded and redeemed \$8,510,000 of the Series 2012 Warrants.

On April 25, 2014, the Board entered into an installment loan agreement with Progress Bank in the amount of \$27,500 for the purchase of band equipment. This note bears an interest rate of 5.00% and will be fully paid on August 4, 2019. The loan is being repaid from band funds.

FLORENCE CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017
(Continued)

NOTE 8—LONG-TERM LIABILITIES (Continued)

The Board issued Tax Anticipation School Refunding Warrants, Series 2015, dated March 1, 2015, in the amount of \$7,200,000 to (1) advance refund and redeem the Tax Anticipation School Warrants, Series 2008 and (2) construct certain capital improvements with additional proceeds of \$405,000. These warrants were issued on a parity of lien with the Tax Anticipation School Warrants, Series 2012, both of which 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 0.85% to 2.85% and will be fully paid on March 1, 2028.

The Board issued Tax Anticipation School Warrants, Series 2017, dated June 1, 2017, in the amount of \$35,685,000 to (1) advance refund and redeem \$8,510,000 of outstanding 2012 Series Tax Anticipation School Warrants and (2) construct a new public middle school facility and related improvements, equipment, property, and fixtures. These warrants were issued on a parity of lien with the Tax Anticipation School Warrants, Series 2012 and the Tax Anticipation School Refunding Warrants, Series 2015, all of which 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 at rates of 3.00% to 5.00% and will be fully paid on March 1, 2042. As a result, \$8,510,000 of the 2012 Series warrants are considered to be defeased and the liability for those warrants has been removed from the Board's Statement of Net Position. This advance refunding resulted in an economic loss (the difference between the present values of the debt service payments on the old and new debt) of \$830,627. However, the advance refunding was undertaken as a debt restructuring to extend the maturities on certain existing debt to allow the Board to borrow sufficient new money to construct a new public middle school facility without any new revenue sources.

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

Fiscal Year Ending September 30	<u>Warrants Payable</u>		<u>Notes Payable</u>		Total Debt Service to Maturity
	Principal	Interest	Principal	Interest	
2018	\$ 2,103,889	\$ 2,030,164	\$ 5,659	\$ 588	\$ 4,140,300
2019	2,186,666	1,950,418	5,924	297	4,143,305
2020	1,576,296	1,880,528			3,456,824
2021	1,637,407	1,821,992			3,459,399
2022	1,713,889	1,760,391			3,474,280
2023–2027	10,732,258	7,744,737			18,476,995
2028–2032	10,025,000	5,856,925			15,881,925
2033–2037	12,005,000	3,886,000			15,891,000
2038–2042	14,480,000	1,412,913			15,892,913
Totals	\$ 56,460,405	\$ 28,344,068	\$ 11,583	\$ 885	\$ 84,816,941

FLORENCE CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017
(Continued)

NOTE 8—LONG-TERM LIABILITIES (Continued)

Debt Premiums and Discounts

The activity for the fiscal year is as follows:

	<u>Premium</u>	<u>Discount</u>
General Obligation School Warrants, Series 2009-A (at issuance)	\$ -	\$ 58,727
Amount amortized in prior years		43,067
Current year amortization		5,873
Balance to be amortized	<u>\$ -</u>	<u>\$ 9,787</u>
Tax Anticipation School Warrants, Series 2012 (at issuance)	\$ 2,396,538	\$ -
Amount amortized in prior years	732,275	
Allocation for refunded debt	762,303	
Current year amortization	133,708	
Balance to be amortized	<u>\$ 768,252</u>	<u>\$ -</u>
Capital Improvement Pool Refunding Bonds, Series 2014-A (at issuance)	\$ 394,318	\$ -
Amount amortized in prior years	76,673	
Current year amortization	32,860	
Balance to be amortized	<u>\$ 284,785</u>	<u>\$ -</u>
Tax Anticipation School Warrants, Series 2015 (at issuance)	\$ -	\$ 69,495
Amount amortized in prior years		8,463
Current year amortization		5,346
Balance to be amortized	<u>\$ -</u>	<u>\$ 55,686</u>
Tax Anticipation School Warrants, Series 2017 (at issuance)	\$ 254,152	\$ -
Amount amortized in prior years		
Current year amortization	3,423	
Balance to be amortized	<u>\$ 250,729</u>	<u>\$ -</u>

**FLORENCE CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017
(Continued)**

NOTE 9—LEASE OBLIGATIONS

Operating Leases

The Board has entered into various leases, on a month-to-month basis, for office equipment and modular classroom and administrative facilities. 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, 2017 amounted to \$478,061.

Capital Leases

In January 2015, the Board entered into a lease agreement as lessee to finance the acquisition of computer equipment in the total amount of \$102,974. 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 5.48%. This capital lease was fully satisfied during the fiscal year.

In March 2015, the Board entered into a lease agreement as lessee to finance the acquisition of computer equipment in the total amount of \$255,325. 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 5.48%. This capital lease was fully satisfied during the fiscal year.

In April 2016, the Board entered into a lease agreement as lessee to finance the acquisition of computer equipment in the total amount of \$488,187. 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 0.90%.

In May 2016, the Board entered into a lease agreement as lessee to finance the acquisition of computer equipment in the total amount of \$944,000. 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 2.541%.

Obligations under these capital leases at September 30, 2017 are as follows:

Fiscal Year Ending September 30		
2018	\$	484,748
Total minimum lease payments	\$	484,748
Less: amount representing interest		9,499
Present value of net minimum lease payments	\$	475,249

FLORENCE CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017
(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. Seven such claims or related settlements have occurred in the past three years.

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.

FLORENCE CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017
(Continued)

NOTE 12—DEFINED BENEFIT PENSION PLAN

Plan Description

The Teachers' Retirement System of Alabama (TRS), a cost-sharing multiple-employer public employee retirement plan, 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 TRS is vested in its Board of Control, which consists of 15 trustees. The plan is administered by the Retirement Systems of Alabama (RSA). Title 16-Chapter 25 of the Code of Alabama grants the authority to establish and amend the benefit terms to the TRS Board of Control. The plan issues a publicly available financial report that can be obtained at www.rsa-al.gov.

Benefits Provided

State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the TRS. Benefits for TRS members vest after 10 years of creditable service. TRS members who retire after age 60 with 10 years or more of creditable service or with 25 years of service (regardless of age) are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, members of the TRS are allowed 2.0125% of their average final compensation (highest three of the last ten years) for each year of service.

Act 377 of the Legislature of 2012 established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 TRS members are eligible for retirement after age 62 with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the TRS are allowed 1.65% of their average final compensation (highest five of the last ten years) for each year of service.

Members are eligible for disability retirement if they have 10 years of creditable service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits are calculated and paid to the beneficiary based on the member's age, service credit, employment status, and eligibility for retirement.

Contributions

Covered members of the TRS contribute 5% of earnable compensation to the TRS as required by statute until September 30, 2011. From October 1, 2011 to September 30, 2012, covered members of the TRS were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered members of the TRS are required by statute to contribute 7.50% of earnable compensation. Tier 2 covered members of the TRS contribute 6% of earnable compensation to the TRS as required by statute.

Participating employers' contractually required contribution rate for the year ended September 30, 2017 was 12.01% of annual pay for Tier 1 members and 10.82% of annual pay for Tier 2 members. These required contribution rates are a percent of annual payroll, actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the Board were \$2,989,478 for the year ended September 30, 2017.

**FLORENCE CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017
(Continued)**

NOTE 12—DEFINED BENEFIT PENSION PLAN (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

At September 30, 2017, the Board reported a liability of \$42,095,000 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2015. The Board's proportion of the collective net pension liability was based on the employers' shares of contributions to the pension plan relative to the total employer contributions of all participating TRS employers. At September 30, 2016, the Board's proportion was 0.388832%, which was an increase of 0.002434% from its proportion measured as of September 30, 2015.

For the year ended September 30, 2017, the Board recognized pension expense of \$4,165,213. At September 30, 2017, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 608,000	\$ -
Changes in proportion and differences between employer contributions and proportionate share of contributions	444,000	416,000
Changes in assumptions	2,972,000	
Employer contributions subsequent to the measurement date	3,042,368	
Differences between expected and actual experience		1,084,000
Totals	\$ 7,066,368	\$ 1,500,000

The Board reported \$3,042,368 as deferred outflows of resources related to pensions resulting from Board contributions subsequent to the measurement date, which will be recognized as a reduction of the net pension liability in the year ended September 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended September 30	Amount
2018	\$ 480,000
2019	480,000
2020	1,266,000
2021	140,000
2022	158,000

**FLORENCE CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017
(Continued)**

NOTE 12—DEFINED BENEFIT PENSION PLAN (Continued)

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of September 30, 2015 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Projected salary increases	3.25% – 5.00%
Investment rate of return	7.75%, net of pension plan investment expense

The actuarial assumptions used in the actuarial valuation as of September 30, 2015 were based on the results of an actuarial experience study for the period October 1, 2010 – September 30, 2015. The Board of Control accepted and approved these changes on September 13, 2016.

Mortality rates for TRS were based on the RP-2000 White Collar Mortality Table projected to 2020 using scale BB and adjusted 115% for all ages for males and 112% for ages 78 and over for females. The rates of disabled mortality were based on the RP-2000 Disabled Mortality Table projected to 2020 using scale BB and adjusted 105% for males and 120% for females.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rate of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of geometric real rates of return for each major asset class are as follows:

Asset Class	Target Allocation	Long-Term Expected Rate of Return *
Fixed Income	17.00%	4.40%
U.S. Large Stocks	32.00%	8.00%
U.S. Mid Stocks	9.00%	10.00%
U.S. Small Stocks	4.00%	11.00%
International Developed Market Stocks	12.00%	9.50%
International Emerging Market Stocks	3.00%	11.00%
Alternatives	10.00%	10.10%
Real Estate	10.00%	7.50%
Cash	3.00%	1.50%

* Includes assumed rate of inflation of 2.50%

**FLORENCE CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017
(Continued)**

NOTE 12—DEFINED BENEFIT PENSION PLAN (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, components of the pension plan’s fiduciary net position were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Board’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table presents the Board’s proportionate share of the net pension liability calculated using the discount rate of 7.75%, as well as what the Board’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	1% Decrease	Current Rate	1% Increase
Board's proportionate share of the collective net pension liability	\$ 56,080,000	\$ 42,095,000	\$ 30,255,000

Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued TRS financial report for the fiscal year ended September 30, 2016. The supporting actuarial information is included in the GASB Statement No. 67 report for the TRS prepared as of September 30, 2016. The auditor’s report dated September 22, 2017 on the total pension liability, total deferred outflows of resources, total deferred inflows of resources, total pension expense for the sum of all participating entities as of September 30, 2016 along with supporting schedules is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

NOTE 13—POSTEMPLOYMENT BENEFITS PLAN

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, 2017
(Continued)**

NOTE 13—POSTEMPLOYMENT BENEFITS PLAN (Continued)

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	\$ 166.00
Family Coverage/Non-Medicare Eligible Retired Member and Non-Medicare Eligible Non-Spousal Dependent(s)	421.00
Family Coverage/Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) with Non-Medicare Eligible Spouse	521.00
Family Coverage/Non-Medicare Eligible Retired Member and Medicare Eligible Non-Spousal Dependent(s)	280.00
Family Coverage/Non-Medicare Eligible Retired Member and Medicare Eligible Spousal Dependent	310.00
Individual Coverage/Medicare Eligible Retired Member	25.00
Family Coverage/Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)—No Spouse	280.00
Family Coverage/Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) with Non-Medicare Eligible Spouse	380.00
Family Coverage/Medicare Eligible Retired Member and Medicare Eligible Non-Spousal Dependent(s)	139.00
Family Coverage/Medicare Eligible Retired Member and Medicare Eligible Spousal Dependent	169.00
Tobacco surcharge	50.00
Wellness premium	50.00
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 enrolled in one of the Hospital Medical Plans. Otherwise, retirees can purchase the Optional Plans at the normal monthly rate of \$38.00 or \$50.00 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.

Surviving Spouse Rates:

Surviving Spouse/Non-Medicare Eligible	816.00
Surviving Spouse/Non-Medicare Eligible and Dependent Non-Medicare Eligible	1,028.00
Surviving Spouse/Non-Medicare Eligible and Dependent Medicare Eligible	1,067.00
Surviving Spouse/Medicare Eligible	430.00
Surviving Spouse/Medicare Eligible and Dependent Non-Medicare Eligible	720.00
Surviving Spouse/Medicare Eligible and Dependent Medicare Eligible	759.00

**FLORENCE CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017
(Continued)**

NOTE 13—POSTEMPLOYMENT BENEFITS PLAN (Continued)

Participating school systems are required to contribute at a rate established annually by the Legislature, currently \$800 per active employee per month. For the year, 19.07% (\$152.57) 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.

Fiscal Year Ended	Annual Required Contribution	Percentage Contributed
2017	\$ 934,859	100%
2016	1,317,943	100%
2015	1,136,936	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, 2017 was \$1,000,000.

As of September 30, 2017, open contracts for construction totaled \$34,883,700, of which \$7,403,727 had been recorded as cumulative construction in progress.

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

**FLORENCE CITY BOARD OF EDUCATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note A)	Variance with Final Budget— Positive (Negative)
	Original	Final		
REVENUES				
State sources	\$ 24,234,402	\$ 24,401,608	\$ 24,402,123	\$ 515
Federal sources	1,800	1,800	2,340	540
Local sources	15,232,559	15,260,465	17,129,838	1,869,373
Other sources	107,500	142,232	214,327	72,095
Total revenues	\$ 39,576,261	\$ 39,806,105	\$ 41,748,628	\$ 1,942,523
EXPENDITURES				
Instructional services	\$ 23,907,059	\$ 24,141,972	\$ 23,962,661	\$ 179,311
Instructional support services	7,260,331	7,326,410	7,257,837	68,573
Operation and maintenance services	5,634,325	5,530,264	5,102,630	427,634
Student transportation services	1,832,041	1,832,041	1,715,318	116,723
Food services			6,414	(6,414)
General administrative services	1,219,505	1,219,505	1,336,194	(116,689)
Capital outlay		12,375	48,074	(35,699)
Other expenditures	427,257	429,453	403,934	25,519
Total expenditures	\$ 40,280,518	\$ 40,492,020	\$ 39,833,062	\$ 658,958
Excess (deficiency) of revenues over expenditures	\$ (704,257)	\$ (685,915)	\$ 1,915,566	\$ 2,601,481
OTHER FINANCING SOURCES (USES)				
Indirect cost	\$ 253,408	\$ 253,408	\$ 230,191	\$ (23,217)
Other financing sources			1,118	1,118
Transfers in	40,867	40,867	116,183	75,316
Transfers out	(220,867)	(405,975)	(379,500)	26,475
Total other financing sources (uses)	\$ 73,408	\$ (111,700)	\$ (32,008)	\$ 79,692
Net change in fund balances	\$ (630,849)	\$ (797,615)	\$ 1,883,558	\$ 2,681,173
Fund balances—beginning	6,917,500	7,312,687	7,312,687	-
Fund balances—ending	\$ 6,286,651	\$ 6,515,072	\$ 9,196,245	\$ 2,681,173

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 \$ 39,833,062

Differences—budget to GAAP:

Salaries of teachers and other personnel with contracts of less than 12 months are paid over a 12-month period. Expenditures for salaries and related fringe benefits are budgeted based on the amount that will be paid from budgeted revenues. However, salaries and related fringe benefits earned but not paid are reported as expenditures on the financial statements (104,578)

Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds \$ 39,728,484

FLORENCE CITY BOARD OF EDUCATION
SCHEDULE OF THE EMPLOYER'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Teachers' Retirement System of Alabama

Last 10 Fiscal Years *
(Dollar amounts in thousands)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Board's proportion of the net pension liability (asset)	0.382250%	0.386398%	0.388832%							
Board's proportionate share of the net pension liability (asset)	\$ 34,726	\$ 40,439	\$ 42,095	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Board's covered-employee payroll	\$ 24,272	\$ 24,466	\$ 24,765	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Board's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	69.90%	60.50%	58.83%							
Plan fiduciary net position as a percentage of the total pension liability	71.01%	67.51%	67.93%							

* The amounts presented for each fiscal year were determined as of September 30.

**FLORENCE CITY BOARD OF EDUCATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS**

Teachers' Retirement System of Alabama

Last 10 Fiscal Years

(Dollar amounts in thousands)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Contractually required contribution	\$ 2,851	\$ 2,924	\$ 2,989	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contribution	2,851	2,924	2,989							
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Board's covered-employee payroll	\$ 24,466	\$ 24,765	\$ 25,296	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions as a percentage of covered-employee payroll	11.65%	11.81%	11.82%							

SINGLE AUDIT SECTION

**FLORENCE CITY BOARD OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	CFDA Number	Federal Expenditures
<u>U.S. Department of Education</u>		
Passed through State Department of Education:		
<i>Special Education Cluster:</i>		
Special Education-Grants to States	84.027	\$ 994,950
Special Education-Preschool Grants	84.173	34,741
<i>Subtotal Special Education Cluster</i>		\$ 1,029,691
Title I Grants to Local Educational Agencies	84.010	\$ 1,938,503
Education for Homeless Children and Youth	84.196	25,000
Career and Technical Education-Basic Grants to States	84.048	82,895
Advanced Placement Program	84.330	5,484
English Language Acquisition State Grants	84.365	12,266
Supporting Effective Instruction State Grant	84.367	251,515
Passed through State Department of Rehabilitation Services:		
Rehabilitation Services-Vocational Rehabilitation Grants to States	84.126	25,325
Total U. S. Department of Education		\$ 3,370,679
<u>U.S. Department of Agriculture</u>		
Passed through State Department of Education:		
<i>Child Nutrition Cluster:</i>		
School Breakfast Program	10.553	\$ 417,480
National School Lunch Program (See Note 2)	10.555	1,414,500
<i>Subtotal Child Nutrition Cluster</i>		\$ 1,831,980
State Administrative Expenses for Child Nutrition	10.560	13,087
Total U. S. Department of Agriculture		\$ 1,845,067
<u>Social Security Administration</u>		
Passed through State Department of Education:		
Social Security-Disability Insurance	96.001	\$ 2,340
Total Social Security Administration		\$ 2,340
TOTAL EXPENDITURES OF FEDERAL AWARDS		\$ 5,218,086

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, 2017**

NOTE 1—BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal award activity of the Florence City Board of Education (the “Board”) under programs of the federal government for the year ended September 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Board, it is not intended to and does not present the financial position or the changes in financial position of the Board.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts, if any, shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

NOTE 3—INDIRECT COST RATE

The Board has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 4—NON-CASH ASSISTANCE

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



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

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**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, 2017, 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 January 29, 2018.

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.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency — 2017-001.



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Compliance and Other Matters

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

Florence City Board of Education's Response to Findings

Florence City Board of Education's response to the finding identified in our audit is described in the accompanying Auditee Response/Corrective Action Plan. Florence City Board of Education's response was not subjected to the auditing procedures applied in the audit of the financial statements 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
January 29, 2018



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

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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 Compliance Supplement* that could have a direct and material effect on each of the Florence City Board of Education's major federal programs for the year ended September 30, 2017. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2017.

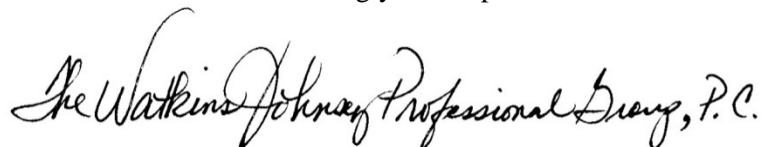
Report on Internal Control Over Compliance

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 the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



The Watkins Johnsey Professional Group, P.C.
Florence, Alabama
January 29, 2018

**FLORENCE CITY BOARD OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Section I—Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
• Material weakness(es) identified?	<u> </u> Yes <u> X </u> No
• Significant deficiency(ies) identified?	<u> X </u> Yes <u> </u> None reported
Noncompliance material to financial statements noted?	<u> </u> Yes <u> X </u> No

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	<u> </u> Yes <u> X </u> No
• Significant deficiency(ies) identified?	<u> </u> Yes <u> X </u> None reported
Type of auditor's report issued on compliance for major programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516a?	<u> </u> Yes <u> X </u> No
Identification of major programs:	

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

Dollar threshold used to distinguish between type A and type B programs:	<u>\$ 750,000</u>
Auditee qualified as low-risk auditee?	<u> X </u> Yes <u> </u> No

Section II—Financial Statement Findings

Finding Number: 2017-001

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, an 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.



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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, 2017.

Finding # 2017-001

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, 2018