

**Audited Financial Statements
And Other Financial Information
Athens City Board of Education
Athens, Alabama
September 30, 2010**

**AUDITED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION**

**ATHENS CITY BOARD OF EDUCATION
ATHENS, ALABAMA**

SEPTEMBER 30, 2010

TABLE OF CONTENTS

| | <u>PAGE</u> |
|--|-------------|
| INDEPENDENT AUDITORS' REPORT | 1 |
| MANAGEMENT'S DISCUSSION AND ANALYSIS | 3 |
| FINANCIAL STATEMENTS: | |
| Statement of Net Assets | 12 |
| Statement of Activities..... | 13 |
| Balance Sheet – Governmental Funds | 14 |
| Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets | 15 |
| Statement of Revenues, Expenditures, and Changes In Fund Balances of Governmental Funds..... | 16 |
| Reconciliation of the Statement of Revenues, Expenditures, and Changes In Fund Balances of Governmental Funds to the Statement of Activities | 17 |
| Statement of Fiduciary Net Assets – Fiduciary Funds..... | 18 |
| Statement of Changes in Fiduciary Net Assets – Fiduciary Funds..... | 19 |
| NOTES TO FINANCIAL STATEMENTS | 20 |
| REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A | |
| Budgetary Comparison Schedule - General Fund | 35 |
| Notes to Budgetary Comparison Schedule | 36 |
| INDEPENDENT AUDITORS' REPORT OF COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> | 38 |
| INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 | 40 |
| SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS | 42 |
| SCHEDULE OF FINDINGS AND QUESTIONED COSTS | 44 |
| SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS | 46 |

INDEPENDENT AUDITORS' REPORT

Board Members
Athens City Board of Education
Athens, Alabama

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Athens City Board of Education, a component unit of the City of Athens, Alabama, as of and for the year ended September 30, 2010, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Athens City Board of Education, as of September 30, 2010, and the respective changes in financial position thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 29, 2011 on our consideration of the Athens City Board of Education's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 reporting on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 to 11 and the required supplementary information on pages 35 to 36 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Athens City Board of Education's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Johnson, Feigley, Newton & Brand, LLP

June 29, 2011

Athens City Board of Education
Management's Discussion and Analysis (MD&A)
September 30, 2010

The Management's Discussion and Analysis (MD&A) of the Athens City Board of Education's (the "Board's") financial performance provides an overview of the Board's financial activities for the fiscal year ended September 30, 2010. The intent of this discussion and analysis is to look at the Board's financial performance as a whole. The MD&A should be read in conjunction with the Board's financial statements and notes to the financial statements to enhance an understanding of the Board's financial performance.

The MD&A is an element of 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 June 1999.

Overview of the Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so that the reader can understand the Athens City Board of Education as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities. This report also includes supplementary information in addition to the basic financial statements.

The first two statements are government-wide financial statements — the *Statement of Net Assets* and the *Statement of Activities*. These provide both long-term and short-term information about the Board's overall financial status. All of the activities of the Board reported in the government-wide financial statements are classified as governmental activities. These activities include instructional, instructional support, operation and maintenance, student transportation, food services, general administration, and interest and fiscal charges. The Board has no business-type activities.

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

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

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

Governmental funds - Most of the Board's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. The governmental funds statements — the *Balance Sheet* and the *Statement of Revenues, Expenditures and Changes in Fund Balances* — are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view that helps 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 reconciles the relationship (or differences) between them. The Board's only major fund is the General Fund.

Fiduciary funds - Fiduciary funds are used to account for assets held by the Board in a trustee capacity or as an agent for others. Activities from fiduciary funds are not included in the government-wide financial statements because the Board cannot use these assets for its operations. Fiduciary funds of the Board, consisting of agency funds, are reported in the *Statement of Fiduciary Net Assets* using an 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 fund reported by the Board is a payroll clearing account and an accounts payable clearing account.

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.

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. The schedule includes an accompanying note explaining the differences between actual amounts as reported on the basis of budgeting and the GAAP basis of reporting.

Financial Analysis of the Board as a Whole

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

Table 1
Summary of Net Assets

| | <u>Governmental Activities</u> | | | |
|---|--------------------------------|---------------------|-------------------|---------------------|
| | 2010 | Percent of Total | 2009 | Percent of Total |
| <u>Assets</u> | | | | |
| Current and Other Assets | \$7,571,127 | 16.07 | \$11,318,039 | 23.96 |
| Capital assets, net | <u>39,532,334</u> | <u>83.93</u> | <u>35,924,043</u> | <u>76.04</u> |
| Total Assets | <u>47,103,411</u> | <u>100.00%</u> | <u>47,242,082</u> | <u>100.00%</u> |
| <u>Liabilities</u> | | | | |
| Current and other liabilities | 5,044,576 | 67.53 | 2,653,394 | 35.09 |
| Long-term liabilities | <u>2,425,023</u> | <u>32.47</u> | <u>4,908,124</u> | <u>64.91</u> |
| Total Liabilities | <u>7,469,599</u> | <u>100.00%</u> | <u>7,561,518</u> | <u>100.00%</u> |
| <u>Net Assets</u> | | | | |
| Invested in capital assets net of related debt | 37,431,060 | 94.44 | 33,569,921 | 84.60 |
| Restricted | 501,619 | 1.27 | 4,484,346 | 11.30 |
| Unrestricted | <u>1,701,183</u> | <u>4.29</u> | <u>1,626,297</u> | <u>4.10</u> |
| Total Net Assets | <u>39,633,862</u> | <u>100.00%</u> | <u>39,680,564</u> | <u>100.00%</u> |

The Board's assets exceeded liabilities by \$39,633,862 at the close of the 2010 fiscal year and \$39,680,564 at the close of fiscal year 2009 a decrease of \$46,702. The majority of the Board's net assets is invested in capital assets (land, buildings, and equipment) and is therefore not available for funding of future operations. Unrestricted net assets — the part of net assets that can be used to finance day-to-day operations without constraints established by enabling legislation, debt covenants, or other legal requirements — total \$1,701,183 at the end of fiscal year 2010 and \$1,626,297 at the end of fiscal year 2009 an increase of \$74,886.

The Board's total revenues and expenditures are reflected in the following chart:

Table 2
Summary of Changes in Net Assets

| | | <u>Governmental Activities</u> | | |
|--|-------------------|--------------------------------|-------------------|-----------------------------|
| | 2010 | Percent of Total | 2009 | Percent of Total |
| <u>Revenues</u> | | | | |
| Program Revenues: | | | | |
| Charges for services | \$2,391,369 | 6.75% | \$2,283,267 | 5.93% |
| Operating Grants and Contributions | 17,277,599 | 48.78 | 16,890,129 | 43.82 |
| Capital Grants and Contributions | <u>898,384</u> | 2.54 | <u>1,528,744</u> | 3.97 |
| Total Program Revenues | <u>20,567,352</u> | | <u>20,702,140</u> | |
| General Revenues: | | | | |
| Property Taxes | 2,041,844 | 5.77 | 2,005,999 | 5.21 |
| Sales Tax | 7,595,107 | 21.44 | 7,052,259 | 18.30 |
| Alcohol Beverage Tax | 290,286 | .82 | 277,529 | .72 |
| Other Taxes | 34,238 | .10 | 34,512 | .09 |
| Investment Earning | 125,238 | .35 | 59,557 | .15 |
| Appropriations from the City of Athens | 0 | .00 | 5,475,000 | 14.21 |
| Miscellaneous | <u>4,762,975</u> | 13.45 | <u>2,928,369</u> | 7.60 |
| Total General Revenues | <u>14,849,713</u> | | <u>17,833,225</u> | |
| Total Revenues | <u>35,417,065</u> | 100% | <u>38,535,365</u> | 100.00% |
| <u>Expenses</u> | | | | |
| Instructional Services | 19,985,476 | 56.36% | 19,777,910 | 59.71% |
| Instructional Support Services | 3,544,226 | 9.99 | 3,660,045 | 11.05 |
| Operation & Maintenance Services | 3,228,118 | 9.10 | 2,726,742 | 8.23 |
| Student Transportation Services | 1,273,924 | 3.59 | 1,329,520 | 4.01 |
| Food Services | 1,982,416 | 5.59 | 1,917,765 | 5.79 |
| General administrative Services | 1,804,533 | 5.09 | 1,781,034 | 5.38 |
| Interest and Finance Charges | 3,325,673 | 9.38 | 1,592,092 | 4.81 |
| Other Expenses | <u>319,401</u> | .90 | <u>338,367</u> | 1.02 |
| Total Expenses | <u>35,463,767</u> | 100.00% | <u>33,123,475</u> | 100.00% |
| Change in Net Assets | (46,702) | | 5,411,890 | |
| Net Assets, Beginning | <u>39,680,564</u> | | <u>34,268,674</u> | |
| Net Assets, Ending | <u>39,633,862</u> | | <u>39,680,564</u> | |

During the current fiscal year the Board's net assets decreased by \$46,702 the decrease is mainly the result of cuts in State funding.

Program Revenues are 58.07% of total revenues while general revenues comprise 41.93% of total revenues.

- Operating grants and contributions contribute 84.00% of program revenues and 48.78% of total revenues. The major sources of revenues in this category are state foundation program funds, and state and federal funds restricted for specific programs.
- Capital grants and contributions include state 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 for the remaining expenses not covered by program revenues.

Instructional services expenses, primarily salaries and benefits for classroom teachers, are the largest expense function of the Board (56.36%). Instructional support services make up 9.99% of the total expenses.

- Instructional services includes teacher salaries and benefits, teacher aides, substitute teachers, textbooks, depreciation of instructional buildings, professional development, and classroom instructional materials, supplies, and equipment.
- Instructional support services includes salaries and benefits for school principals, assistant principals, librarians, 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 includes bus driver salaries and benefits, bus aides, vehicle maintenance and repair expenses, vehicle fuel, depreciation of buses and fleet insurance.
- 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.
- Interest and fiscal charges includes interest, but not 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. 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.

The Statement of Activities reports the cost of program services and the charges and grants offsetting those services. Table 3 condenses this statement to compare the total cost to the net cost of providing these services. The total cost of a service, less charges for the service and related grants, is the program's net cost. In other words, the net cost shows the cost of the program funded by general revenues, primarily property and sales taxes.

| | <u>2010</u> | | <u>2009</u> | |
|--------------------------------|---------------------|---------------------|---------------------|---------------------|
| | Total Cost | Net Cost | Total Cost | Net Cost |
| Instructional Services | \$19,985,476 | \$5,513,865 | \$19,777,910 | \$5,336,725 |
| Instructional Support Services | 3,544,226 | 827,994 | 3,660,045 | 736,655 |
| Operation & Maintenance | 3,228,118 | 2,674,389 | 2,726,742 | 2,304,085 |
| Student Transportation | 1,273,924 | 411,421 | 1,329,520 | 247,034 |
| Food Services | 1,982,416 | 392,765 | 1,917,765 | 419,091 |
| General and Administrative | 1,804,533 | 1,651,576 | 1,781,034 | 1,711,245 |
| Interest and Fiscal charges | 3,325,673 | 3,325,673 | 1,592,092 | 1,592,092 |
| Other Expenses | <u>319,401</u> | <u>98,732</u> | <u>338,367</u> | <u>74,408</u> |
| Total Expenses | <u>\$35,463,767</u> | <u>\$14,896,415</u> | <u>\$33,123,475</u> | <u>\$12,421,335</u> |

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 financial performance of the Board as a whole is reflected in its governmental funds as well. At the end of the fiscal year 2010, the Board's governmental funds reported combined ending fund balances of \$2,828,955 as compared to a combined ending fund balance at the end of fiscal year 2009 of \$6,706,526. This results in a \$3,877,571 decrease in the combined ending fund balances for the Board's governmental funds. The decrease can be attributed to the purchase of real property at a cost of \$2,901,470. The remaining decrease can be attributed to several capital additions during the fiscal year the largest being the installation of an HVAC system in the Athens High School Gym at a cost of \$496,632. The other additions were spread equally over several capital projects.

General Fund - The general fund is the primary operating fund of the Board. The general fund increased by \$353,215. The general fund ending fund balance was \$1,431,971 at September 30, 2010 and \$1,078,756 at September 30, 2009. The increase can be attributed to the utilizing ARRA Federal Stimulus funds to offset the state funding cuts and reducing expenditures.

Other Governmental Funds – This is a combined total of several funds, none of which are considered major funds. This includes debt service funds, and special revenue funds, such as the child nutrition fund and the local school funds.

General Fund Budgetary Highlights

The original 2010 fiscal year budget, adopted on August 20, 2009, included only estimated revenues and expenditures known at that time. Since some of the state-funded and federally-funded programs had not yet been authorized, amendments were necessary during the year. The original budget figures were amended when revenues fell short of the original budgeted amount by 10 % for a major revenue source. Amendments were compiled for expenditures when a major program within a fund source exceeded 10% of the original budget amount. Over the course of the year, the Board revised the annual operating budget once on June 10, 2010. The amendments are summarized below.

- The budget amendment was necessary to reflect changes that occurred in beginning fund balances, reduction of budgeted state allocations due to proration, the addition of federal carryover funds, adjusted budgets for federal funds to match program applications, adjustments to local revenues, CNP pass thru adjustments, the addition of grants and awards received during the fiscal year

The comparison of the general fund original budget to the final amended budget is included in this report. The differences between the original budget and the final amended budget of the Board were as follows. Revenue appropriations decreased by \$1,057,845 while corresponding expenditures increased by \$65,556. Actual revenues were more than budgetary estimates by \$2,318,926 and actual expenditures were more than budgetary estimates by \$1,669,264.

As noted previously, a reconciliation is also included explaining the differences between actual amounts as reported on the budgetary basis and the GAAP basis.

Capital Assets

At September 30, 2010, the Board had \$39,532,334 invested in capital assets, net of accumulated depreciation. These investments include land, buildings and improvements, equipment, vehicles, and construction in progress. Increases during the year represent additions or reclassifications to those categories, while decreases represent retirements or reclassifications of assets during the year. (Comparative year data was available to present the prior year's balance of capital assets, net of accumulated depreciation.

Capital Assets (net of depreciation)

Governmental Activities

| | September 30 | |
|----------------------------|-------------------|---------------------|
| | 2010 | 2009 |
| Land and land improvements | \$4,323,749 | \$1,412,530 |
| Construction in progress | 2,349,965 | 4,821,141 |
| Buildings & Improvements | 31,793,194 | 28,357,876 |
| Vehicles | 646,351 | 864,656 |
| Equipment | 419,075 | 433,204 |
| Other Capital Outlay | 0 | 34,635 |
| | <u>39,532,334</u> | <u>\$35,924,042</u> |

Net capital assets increased by \$3,608,292 for the 2010 fiscal year. The increase is attributable to current year capital asset additions exceeded current year depreciation expense and asset retirements. Depreciation expense and asset retirements decrease the net assets while asset additions increase the net assets. Current year depreciation expense and asset retirements were \$(4,832,381) and current year asset additions were \$8,440,673. The result of these two items is an increase of \$3,608,292.

The Board expended available resources to acquire \$8,440,673 in capital asset additions during the year. These additions are reduced by the current year's depreciation expense of \$1,195,357. The Board had significant additions of \$2,911,219 for the purchase of land, \$3,742,241 for the construction of the Athens High School Baseball and Softball complex, \$496,632 for the installation of an HVAC system in the Athens High School Gym. The other additions were not significant in dollar amounts and were spread evenly throughout the system. If totaled, the significant additions are more than the increase in capital assets. The difference can be attributed to some of the fixed additions were retired from construction in progress and added to fixed assets during the fiscal year ended September 30, 2010.

Current Known Facts

Current known facts, decisions or conditions that may have a significant impact on the financial position of the Athens City Board of Education are:

Estimated Capital Needs— The State of Alabama issued bonds on behalf of Athens City Schools in the amount of \$2,444,340. There is currently a balance of \$1,249,145 remaining. The City of Athens issued bonds on behalf of the school system in May 2009. The proceeds from the bond issue are \$5,475,000. The bond proceeds were used to fund the Trane guaranteed energy savings contract. The bond proceeds were also used to purchase land. On October 4, 2011 the City of Athens issued bonds on behalf of the school system in the amount of \$3,612,644. Approximately \$1,861,789 of the bond proceeds will be used to complete capital projects listed on the Athens City Schools Capital Plan. At this time these projects have not been determined. See note below for how the balance of the bond issue will be expended

On April 21, 2011 the Athens City Board of Education approved the contract for the construction of a new central office building. The total cost of the project is approximately \$3,000,000. The school system will utilize the remaining \$1,249,145 balance of state bond fund and approximately \$1,750,855 of the October 4, 2010 bond issue to fund this construction project.

State Funding – State and local revenues have steadily decreased due to the downturn in the economy. Due to this downturn proration has occurred in the amount of 11% for FY 2009 and 9.5% for FY 2010. The total loss in funding due to proration to date is \$3,483,412. In March of 2011 the Governor declared 3% proration in the Education Trust Fund. The 3% proration will equate to \$444,807 in lost funding to Athens City Schools. The total funding lost due to proration as of May 3, 2011 is \$3,928,219.

Athens City Schools has utilized federal funds awarded through the American Reinvestment and Recovery Act to offset state funding cuts. The ARRA funds are available for fiscal year end September 30, 2010 and September 30, 2011. By utilizing the federal funds Athens City Schools has minimized the effects of the state funding cuts on the general fund. Although local budgets have been compiled to breakeven for fiscal year end 2009, a loss occurred in the general fund by a portion of the state funding cuts. In 2010 the General Fund balance increased by \$353,215. The increase can be attributed to the utilization of federal funds to offset the state funding cuts. Based on information as of May 3, 2011 it is likely that Athens City Schools will incur a loss in the General Fund by a portion of the state funding cuts made in March 2011. Based on the continued downward trend in funding, if additional funding is not secured prior to fiscal year 2013 Athens City Schools is in jeopardy of having a negative fund balance.

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 Orman L. Bridges, Jr., Ed.D., Superintendent of Schools, 300 East Washington Street, Athens, AL 35611, by phone (256)233-6600, or by email at Orman.Bridges@acs-k12.org.

**ATHENS CITY BOARD OF EDUCATION
STATEMENT OF NET ASSETS
September 30, 2010**

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| <u>ASSETS</u> | |
| Cash and cash equivalents | \$ 2,057,498 |
| Cash and cash equivalents - restricted | 501,619 |
| Investments | 1,000,000 |
| Due from other governments | 3,921,945 |
| Inventories | 89,955 |
| Other assets | 110 |
| Capital assets - depreciable, net | 32,858,620 |
| Capital assets - non depreciable | <u>6,673,714</u> |
| TOTAL ASSETS | <u>47,103,461</u> |
| <u>LIABILITIES</u> | |
| Accounts payable and accrued liabilities | 2,673,772 |
| Deferred revenue | 2,068,400 |
| Long-term liabilities | |
| Current portion of long-term obligations | 302,404 |
| Noncurrent portion of long-term obligations | <u>2,425,023</u> |
| TOTAL LIABILITIES | <u>7,469,599</u> |
| <u>NET ASSETS</u> | |
| Invested in capital assets, net of related debt | 37,431,060 |
| Restricted for: | |
| School improvement | 501,619 |
| Unrestricted | <u>1,701,183</u> |
| TOTAL NET ASSETS | <u>\$ 39,633,862</u> |

The notes to financial statements are an integral part of these financial statements.

**ATHENS CITY BOARD OF EDUCATION
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2010**

| Functions/Programs | Expenses | Program Revenues | | | Net (Expenses) Revenues and Changes in Net Assets Governmental Activities |
|------------------------------------|----------------------|-------------------------|--|--|--|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | |
| Instructional services | \$ 19,985,476 | \$ 572,835 | \$ 13,562,780 | \$ 335,996 | \$ (5,513,865) |
| Instructional support services | 3,544,226 | 45,551 | 2,670,681 | - | (827,994) |
| Operation and maintenance services | 3,228,118 | 94,499 | 49,413 | 409,817 | (2,674,389) |
| Student transportation services | 1,273,924 | 58,040 | 704,436 | 100,027 | (411,421) |
| Food services | 1,982,416 | 1,488,108 | 79,486 | 22,057 | (392,765) |
| General administrative services | 1,804,533 | 396 | 122,074 | 30,487 | (1,651,576) |
| Interest and fiscal charges | 3,325,673 | - | - | - | (3,325,673) |
| Other expenses | 319,401 | 131,940 | 88,729 | - | (98,732) |
| Total | <u>\$ 35,463,767</u> | <u>\$ 2,391,369</u> | <u>\$ 17,277,599</u> | <u>\$ 898,384</u> | <u>(14,896,415)</u> |

GENERAL REVENUES:

Taxes:

| | |
|--|-------------------|
| Property taxes for general purposes | 2,041,844 |
| Local sales tax | 7,595,107 |
| Alcohol beverage tax | 290,286 |
| Other taxes | 34,238 |
| Investment earnings | 125,263 |
| Appropriations from the City of Athens | - |
| Miscellaneous | <u>4,762,975</u> |
| Total general revenues | <u>14,849,713</u> |

CHANGE IN NET ASSETS (46,702)

NET ASSETS - BEGINNING OF YEAR 39,680,564

NET ASSETS - END OF YEAR \$ 39,633,862

The notes to financial statements are an integral part of these financial statements.

**ATHENS CITY BOARD OF EDUCATION
BALANCE SHEET – GOVERNMENTAL FUNDS
September 30, 2010**

| | General Fund | Special Revenue Local Public Fund | Other Governmental Funds | Total Governmental Funds |
|---|---------------------|---|--------------------------------|--------------------------------|
| <u>ASSETS</u> | | | | |
| Cash and cash equivalents | \$ 900,461 | \$ 774,972 | \$ 382,065 | \$ 2,057,498 |
| Cash and cash equivalents - restricted | - | - | 501,619 | 501,619 |
| Investments | 1,000,000 | - | - | 1,000,000 |
| Due from other governments | 3,593,020 | - | 312,822 | 3,905,842 |
| Due from other funds | 16,102 | - | - | 16,102 |
| Inventories | - | - | 89,955 | 89,955 |
| Other assets | 110 | - | - | 110 |
| TOTAL ASSETS | \$ 5,509,693 | \$ 774,972 | \$ 1,286,461 | \$ 7,571,126 |
| <u>LIABILITIES AND FUND BALANCES</u> | | | | |
| LIABILITIES | | | | |
| Accounts payable | \$ 156,735 | \$ 128,313 | \$ 160,024 | \$ 445,072 |
| Due to other funds | - | - | - | - |
| Deferred revenues | 2,028,500 | - | 39,900 | 2,068,400 |
| Salaries and benefits payable | 1,892,487 | - | 336,212 | 2,228,699 |
| TOTAL LIABILITIES | 4,077,722 | 128,313 | 536,136 | 4,742,171 |
| FUND BALANCES | | | | |
| Reserved for: | | | | |
| Encumbrances | 13,324 | 10,803 | 38,410 | 62,537 |
| Inventories | - | - | 89,955 | 89,955 |
| Unreserved: | | | | |
| Undesignated | 1,418,647 | 635,856 | - | 2,054,503 |
| Unreserved, reported in non-major: | | | | |
| Special revenue funds | - | - | 120,341 | 120,341 |
| Debt service funds | - | - | - | - |
| Capital projects funds | - | - | 501,619 | 501,619 |
| TOTAL FUND BALANCES | 1,431,971 | 646,659 | 750,325 | 2,828,955 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 5,509,693 | \$ 774,972 | \$ 1,286,461 | \$ 7,571,126 |

The notes to financial statements are an integral part of these financial statements.

**ATHENS CITY BOARD OF EDUCATION
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
September 30, 2010**

TOTAL FUND BALANCE - GOVERNMENTAL FUNDS **\$ 2,828,955**

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

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

| | | |
|----------------------------|---------------------|------------|
| The cost of capital assets | 69,384,936 | |
| Accumulated depreciation | <u>(29,852,602)</u> | |
| | | 39,532,334 |

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

| | | |
|---------------------------------------|------------------|--------------------|
| Current portion of long-term debt | 302,404 | |
| Non-current portion of long-term debt | <u>2,425,023</u> | |
| | | <u>(2,727,427)</u> |

TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES **\$ 39,633,862**

The notes to financial statements are an integral part of these financial statements.

ATHENS CITY BOARD OF EDUCATION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS
For the Year Ended September 30, 2010

| | General Fund | Special Revenue Local Public Fund | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|---|--------------------------------|--------------------------------|
| REVENUES | | | | |
| State sources | \$ 13,981,756 | \$ - | \$ 896,173 | \$ 14,877,929 |
| Federal sources | 1,152 | - | 4,124,243 | 4,125,395 |
| Local sources | 14,369,448 | 1,156,528 | 738,947 | 16,264,923 |
| Other sources | 96,212 | - | 51,801 | 148,013 |
| TOTAL REVENUES | <u>28,448,568</u> | <u>1,156,528</u> | <u>5,811,164</u> | <u>35,416,260</u> |
| EXPENDITURES | | | | |
| Instructional services | 15,808,800 | 959,009 | 2,708,870 | 19,476,679 |
| Instructional support services | 3,056,543 | 65,038 | 399,953 | 3,521,534 |
| Operation and maintenance services | 2,785,620 | 35,435 | 341,630 | 3,162,685 |
| Student transportation services | 983,947 | 15,140 | 33,036 | 1,032,123 |
| Food services | - | - | 2,117,919 | 2,117,919 |
| General administrative services | 1,679,458 | - | 116,523 | 1,795,981 |
| Capital outlay | - | - | 4,466,012 | 4,466,012 |
| Debt service: | | | | - |
| Principal retirement | - | - | 252,847 | 252,847 |
| Interest and fiscal charges | 794,020 | - | 101,654 | 895,674 |
| Debt issuance costs/other debt service | 2,430,000 | - | - | 2,430,000 |
| Other expenditures | 77,843 | 172,689 | 68,772 | 319,304 |
| TOTAL EXPENDITURES | <u>27,616,231</u> | <u>1,247,311</u> | <u>10,607,216</u> | <u>39,470,758</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | <u>832,337</u> | <u>(90,783)</u> | <u>(4,796,052)</u> | <u>(4,054,498)</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Indirect costs | 176,123 | - | - | 176,123 |
| Proceeds from capital lease | - | - | - | - |
| Transfers in | 79,922 | 187,578 | 1,909,036 | 2,176,536 |
| Transfers out | (735,972) | (220,035) | (1,220,529) | (2,176,536) |
| Other financing sources | 805 | - | - | 805 |
| TOTAL OTHER FINANCING SOURCES (USES) | <u>(479,122)</u> | <u>(32,457)</u> | <u>688,507</u> | <u>176,928</u> |
| NET CHANGE IN FUND BALANCES | 353,215 | (123,240) | (4,107,545) | (3,877,570) |
| FUND BALANCES - BEGINNING OF YEAR | <u>1,078,756</u> | <u>769,899</u> | <u>4,857,870</u> | <u>6,706,525</u> |
| FUND BALANCES - END OF YEAR | <u>\$ 1,431,971</u> | <u>\$ 646,659</u> | <u>\$ 750,325</u> | <u>\$ 2,828,955</u> |

The notes to financial statements are an integral part of these financial statements.

ATHENS 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, 2010

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS **\$ (3,877,570)**

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeds capital outlays in the period.

| | | |
|----------------------|--------------------|-----------|
| Capital outlays | 4,803,648 | |
| Depreciation expense | <u>(1,195,357)</u> | 3,608,291 |

Some of the capital assets acquired this year were financed with capital leases. The amount financed by the leases is reported in the governmental funds as a source of financing. On the other hand, the capital leases are not revenues in the statement of activities, but rather constitute long-term liabilities in the statement of net assets. -

Repayment of debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities. 252,847

Proceeds from the issuance of debt are reported as financing sources in governmental funds and thus contribute to the change in fund balance. Issuing long-term debt increases liabilities in the Statement of Net Assets but does not affect the Statement of Activities -

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.

| | | |
|--|---------------|-----------------|
| Accrued interest payable, current year increase/(decrease) | - | |
| Compensated absences, current year increase/(decrease) in noncurrent portion | <u>30,270</u> | <u>(30,270)</u> |

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ (46,702)**

The notes to financial statements are an integral part of these financial statements.

ATHENS CITY BOARD OF EDUCATION
STATEMENT OF FIDUCIARY NET ASSETS – FIDUCIARY FUNDS
September 30, 2010

| | <u>Private-purpose Trust</u> | <u>Agency Funds</u> |
|-------------------------------|----------------------------------|-------------------------|
| <u>ASSETS</u> | | |
| Cash and cash equivalents | \$ - | \$425,143 |
| Investments | 22,195 | 19,661 |
| Receivables | - | 129 |
| Other assets | <u>-</u> | <u>-</u> |
| TOTAL ASSETS | <u>\$ 22,195</u> | <u>\$444,933</u> |
| <u>LIABILITIES</u> | | |
| Accounts payable | \$ - | \$ 32,156 |
| Salaries and benefits payable | - | 9,673 |
| Due to external organizations | <u>-</u> | <u>403,104</u> |
| TOTAL LIABILITES | <u>-</u> | <u>\$444,933</u> |
| NET ASSETS | <u>\$ 22,195</u> | |

The notes to financial statements are an integral part of these financial statements.

ATHENS CITY BOARD OF EDUCATION
STATEMENT OF CHANGE IN FIDUCIARY NET ASSETS – FIDUCIARY FUNDS
For the Year Ended September 30, 2010

| | <u>Private-purpose Trust</u> |
|-------------------------------|-----------------------------------|
| ADDITIONS: | |
| Earnings on investments | <u>\$ 181</u> |
| TOTAL ADDITIONS | <u> 181</u> |
| DEDUCTIONS | |
| Instructional services | <u> 300</u> |
| TOTAL DEDUCTIONS | <u> 300</u> |
| CHANGE IN NET ASSETS | (119) |
| NET ASSETS - BEGINNING | <u> 22,314</u> |
| NET ASSETS - ENDING | <u><u> \$ 22,195</u></u> |

The notes to financial statements are an integral part of these financial statements.

**ATHENS CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -

The financial statements of the Athens City Board of Education (the Board), a component unit of the City of Athens, Alabama, have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Board's accounting policies are described below.

1. THE REPORTING ENTITY

Statement No. 14 of the Governmental Accounting Standard Board establishes standards for defining and reporting on the financial reporting entity. The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for agencies that make up its legal entity. It is also financially accountable for a legally separate agency if its officials appoint a voting majority of that agency's governing body and either it is able to impose its will on that agency or there is a potential for the agency to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. There are no component units which should be included as part of the financial reporting entity of the Athens City Board of Education.

The Athens City Board of Education (the Board) is a legally separate agency of the State of Alabama. However, for financial reporting, the Board is considered a component unit of the City of Athens, Alabama (the City) due to the following reasons:

- 1) The City appoints the seven members of the governing body of the Board.
- 2) The City issued bonds for the construction of facilities for the Board and the City is obligated for the debt.
- 3) The City levies sales tax specifically for the operations of the Board.

2. BASIS OF PRESENTATION, BASIS OF ACCOUNTING

Basis of Presentation

Government-wide Financial Statements: The statement of net assets and the statement of activities display information about the Board. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Although other governments may report both governmental activities and business-type activities, the Board has no business-type activities.

The statement of 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, are clearly identifiable to a particular function. The Board does not allocate indirect expenses to the various functions. 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 of goods or services offered by the programs. Revenues that are not classified as program revenues, including all local taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the Board's funds, including its fiduciary funds. Separate statements for each fund category – governmental and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as other governmental funds.

**ATHENS CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010
(Continued)**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued -

2. BASIS OF PRESENTATION, BASIS OF ACCOUNTING - Continued

Basis of Presentation – Continued

The Board reports the following major governmental funds:

General Fund – This is the Board’s primary operating fund. It accounts for all financial resources, except those required to be accounted for in another fund. The Board’s General Fund primarily received revenues from the Education Trust Fund (ETF), appropriated by the Alabama Legislature, and from local taxes. The State Department of Education allocated amounts appropriated from the ETF to the school board on a formula basis.

Special Revenue Funds account for the proceeds of specific revenue sources requiring separate accounting because of legal or regulatory provisions or administrative action. Special revenue funds consist of all Federal fund sources and Child Nutrition.

The Board reports the following governmental fund types in the “Other Governmental Funds” column:

Local Sources Capital Projects Fund – This fund accounts for capital projects funded from local government sources.

Debt Service Funds account for the accumulation of resources for and the payment of, the Board’s principal and interest payments on long-term debt. Debt service funds consist of capital leases and compensated absences.

Capital Projects Funds account for financial resources to be used for the acquisition or construction of major capital facilities.

Public School Capital Projects Fund – This fund accounts for the capital funded from appropriations by the Alabama Legislature.

Local School Fund – This fund accounts for all the public financial resources received by each local school.

PSCA Capital Projects Fund – This fund accounts for capital projects funded by a loan from the Alabama Public School and College Authority leveraged funds.

Fiduciary Funds are used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the Board’s programs. The Board reports the following fiduciary funds:

ATHENS CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010
(Continued)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued –

2. BASIS OF PRESENTATION, BASIS OF ACCOUNTING - Continued

Basis of Presentation – Continued

Agency Funds generally account for assets held by the Board in a purely custodial capacity. Agency funds consist of all non-public revenue sources of the local schools.

Private-purpose Trust Funds are distinguished from agency funds generally by the existence of a trust agreement that affects the degree of management involvement and the length of time that the resources are held. These funds are used to report trust agreements under which principal and income provide specific benefits to specific individuals, organizations, or governments. Three charitable trusts have been established at three of the local schools in the City of Athens. At the discretion of the trustees, the trust funds and income earned on the trust funds may be used to promote the education of students. Upon dissolution of a trust, the principal, interest, and assets of the trust fund belong to the Athens City Board of Education to be used for general education purposes. The total asset value of these trusts as of September 30, 2010 is \$22,195.

Measurement Focus, Basis of Accounting

Government-wide and Fiduciary Fund Financial Statements. The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange 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 an 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 inter-fund balances and transfers have been eliminated from the government-wide financial statements.

Governmental Fund Financial Statements. Governmental funds are reported using a current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Board considers revenues reported in the governmental funds (excluding state and federal reimbursements) to be available if the revenues are collected within thirty (30) days after the 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 year.

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

ATHENS CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010
(Continued)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued –

3. ASSETS, LIABILITIES, AND NET ASSETS

CASH AND INVESTMENTS – Cash and cash equivalents includes cash on hand, amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the Board. 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. Investments consist of certificates of deposit with short-term maturities and are stated at fair value.

RECEIVABLES – Receivables are reported as *Receivables* and *Due from governments* in the government-wide financial statements and as *Receivables*, *Due from other funds* and *Due from other governments* in the fund financial statements. Receivables due from other governments include amounts due from grantors for grants issued for specific programs and local taxes. No allowances are made for uncollectible amounts because the amounts are considered immaterial.

PROPERTY TAX CALENDAR – The Limestone County Commission levies property taxes for all jurisdictions including the school boards and municipalities within the county. Millage rates for property taxes are levied at the first regular meeting of the County Commission in February of each year. Property taxes are assessed for property as of October 1 of the preceding year based on the millage rates established by the County Commission. Property taxes are due and payable the following October 1 and are delinquent after December 31.

INVENTORIES AND PREPAID ITEMS – Inventories are valued at cost, which approximates market, using the first-in, first-out (FIFO) method. The cost of governmental fund-type inventories are recorded as expenditures when purchased except commodities donated by the federal government that are expensed when consumed. GAAP require only material balances of inventories accounted for using the purchases method to be reported as an asset in the appropriate governmental fund. Prepaid items such as insurance premiums and rent are recorded as expenditures in governmental funds when paid. In the government-wide financial statements, inventories and prepaid items are recorded on an accrual basis using the consumption method. Expenses reflect the amount of materials and supplies consumed and the amount of prepaid items applicable to the current period. Prepaid items on the statement of net assets are included in *Other assets*.

CAPITAL ASSETS – Purchased or constructed capital assets are reported at cost, estimated historical costs or insured value in the statement of net assets. Donated assets are recorded at their estimated fair value in the statement of net assets. Donated assets are recorded at their estimated fair value at the date of donation. The cost of maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Capital assets are recorded as expenditures at the acquisition date in the fund financial statements. The Board has no general infrastructure assets.

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

| <u>Asset Class</u> | <u>Capitalization Threshold</u> | <u>Estimated Useful Life</u> |
|---------------------------------|-------------------------------------|----------------------------------|
| Land Improvements - Exhaustible | \$ 50,000 | 20 years |
| Buildings | \$ 50,000 | 50 years |
| Building Improvements | \$ 50,000 | 7-30 years |
| Equipment | \$ 5,000 | 5-20 years |
| Equipment Under Capital Lease | \$ 5,000 | 5-20 years |
| Vehicles | \$ 5,000 | 8-10 years |

ATHENS CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010
(Continued)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued –

3. ASSETS, LIABILITIES, AND NET ASSETS - Continued

(The capitalization threshold for Land, Construction in Progress, and Inexhaustible Land Improvements is \$1 or more. However, these capital assets are not depreciated.)

LONG-TERM OBLIGATIONS – In the government-wide financial statements, the unmatured principal of long-term debt, capital leases, and compensated absences are reported in the statement of net assets. Interest expense for long-term debt, including accrued interest payable, 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 payments are made. At the inception of a capital lease, an amount equal to the present value of the net minimum lease payments is reported as an other financing source and as an expenditure. The balance sheet does not reflect a liability for long-term debt.

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

- a. The employees' right to receive compensation is 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.

Professional and support employees earn non-vesting sick leave at the rate of one day per month worked. Employees may accumulate a maximum of 225 sick leave days. Employees may use up to 225 days of 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 on the financial statements. Professional and support personnel with up to four years of service are provided three days of personal leave per year with pay. Employees with four years to ten years of service receive four days and employees with ten years or more; receive five days of personal leave with pay. The State provides funding, at the substitute rate, for up to 2 days of personal leave per employee per year. As of June 30, professional personnel are paid \$50 a day and support personnel \$35 for up to five days of unused personal leave which was accrued in the previous twelve month period. Personal leave is accrued in full as of the employee contract date for the upcoming contract period. Professional and support personnel may convert unused, unreimbursed personal leave to sick leave at the end of the scholastic year. Because unused personal leave cannot be carried over to succeeding years, the accrued liability for unpaid leave as of September 30, 2010 includes all unused personal leave for the period July 1, 2007 through September 30, 2010.

Twelve month employees are allowed ten days of vacation per year with pay. Because unused vacation leave cannot be carried over to succeeding years, the accrued liability for unpaid leave as of September 30, 2010 includes all unused personal leave for the period July 1, 2007 through September 30, 2010.

**ATHENS CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010
(Continued)**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued –

NET ASSET/FUND EQUITY – Net assets are reported on the government-wide financial statements and are required to be classified for accounting and reporting purposes into the following asset categories:

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

Fund equity is reported in the fund financial statements. Governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outsider parties for use for a specific purpose. Encumbrances, in the governmental funds, represent commitments related to contracts not performed for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditures of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds throughout the fiscal year. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

ESTIMATES – In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE B – RECONCILIATION OF FINANCIAL STATEMENTS –

The financial statements include summary reconciliations of the fund financial statements to the government-wide statements after each of the fund statements.

NOTE C – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY –

BUDGETS – Annual budgets are adopted for all governmental 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 2009-2010 fiscal year was September 15, 2010. The Board approved its original 2009-2010 annual budget on September 14, 2010, and submitted the budget on September 15, 2010.

The city superintendent of education or Board cannot approve any budget for operations of the school system for any fiscal year that shows expenditures in excess of income estimated to be available plus any balances on hand. The superintendent with the approval of the board has the authority to make changes within the approved budget provided that a deficit is not incurred by such changes. The superintendent may approve amendments to program budgets without board approval.

EXCESS OF EXPENDITURES OVER APPROPRIATION – There were no funds whose expenditures exceeded appropriations by more than 10% for the year ended September 30, 2010.

ATHENS CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010
(Continued)

NOTE D – DEPOSITS AND INVESTMENTS –

At year end, the carrying amount of the Board's deposits (including the individual schools) is \$2,559,117 and the bank balance is \$2,559,067. Of the total bank balance, \$250,000 was insured through the Federal Depository Insurance Corporation (FDIC). The remaining balance was covered by Security for Alabama Funds Enhancement Program (SAFE Program). Under the SAFE program, all public deposits are protected through a collateral pool administered by the Alabama State Treasurer's office. Public deposits include the funds of any covered public entity or covered public official placed on deposit in a qualified depository, including time and demand deposit accounts and certificates of deposit but excluding bonds, notes, money market mutual funds, repurchase agreements and similar instruments. Covered public entities include the state and its political subdivisions, including school boards. In the past, the bank pledged collateral directly to each public entity.

Under SAFE, which is mandatory, each qualified public depository (QPD) is required to hold collateral for all of its public deposits on a pooled basis in a custody account (SAFE Custody Account) established for the State Treasurer as SAFE administrator. In the unlikely event a public entity should suffer a deposit loss due to QPD insolvency or default; a claim form would be filed with the State Treasurer, who would use the SAFE pool collateral or other means to reimburse the loss. The SAFE program is classified as a category 1 credit risk. Restricted cash and cash equivalents reported on the board's financial statements consist of a cash account held by a fiscal agent. These funds are considered public deposits in determining insurance and collateralization. All deposits of the Board as of September 30, 2010 are held at a certified qualified public depository.

NOTE E – RECEIVABLES AND PAYABLES –

Receivables and payables (accounts payable and accrued liabilities) balances reported on the statement of net assets and the balance sheet are aggregations of the different components. Details of these balances at September 30, 2010 consist of the following:

STATEMENT OF NET ASSETS and BALANCE SHEET

Receivables:

| | |
|----------------------------|---------------------|
| Due from other governments | <u>\$ 3,921,945</u> |
|----------------------------|---------------------|

Payables:

| | |
|--|--------------|
| Salaries and employee benefits payable | \$ 2,228,700 |
|--|--------------|

| | |
|------------------|----------------|
| Accounts payable | <u>445,072</u> |
|------------------|----------------|

| | |
|--|---------------------|
| Total accounts payable and accrued liabilities | <u>\$ 2,673,772</u> |
|--|---------------------|

ATHENS CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010
(Continued)

NOTE F – FIXED ASSETS –

Capital asset activity for the year ended September 30, 2010 was as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Retirements/ reclassifications</u> | <u>Ending Balance</u> |
|---|------------------------------|---------------------|---|---------------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land and land improvements | \$ 1,412,530 | \$ 2,911,219 | \$ - | \$ 4,323,749 |
| Construction in progress | <u>4,821,141</u> | <u>1,165,848</u> | <u>3,637,024</u> | <u>2,349,965</u> |
| Total capital assets not being depreciated | <u>6,233,671</u> | <u>4,077,067</u> | <u>3,637,024</u> | <u>6,673,714</u> |
| Other capital assets: | | | | |
| Buildings | 49,960,236 | - | - | 49,960,236 |
| Building improvements | 5,453,375 | 4,316,044 | - | 9,769,419 |
| Vehicles | 1,853,867 | - | (30,710) | 1,884,577 |
| Equipment | 1,040,369 | 47,562 | (9,058) | 1,096,989 |
| Other capital outlay | <u>39,768</u> | <u>-</u> | <u>39,768</u> | <u>-</u> |
| Total other capital outlay at historical cost | <u>58,347,615</u> | <u>4,363,606</u> | <u>-</u> | <u>62,711,221</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | 25,722,148 | 614,392 | - | 26,336,540 |
| Building improvements | 1,333,587 | 266,334 | - | 1,599,921 |
| Vehicles | 989,211 | 249,015 | - | 1,238,226 |
| Equipment | 607,165 | 65,616 | (5,133) | 677,914 |
| Other capital outlay | <u>5,133</u> | <u>-</u> | <u>5,133</u> | <u>-</u> |
| Total accumulated depreciation | <u>28,657,244</u> | <u>1,195,357</u> | <u>-</u> | <u>29,852,601</u> |
| Total other capital assets, net | <u>29,690,371</u> | <u>3,168,249</u> | <u>-</u> | <u>32,858,620</u> |
| Total governmental activities capital assets, net | <u>\$ 35,924,042</u> | <u>\$ 7,245,316</u> | <u>\$ 3,637,024</u> | <u>\$ 39,532,334</u> |

Depreciation expense was charged to governmental functions as follows:

| | |
|--|---------------------|
| Instructional services | \$ 734,352 |
| Instruction support services | 17,104 |
| Operation and maintenance services | 107,718 |
| Student transportation services | 241,652 |
| Food services | 88,358 |
| General administrative services | <u>6,173</u> |
| Total governmental activities depreciation expense | <u>\$ 1,195,357</u> |

**ATHENS CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010
(Continued)**

NOTE F – FIXED ASSETS – Continued –

The Board has entered into contracts for the construction or renovation of various facilities as follows:

| | Project Authorization Amount | Expended To Date | Commitment | Required Further Financing |
|-------------------------|------------------------------------|---------------------|-------------------|----------------------------------|
| Central Office | \$ 18,375 | \$ - | \$ 18,375 | \$ - |
| AMS Gymnasium Bleachers | 85,000 | 10,825 | 74,175 | - |
| AHS Jumbo Tron | 278,029 | 248,560 | 29,469 | - |
| Trane Retrofit | 1,973,529 | 1,874,853 | 98,676 | - |
| Total | <u>\$ 2,354,933</u> | <u>\$ 2,134,238</u> | <u>\$ 220,695</u> | <u>\$ -</u> |

NOTE G – 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), 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 fidelity bonds, some liability coverage and auto insurance. 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 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 with which people 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 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. Two such claims or related settlements have occurred in the past three years.

NOTE H – LEASE OBLIGATIONS –

OPERATING LEASES – The Board is committed under various leases for copier equipment. These leases are considered for accounting purposes to be operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore, the results of the lease agreements are not reflected as part of the Board's capital assets. The Board has no non-cancelable operating leases. Lease expenditures for the year ended September 30, 2010 amounted to \$78,853.

ATHENS CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

(Continued)

NOTE H – LEASE OBLIGATIONS – Continued –

CAPITAL LEASES – During the year ended September 30, 2007, the Board entered into various leases for both computers and for an additional 14 school buses. All of these leases qualify as capital leases for accounting purposes (title transfers at the end of the lease term) and, therefore have been recorded at the lesser of the fair market value or the present value of the future minimum lease payments as of the date of inception. The lease agreements have interest rates that range from 4.69% to 5.05% and expire between 2008 and 2017.

During the year ended September 30, 2009, the Board entered into various leases for both computers and an additional 3 school buses. All of these leases qualify as capital leases for accounting purposes (title transfers at the end of the lease term) and, therefore have been recorded at the lesser of the fair market value or the present value of the future minimum lease payments as of the date of inception. The lease agreements have interest rates that range from 3.35% to 5.05% and expire between July 2017 and October 2017.

The following is an analysis of equipment leased under capital leases as of September 30, 2010:

| | <u>Capital Assets</u> |
|-------------------------------|-----------------------|
| Vehicles | \$ 1,076,903 |
| Computer Equipment | <u>233,199</u> |
| | 1,310,102 |
| Less accumulated depreciation | <u>1,192,352</u> |
| | <u>\$ 117,750</u> |

The following is a schedule of the future minimum lease payments under capital leases, and the present value of the net minimum lease payments at September 30, 2010:

| | |
|--|-------------------|
| 2011 | \$ 248,660 |
| 2012 | 253,802 |
| 2013 | 174,613 |
| 2014 | 174,612 |
| 2015 and beyond | <u>257,210</u> |
| Total minimum lease payments | 1,108,897 |
| Less amount representing interest | <u>245,349</u> |
| Present value of future minimum lease payments | <u>\$ 863,548</u> |

ATHENS CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010
(Continued)

NOTE I – LONG-TERM OBLIGATIONS –

Long-term liability obligations for the year ended September 30, 2010, are as follows:

| | Balance October 1, 2009 | Additions | Reductions | Balance September 30, 2010 | Amounts Due Within One Year |
|---------------------------|-------------------------------|------------------|-------------------|----------------------------------|-----------------------------------|
| Capital lease obligations | \$ 1,310,102 | \$ - | \$ 201,205 | \$ 1,108,897 | \$ 248,660 |
| Compensated absences | 595,883 | 30,270 | - | 626,153 | - |
| Note payable | 1,044,021 | - | 51,642 | 992,379 | 53,744 |
| Total | <u>\$ 2,950,006</u> | <u>\$ 30,270</u> | <u>\$ 252,847</u> | <u>\$ 2,727,429</u> | <u>\$ 302,404</u> |

On December 1, 2003, the Alabama Public School and College Authority (PSCA) issued \$106,045,000 Capital Improvement and Economic Development and Training Bonds. On March 18, 2004, the Board approved borrowing \$1,277,172 of this bond money from PSCA to fund capital improvements. The debt is reported in the PSCA financial statements and the PSCA is obligated for repayment of the debt. Principal and interest payments for the year ended September 30, 2010 were \$51,642 and \$42,040, respectively. Payment requirements for the note payable are as follows:

| Fiscal Year Ending September 30, | Principal | Interest | Total |
|----------------------------------|-------------------|-------------------|---------------------|
| 2011 | 53,774 | 39,864 | 93,638 |
| 2012 | 55,995 | 37,598 | 93,593 |
| 2013 | 58,307 | 35,238 | 93,545 |
| 2014 | 60,714 | 32,781 | 93,495 |
| 2015 | 63,221 | 30,223 | 93,444 |
| 2016 - 2020 | 357,483 | 108,884 | 466,367 |
| 2021 - 2025 | 342,885 | 29,033 | 371,918 |
| Totals | <u>\$ 992,379</u> | <u>\$ 313,621</u> | <u>\$ 1,306,000</u> |

The City of Athens issued various bonds and warrants during prior years for the construction of facilities for the Board. The debt and the corresponding ad valorem and sales tax revenues are reported in the City of Athens financial statements. The City of Athens is obligated for repayment of the debt. The following represents the City of Athens debt service payments for these obligations during the year ended September 30, 2010:

| | Principal | Interest | Total |
|----------------------|---------------------|-------------------|---------------------|
| 2009 School Bonds | \$ 70,000 | \$ 117,559 | \$ 187,559 |
| 2009 School Warrants | 2,000,000 | 286,483 | 2,286,483 |
| 2006 School Bonds | - | 315,400 | 315,400 |
| 2003 School Bonds | 270,000 | 54,238 | 324,238 |
| 2003 School Warrants | 90,000 | 20,340 | 110,340 |
| 2002 School Warrants | 15,000 | 61,463 | 76,463 |
| Totals | <u>\$ 2,445,000</u> | <u>\$ 855,483</u> | <u>\$ 3,300,483</u> |

Bond issuance costs and other fees related to the above scheduled debt that were paid by the City of Athens and recorded on the City's financial statements with ad valorem or sales taxes of the Board totaled \$3,675.

**ATHENS CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010
(Continued)**

NOTE J – INTERFUND RECEIVABLES AND PAYABLES –

Details of interfund receivables and payables are as follows:

| <u>Payable Fund</u> | <u>Receivable Fund</u> | <u>Amount</u> |
|---------------------|------------------------|------------------|
| Other Governmental | General | \$ 16,102 |
| | | <u>\$ 16,102</u> |

NOTE K – INTERFUND TRANSFERS –

The amounts of interfund transfers during the fiscal year ending September 30, 2010 were as follows:

| | <u>Transfers Out</u> | | | | | <u>Total</u> |
|--------------------------|-------------------------|----------------------------------|---|------------------------|--------------------------------------|--------------------|
| | <u>General Fund</u> | <u>Local School Fund</u> | <u>Other Governmental Funds</u> | <u>Agency Fund</u> | <u>Capital Projects Fund</u> | |
| <u>Transfers In</u> | | | | | | |
| General Fund | \$ 10,734 | \$ 69,188 | \$ - | \$ 4,412 | \$ - | \$ 84,334 |
| Local School Fund | 21,945 | 150,847 | - | 31,585 | 14,787 | 219,164 |
| Other Governmental Funds | 703,294 | - | - | - | - | 703,294 |
| Capital Projects Fund | - | - | - | - | 1,205,742 | 1,205,742 |
| Agency Fund | - | - | - | 58,680 | - | 58,680 |
| | <u>\$735,973</u> | <u>\$ 220,035</u> | <u>\$ -</u> | <u>\$ 94,677</u> | <u>\$1,220,529</u> | <u>\$2,271,214</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 revenues from non-public sources to fund public educational expenses, and (3) reimburse the General Fund for expenditures paid on behalf of other funds.

NOTE L – DEFICIT CASH BALANCES –

The following other governmental funds had deficit cash balances at September 30, 2010. However, these funds operate on a reimbursement basis and many have receivables which offset the deficit cash balances.

ATHENS CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010
(Continued)

NOTE L – DEFICIT CASH BALANCES – Continued-

| <u>Fund</u> | <u>Deficit Cash Balance</u> | <u>Receivable as of September 30, 2010</u> |
|--|-------------------------------------|--|
| Title I Part A | \$ 695 | \$ 695 |
| Title II Part A | 33,755 | 33,755 |
| Title II Part D Formula Grant | 3,245 | 6,745 |
| Speical Education - Preschool | 1,705 | 1,705 |
| Title IV Safe and Drug Free Schools | 6,973 | 7,302 |
| ARRA - Special Education - Basic | 26,739 | 41,447 |
| ARRA - Title I Part A | 1,821 | 1,821 |
| ARRA - Title II Part D Formula Grant | 4,089 | 4,918 |
| ARRA - State Fiscal Stabilization Fund | 112,644 | 112,644 |
| | <u>\$ 191,666</u> | <u>\$ 211,032</u> |

NOTE M – CONTINGENCIES –

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. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this present time although the Board expects such amounts, if any, to be immaterial.

The Board is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the Board's opinion, the resolution of these matters will not have a material adverse effect on the financial condition of the Board.

On December 15, 2008 Governor Bob Riley declared 12.5% proration for fiscal year ended September 30, 2010. Immediately following the declaration, the Governor released one half of the rainy day fund anticipating a reduction in proration to 9%. The plan was to release the other half of the rainy day fund to reduce the proration to 5.59%. The projections in revenue shortfalls were much greater than anticipated. The remaining rainy day fund was released and an additional 2% was declared in July 2009 bringing total proration for fiscal year ended September 30, 2010 to 11%. This percentage equated to a reduction in the original state allocation of \$1,820,631. Prior to the beginning of fiscal year ended September 30, 2010 Governor Bob Riley declared 7.5% proration to the education trust fund which is a reduction of state funds in the amount of \$1,123,898. On September 16, 2010 Governor Bob Riley declared an additional 2% proration. The additional 2% proration brings total proration for September 30, 2010 to 9.5%. The 9.5% proration results in a reduction in state funds of \$1,423,604. On February 28, 2011, Governor Robert Bentley declared 3% proration to the education trust fund. The 3% proration results in a \$444,807 reduction in state funds.

Athens City Schools has utilized federal funds awarded through the American Reinvestment and Recovery Act to offset state funding cuts. The ARRA funds are available for fiscal year end September 30, 2010 and September 30, 2011. Athens City Schools also utilized federal funds issued through the Education Jobs Bill to offset state funding cuts. These funds are available for fiscal year end September 30, 2011. By utilizing the federal funds Athens City Schools has minimized the effects of the state funding cuts on the general fund. Although the local budgets have been compiled to breakeven for fiscal year ends 2009 and 2010; losses have occurred in the general fund balance by a portion of the state funding cuts. The 2011 budget was compiled in the same manner. The 2% proration will result in a loss due to state funding cuts. Governor Bentley has proposed the 2012 education budget. At this time, there is not enough information to determine the effects the proposed budget will have on the Athens City School system. An increase in funding is not likely in the final approved 2012 education budget. There is speculation that cuts will occur in the form of contract days and raised divisors that determine student to teacher ratios. The final budget may require Athens City Schools cut some of the services provided.

ATHENS CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010
(Continued)

NOTE N – DONATED FOOD PROGRAM –

The commodities received from the Federal government in connection with the donated food program are reflected in the accompanying financial statements. The total assigned value of commodities donated was \$83,371 for 2010.

NOTE O – DEFINED BENEFIT PENSION PLAN

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

Substantially all employees of the Board are members of the Teachers' Retirement System. Membership is mandatory for covered eligible employees of the Board. Benefits vest after 10 years of creditable service. Vested employees may retire with full benefits at age 60 or after 25 years of service. Retirement benefits are calculated by two methods with the retiree receiving payment under the method which yields the highest monthly benefit. The methods are: (1) Minimum Guaranteed, or (2) Formula, of which the formula method usually produces the highest monthly benefit. Under this method, retirees are allowed 2.0125% of their average final salary (best three of the last ten years) for each year of service. Disability retirement benefits are calculated in the same manner. Pre-retirement death benefits in the amount of the annual salary for the fiscal year preceding death are provided to plan members.

The Teachers' Retirement System was established October 1, 1941, under the provisions of Act Number 419, Acts of Alabama 1939, for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by state-supported educational institutions. The responsibility of general administration and operation of the Teachers' Retirement System is vested in the Board of Control (currently 14 members). Benefit provisions are established by the *Code of Alabama 1975*, Sections 16-25-1 through 16-25-113, as amended, and Sections 36-27B-1 through 36-27B-5, as amended.

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

Funding Policy

Employees of the Board are required to contribute 5% of their salary to the Teachers' Retirement System. The Board is required to contribute the remaining amounts necessary to fund the actuarially determined contributions to ensure sufficient assets will be available to pay benefits when due. Each year the Teachers' Retirement System recommends to the Alabama Legislature the contribution rate for the following year, with the Legislature setting this rate in the annual appropriation bill. The percentages of the contributions and the amount of contributions made by the Board and the Board's employees equal the required contributions for each year as follows:

| Fiscal Year Ended September 30, | 2010 | 2009 | 2008 |
|---|--------------------|--------------------|--------------------|
| Total Percentage of Covered Payroll | 17.51% | 17.07% | 16.75% |
| Contributions: | | | |
| Percentage Contributed By the Board | 12.51% | 12.07% | 11.75% |
| Percentage Contributed By the Employees | 5.00% | 5.00% | 5.00% |
| Amount Contributed By the Board | \$2,199,190 | \$2,135,566 | \$2,045,616 |
| Amount Contributed By the Employees | 881,547 | 884,660 | 870,518 |
| Total Contributions | <u>\$3,080,737</u> | <u>\$3,020,226</u> | <u>\$2,916,134</u> |

**REQUIRED SUPPLEMENTARY
INFORMATION OTHER
THAN M D & A**

**ATHENS CITY BOARD OF EDUCATION
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
For the Year Ended September 30, 2010**

| | Budgeted Amounts | | Actual | Variance with Final Budget - Positive (Negative) |
|--|---------------------|---------------------|---------------------|---|
| | Original | Final | (Budgetary Basis) | |
| REVENUES | | | | |
| State sources | \$ 15,229,017 | \$ 14,153,172 | \$ 13,981,756 | \$ (171,416) |
| Federal sources | - | - | 1,152 | 1,152 |
| Local sources | 11,818,470 | 11,818,470 | 14,369,448 | 2,550,978 |
| Other sources | 140,000 | 158,000 | 96,212 | (61,788) |
| TOTAL REVENUES | <u>27,187,487</u> | <u>26,129,642</u> | <u>28,448,568</u> | <u>2,318,926</u> |
| EXPENDITURES | | | | |
| Instructional services | 16,078,322 | 16,068,984 | 15,798,086 | 270,898 |
| Instructional support services | 3,080,252 | 3,084,866 | 3,053,355 | 31,511 |
| Operation and maintenance services | 2,565,466 | 2,635,466 | 2,785,252 | (149,786) |
| Student transportation services | 899,288 | 899,288 | 976,892 | (77,604) |
| Food service | - | - | - | - |
| General administrative services | 1,665,511 | 1,666,082 | 1,678,795 | (12,713) |
| Capital outlay | - | - | - | - |
| Debt service | 1,493,568 | 1,493,568 | 3,224,020 | (1,730,452) |
| Other expenditures | 75,382 | 75,091 | 76,209 | (1,118) |
| TOTAL EXPENDITURES | <u>25,857,789</u> | <u>25,923,345</u> | <u>27,592,609</u> | <u>(1,669,264)</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | <u>1,329,698</u> | <u>206,297</u> | <u>855,959</u> | <u>649,662</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Indirect cost | 171,425 | 171,425 | 176,123 | 4,698 |
| Proceeds from capital lease | - | - | - | - |
| Sale of assets | - | - | - | - |
| Transfers in | 62,417 | 70,146 | 79,922 | 9,776 |
| Transfers out | (726,371) | (726,795) | (735,972) | (9,177) |
| Other financing sources | - | - | 805 | 805 |
| TOTAL OTHER FINANCING (USES) | <u>(492,529)</u> | <u>(485,224)</u> | <u>(479,122)</u> | <u>6,102</u> |
| NET CHANGE IN FUND BALANCES | 837,169 | (278,927) | 376,837 | 655,764 |
| FUND BALANCES - BEGINNING OF YEAR | <u>3,187,330</u> | <u>2,939,157</u> | <u>2,939,157</u> | <u>-</u> |
| FUND BALANCES - END OF YEAR | <u>\$ 4,024,499</u> | <u>\$ 2,660,230</u> | <u>\$ 3,315,994</u> | <u>\$ 655,764</u> |

The notes to financial statements are an integral part of these financial statements.

**ATHENS CITY BOARD OF EDUCATION
NOTE TO THE BUDGERARY COMPARISON SCHEDULE
September 30, 2010**

NOTE A – EXPLANATION OF DIFFERENCES BETWEEN BUDGETARY OUTFLOWS AND GAAP EXPENDITURES –

General Fund

Sources/inflows of resources

| | |
|---|---------------|
| Actual amounts (budgetary bases) available for appropriation shown as Total Revenues on the budgetary comparison schedule | \$ 28,448,568 |
|---|---------------|

Differences--budget to GAAP

| | |
|---|----------|
| Local taxes are not budgeted as revenues unless receivable in time to pay budgeted expenditures | <u>-</u> |
|---|----------|

| | |
|--|----------------------|
| Total revenues as reported on the statement of revenues, expenditures and changes in fund balances--governmental funds | <u>\$ 28,448,568</u> |
|--|----------------------|

Uses/outflows of resources

| | |
|--|---------------|
| Actual amoutns (budgetary basis) available for expenditures shown as Total Expenditures on the budgetary comparison schedule | \$ 27,592,609 |
|--|---------------|

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 benefits) earned but not paid are reported as expenditures on the financial statements. | <u>23,622</u> |
|---|---------------|

| | |
|--|----------------------|
| Total expenditures are reported on the statement of revenues, expenditures and changes in fund balances--governmental funds. | <u>\$ 27,616,231</u> |
|--|----------------------|

REPORTS REQUIRED
BY
GOVERNMENT AUDITING
STANDARDS

**INDEPENDENT AUDITORS REPORT OF COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board Members
Athens City Board of Education
Athens, Alabama

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Athens City Board of Education as of and for the year ended September 30, 2010, and have issued our report thereon dated June 29, 2011. 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.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

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

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

COMPLIANCE AND OTHER MATTERS

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

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

Johnson, Feigley, Newton & Brand, LLP

June 29, 2011

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

Board Members
Athens City Board of Education
Athens, Alabama

Compliance

We have audited the compliance of the Athens City Board of Education with the types of compliance requirements described in the *U.S. Office of Management Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2010. The Athens 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Athens City Board of Education's management. Our responsibility is to express an opinion of the Athens City Board of Education's compliance based on our audit.

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

In our opinion, the Athens City Board of Education complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2010.

INTERNAL CONTROL OVER COMPLIANCE

The management of the Athens City Board of Education is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Athens City Board of Education's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Athens City Board of Education's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

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

Johnson, Feigley, Newton & Brand, LLP

June 29, 2011

**ATHENS CITY BOARD OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended September 30, 2010**

| | Federal CFDA Number | Pass-through Grantor 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 - IDEA, Part B | 84.027 | 159 | \$ 594,750 |
| Special Education - Preschool Grants - IDEA, Part B | 84.173 | 159 | 8,399 |
| ARRA Special Education Grants to States - IDEA, Part B | 84.391 | 159 | 504,484 |
| ARRA Special Education - Preschool Grants - IDEA, Part B | 84.392 | 159 | 25,230 |
| <i>Subtotal Special Education Cluster</i> | | | 1,132,863 |
| Vocational Education Basic Grants to States | 84.048 | 159 | 43,647 |
| Title I Grants to Local Education Agencies | 84.010 | 159 | 724,722 |
| ARRA Title I Grants to Local Education Agencies | 84.389 | 159 | 192,546 |
| ARRA Stabilization Grant | 84.394 | 159 | 747,163 |
| Improving Teacher Quality State Grants | 84.367 | 159 | 144,936 |
| AARA Education Technology State Grants | 84.386 | 159 | 5,839 |
| English Language Acquisition Grants | 84.365 | 159 | 44,308 |
| Safe and Drug-Free Schools and Communities State Grants - Title IV | 84.186 | 159 | 4,340 |
| <i>TOTAL U.S. DEPARTMENT OF EDUCATION</i> | | | 3,040,364 |
| <u>U.S. DEPARTMENT OF AGRICULTURE</u> | | | |
| Passed through the State Department of Education: | | | |
| <i>Child Nutrition Cluster:</i> | | | |
| School Breakfast Program | 10.553 | 159 | 171,623 |
| National School Lunch Program | 10.555 | 159 | 574,226 |
| <i>Subtotal Child Nutrition Cluster</i> | | | 745,849 |
| Food Distribution Program (N) | 10.550 | 159 | 83,371 |
| <i>TOTAL U.S. DEPARTMENT OF AGRICULTURE</i> | | | 829,220 |
| <u>U.S. DEPARTMENT OF DEFENSE</u> | | | |
| Direct Program: | | | |
| Army ROTC | | | 143,317 |
| <i>TOTAL U.S. DEPARTMENT OF DEFENSE</i> | | | 143,317 |
| <u>SOCIAL SECURITY ADMINISTRATION</u> | | | |
| Passed through the State Department of Education: | | | |
| Social Security-Disability Insurance | 96.001 | 159 | 864 |
| <i>TOTAL SOCIAL SECURITY ADMINISTRATION</i> | | | 864 |
| <i>TOTAL FEDERAL ASSISTANCE</i> | | | \$ 4,013,765 |
| (N) Non-cash assistance | | | |

ATHENS CITY BOARD OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended September 30, 2010

NOTE A – BASIS OF PRESENTATION –

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

**ATHENS CITY BOARD OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended September 30, 2010
Section I - Summary of Auditor's Results**

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? Yes X No

Significant deficiency(s) identified not
Considered to be material weaknesses? Yes X No

Noncompliance material to financial
Statements noted? Yes X No

Federal Awards

Internal Control over major programs:

Material weakness(es) identified? Yes X No

Significant deficiency(s) identified not
Considered to be material weaknesses? Yes X No

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are
required to be reported in accordance
with Circular A-133, Section .510(a)? Yes X No

Identification of major programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|----------------------------------|--|
| 10.553 | School Breakfast Program |
| 10.555 | National School Lunch Program |
| 84.010 | Title I, Part A |
| 84.027 | Special Education IDEA Part B |
| 84.173 | Special Education - Preschool, IDEA Part B |
| 84.386, .389, .391, .392, & .394 | ARRA Grants |

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

Auditee qualified as a low-risk auditee? Yes X No

**ATHENS CITY BOARD OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended September 30, 2010
(Continued)**

SECTION II – Financial Statement Findings

None

SECTION III – Federal Award Findings and Questioned Costs