

FINANCIAL REPORT

PETERSBURG CITY PUBLIC SCHOOLS
(A COMPONENT UNIT OF THE CITY OF PETERSBURG, VIRGINIA)

FOR THE YEAR ENDED JUNE 30, 2011

PETERSBURG CITY PUBLIC SCHOOLS

Financial Report
For The Fiscal Year Ended June 30, 2011

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PETERSBURG CITY PUBLIC SCHOOLS

Financial Report
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THE SCHOOL BOARD OF THE CITY OF PETERSBURG, VIRGINIA

BOARD MEMBERS

Kenneth L. Pritchett, Chairman
Steven L. Pierce, Vice-Chairman

Mary Jane H. Hendricks
Dr. Kenneth W. Lewis
Fred B. Wilson

Dr. Elsie R. Jarman
Bernard J. Lundy, Jr

ADMINISTRATIVE/FISCAL OFFICERS

Dr. Alvera J. Parrish, Superintendent of Schools
John L. Mayo, Assistant Superintendent of Instruction
Tracie L. Coleman, Director of Budget & Finance

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ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report

To the Honorable Members of the School Board City of Petersburg, Virginia

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the School Board of the City of Petersburg, Virginia, as of and for the year ended June 30, 2011, which collectively comprise the School Board's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the School Board of the City of Petersburg, Virginia's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the School Board of the City of Petersburg, Virginia, as of June 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, the School Board of the City of Petersburg, Virginia adopted the provisions of GASB Statement No. 54, *Fund Balances Reporting and Governmental Fund Type Definitions*, effective July 1, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2011 on our consideration of the School Board of the City of Petersburg, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information and schedules of pension and OPEB funding progress be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to schedules of funding progress in

accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the schedules of funding progress because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School Board of the City of Petersburg, Virginia's financial statements as a whole. The individual nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The individual nonmajor fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

As discussed in Note 13 to the financial statements, the School Board of the City of Petersburg, Virginia refunded the Commonwealth of Virginia \$119,638 to resolve federal award finding 2011-1 originally reported in the City of Petersburg, Virginia's Schedule of Findings and Questioned Costs. This discovery was made subsequent to the issuance of the financial statements. The financial statements have been restated to reflect this correction.

Robinson, Farmer, Cox Associates

Charlottesville, Virginia

December 9, 2011, except for Note 13, as to which the date is August 10, 2012.

BASIC FINANCIAL STATEMENTS

Government-wide Financial Statements

Statement of Net Assets
At June 30, 2011

	Governmental Activities
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 132,634
Receivables (net of allowance for uncollectibles):	
Accounts receivable	249,915
Due from primary government	566,421
Due from other governments	5,322,587
Inventory	<u>279,391</u>
Total Current Assets	\$ <u>6,550,948</u>
Noncurrent Assets:	
Capital assets (net of accumulated depreciation):	
Land	\$ 5,000
Land improvements	155,698
Buildings	7,728,564
Vehicles	1,072,804
Equipment	240,699
Construction in progress	<u>292,037</u>
Total Noncurrent Assets	\$ <u>9,494,802</u>
Total Assets	\$ <u><u>16,045,750</u></u>
LIABILITIES	
Current Liabilities:	
Reconciled overdraft	\$ 762,319
Accounts payable	411,252
Accrued liabilities	3,370,732
Unearned revenues	308,380
Current portion of long-term obligations	<u>344,139</u>
Total Current Liabilities	\$ 5,196,822
Noncurrent Liabilities - Noncurrent Portion of long term obligations	<u>1,684,939</u>
Total Liabilities	\$ <u>6,881,761</u>
NET ASSETS	
Invested in capital assets, net of related debt	\$ 8,595,870
Unrestricted assets	<u>568,119</u>
Total Net Assets	\$ <u>9,163,989</u>
Total Liabilities and Net Assets	\$ <u><u>16,045,750</u></u>

The accompanying notes to basic financial statements are an integral part of this statement.

Statement of Activities
Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
Education:					
Instructional	\$ 34,987,931	\$ 183,954	\$ 9,371,227	\$ -	\$ (25,432,750)
Administration, attendance, and health	2,969,048	-	2,969,048	-	-
Operation and maintenance	5,325,017	-	5,325,017	-	-
Pupil transportation	1,849,716	-	1,849,716	-	-
Technology	1,310,548	-	1,310,548	-	-
Food service	2,025,062	530,389	1,656,683	-	162,010
Interest and fiscal costs	38,736	-	-	-	(38,736)
Total Governmental Activities	\$ 48,506,058	\$ 714,343	\$ 22,482,239	\$ -	\$ (25,309,476)

General revenues:

City contribution to the school board	\$ 8,762,505
Unrestricted revenues from use of money and property	32,689
Grants and contributions not restricted to specific programs	15,993,389
Miscellaneous - Other	<u>640,596</u>
Total general revenues	\$ <u>25,429,179</u>
Change in net assets	\$ 119,703
Net assets - beginning	<u>9,044,286</u>
Net assets - ending	\$ <u><u>9,163,989</u></u>

The accompanying notes to basic financial statements are an integral part of this statement.

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Fund Financial Statements

Balance Sheet - Governmental Funds
At June 30, 2011

	Governmental Funds			
	General	Special Revenue	Capital Projects	Total
ASSETS:				
Current assets:				
Cash and cash equivalents	\$ 200	\$ 44,638	\$ 87,796	\$ 132,634
Receivables (net of allowance for uncollectibles):				
Accounts receivable	249,915	-	-	249,915
Due from other governmental units	5,220,111	102,476	-	5,322,587
Due from other funds	-	287,282	291,264	578,546
Due from primary government	566,421	-	-	566,421
Inventory	244,812	34,579	-	279,391
Total assets	<u>\$ 6,281,459</u>	<u>\$ 468,975</u>	<u>\$ 379,060</u>	<u>\$ 7,129,494</u>
LIABILITIES:				
Reconciled overdraft	\$ 762,319	\$ -	\$ -	\$ 762,319
Accounts payable	410,347	905	-	411,252
Accrued liabilities	3,370,732	-	-	3,370,732
Due to other funds	578,546	-	-	578,546
Unearned revenue	308,380	-	-	308,380
Total liabilities	<u>\$ 5,430,324</u>	<u>\$ 905</u>	<u>\$ -</u>	<u>\$ 5,431,229</u>
FUND BALANCES:				
Nonspendable:				
Inventory	\$ 244,812	\$ 34,579	\$ -	\$ 279,391
Committed:				
Instruction - supplies	65,107	-	-	65,107
Instruction - textbooks	88,439	-	-	88,439
Instruction - equipment additions	10,291	-	-	10,291
Instruction - copier distribution fees	1,483	-	-	1,483
Transportation services - bus additions	435,370	-	-	435,370
Operation and Maintenance - equipment additions	3,101	-	-	3,101
Technology - equipment additions	2,532	-	-	2,532
Capital projects	-	-	379,060	379,060
Assigned:				
School lunch program	-	433,491	-	433,491
Total fund balances	<u>\$ 851,135</u>	<u>\$ 468,070</u>	<u>\$ 379,060</u>	<u>\$ 1,698,265</u>
Total liabilities and fund balances	<u>\$ 6,281,459</u>	<u>\$ 468,975</u>	<u>\$ 379,060</u>	<u>\$ 7,129,494</u>

Detailed explanation of adjustments from fund statements to government-wide Statement of Net Assets:

Fund balances above \$ 1,698,265

When capital assets (land, buildings, equipment) that are to be used in governmental activities are purchased or constructed, the costs of those assets are reported as expenditures in governmental funds. However, the Statement of Net Assets includes those capital assets among the assets of the School Board as a whole.

9,494,802

Long-term liabilities applicable to the School Board's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities--both current and long-term--are reported in the Statement of Net Assets.

(2,029,078)

Net assets of general government activities \$ 9,163,989

The accompanying notes to basic financial statements are an integral part of this statement.

Statement of Revenues, Expenditures and Changes in Fund Balances --
 Governmental Funds
 Year Ended June 30, 2011

	Governmental Fund Types			
	General	Special Revenue	Capital Projects	Total
Revenues:				
Revenue from use of money and property	\$ 32,507	\$ -	\$ 182	\$ 32,689
Charges for services	183,954	530,389	-	714,343
Miscellaneous	640,596	-	-	640,596
Recovered costs	224,975	-	-	224,975
Intergovernmental:				
City contribution to school board	8,762,505	-	-	8,762,505
Commonwealth	26,119,170	24,763	-	26,143,933
Federal	10,699,775	1,631,920	-	12,331,695
Total revenues	\$ 46,663,482	\$ 2,187,072	\$ 182	\$ 48,850,736
Expenditures:				
Current:				
Instructional	\$ 34,581,858	\$ -	\$ -	\$ 34,581,858
Administration, attendance, and health	2,934,013	-	-	2,934,013
Operation and maintenance	5,291,408	-	-	5,291,408
Pupil transportation	1,991,132	-	-	1,991,132
Food service	-	2,001,167	-	2,001,167
Technology	1,335,441	-	-	1,335,441
Debt service:				
Principal retirement	261,239	-	-	261,239
Interest and other debt costs	38,736	-	-	38,736
Total expenditures	\$ 46,433,827	\$ 2,001,167	\$ -	\$ 48,434,994
Net change in fund balances	\$ 229,655	\$ 185,905	\$ 182	\$ 415,742
Fund balances at beginning of year	621,480	282,165	378,878	1,282,523
Fund balances at end of year	\$ 851,135	\$ 468,070	\$ 379,060	\$ 1,698,265

The accompanying notes to basic financial statements are an integral part of this statement.

Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances
to the Statement of Activities - Governmental Funds
For the Year Ended June 30, 2011

		<u>Governmental Funds</u>
Amounts reported for governmental activities in the Statement of Activities are different because:		
Net change in fund balances - total governmental funds	\$	415,742
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which the depreciation exceeded capital outlays in the current period.		
Capital outlay	\$	242,461
Depreciation expense		<u>(663,117)</u>
		(420,656)
The issuance of long-term debt (e.g. leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items the same as the treatment of long-term debt and related items.		
Principal retired on capital lease obligations		261,239
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.		
Change in accrued leave	\$	1,378
Change in OPEB		<u>(138,000)</u>
		(136,622)
Change in net assets of governmental activities	\$	<u><u>119,703</u></u>

The accompanying notes to basic financial statements are an integral part of this statement.

Statement of Fiduciary Net Assets

At June 30, 2011

	Scholarship Private- Purpose Trust Fund	Agency Fund
	<u> </u>	<u> </u>
ASSETS:		
Cash and cash equivalents	\$ 107,017	\$ 55,796
Investments	<u>939,192</u>	<u>-</u>
Total assets	\$ <u><u>1,046,209</u></u>	\$ <u><u>55,796</u></u>
LIABILITIES:		
Amounts held for others	\$ <u>-</u>	\$ <u>55,796</u>
Total liabilities	\$ <u>-</u>	\$ <u>55,796</u>
NET ASSETS:		
Held in trust for scholarships	\$ <u>1,046,209</u>	\$ <u>-</u>
Total net assets	\$ <u>1,046,209</u>	\$ <u>-</u>
Total liabilities and net assets	\$ <u><u>1,046,209</u></u>	\$ <u><u>55,796</u></u>

The accompanying notes to basic financial statements are an integral part of this statement.

Statement of Changes in Fiduciary Net Assets
 Year Ended June 30, 2011

	Scholarship Private- Purpose Trust Fund
Additions:	
Contributions	\$ 11,427
Interest Income	10,913
Investment income (loss)	<u>(2,863)</u>
Total additions	\$ <u>19,477</u>
Deductions:	
Scholarships awarded	\$ <u>8,750</u>
Total deductions	\$ <u>8,750</u>
Change in net assets	\$ 10,727
Net assets - beginning of the year	<u>1,035,482</u>
Net assets - end of the year	\$ <u><u>1,046,209</u></u>

The accompanying notes to basic financial statements are an integral part of this statement.

THE SCHOOL BOARD OF THE CITY OF PETERSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2011

Note 1—Summary of Significant Accounting Policies:

The School Board of the City of Petersburg, Virginia (the “School Board”) was established in 1868 to provide educational opportunities to the residents of the City of Petersburg (the “City”). The accounting principles of the School Board conform to generally accepted accounting principles as applicable to governmental entities. The following is a summary of the more significant policies:

A. Financial Reporting Entity

The School Board is a component unit of the City of Petersburg, Virginia and, accordingly, the financial position and results of operations of the School Board are presented in the financial statements included in the Comprehensive Annual Financial Report of the City. All members of the School Board were elected. The majority of the School Board’s funding is provided by annual appropriations from the Commonwealth of Virginia with the City being the second major source of funding. The City Council approves the School Board’s operating budget but is prohibited from exercising any control over specific expenditures.

B. Individual Component Unit Disclosures

Blended Component Unit - The School Board has no blended component units to be included for the fiscal year ended June 30, 2011.

Discretely Presented Component Unit - The School Board has no discretely presented component units to be included for the fiscal year ended June 30, 2011.

C. Other Related Organizations

Included in the School Board’s Comprehensive Annual Financial Report

None

Excluded from the School Board’s Comprehensive Annual Financial Report

None

D. Financial Statement Presentation

Government-wide and Fund Financial Statements

Government-wide financial statements - The reporting model includes financial statements prepared using full accrual accounting for all of the government’s activities. This approach includes not just current assets and liabilities but also capital assets and long-term liabilities (such as buildings and general obligation debt).

THE SCHOOL BOARD OF THE CITY OF PETERSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2011 (Continued)

Note 1—Summary of Significant Accounting Policies: (Continued)

D. Financial Statement Presentation: (Continued)

Government-wide and Fund Financial Statements: (Continued)

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

Statement of Net Assets - The Statement of Net Assets is designed to display financial position of the primary government (government and business-type activities) and its discretely presented component unit. Governments will report all capital assets, in the government-wide Statement of Net Assets and will report depreciation expense - the cost of "using up" capital assets - in the Statement of Activities. The net assets of a government will be broken down into three categories - 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

Statement of Activities - The government-wide Statement of Activities reports expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Budgetary comparison schedules - Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in one way or another in the process of establishing the annual operating budgets of state and local governments, and have a keen interest in following the actual financial progress of their governments over the course of the year. Many governments revise their original budgets over the course of the year for a variety of reasons. Under the GASB 34 reporting model, governments provide budgetary comparison information in their annual reports, including the original budget, and a comparison of final budget and actual results.

THE SCHOOL BOARD OF THE CITY OF PETERSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2011 (Continued)

Note 1—Summary of Significant Accounting Policies: (Continued)

E. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accompanying financial statements are prepared in accordance with pronouncements issued by the Governmental Accounting Standards Board. The principles prescribed by GASB represent generally accepted accounting principles applicable to governmental units.

The School Board applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989 unless these pronouncements conflict with or contradict GASB pronouncements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The government-wide statement of activities reflects both the gross and net cost per functional category which are otherwise being supported by general government revenues, (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.) The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants, and contributions. The program revenues must be directly associated with the function.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. Revenues are recognized as soon as they are both 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 government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The School Board's fiduciary funds are presented in the fund financial statements by type. Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

In the fund financial statements, financial transactions and accounts of the School Board are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

THE SCHOOL BOARD OF THE CITY OF PETERSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2011 (Continued)

Note 1—Summary of Significant Accounting Policies: (Continued)

E. Measurement Focus, Basis of Accounting and Financial Statement Presentation: (Continued)

1. Governmental Funds

Governmental Funds are those through which most governmental functions typically are financed.

The School Board reports the following major governmental fund:

General Fund - The General Fund is the primary operating fund of the School Board. This fund is used to account for and report all financial transactions and resources except those required to be accounted for in another fund. Revenues are derived primarily from state and federal distributions and contributions from the City of Petersburg, Virginia.

The School Board reports the following non-major funds:

Special Revenue Fund - The Special Revenue Fund accounts for and reports the proceeds of specific revenue sources (other than major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action. The Special Revenue Fund consists of the School Food Service Fund.

Capital Projects Fund - The Capital Projects Fund accounts for and reports financial resources to be used for the acquisition or construction of major capital facilities.

Fiduciary Funds - Fiduciary Funds are used to account for assets held the School Board in a trustee capacity or as an agent or custodian for individuals, private organizations, other governmental units and/or other funds. The following are the School Board's fiduciary fund types:

These funds include the Scholarship Private-Purpose Trust Fund, and the Vocational Work Experience Fund. These funds are accounted for on the accrual basis of accounting. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

F. Budgets and Budgetary Accounting

The budgetary data reflected in the general purpose financial statements was established by the School Board using the following procedures, which comply with legal requirements:

- i. On or before April 1, the School Board submits to the City Council of the City of Petersburg proposed operating budgets for the General Fund. The operating budgets include proposed expenditures and the means of financing them.
- ii. A public hearing on the budget is held after a synopsis of the budget is published in a local newspaper of general circulation. An appropriation ordinance must be adopted by the City Council prior to May 1 or as soon thereafter as is practicable.

THE SCHOOL BOARD OF THE CITY OF PETERSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2011 (Continued)

Note 1—Summary of Significant Accounting Policies: (Continued)

F. Budgets and Budgetary Accounting: (Continued)

The School Board and Superintendent are authorized to make transfers between functions and budgetary line items, respectively. However, City Council must approve any budget revisions at the fund level once the appropriation ordinance has been adopted. The legal level of budgetary control for the General Fund is the fund level or the level at which management cannot make transfers or over-expenditures in excess of appropriations without the approval of the School Board. However, management control is exercised over the budget at the individual revenue and expenditure budgetary line item level. Adopted budgets may be amended or superseded by actions of City Council. Appropriations, except for encumbrances and reserved fund balances, lapse at year end. Encumbrances and reserved fund balances outstanding at year end are reappropriated in the succeeding year.

G. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the government.

State statutes authorize the government to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds and repurchase agreements.

Investments are reported at fair value.

H. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans). All other outstanding balances between funds are reported as "advances to/from other funds (i.e. the noncurrent portion of interfund loans)."

I. Inventory

Inventory in the General Fund and Special Revenue Funds (School Food Service Fund) is stated at cost (which is determined using the first-in first-out method). The inventory consists of expendable items held for consumption and is recorded as an expenditure when used (consumption method). Donated inventory is valued at prices determined by the United States Department of Agriculture.

J. Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the School Board as land, buildings, road registered vehicles, and equipment with an initial individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

THE SCHOOL BOARD OF THE CITY OF PETERSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2011 (Continued)

Note 1—Summary of Significant Accounting Policies: (Continued)

J. Capital Assets: (Continued)

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

Property, plant and equipment is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building Improvements	20-40
Vehicles	3-5
Office and computer equipment	5
Buses	12

K. Accrued Liabilities

Teachers may elect to have their salaries paid over twelve months although they are earned during the ten-month school year. Salaries that are earned but unpaid at June 30 are included in accrued liabilities.

L. Deferred Revenue

Revenue from grants is recognized when the related expenditure is made. Amounts received for various grant programs for which expenditures have not been made are recorded as deferred revenue.

M. Defined Benefit Pension Plans

The School Board participates in two separate defined benefit pension plans administered by the Virginia Retirement System (VRS). Defined benefit pension plan contributions are actuarially determined and consist of current service costs and amortization of prior service costs over a 30 year period.

N. Compensated Absences

School Board employees are granted vacation and sick pay in varying amounts. In the event of termination, other than retirement, School Board employees are reimbursed for accumulated vacation days based on years of service and are not reimbursed for accumulated sick leave. Upon retirement, School Board employees are reimbursed for accumulated vacation days and accumulated sick leave.

For Governmental Funds, the cost of accumulated vacation and sick leave expected to be paid in the next twelve months is recorded as a fund liability and amounts expected to be paid after twelve months are recorded in the Government-wide Financial Statements.

THE SCHOOL BOARD OF THE CITY OF PETERSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2011 (Continued)

Note 1—Summary of Significant Accounting Policies: (Continued)

O. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

P. Interfund Transactions

Quasi-external transactions are accounted for as revenues or expenditures. Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed.

All interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Non-recurring or non-routine permanent transfers to equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

Q. Reversion of Unused Appropriation to City of Petersburg

Since General Fund appropriations, except for encumbrances and reservations of fund balance, lapse at year-end, any unused appropriation reverts to the City of Petersburg in the following year.

R. Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities for the reported periods. Actual results could differ from those estimates and assumptions.

S. Net Assets

Net assets are the difference between assets and liabilities. Net assets invested in capital assets represent capital assets, less accumulated depreciation less any outstanding debt related to the acquisition, construction or improvement of those assets.

T. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Beginning with fiscal year 2011, the School Board implemented GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance - amounts that are not in spendable form (such as inventory and prepaids) or are required to be maintained intact (corpus of a permanent fund);

THE SCHOOL BOARD OF THE CITY OF PETERSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2011 (Continued)

Note 1–Summary of Significant Accounting Policies: (Continued)

T. Fund Equity: (Continued)

- Restricted fund balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;
- Committed fund balance - amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;
- Assigned fund balance - amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;
- Unassigned fund balance - amounts that are available for any purpose; positive amounts are only reported in the general fund.

When fund balance resources are available for a specific purpose in more than one classification, it is the School Board policy to use the most restrictive funds first in the following order: restricted, committed, assigned, and unassigned as they are needed.

The School Board establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by the School Board through adoption or amendment of the budget as intended for specific purpose (such as the purchase of capital assets, construction, debt service, or for other purposes).

Held in Trust for Scholarships - The equity balances have been classified to reflect the limitations and restrictions placed on the respective funds as the following represents the detail of reserved for scholarships and reserved for trust corpus by individual scholarship:

	<u>Held in Trust for Scholarships</u>
A.P. Bolling Scholarship	\$ 7,893
Brockwell Scholarship	22,692
Communities in Schools	2,396
Germaine S. Fauntleroy	4,273
Norman Jenkins Scholarship	12,709
Optimist Club of Petersburg	5,428
Robert Kilbourne Scholarships	11,976
PHS Scholarship Fund	969,643
Other Funds	<u>9,199</u>
Total cash, cash equivalents and investments	\$ <u>1,046,209</u>

THE SCHOOL BOARD OF THE CITY OF PETERSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2011 (Continued)

Note 2—Deposits and Investments:

Deposits

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act") Section 2.2-4400 et. seq. of the Code of Virginia. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial Institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

Investments

Statutes authorize the School Board to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP).

Credit Risk of Debt Securities

The School Board does not have a policy regarding credit risk of debt securities.

The School Board's rated debt investments as of June 30, 2011 were rated by Standard and Poor's and the ratings are presented below using the Standard and Poor's rating scale.

Rated Debt Investment Values		
	Fair Quality Ratings	
	AAAm	AAA
Governmental Activities:		
LGIP	\$ 87,796	\$ -
Fiduciary Funds:		
LGIP	55,796	-
Government and Agency Bonds:		
Federal Farm Credit Bank		350,017
Federal Home Loan Bank	-	325,439
Corporate Debt:		
Protective Life Sec Trust Med Term Note	-	263,736
Total Fiduciary Funds	\$ 55,796	\$ 939,192
Total	\$ 143,592	\$ 939,192

THE SCHOOL BOARD OF THE CITY OF PETERSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2011 (Continued)

Note 2—Deposits and Investments: (Continued)

Concentration of Credit Risk

The City does not have a policy regarding concentration of credit risk. However, the City's investment in cash and investments by type is represented by the following allocation:

	<u>Total Primary Government</u>	<u>Fiduciary Funds</u>
Cash and cash equivalents	100.00%	14.77%
Investments:		
U.S. Agencies	0.00%	61.30%
Corporate debt	0.00%	23.93%
	<u>100.00%</u>	<u>100.00%</u>

Interest Rate Risk

The School Board does not have a policy regarding interest rate risk.

<u>Investment Maturities (in years)</u>			
	<u>Fair Value</u>	<u><1 Year</u>	<u>1-5 Years</u>
Governmental Activities:			
LGIP	\$ 87,796	\$ 87,796	\$ -
Fiduciary Funds:			
LGIP	55,796	55,796	-
Government and Agency Bonds:			
Federal Farm Credit Bank	350,017		350,017
Federal Home Loan Bank	325,439	-	325,439
Corporate Debt:			
Protective Life Sec Trust Med Term Note	263,736	263,736	-
Total Fiduciary Funds	<u>\$ 994,988</u>	<u>\$ 319,532</u>	<u>\$ 675,456</u>
Total	<u>\$ 1,082,784</u>	<u>\$ 407,328</u>	<u>\$ 675,456</u>

THE SCHOOL BOARD OF THE CITY OF PETERSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2011 (Continued)

Note 2—Deposits and Investments: (Continued)

External Investment Pools

The fair value of the positions in the Local Government Investment Pool (LGIP) is the same as the value of the pool shares. As this pool is not SEC registered, regulatory oversight of the pool rests with the Virginia State Treasury. LGIP maintains a policy to operate in a manner consistent with SEC Rule 2a-7.

The following provides a reconciliation of total cash and investments to the statement of net assets:

	<u>Total Primary Government</u>	<u>Fiduciary Funds</u>
Cash and cash equivalents	\$ 132,634	\$ 162,813
Investments:		
U.S. Agencies	-	675,456
Corporate debt	-	263,736
	<u>\$ 132,634</u>	<u>\$ 1,102,005</u>

Foreign Currency Risk

The City does not have a policy regarding foreign currency risk and the City does not have any investments in foreign currencies.

THE SCHOOL BOARD OF THE CITY OF PETERSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2011 (Continued)

Note 3—Due From Other Governmental Units:

Amounts due from other governments consist principally of cost reimbursements due from the Commonwealth of Virginia and from federal and state grants. Such amounts are generally received in the succeeding month. The following is a summary of amounts due from other governments at June 30, 2011:

	<u>Federal</u>	<u>State</u>	<u>Total</u>
General Fund:			
Head Start	\$ 269,636	\$ -	\$ 269,636
Perkins	88,701	-	88,701
Special education	793,076	-	793,076
Preschool incentive	32,040	-	32,040
Title I	1,480,354	-	1,480,354
Title II Part A	175,563	-	175,563
Title II Part D	48,943	-	48,943
Title III	17,980	-	17,980
Title IV Part A	8,502	-	8,502
Title IV Part B	227,421	-	227,421
Gear Up	11,056	-	11,056
1003 g school improvement	304,475	-	304,475
Improving literacy through school libraries	60,636	-	60,636
State fiscal stabilization funds	263,175	-	263,175
State fiscal stabilization funds - basic aid	744,265	-	744,265
Special Ed - Jail	-	19,167	19,167
Technology funds	-	20,822	20,822
Sales Tax	-	654,299	654,299
General Fund Total	\$ 4,525,823	\$ 694,288	\$ 5,220,111
Special Revenue Fund-School Food Service	\$ 102,476	\$ -	\$ 102,476
Total	\$ 4,628,299	\$ 694,288	\$ 5,322,587

THE SCHOOL BOARD OF THE CITY OF PETERSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2011 (Continued)

Note 4—Capital Assets:

The following is a summary of changes in capital assets during the fiscal year.

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
School Board:				
Capital assets, not being depreciated:				
Land	\$ 5,000	\$ -	\$ -	\$ 5,000
Construction in progress	292,037	-	-	292,037
Total Capital assets not being depreciated	\$ 297,037	\$ -	\$ -	\$ 297,037
Capital assets being depreciated:				
Land improvements	\$ 218,848	\$ -	\$ -	\$ 218,848
Buildings	11,982,301	124,748	-	12,107,049
Vehicles	3,250,640	70,017	-	3,320,657
Equipment (other than vehicles)	1,648,350	47,696	-	1,696,046
Total capital assets being depreciated	\$ 17,100,139	\$ 242,461	\$ -	\$ 17,342,600
Less accumulated depreciation for:				
Land improvements	\$ 52,208	\$ 10,942	\$ -	\$ 63,150
Buildings	4,028,352	350,133	-	4,378,485
Vehicles	2,034,364	213,489	-	2,247,853
Equipment	1,366,794	88,553	-	1,455,347
Total accumulated depreciation	\$ 7,481,718	\$ 663,117	\$ -	\$ 8,144,835
Total capital assets being depreciated, net	\$ 9,618,421	\$ (420,656)	\$ -	\$ 9,197,765
School Board capital assets, net	\$ 9,915,458	\$ (420,656)	\$ -	\$ 9,494,802

Per Section 15.2-1800.1 of the Code of Virginia, 1950, as amended, the City has a "tenancy in common" with the School Board for any school property purchased with a financial obligation payable over more than one fiscal year. For financial reporting purposes, the legislation permits the City to report the portion of school property related to any outstanding financial obligation eliminating any potential deficit from capitalizing assets financed with debt.

THE SCHOOL BOARD OF THE CITY OF PETERSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2011 (Continued)

Note 5—Long-Term Obligations:

The following is a summary of changes in long-term obligations transactions for fiscal year ending June 30, 2011:

	Amounts Payable July 1, 2010	Increases	Decreases	Amounts Payable June 30, 2011	Amounts Payable Within One Year
Capital leases	\$ 1,160,171	\$ -	\$ 261,239	\$ 898,932	\$ 271,124
Compensated absences payable	731,524	-	1,378	730,146	73,015
OPEB	262,000	138,000	-	400,000	-
Total	<u>\$ 2,153,695</u>	<u>\$ 138,000</u>	<u>\$ 262,617</u>	<u>\$ 2,029,078</u>	<u>\$ 344,139</u>

Details of long-term obligations are as follows:

	<u>Amount Outstanding</u>
School Capital Lease Obligation:	
\$2,900,000 obligation for heating and air conditioning upgrades, issued October 1, 2002 payable in monthly installments of \$24,998 through October 1, 2014, interest at 3.78%	\$ <u>898,932</u>
Total school capital lease obligation	\$ <u>898,932</u>

Annual requirement to amortize long-term obligations and related interest are as follows:

<u>Year Ending June 30,</u>	<u>Capital Leases</u>	
	<u>Principal</u>	<u>Interest</u>
2012	\$ 271,124	\$ 28,851
2013	281,384	18,591
2014	292,032	7,943
2015	<u>54,392</u>	<u>275</u>
Total	<u>\$ 898,932</u>	<u>\$ 55,660</u>

THE SCHOOL BOARD OF THE CITY OF PETERSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2011 (Continued)

Note 6—Due From/To Other Funds/Primary Government:

Individual fund and interfund receivable and payable balances relate to working capital loans at June 30, 2011 are presented below:

<u>Fund</u>	<u>Due from Primary Government</u>	<u>Due to Primary Government</u>
Due to/from Primary Government:		
General	\$ <u>566,421</u>	\$ <u>-</u>
	<u>Due from other funds</u>	<u>Due to other funds</u>
Due to/from other funds:		
General	\$ -	\$ 578,546
Special Revenue	287,282	-
Capital Projects	<u>291,264</u>	<u>-</u>
Total	\$ <u>578,546</u>	\$ <u>578,546</u>

Note 7—Lease Commitments:

Obligations under noncancellable operating leases are not significant. Total rental expenditures under operating leases approximated \$182,316 for the fiscal year ended June 30, 2011. In most cases, School Board management expects that, in the normal course of business, leases that expire will be renewed or replaced by other leases.

Note 8—Defined Benefit Pension Plan:

A. Plan Description

Name of Plan: Virginia Retirement System (VRS)
Identification of Plan: Agent and Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
Administering Entity: Virginia Retirement System (System)

All full-time, salaried permanent employees of participating employers and (professional) employees of public school divisions are automatically covered by VRS upon employment. Benefits vest after five years of service credit. Members earn one month of service credit for each month they are employed and their employer is paying into the VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as credit in their plan.

THE SCHOOL BOARD OF THE CITY OF PETERSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2011 (Continued)

Note 8—Defined Benefit Pension Plan: (Continued)

A. Plan Description: (Continued)

VRS administers two defined benefit plans for local government employees - Plan 1 and Plan 2:

- Members hired before July 1, 2010 and who have service credits before July 1, 2010 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit early at age 55 with at least 10 years of service credit or age 50 with at least five years of service credit.
- Members hired or rehired on or after July 1, 2010 and who have no service credits before July 1, 2010 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.
- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier for eligible political subdivision hazardous duty employees other than sheriffs and jail superintendents is 1.70% or 1.85% as elected by the employer. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 6.00%. During years of no inflation or deflation, the COLA is 0.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The system issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the report may be obtained from the VRS website at <http://www.varetire.org/Pdf/Publications/2010-Annual-Report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

THE SCHOOL BOARD OF THE CITY OF PETERSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2011 (Continued)

Note 8—Defined Benefit Pension Plan: (Continued)

B. Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% of their annual salary to the VRS. This 5% member contribution may be assumed by the employer. In addition, the School Board is required to contribute the remaining amounts necessary to fund participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The School's non-professional employee contribution rate for the fiscal year ended June 30, 2011 was 10.34% of annual covered payroll.

The School Board's contributions for professional employees was \$903,120, \$1,474,444, and \$2,181,546 for the fiscal years ended June 30, 2011, 2010 and 2009 respectively and these contributions represented 3.93%, 8.81% and 8.81% respectively, of current covered payroll.

C. Annual Pension Cost

For fiscal year 2011, the School Board's annual pension cost for the Board's non-professional employees was \$253,261 which was equal to the Board's required and actual contributions.

Three Year Trend Information - School Board Non-Professional			
Fiscal Year Ending	Annual Pension Cost (APC) (1)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2011	\$ 253,261	100%	\$ -
June 30, 2010	268,657	100%	-
June 30, 2009	270,408	100%	-

(1) Employer portion only

The FY 2011 required contribution was determined as part of the June 30, 2009 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2009 included (a) an investment rate of return (net of administrative expenses) of 7.50%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees and 3.50% to 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%. The actuarial value of the School Board's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The School Board's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2009 was 20 years.

THE SCHOOL BOARD OF THE CITY OF PETERSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2011 (Continued)

Note 8—Defined Benefit Pension Plan: (Continued)

D. Funded Status and Funding Progress

As of June 30, 2010 (most recent actuarial valuation available), the School Board annual pension plan was 78.63% funded. The accrued actuarial liability for benefits was \$13,234,567, and the actuarial value of assets was \$10,406,775, resulting in an unfunded actuarial accrued liability (UAAL) of (\$2,827,792). The covered payroll (annual payroll of active employees covered by the plan) was \$2,579,883 and the ratio of the UAAL to the covered payroll was 109.61%.

The required schedule of funding progress can be found on Exhibit 8 immediately following the notes to the financial statements and presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability (AAL) for benefits.

Note 9—Commitments and Contingencies:

Federal programs in which the School Board and all discretely presented component units participate were audited in accordance with the provisions of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Pursuant to the provisions of this circular all major programs and certain other programs were tested for compliance with applicable grant requirements.

While no matters of noncompliance were disclosed by audit, the Federal Government may subject grant programs to additional compliance tests which may result in disallowed expenditures. In the opinion of management, any future disallowance of current grant program expenditures, if any, would be immaterial.

Note 10—Risk Management:

The School 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 School Board reports all of its risk management activities in its General Fund and pays all premiums from General Fund resources. The School Board maintains comprehensive property and casualty policies, commercial general liability policies, comprehensive liability vehicle fleet policies and coverages for errors and omissions, workers' compensation, employer's liability, health care and certain other risks with commercial insurance companies. All premiums are budgeted for and paid with General Fund resources. All unemployment and health care claims are paid through a third-party administrator through resources from the General Fund. There have been no reductions in insurance coverages from the prior year, and settled claims have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 11—Litigation:

At June 30, 2011, there were not matters of litigation involving the School Board which would materially affect the School Board's financial position should any court decisions on pending matters not be favorable to such entities.

THE SCHOOL BOARD OF THE CITY OF PETERSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2011 (Continued)

Note 12–Other Post-Employment Benefits Program:

School Board:

A. Plan Description

The School Board Post-Retirement Medical Plan is a single-employer defined benefit healthcare plan which offers health insurance for retired employees. The plan is administered by the School Board. Retired employees, who were enrolled in Petersburg Public Schools group health insurance plan for the 24 months prior to retirement date, who were employed by Petersburg Public Schools with at least 10 years of service and who retired under the VRS plan are eligible to elect post-retirement coverage in the plan. The plan has no separate financial report.

B. Funding Policy

The School Board establishes employer contribution rates for plan participants as part of the budgetary process each year. The School Board also determines how the plan will be funded each year whether it will partially fund the plan or fully fund the plan. Again this is determined annually as part of the budgetary process. For participating retirees the School Board pays zero per month towards the monthly premium and the retiree contributes the remaining funds towards the monthly premium. Retirees pay 100 % of spousal premiums. Coverage ceases when retirees reach the age of 65. Surviving spouses are not allowed access to the plan.

C. Annual OPEB Cost and Net OPEB Obligation

The annual cost of other post employment benefits (OPEB) under GASB 45 is called the annual required contribution or ARC and for fiscal year 2010 totaled \$277,000. The School Board paid \$167,000 towards the estimated pay as you go cost for OPEB benefits in fiscal year 2010. The School Board is required to contribute the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Annual OPEB Cost

The School Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 are as follows:

Annual required contribution	\$	266,000
Interest on net OPEB obligation		10,000
Adjustment to annual required contribution		(11,000)
Annual OPEB cost (expense)	\$	265,000
Contributions made		(127,000)
Increase (decrease) in net OPEB obligation	\$	138,000
Net OPEB obligation - beginning of year		262,000
Net OPEB obligation - end of year	\$	400,000

THE SCHOOL BOARD OF THE CITY OF PETERSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2011 (Continued)

Note 12—Other Post-Employment Benefits Program:

C. Annual OPEB Cost and Net OPEB Obligation: (Continued)

Funded Status and Funding Progress

The funded status of the plan as of July 1, 2010 is as follows:

Actuarial accrued liability (AAL)	\$	2,281,000
Actuarial value of plan assets		-
Unfunded actuarial accrued liability		2,281,000
Funded ratio (actuarial value of plan assets / AAL)		0%
Covered payroll (active plan members)		22,838,000
UAAL as a percentage of covered payroll		9.99%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Cost Method

In the July 1, 2010 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 10 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 10% initially, reduced by decrements to an ultimate rate of 5.5 percent after ten years. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at July 1, 2010 was up to thirty years.

Interest Assumptions

	<u>Funded</u>
Discount rate	4.00%
Payroll growth	N/A

THE SCHOOL BOARD OF THE CITY OF PETERSBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2011 (Continued)

Note 13– Financial Statement Adjustments:

The financial statements of the School Board of the City of Petersburg, Virginia have been adjusted to reflect a refund made to the Commonwealth of Virginia in the amount of \$119,638 on August 2, 2012. This refund resolved federal award finding 2011-1 as originally reported in the City of Petersburg, Virginia's Schedule of Findings and Questioned Costs for the year ended June 30, 2011. As such the General fund financial statements were adjusted as follows:

Description		Amounts Previously Reported	Adjustment	Amounts As Restated
Due from primary government	\$	446,783	\$ 119,638	\$ 566,421
Accounts payable		290,709	119,638	410,347
Intergovernmental Revenues:				
City contribution to school board - operations	\$	8,642,867	\$ 119,638	\$ 8,762,505
Revenue from the federal government		10,819,413	(119,638)	10,699,775

REQUIRED SUPPLEMENTARY INFORMATION

Schedules of Funding Progress for the Virginia Retirement System and
Other Post Employment Benefits
Last Three Fiscal Years

Virginia Retirement System

Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded (Excess Funded) Actuarial Accrued Liability	Funded Ratio (2) / (3)	Annual Covered Payroll	UAAL as % of Payroll (4) / (6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
6/30/2010	\$ 10,406,775	\$ 13,234,567	\$ 2,827,792	78.63%	\$ 2,579,883	109.61%
6/30/2009	10,497,250	12,552,847	2,055,597	83.62%	2,599,480	79.08%
6/30/2008	10,493,359	12,064,959	1,571,600	86.97%	2,636,380	59.61%

Other Post Employment Benefits

7/1/2010	\$ -	\$ 2,281,000	\$ 2,281,000	0.00%	\$ 22,838,000	9.99%
7/1/2008	-	2,314,000	2,314,000	0.00%	24,985,000	9.26%

Schedule of Revenues, Expenditures and Changes in Fund Balance --
 Budget and Actual -- General Fund
 Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance From Final Budget Positive (Negative)
Revenues:				
Revenue from use of money and property	\$ 26,000	\$ 26,000	\$ 32,507	\$ 6,507
Charges for services	123,000	123,000	183,954	60,954
Miscellaneous	432,300	892,865	640,596	(252,269)
Recovered costs	200,000	200,000	224,975	24,975
Intergovernmental:				
City contribution to school board component unit	9,945,000	9,945,000	8,762,505	(1,182,495)
Commonwealth	26,688,067	26,930,461	26,119,170	(811,291)
Federal	7,923,001	12,660,693	10,699,775	(1,960,918)
Total revenues	<u>\$ 45,337,368</u>	<u>\$ 50,778,019</u>	<u>\$ 46,663,482</u>	<u>\$ (4,114,537)</u>
Expenditures:				
Current:				
Instructional	\$ 32,807,607	\$ 37,458,438	\$ 34,581,858	\$ 2,876,580
Administration, attendance, and health	3,040,124	3,100,524	2,934,013	166,511
Operation and maintenance	5,459,189	5,621,367	5,291,408	329,959
Pupil transportation	1,764,960	2,270,962	1,991,132	279,830
Technology	1,456,331	1,793,493	1,335,441	458,052
Debt service:				
Principal retirement	751,228	674,965	261,239	413,726
Interest and other debt costs	-	45,000	38,736	6,264
Contingency	57,929	-	-	-
Total expenditures	<u>\$ 45,337,368</u>	<u>\$ 50,964,749</u>	<u>\$ 46,433,827</u>	<u>\$ 4,530,922</u>
Changes in fund balance	\$ -	\$ (186,730)	\$ 229,655	\$ 416,385
Fund balances at beginning of year	-	186,730	621,480	434,750
Fund balances at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 851,135</u>	<u>\$ 851,135</u>

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OTHER SUPPLEMENTARY INFORMATION

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Schedule of Revenues, Expenditures and Changes in Fund Balance --
 Budget and Actual -- Special Revenue Fund
 Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance From Final Budget Positive (Negative)
Revenues:				
Revenue from use of money and property	\$ 150	\$ 150	\$ -	\$ (150)
Charges for services	625,000	625,000	530,389	(94,611)
Intergovernmental:				
Commonwealth	28,274	28,274	24,763	(3,511)
Federal	1,390,706	1,496,936	1,631,920	134,984
Total revenues	<u>\$ 2,044,130</u>	<u>\$ 2,150,360</u>	<u>\$ 2,187,072</u>	<u>\$ 36,712</u>
Expenditures:				
Current:				
Food service	<u>\$ 2,044,130</u>	<u>\$ 2,150,360</u>	<u>\$ 2,001,167</u>	<u>\$ 149,193</u>
Total expenditures	<u>\$ 2,044,130</u>	<u>\$ 2,150,360</u>	<u>\$ 2,001,167</u>	<u>\$ 149,193</u>
Changes in fund balance	\$ -	\$ -	\$ 185,905	\$ 185,905
Fund balances at beginning of year	-	-	282,165	282,165
Fund balances at end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 468,070</u></u>	<u><u>\$ 468,070</u></u>

Statement of Changes in Assets and Liabilities--Agency Fund

Year Ended June 30, 2011

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Vocational Work Experience Fund:				
Assets:				
Cash and cash equivalents	\$ <u>55,681</u>	\$ <u>115</u>	\$ <u>-</u>	\$ <u>55,796</u>
Liabilities:				
Amounts held for others	\$ <u>55,681</u>	\$ <u>115</u>	\$ <u>-</u>	\$ <u>55,796</u>

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Supporting Schedules

THE SCHOOL BOARD OF THE CITY OF PETERSBURG, VIRGINIA

Schedule 1

Page 1 of 3

Governmental Funds

Schedule of Revenues -- Budget and Actual

Year Ended June 30, 2011

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance From Final Budget Positive (Negative)</u>
General Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from use of property	\$ 26,000	\$ 26,000	\$ 32,507	\$ 6,507
Total revenue from use of money and property	\$ 26,000	\$ 26,000	\$ 32,507	\$ 6,507
Charges for services:				
Tuition	\$ 75,000	\$ 75,000	\$ 39,060	\$ (35,940)
Field trips	45,000	45,000	141,369	96,369
Other fees	3,000	3,000	3,525	525
Total charges for services	\$ 123,000	\$ 123,000	\$ 183,954	\$ 60,954
Miscellaneous revenue:				
Other miscellaneous revenue	\$ 176,300	\$ 257,482	\$ 202,596	\$ (54,886)
The Algebra Project	256,000	635,383	438,000	(197,383)
Total miscellaneous revenue	\$ 432,300	\$ 892,865	\$ 640,596	\$ (252,269)
Recovered costs:				
Recoveries and rebates - E rate reimbursement	\$ 200,000	\$ 200,000	\$ 224,975	\$ 24,975
Total recovered costs	\$ 200,000	\$ 200,000	\$ 224,975	\$ 24,975
Total revenue from local sources	\$ 781,300	\$ 1,241,865	\$ 1,082,032	\$ (159,833)
Intergovernmental Revenue:				
Revenue from local governments:				
City contribution to the school board - operations	\$ 9,945,000	\$ 9,945,000	\$ 8,762,505	\$ (1,182,495)
Total revenues from local governments	\$ 9,945,000	\$ 9,945,000	\$ 8,762,505	\$ (1,182,495)
Revenue from the Commonwealth:				
Categorical aid:				
Basic aid	\$ 12,893,881	\$ 12,893,881	\$ 12,162,478	\$ (731,403)
Disparity funds - K-3 Primary Class Size	1,438,409	1,438,409	1,449,029	10,620
Gifted & talented	144,857	144,857	144,391	(466)
SOQ special education	1,744,727	1,744,727	1,739,111	(5,616)
SOQ vocation education	505,392	505,392	503,765	(1,627)
Special education - jails	108,655	83,946	81,517	(2,429)
Sales tax	3,680,456	3,680,456	3,830,911	150,455
English as second language	93,229	93,229	95,319	2,090
Remedial education	988,250	988,250	1,036,407	48,157
Remedial summer school	137,986	137,986	112,092	(25,894)
Textbooks	169,129	169,129	168,585	(544)
Vocational education - adult	8,748	8,748	4,434	(4,314)
Fringe benefits social security	894,897	894,897	895,225	328
Fringe benefits retirement	527,925	527,925	529,434	1,509
Fringe benefits group life	32,191	32,191	32,087	(104)
At risk	845,643	845,643	1,121,116	275,473
At risk four year olds	822,519	822,519	822,519	-

THE SCHOOL BOARD OF THE CITY OF PETERSBURG, VIRGINIA

Schedule 1
Page 2 of 3

Governmental Funds
Schedule of Revenues -- Budget and Actual
Year Ended June 30, 2011 (Continued)

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance From Final Budget Positive (Negative)
General Fund: (Continued)				
Revenue from the Commonwealth: (Continued)				
Categorical aid: (Continued)				
Early reading intervention	\$ 124,722	\$ 124,722	\$ 112,956	\$ (11,766)
SOL algebra readiness	84,354	84,354	87,176	2,822
Technology funds	336,000	606,717	128,880	(477,837)
Regional alternative school	121,019	121,019	119,377	(1,642)
ISAEP	23,576	23,576	23,576	-
Project graduation	15,000	15,342	15,242	(100)
Jobs for VA graduates	21,000	21,044	21,000	(44)
Composite Index Hold Harmless	728,893	728,893	699,085	(29,808)
Other state categorical aid	196,609	192,609	183,458	(9,151)
Total categorical aid	\$ 26,688,067	\$ 26,930,461	\$ 26,119,170	\$ (811,291)
Total revenue from the Commonwealth	\$ 26,688,067	\$ 26,930,461	\$ 26,119,170	\$ (811,291)
Revenue from the federal government:				
Categorical aid:				
Special education	\$ 1,992,081	\$ 2,217,214	\$ 1,869,754	\$ (347,460)
ROTC	60,000	60,000	62,444	2,444
Title I	3,352,226	4,634,613	3,628,491	(1,006,122)
Title II - part a, teacher quality	466,804	517,060	456,103	(60,957)
Title II - part d	44,034	63,224	48,943	(14,281)
Title III - part a	-	19,673	17,980	(1,693)
Headstart grant	948,254	1,026,986	997,474	(29,512)
State fiscal stabilization funds	476,426	1,954,285	1,890,874	(63,411)
Vocational grant - Carl Perkins	157,000	171,327	104,111	(67,216)
21st century community learning centers	200,000	410,939	329,515	(81,424)
Safe and drug free	31,386	39,965	16,136	(23,829)
Preschool incentive	62,960	98,385	50,278	(48,107)
Gear up	29,830	29,830	28,724	(1,106)
1003 g school improvement	-	815,808	677,223	(138,585)
Indirect costs	90,000	90,000	104,358	14,358
Vocational education - adult	-	-	4,960	4,960
Improving literacy through school libraries	-	479,681	387,643	(92,038)
Title X	12,000	31,703	24,764	(6,939)
Total categorical aid	\$ 7,923,001	\$ 12,660,693	\$ 10,699,775	\$ (1,960,918)
Total revenue from the federal government	\$ 7,923,001	\$ 12,660,693	\$ 10,699,775	\$ (1,960,918)
Total General Fund	\$ 45,337,368	\$ 50,778,019	\$ 46,663,482	\$ (4,114,537)

THE SCHOOL BOARD OF THE CITY OF PETERSBURG, VIRGINIA

Schedule 1

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Governmental Funds

Schedule of Revenues -- Budget and Actual

Year Ended June 30, 2011 (Continued)

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance From Final Budget Positive (Negative)
Special Revenue Funds:				
School Food Service Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from use of money	\$ 150	\$ 150	\$ -	\$ (150)
Charges for services:				
Charges for meals	\$ 625,000	\$ 625,000	\$ 530,389	\$ (94,611)
Total revenue from local sources	\$ 625,150	\$ 625,150	\$ 530,389	\$ (94,761)
Revenue from the Commonwealth:				
Categorical aid:				
School food	\$ 28,274	\$ 28,274	\$ 24,763	\$ (3,511)
Revenue from the federal government:				
Categorical aid:				
Lunch and breakfast reimbursement	\$ 1,390,706	\$ 1,390,706	\$ 1,527,056	\$ 136,350
USDA inventory	-	106,230	104,864	(1,366)
Total revenue from the federal government	\$ 1,390,706	\$ 1,496,936	\$ 1,631,920	\$ 134,984
Total School Food Service Fund	\$ 2,044,130	\$ 2,150,360	\$ 2,187,072	\$ 36,712
Capital Projects Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from use of money	\$ -	\$ -	\$ 182	\$ 182
Total revenue from local sources	\$ -	\$ -	\$ 182	\$ 182
Total Capital Projects Fund	\$ -	\$ -	\$ 182	\$ 182
Grand Total Revenues	\$ 47,381,498	\$ 52,928,379	\$ 48,850,736	\$ (4,077,643)

THE SCHOOL BOARD OF THE CITY OF PETERSBURG, VIRGINIA

Schedule 2

Page 1 of 2

Governmental Funds
 Schedule of Expenditures -- Budget and Actual
 Year Ended June 30, 2011

Fund, Function, Activity, Element	Original Budget	Final Budget	Actual	Variance From Final Budget Positive (Negative)
General Fund:				
Instructional				
Personnel	\$ 22,329,173	\$ 23,688,481	\$ 22,915,536	\$ 772,945
Employee benefits	6,204,304	6,530,204	6,294,903	235,301
Purchased professional services	2,102,951	3,695,567	2,671,217	1,024,350
Internal services	24,768	165,556	128,574	36,982
Other purchased services	365,532	668,445	561,314	107,131
Supplies	1,645,019	2,587,307	1,906,831	680,476
Capital outlay	135,860	122,878	103,483	19,395
Total instruction	\$ 32,807,607	\$ 37,458,438	\$ 34,581,858	\$ 2,876,580
Administration, Attendance, and Health				
Personnel	\$ 1,652,141	\$ 1,549,005	\$ 1,536,647	\$ 12,358
Employee benefits	945,992	909,755	789,119	120,636
Purchased professional services	230,637	405,456	412,000	(6,544)
Internal services	1,800	-	-	-
Other purchased services	137,542	138,296	116,962	21,334
Supplies	70,012	98,012	79,285	18,727
Capital outlay	2,000	-	-	-
Total administration, attendance, and health	\$ 3,040,124	\$ 3,100,524	\$ 2,934,013	\$ 166,511
Pupil transportation				
Personnel	\$ 999,692	\$ 995,100	\$ 1,192,760	\$ (197,660)
Employee benefits	379,682	385,404	381,526	3,878
Purchased professional services	39,500	36,701	23,646	13,055
Other purchased services	4,500	5,141	4,572	569
Supplies	334,386	369,274	344,656	24,618
Capital outlay	7,200	479,342	43,972	435,370
Total pupil transportation	\$ 1,764,960	\$ 2,270,962	\$ 1,991,132	\$ 279,830
Operation and Maintenance				
Personnel	\$ 2,020,623	\$ 2,000,365	\$ 1,904,004	\$ 96,361
Employee benefits	710,692	721,156	695,879	25,277
Purchased professional services	491,150	522,914	511,290	11,624
Other purchased services	1,856,464	1,713,761	1,558,192	155,569
Supplies	350,260	425,729	398,815	26,914
Capital outlay	30,000	237,442	223,228	14,214
Total operation and maintenance	\$ 5,459,189	\$ 5,621,367	\$ 5,291,408	\$ 329,959
Technology				
Personnel	\$ 647,486	\$ 569,774	\$ 573,065	\$ (3,291)
Employee benefits	183,187	183,187	168,417	14,770
Purchased professional services	65,100	31,455	22,454	9,001
Other purchased services		9,590	4,445	5,145

THE SCHOOL BOARD OF THE CITY OF PETERSBURG, VIRGINIA

Schedule 2

Page 2 of 2

Governmental Funds

Schedule of Expenditures -- Budget and Actual

Year Ended June 30, 2011 (Continued)

Fund, Function, Activity, Element	Original Budget	Final Budget	Actual	Variance From Final Budget Positive (Negative)
General Fund: (Continued)				
Technology (Continued)				
Supplies	\$ 77,225	\$ 413,511	\$ 422,170	\$ (8,659)
Capital outlay	483,333	585,976	144,890	441,086
Total technology	\$ 1,456,331	\$ 1,793,493	\$ 1,335,441	\$ 458,052
Total education	\$ 44,528,211	\$ 50,244,784	\$ 46,133,852	\$ 4,110,932
Debt Service:				
School Board Capital Lease:				
Principal retirement	\$ 751,228	\$ 674,965	\$ 261,239	\$ 413,726
Interest and other	-	45,000	38,736	6,264
Total debt service capital lease	\$ 751,228	\$ 719,965	\$ 299,975	\$ 419,990
Contingency				
Personnel	\$ 53,812	-	-	-
Employee benefits	4,117	-	-	-
Total contingency	\$ 57,929	-	-	-
Total General Fund	\$ 45,337,368	\$ 50,964,749	\$ 46,433,827	\$ 4,530,922
Special Revenue Funds:				
School Food Service Fund:				
Food services:				
Personnel	\$ 680,307	\$ 675,241	\$ 673,307	\$ 1,934
Employee benefits	260,023	245,481	239,667	5,814
Purchased professional services	24,338	33,663	28,462	5,201
Other purchased services	15,000	3,600	2,863	737
Supplies	1,064,462	1,177,032	1,056,868	120,164
Capital outlay	-	15,343	-	15,343
Total School Food Service Fund	\$ 2,044,130	\$ 2,150,360	\$ 2,001,167	\$ 149,193
Grand Total Expenditures	\$ 47,381,498	\$ 53,115,109	\$ 48,434,994	\$ 4,680,115

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To The Honorable Members of School Board City of Petersburg, Virginia

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the School Board of the City of Petersburg, Virginia, as of and for the year ended June 30, 2011, which collectively comprise the School Board of the City of Petersburg, Virginia's basic financial statements and have issued our report thereon dated December 9, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the *Specifications for Audits of Authorities, Boards and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia; 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 School Board of the City of Petersburg, Virginia's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School Board of the City of Petersburg, Virginia's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School Board of the City of Petersburg, Virginia's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the School Board of the City of Petersburg, Virginia's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 School Board of the City of Petersburg, Virginia'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 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*.

Compliance and Other Matters (Continued)

This report is intended solely for the information and use of the Audit Committee, School Board, and management and is not intended to be and should not be used by anyone other than these specified parties.

Robinson, Farmer, Cox Associates

Charlottesville, Virginia
December 9, 2011