

Report on the

Birmingham City Board of Education

Jefferson County, Alabama

October 1, 2010 through September 30, 2011

Filed: March 1, 2013



Department of Examiners of Public Accounts

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Ronald L. Jones, Chief Examiner



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Honorable Ronald L. Jones
Chief Examiner of Public Accounts
Montgomery, Alabama 36130

Dear Sir:

Under the authority of the *Code of Alabama 1975*, Section 41-5-21, we submit this report on the results of the audit of the Birmingham City Board of Education, Jefferson County, Alabama, for the period October 1, 2010 through September 30, 2011.

Sworn to and subscribed before me this
the 21st day of February, 2013.

Jan E Hall
Notary Public

Sworn to and subscribed before me this
the 21st day of February, 2013.

Jan E Hall
Notary Public

Sworn to and subscribed before me this
the 21st day of February, 2013.

Jan E Hall
Notary Public

rb

Respectfully submitted,

Brian Davis
Examiner of Public Accounts

Roderick Edwards
Examiner of Public Accounts

Kim Huynh
Examiner of Public Accounts

Table of Contents

	<i>Page</i>
Summary	A
<p>Contains items pertaining to federal, state and local legal compliance, Board operations, and other matters.</p>	
Schedule of State and Local Compliance and Other Findings	C
<p>Contains detailed information about findings pertaining to state and local legal compliance, and other findings.</p>	
Independent Auditor's Report	E
<p>Reports on whether the financial information constitutes a fair presentation of the financial position and results of financial operations in accordance with generally accepted accounting principles (GAAP).</p>	
Management's Discussion and Analysis	H
<p>Provides information required by the Governmental Accounting Standards Board (GASB) that is prepared by management of the Board introducing the basic financial statements and providing an analytical overview of the Board's financial activities for the year. This information has not been audited, and no opinion is provided about the information.</p>	
<u>Basic Financial Statements</u>	1
<p>Provides the minimum combination of financial statements and notes to the financial statements that is required for the fair presentation of the Board's financial position and results of operations in accordance with GAAP.</p>	
Exhibit #1	2
Exhibit #2	3
Exhibit #3	5
Exhibit #4	7
Exhibit #5	8

Table of Contents

	<i>Page</i>
Exhibit #6 Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	10
Exhibit #7 Statement of Fiduciary Net Assets	12
Notes to the Financial Statements	13
<u>Required Supplementary Information</u>	37
Provides information required by the GASB to supplement the basic financial statements. This information has not been audited and no opinion is provided about the information.	
Exhibit #8 Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	38
Exhibit #9 Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Special Revenue Fund	42
<u>Supplementary Information</u>	46
Contains financial information and notes relative to federal financial assistance.	
Exhibit #10 Schedule of Expenditures of Federal Awards	47
Notes to the Schedule of Expenditures of Federal Awards	51
<u>Additional Information</u>	52
Provides basic information related to the Board, including reports and items required by generally accepted government auditing standards and/or U. S. Office of Management and Budget (OMB) Circular A-133 for federal compliance audits.	
Exhibit #11 Board Members and Administrative Personnel – a listing of the Board members and administrative personnel.	53

Table of Contents

	<i>Page</i>
Exhibit #12 Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> – a report on internal controls related to the financial statements and on whether the Board complied with laws and regulations which could have a direct and material effect on the Board’s financial statements.	54
Exhibit #13 Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 – a report on internal controls over compliance with requirements of laws, regulations, contracts, and grants applicable to major federal programs and an opinion on whether the Board complied with laws, regulations, and the provisions of contracts or grant agreements which could have a direct and material effect on each major program.	56
Exhibit #14 Schedule of Findings and Questioned Costs – a schedule summarizing the results of audit findings relating to the financial statements as required by <i>Government Auditing Standards</i> and findings and questioned costs for federal awards as required by OMB Circular A-133.	59
Exhibit #15 Auditee Response/Corrective Action Plan – a response by the Board on the results of the audit and a corrective action plan for federal audit findings.	62



Department of
Examiners of Public Accounts

SUMMARY

**Birmingham City Board of Education
October 1, 2010 through September 30, 2011**

The Birmingham City Board of Education (the “Board”) is governed by a nine-member body elected by the citizens of the City of Birmingham. The members and administrative personnel in charge of governance of the Board are listed on Exhibit 11. The Board is a governmental agency providing for the general administration and supervision of the public schools and educational interests for the City of Birmingham.

This report presents the results of an audit the objectives of which were to determine whether the financial statements present fairly the financial position and results of financial operations and whether the Board complied with applicable laws and regulations, including those applicable to its major federal financial assistance program. The audit was conducted 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 as well as the requirements of the Department of Examiners of Public Accounts under the authority of the *Code of Alabama 1975*, Section 41-5-14.

An unqualified opinion was issued on the financial statements, which means that the Board’s financial statements present fairly, in all material respects, its financial position and the results of its operations for the fiscal year ended September 30, 2011.

Findings are numbered and reported by the fiscal year in which the finding originally occurred.

A finding that was presented in prior audits has not been resolved as shown on the Schedule of State and Local Compliance and Other Findings and it is summarized below:

UNRESOLVED PRIOR FINDING

- ◆ 2002-42 relates to local schools having deficit fund balances in non-public activities at year-end.

Problems were found with the Board's internal controls over financial reporting and/or its internal controls over compliance for its federal assistance programs (Exhibit 14) and they are summarized below:

- ◆ 2002-14 relates to problems with receipting of funds at the local schools.
- ◆ 2002-15 relates to problems with documentation of expenditures at the local schools.

The following officials/employees were invited to an exit conference to discuss the findings and recommendations appearing in this report: Superintendent: Dr. Craig Witherspoon; Chief School Financial Officer: Arthur Watts; and Board Members: Tyrone Belcher, Sr.; Virginia S. Volker; Brian Giattina; Edward Maddox; Emanuel Ford; W. J. Maye, Jr.; Alana Edwards; April M. Williams; and Phyllis F. Wyne. The following individuals attended the exit conference, held at the offices of the Birmingham City Board of Education: Superintendent: Dr. Craig Witherspoon; Chief School Financial Officer: Arthur Watts; Board Members: Tyrone Belcher, Sr.; Virginia S. Volker; Brian Giattina; Emanuel Ford; W. J. Maye, Jr.; and Phyllis F. Wyne; and representatives of the Department of Examiners of Public Accounts: Brian Wheeler, Audit Manager; Brian Davis, Examiner; and Roderick Edwards, Examiner. An exit conference was held via telephone with Board Members: April M. Williams and Edward Maddox.

*Schedule of State and Local
Compliance and Other Findings*

Schedule of State and Local Compliance and Other Findings
For the Year Ended September 30, 2011

Ref. No.	Finding/Noncompliance												
2002-42	<p><u>Finding:</u> Section 94, <i>Constitution of Alabama 1901</i>, states the Board cannot lend its credit, or to grant public money or a thing of value to any individual, association, or corporation. Several of the schools are using public funds to finance operation of its non-public activities. The following schools had deficit fund balances in their non-public activities at September 30, 2011:</p> <table border="1" style="margin-left: auto; margin-right: auto;"><tbody><tr><td>Bush Hills Academy</td><td style="text-align: right;">\$(2,656.00)</td></tr><tr><td>Bush Middle School</td><td style="text-align: right;">\$(3,363.31)</td></tr><tr><td>Putnam Middle School</td><td style="text-align: right;">\$(1,495.98)</td></tr><tr><td>Smith Middle School</td><td style="text-align: right;">\$(1,318.87)</td></tr><tr><td>Washington School</td><td style="text-align: right;">\$ (131.00)</td></tr><tr><td>West End Community School</td><td style="text-align: right;">\$(2,811.79)</td></tr></tbody></table>	Bush Hills Academy	\$(2,656.00)	Bush Middle School	\$(3,363.31)	Putnam Middle School	\$(1,495.98)	Smith Middle School	\$(1,318.87)	Washington School	\$ (131.00)	West End Community School	\$(2,811.79)
Bush Hills Academy	\$(2,656.00)												
Bush Middle School	\$(3,363.31)												
Putnam Middle School	\$(1,495.98)												
Smith Middle School	\$(1,318.87)												
Washington School	\$ (131.00)												
West End Community School	\$(2,811.79)												
	<p><u>Recommendation:</u> The Board should ensure that the schools take measures to eliminate deficit fund balances.</p>												

Independent Auditor's Report

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Birmingham City Board of Education, as of and for the year ended September 30, 2011, which collectively comprise the Birmingham City Board of Education's basic financial statements as listed in the table of contents as Exhibits 1 through 7. These financial statements are the responsibility of the Birmingham City Board of Education'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 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.

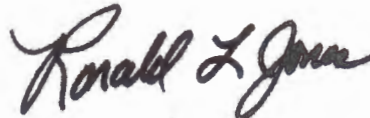
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Birmingham City Board of Education, as of September 30, 2011, and 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.

The Birmingham City Board of Education implemented GASB Statement Number 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, during the fiscal year ended September 30, 2011. This resulted in a change in the format and method of reporting fund balance in the basic financial statements

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2013 on our consideration of the Birmingham City Board of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 read in conjunction with this report in considering the results of our audit.

The accompanying Management's Discussion and Analysis (MD&A) and the Schedules of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Exhibits 8 and 9) are not required parts 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 performed for the purpose of forming opinions on the financial statements that collectively comprise the Birmingham City Board of Education's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (Exhibit 10) as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards 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.



Ronald L. Jones
Chief Examiner

Department of Examiners of Public Accounts

January 29, 2013

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Management's Discussion and Analysis
(Required Supplementary Information)

Birmingham City Board of Education
Management's Discussion and Analysis (MD&A)
September 30, 2011

Our discussion and analysis of the Birmingham 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, 2011. Please read it in conjunction with the Board's financial statements and notes to the financial statements which immediately follow this analysis.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights: Significant Items to Note

Our financial statements provide these insights into the results of this year's operations:

- ◆ The Board's financial statements disclose a balance of approximately (\$10.42 million) (unrestricted net assets) for the 2011 fiscal year.
- ◆ The assets of the Board exceeded its liabilities at the close of the 2011 fiscal year by \$637.67 million (net assets). Of this amount, approximately \$331.87 million is invested in Capital Assets while (\$10.42 million) is unrestricted.
- ◆ The total cost of the Board's programs for the year was \$296.22 million. (The state's Foundation Program provided \$110.78 million towards the cost of the programs).
- ◆ For the General Fund, revenues and other sources exceeded expenditures and other uses during the year by \$6.13 million resulting in a fund balance of (\$10.18 million) at year end. Please note that this includes accrued salaries as of September 30, 2011.

Using the Financial Statements - An Overview for the User

As a result of the implementation of the GASB 34 reporting model, the financial section now consists of five parts - *management's discussion and analysis* (this section), the *independent auditors' report*, the *basic financial statements*, *required supplementary information*, and *other supplementary information*.

The Board's basic financial statements are comprised of three components: 1) *government-wide financial statements*, 2) *fund financial statements*, and 3) *notes to the basic financial statements*.

Government-wide financial statements - The focus of these statements is to provide readers with a broad overview of the Board's finances as a whole instead of on an individual fund basis, in a manner similar to a private-sector business, indicating both long-term and short-term information about the Board's overall financial status. It is important to note that all of the activities of the board reported in the *government-wide financial statements* are classified as governmental activities. These activities include the following:

Instruction 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 includes salaries and benefits for school principals, assistant principals, librarians, counselors, school secretaries, school bookkeepers, speech therapists, and school nurses, and professional development expenses.

Operation and maintenance includes utilities, security services, janitorial services, maintenance services, and depreciation of maintenance vehicles.

Auxiliary services includes student transportation expenses, such as bus driver salaries and benefits, mechanics, bus aides, vehicle maintenance and repair expenses, vehicle fuel, depreciation of buses and bus shops, and fleet insurance, and food service expenses such as lunchroom managers, cooks, cashiers and servers' salaries and benefits as well as donated and purchased food, food preparation and service supplies, kitchen and lunchroom equipment and depreciation of food service equipment and facilities.

General administration and central support includes 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 include interest, but not principal payments, on long-term debt issues and other expenses related to the issuance and continuance of debt issues.

Other includes the salaries and benefits for adult and continuing education teachers, preschool teachers and aides, extended day personnel, and community education instructors. Also included are the materials, supplies, equipment, related depreciation, and other expenses for operating programs outside of those for educating students in the kindergarten through 12th grade instructional programs.

Government-wide statements report the capitalization of capital assets and depreciation of all exhaustible capital assets and the outstanding balances of long-term debt and other obligations, which has not been the case in the past. These statements report all assets and liabilities perpetuated by these activities using the accrual basis of accounting. The accrual basis takes into account all of the Board's current year revenues and expenses regardless of when received or paid. This approach moves the financial reporting method for governmental entities closer to the financial reporting methods used in the private sector. The following *government-wide financial statements* report on all of the governmental activities of the Board as a whole.

The *statement of net assets* (on Exhibit #1) is most closely related to a balance sheet. It presents information on all of the board's assets (what it owns) and liabilities (what it owes), with the difference between the two reported as net assets. The net assets reported in this statement represent the accumulation of changes in net assets for the current fiscal year and all fiscal years in the past combined. Over time, the increases or decreases in net assets reported in this statement may serve as a useful indicator of whether the financial position of the school board is improving or deteriorating.

The *statement of activities* (on Exhibit #2) is most closely related to an income statement. It presents information showing how the Board's net assets changed during the current fiscal year only. All of the current year's revenues and expenses are accounted for in the *statement of activities* regardless of when cash is received or paid. This statement shows gross expenses and offsetting program revenues to arrive at net cost information for each major expense function or activity of the Board. By showing the change in net assets for the year, the reader may be able to determine whether the Board's financial position has improved or deteriorated over the course of the current fiscal year. The change in net assets may be financial or non-financial in nature. Non-financial factors which may have an impact on the Board's financial condition include: age and condition of facilities, mandated educational programs for which little or no funding is provided, and increases or decreases in funding from state and federal governments, to name a few.

Fund financial statements - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Board used fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The new reporting model still requires the Board to present financial statements on a fund basis, but with some modifications. All of the funds of the Board can be classified into two categories: governmental funds and fiduciary funds.

Governmental Funds - Governmental *fund financial statements* begin on Exhibit #3. These statements account for basically the same governmental activities reported in the *government-wide financial statements*. As required under the reporting model, the *fund financial statements* presented herein display information on each of the Board's most important governmental funds or *major funds*. This is required in order to better assess the Board's accountability for significant governmental programs or certain dedicated revenue. The Board's *major funds* are the General Fund, the Special Revenue Fund, and the Capital Projects Fund.

The *fund financial statements* are still measured on the modified-accrual basis of accounting as reported in the previous fiscal years, where revenues and expenditures are recorded when they become measurable and available. As a result, the *fund financial statements* focus more on the near term use and availability of spendable resources. The information provided in these statements is useful in determining the Board's immediate financial needs. This is in contrast to the accrual-based *government-wide financial statements*, which focus more on overall long-term availability of spendable resources. The relationship between governmental activities reported in the *government-wide financial statement* and the governmental funds reported in the *fund financial statements* are reconciled on Exhibit 4 and Exhibit 6 of these financial statements. These reconciliations are useful to readers in understanding the long-term impact of the Board's short-term financing decisions.

Fiduciary Funds - The Board can serve as trustee, or fiduciary, for some of its booster and parent organization activity funds, which are under the control, and administration of its schools. Fiduciary funds also include the balances of agency funds, such as accounts payable clearing and payroll clearing funds. These funds would not have been available to the Board to finance its operations, and therefore not included in the *government-wide financial statements*. The Board is responsible for ensuring that the assets reported by these funds are used for their intended purposes.

Notes to the Basic Financial Statements - The *notes to the basic financial statements* provide additional information that is essential for the statements to fairly represent the Board's financial position and its operations. The notes contain important information that is not part of the basic financial statements. However, the notes are an integral part of the statements, not an appendage to them. The *notes to the basic financial statements* begin after the basic financial statements.

After the presentation of the basic financial statements, the reporting model requires additional required supplementary information to be presented following the notes to the basic financial statements. The required supplementary information, Exhibits #8 and #9, provides a comparison of the original adopted budget to the final amended budget of the Board's General Fund and Special Revenue Fund, which is then further compared to the actual operating results for the fiscal year. The comparison of this data allows users to assess management's ability to project and plan for its operations throughout the year.

Analysis of the School Board's Overall Financial Position

As indicated earlier, net assets may serve over time as a useful indicator of a government's financial position. Refer to *Table 1* when reading the following analysis of net assets. The Board's assets exceeded liabilities by \$637.67 million at September 30, 2011.

- ◆ Of this figure, \$331.87 million reflects the Board's investment in capital assets, net of related debt. This amount is not available for future spending or funding of operations.
- ◆ Restricted net assets are reported separately to show the external legal constraints from debt covenants and enabling legislation that limit the Board's ability to use those net assets for day-to-day operations. Restricted net assets totaled \$316.22 million.
- ◆ Unrestricted net assets totaled (\$10.42 million).

Table 1: Summary of Net Assets
(in millions)

	Governmental Activities	
	9/30/2011	9/30/2010
Current and other assets	\$224.45	\$ 318.92
Capital assets	515.79	439.38
Total Assets	\$740.24	\$ 758.30
Current and other liabilities	\$75.72	\$ 73.06
Long-term liability	26.85	28.87
Total Liabilities	\$102.57	\$ 101.93
Net Assets:	\$331.87	\$ 413.80
Invested in Capital Assets, Net of Related Debt		
Restricted	316.22	259.46
Unrestricted	(10.42)	(16.89)
Total Net Assets	\$637.67	\$ 656.37

The results of this fiscal year's operations as a whole are reported in detail in the *Statement of Activities* on Exhibit #2. The table below is a condensed version of the district's operations.

Table 2: Summary of Changes in Net Assets From Operating Results
(in millions)

	Governmental Activities	
	9/30/2011	9/30/2010
Revenues		
Program Revenues:		
Charges for services	14.63	\$15.59
Operating grants and contributions	167.76	163.94
Capital grants and contributions	7.68	10.85
General Revenues:		
Property Taxes for General Purposes	72.78	76.14
Miscellaneous Taxes	1.75	1.74
Grants & Contributions not restricted for Spec. Purp.	1.99	2.56
Interest	1.75	3.06
Gain on disposition of Capital Assets		
Miscellaneous	9.18	9.74
Total Revenues	\$277.52	\$283.62
Expenses		
Instructional services	\$152.72	\$147.21
Instructional support services	58.05	61.69
Operation and maintenance services	33.72	34.19
Auxiliary Services	24.55	23.74
General administrative services	13.68	14.12
Interest and fiscal charges	1.15	1.35
Other expenses	12.35	9.60
Total Expenses	\$296.22	\$291.90
Changes in Net Assets	\$(18.70)	\$(8.28)
Net Assets – Beginning of Year	656.37	664.65
Net Assets – End of Year	\$637.67	\$656.37

The Board's net assets decreased by \$18.70 million during the current fiscal year. This is partially attributable to the decrease in state funding due to proration.

Governmental Activities – As shown in Table 2, the cost of services rendered from the Board's governmental activities for the year ended September 30, 2011 was \$296.22 million. It is important to note that not all of these costs were borne by the taxpayers of Birmingham City. Some of the cost, \$14.63 million, was paid by users who benefited from services provided during the year, such as school lunches, summer school, driver's education instruction, and transfer tuition. Local, state and federal governments subsidized certain program with grants and contributions totaling \$175.44 million. Other general revenue sources, such as interest earnings, unrestricted grants, donations, etc. provided for \$12.92 million in revenues.

Table 3 is a condensed statement taken from the Statement of Activities showing the total cost for providing identified services for major Board activities. Total cost of services is compared to the net cost of providing these services. The net cost of services is the remaining cost of services after subtracting grants and charges for services that the Board used to offset the program's total cost. In other words, the net cost shows the financial burden that was placed on all taxpayers for each of these activities. This information allows citizens to consider the cost of each program in comparison to the benefits they believe are provided.

TABLE 3: Net Cost of Governmental Activities
(in millions)

	Total Cost of Services		Net Cost of Services	
	2011	2010	2011	2010
Instructional services	\$152.72	\$147.21	\$46.31	\$35.29
Instructional support services	58.05	61.69	16.91	26.42
Operation & maintenance services	33.72	34.19	20.39	22.54
Auxiliary Service	24.55	23.74	4.33	3.16
General administrative services	13.68	14.12	10.97	10.19
Interest and fiscal charges	1.15	1.35	1.16	1.35
Other expenses	12.35	9.60	6.09	2.57
Total	\$296.22	\$291.90	\$106.16	\$101.52

Performance of School Board Funds

As noted earlier, the Board uses fund accounting to control and manage resources in order to ensure compliance with finance-related legal requirements. Using funds to account for resources for particular purposes helps the reader to determine whether the Board is being accountable for the resources provided by taxpayers and other entities, and it may also help to provide more insight into the Board's overall financial health. The following analysis of the Board's funds should be read in reference to the fund financial statements, which begin on page 5.

Governmental Funds - The focus of the Board's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Board's financial requirements (Note that the relationship between the *fund financial statements* and the *government-wide financial statements* are reconciled on pages 7 and 10). The financial performance of the Board as a whole is reflected in its governmental funds as well. At the end of the fiscal year, the Board's governmental funds reported combined ending fund balances of \$148.82 million.

- ◆ Approximately (\$10.18 million) of this amount constitutes total fund balance of the General Fund. The grand majority of this amount includes salary accruals at 9/30/11.
- ◆ The Special Revenue Fund ended the year with a fund balance of \$5.70 million.
- ◆ The Capital Projects Fund ended the year with a fund balance of \$153.30 million.

General Fund - The general fund is the primary operating fund of the Board. The General Fund had a \$6.13 million net increase in fund balance as a result of operations this year. Management is conservatively planning for increases in recurring costs to be realized in future periods, such as funding needed for capital needs and the increase in salaries and employer's share of salary-related benefits. Additionally management is anticipating a significant reduction in funding due to proration.

Special Revenue Fund - The special revenue fund is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Various federal, state and local funding sources are included in this fund. Some of the significant federal funding sources include the federal funds that are received for Special Education, Title I, State Fiscal Stabilization, Education Jobs, Education Technology and the Child Nutrition Program in addition to various smaller grants which are required to be spent for the purposes of the applicable federal grants.

Capital Projects Fund - The Capital Projects Fund is used to account for all financial activity for the acquisition or construction of capital facilities. The County Commission Appropriation Fund is used to account for all financial activity for the acquisition or construction of capital facilities from the one-cent sales tax revenues received for the Jefferson County Commission. This fund was established in FY 2007.

Fiduciary Funds - The Fiduciary Fund or Agency-Type financial statements appear on page 12. Only a *Statement of Fiduciary Net Assets* is presented, as the Board serves as the custodian of these funds, which are held in school accounts.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2010 Capital Assets were approximately \$439.381 million. At September 30, 2011 Capital Assets were \$515.791 million. See the Notes to the Financial Statements for additional information.

TABLE 4: Capital Assets
(in millions)

	Beginning Balance 10/1/10	Additions/ Reclass	Retirements/ Reclass	Balance 9/30/11
<u>Governmental Activities:</u>				
Capital Assets, Not Being Depreciated:	\$ 128.772	77.972	(8.837)	197.907
Capital Assets Being Depreciated:				
Land Improvements	17.839	1.397		19.236
Buildings	292.869	11.347	(2.172)	302.044
Building Improvements	70.792	1.188	(.006)	71.974
Vehicles	9.292	1.725	(.455)	10.562
Equipment and Furniture	13.772	1.566		15.338
Other Assets	1.729	.080		1.809
Equipment Under Capital Leases				
Total Capital Assets Being Depreciated	406.293	17.303	(2.633)	420.963
Less Accumulated Depreciation	(95.684)	(9.581)	2.186	(103.079)
Total Capital Assets Being Depreciated, Net	310.609	7.722	(.447)	317.884
Total Governmental Activities Capital Assets, Net	\$ 439.381	85.694	(9.284)	515.791

Long-Term Debt

At year-end the Birmingham City Board of Education had \$26.84 million in long-term debt payable. See the Notes to the Financial Statements for additional information.

TABLE 5: Long -Term Debt
(in millions)

	Debt Outstanding 10/01/2010	Issued/ Increased	Repaid/ Decreased	Debt Outstanding 9/30/2011
<u>Governmental Activities</u>				
<u>Bonds Payable:</u>				
PSCA Capital Improvement Pool Bonds 2001-A	\$7.91	\$	\$(7.91)	\$
Series 2006 Leverage Bond	11.45		(.49)	10.96
PSCA Capital Improvement Refunding 2009-B	6.05			6.05
PSCA Capital Improvement Refunding 2011-B		6.24		6.24
Unamortized Premium	1.08	.83	(.14)	1.77
Less: Unamortized Deferred Charges	(.80)	(.13)	.09	(.84)
Total Bonds Payable	25.69	6.94	(8.45)	24.18
<u>Other Liabilities:</u>				
Estimated Liability For Compensated Absences	3.18		(.52)	2.66
Total Other Liabilities	3.18		(.52)	2.66
Governmental Activity Long-Term Liabilities	\$28.87	\$6.94	\$(8.97)	\$26.84

Budgetary Highlights of Major Funds

On or before October 1 of each year, the Board is mandated by state law to prepare and submit to the State Superintendent of Education the annual budget adopted by the Board. The original 2011 fiscal year budget, adopted by the Board on October 12, 2010, was based on a conservative approach that reflected only guaranteed revenues and necessary expenditures. On July 26, 2011, the Board revised the annual operating budget one time to include federal programs carryover funds, other federal and state grants that were not available at the time of the original budget, and to adjust state revenues and expenditures due to proration. For purposes of this budgetary analysis, only the General Fund of the Board is discussed in accordance with the reporting model.

The final budgeted revenues of the General Fund decreased by \$3.2 million, which was mainly due to proration of state funds. Budgeted transfers out were reduced by approximately \$2.9 million due to a reduction of Child Nutrition Program pass thru for salaries and benefits. Budgeted beginning fund balances were amended to reflect actual ending fund balances from fiscal year 2010. The final budgeted fund balance was approximately \$2.3 million in the general fund which was a net increase of \$282,000.00.

Economic Factors and Next Year's Budget

The following are currently known Birmingham City economic factors considered in going into the 2012 fiscal year.

- ◆ The unemployment rate in Jefferson County for September 2010 was 9.3 percent; however, it was 10.6 percent in September 2009. Although there has been minimal economic growth, it is still far below the September 2008 rate of 5.2%.
- ◆ For September 2010 tax revenues for the State's Education Trust Fund (ETF) were down 8.13% in comparison to last year. Therefore, the Board must continue to conservatively budget and manage its expenditures.
- ◆ Uncertainty continues to exist in the area of state funding. Proration was declared for fiscal year 2010 at 9.5% and cost the Board over \$12 million. Proration was again declared at 3% for fiscal year 2011 which cost the district an additional \$3.2 million. This uncertainty has caused the Board to budget for cautious spending for the 2012 and 2013 fiscal years.
- ◆ The Alabama Gulf Coast experienced an oil spill in April 2010 that cost the Education Trust Fund tens of millions of dollars.
- ◆ Birmingham City Schools' enrollment is continuing to decrease at a rate of 800-950 students per year. Lost ADM is also costing the Board millions of dollars. The district is implementing a plan to stabilize student enrollment.
- ◆ In July 2012 the Board developed a Financial Recovery Plan that would save the Board approximately \$12 million over the next several years. Part of the plan included the declaration of a reduction in force. This plan will help the Board obtain the required one month fund balance.
- ◆ The State Department of Education is working collaboratively with the Board to ensure that the Financial Recovery Plan is executed.

At the time these financial statements were prepared and audited, the Board was aware of the following circumstances that could significantly affect the Board’s financial health in the future.

Proration of State Appropriations – Applicable provision of the Constitution of Alabama effectively prohibit the State from engaging in deficit financing-that is to say, state expenditures during the fiscal year may not exceed available revenues. State law provides procedures for delaying or, if necessary, reducing (or “prorating”) appropriations of state revenues in order to maintain and enforce the constitutional ban on deficit financing. The Board received the largest share of its annual revenue from the State. Although the State revenues provided for the payment of employee salaries and benefits are prorated, State law prohibits the Board from reducing salaries and benefits paid to employees. The postponement or reduction of State appropriations of the Board as a consequence of proration may therefore result in reductions of expenditures by the Board for certain budget items other than salaries (e.g. instructional materials, supplies and maintenance). The following table sets for the years in which proration has been enforced since 1985 and the amounts of such proration:

Fiscal Year	Percentage Proration
1985-86	4.2133%
1990-91	6.5000%
1991-92	3.0000%
2000-01	6.2000%
2002-03	4.4000%
2008-09	11.0000%
2009-10	9.5000%
2010-11	3.0000%

Student Enrollment – The latest average daily membership (ADM) as of the twenty days after Labor Day Report for the 2011-2012 school year is 25,006 which indicates a decline in ADM of approximately 789 which will negatively impact funding for the 2012-2013 fiscal year. When compared with the previous years’ totals, this figure is continuing to decline which will cost the Board millions of dollars.

School Year	ADM	Increase/(Decrease)	Fiscal year
2011-2012	25,006.00	(789.00)	2012-2013
2010-2011	25,795.00	(953.00)	2011-2012
2009-2010	26,748.00	(777.00)	2010-2011
2008-2009	27,525.00	(868.00)	2009-2010
2007-2008	28,393.00	(1,343.00)	2008-2009
2006-2007	29,736.00	(1,329.00)	2007-2008
2005-2006	31,065.00	(1,079.00)	2006-2007
2004-2005	32,144.00	(2,131.00)	2005-2006
2003-2004	34,275.00	(2,094.00)	2004-2005

Medical and Retirement Costs – Employee health insurance is provided through the Public Education Employees’ Health Insurance Program (PEEHIP). PEEHIP health insurance costs remained at \$752.00 per month per employee for fiscal years 2010 and 2011 but decreased to \$714.00 for fiscal year 2012. However, employer contributions to the Teachers Retirement System (TRS) increased from 12.07 percent in fiscal year 2009 to 12.51 percent for fiscal year 2010. The amount remained at 12.51 percent for fiscal year 2011 but decreased to 10 percent for fiscal year 2012.

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 Arthur Watts, Chief Financial Officer at the Birmingham City Schools, 2015 Park Place or P.O. Box 10007, Birmingham, AL 35203 or by calling (205) 231-4639 during regular office hours, Monday through Friday, from 8:00 a.m. to 4:30 p.m., central standard time. You may also contact him at awatts@bhm.k12.al.us

Basic Financial Statements

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Statement of Net Assets
September 30, 2011

	Governmental Activities
<u>Assets</u>	
Cash	\$ 36,655,762.86
Investments	135,645,360.02
Ad Valorem Taxes Receivable	46,055,421.51
Receivables (Note 4)	5,469,945.90
Inventories	405,669.99
Deferred Charges	127,643.07
Other Assets	93,538.72
Capital Assets (Note 5):	
Nondepreciable	197,907,425.96
Depreciable, Net	317,883,544.63
Total Assets	<u>740,244,312.66</u>
<u>Liabilities</u>	
Payables (Note 10)	10,586,213.72
Deferred Revenue	47,709,518.32
Salaries and Benefits Payable	17,204,813.32
Accrued Interest Payable	223,924.23
Long-Term Liabilities:	
Portion Due or Payable Within One Year:	
Warrants Payable	1,515,821.12
Unamortized Premium	197,818.88
Deferred Loss on Refunding	(106,211.84)
Portion Due or Payable After One Year:	
Warrants Payable	21,736,291.61
Estimated Liability of Compensated Absences	2,665,506.95
Unamortized Premium	1,568,828.12
Deferred Loss on Refunding	(730,398.30)
Total Liabilities	<u>102,572,126.13</u>
<u>Net Assets</u>	
Invested in Capital Assets, Net of Related Debt	331,875,275.92
Restricted for:	
Capital Projects	312,969,834.29
Other Purposes	3,250,467.95
Unrestricted	<u>(10,423,391.63)</u>
Total Net Assets	<u>\$ 637,672,186.53</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Statement of Activities
For the Year Ended September 30, 2011

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
<u>Governmental Activities</u>			
Instruction	\$ 152,715,697.70	\$ 1,266,875.79	\$ 102,844,511.08
Instructional Support	58,054,110.46	177,831.31	40,841,233.36
Operation and Maintenance	33,721,736.65	93,911.40	10,455,548.19
Auxiliary Services:			
Student Transportation	8,434,515.68	211,181.62	6,283,159.04
Food Service	16,115,915.49	12,291,622.35	837,567.26
General Administrative and Central Support	13,678,482.30	28,890.47	785,520.37
Interest and Fiscal Charges	1,147,244.73		
Other Expenses	12,354,883.06	555,161.85	5,707,844.74
Total Governmental Activities	<u>\$ 296,222,586.07</u>	<u>\$ 14,625,474.79</u>	<u>\$ 167,755,384.04</u>

General Revenues:

Taxes:
Property Taxes for General Purposes
Other Taxes
Grants and Contributions Not Restricted for Specific Programs
Investment Earnings
Miscellaneous
Total General Revenues
Changes in Net Assets
Net Assets - Beginning of Year
Net Assets - End of Year

The accompanying Notes to the Financial Statements are an integral part of this statement.

		Net (Expenses) Revenues and Changes in Net Assets	
Capital Grants and Contributions		Total Governmental Activities	
\$	2,289,447.27	\$	(46,314,863.56)
	128,582.34		(16,906,463.45)
	2,780,927.06		(20,391,350.00)
	426,574.51		(1,513,600.51)
	165,943.41		(2,820,782.47)
	1,890,909.87		(10,973,161.59)
			(1,147,244.73)
			(6,091,876.47)
<u>\$</u>	<u>7,682,384.46</u>		<u>(106,159,342.78)</u>

72,783,715.21
1,751,121.57
1,987,471.00
1,753,361.38
9,184,279.84
<u>87,459,949.00</u>
(18,699,393.78)
<u>656,371,580.31</u>
<u>\$ 637,672,186.53</u>

Balance Sheet
Governmental Funds
September 30, 2011

	General Fund	Special Revenue Fund
<u>Assets</u>		
Cash	\$ 4,707,874.27	\$ 7,671,098.07
Investments		60,962.39
Ad Valorem Taxes Receivable	46,055,421.51	
Receivables (Note 4)	2,696,531.72	2,757,834.81
Interfund Receivable	737,792.47	405,579.81
Inventories		405,669.99
Other Assets	93,538.72	
Total Assets	54,291,158.69	11,301,145.07
<u>Liabilities and Fund Balances</u>		
<u>Liabilities</u>		
Payables (Note 10)	1,477,516.84	2,469,292.18
Interfund Payable	405,579.81	803,380.18
Deferred Revenues	46,055,421.51	1,654,096.81
Salaries and Benefits Payable	16,537,850.96	666,962.36
Total Liabilities	64,476,369.12	5,593,731.53
<u>Fund Balances</u>		
Nonspendable:		
Inventories		405,669.99
Restricted:		
Debt Service		
Capital Projects		
Child Nutrition		2,874,417.80
Assigned:		
Local Schools		2,427,325.75
Unassigned:		
General Fund	(10,185,210.43)	
Total Fund Balances	(10,185,210.43)	5,707,413.54
Total Liabilities and Fund Balances	\$ 54,291,158.69	\$ 11,301,145.07

The accompanying Notes to the Financial Statements are an integral part of this statement.

Capital Projects Fund	Total Governmental Funds
\$ 24,276,790.52	\$ 36,655,762.86
135,584,397.63	135,645,360.02
	46,055,421.51
15,579.37	5,469,945.90
1,323,529.63	2,466,901.91
	405,669.99
	93,538.72
<u>161,200,297.15</u>	<u>226,792,600.91</u>
6,639,404.70	10,586,213.72
1,257,941.92	2,466,901.91
	47,709,518.32
	17,204,813.32
<u>7,897,346.62</u>	<u>77,967,447.27</u>
	405,669.99
194,304.39	194,304.39
153,108,646.14	153,108,646.14
	2,874,417.80
	2,427,325.75
	(10,185,210.43)
<u>153,302,950.53</u>	<u>148,825,153.64</u>
<u>\$ 161,200,297.15</u>	<u>\$ 226,792,600.91</u>

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***Reconciliation of the Balance Sheet of Governmental Funds to the
Statement of Net Assets
September 30, 2011***

Total Fund Balances - Governmental Funds (Exhibit 3) \$ 148,825,153.64

Amounts reported for governmental activities in the Statement of Net Assets
(Exhibit 1) are different because:

Capital assets used in governmental activities are not financial resources and therefore
are not reported as assets in governmental funds. These assets were added as net
capital assets in the following amount: 515,790,970.59

Other long-term assets are not available to pay for current period expenditures and
therefore, are deferred on the Statement of Net Assets. 127,643.07

Certain liabilities are not due and payable in the current period, and therefore are not
reported as liabilities in the funds. Long-term liabilities at year-end consist of:

	Amounts Due or Payable Within One Year	Amounts Due or Payable After One Year	
Warrants Payable	\$ 1,515,821.12	\$ 21,736,291.61	
Deferred Premium	197,818.88	1,568,828.12	
Deferred Loss on Refunding	(106,211.84)	(730,398.30)	
Estimated Liability for Compensated Absences		2,665,506.95	
Total Long-Term Liabilities	\$ 1,607,428.16	\$ 25,240,228.38	(26,847,656.54)

Interest on long-term debt is not accrued in the funds but rather is recognized as an
expenditure when due.

Accrued Interest Payable (223,924.23)

Total Net Assets - Governmental Activities (Exhibit 1) \$ 637,672,186.53

The accompanying Notes to the Financial Statements are an integral part of this statement.

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2011

	General Fund	Special Revenue Fund
<u>Revenues</u>		
State	\$ 118,501,114.36	\$
Federal	2,849,927.88	56,841,085.71
Local	79,175,447.60	5,893,833.46
Other	501,194.96	221,345.69
Total Revenues	<u>201,027,684.80</u>	<u>62,956,264.86</u>
<u>Expenditures</u>		
Current:		
Instruction	117,249,617.23	18,097,478.16
Instructional Support	36,868,410.81	19,041,909.72
Operation and Maintenance	24,114,487.44	6,474,377.00
Auxiliary Services:		
Student Transportation	6,954,892.98	1,456,001.16
Food Service		17,436,116.52
General Administrative and Central Support	7,260,765.41	1,732,013.99
Other	6,567,626.45	5,782,935.91
Capital Outlay	260,700.00	5,330.00
Debt Service:		
Principal Retirement		
Interest and Fiscal Charges		
Debt Issuance Costs		
Total Expenditures	<u>199,276,500.32</u>	<u>70,026,162.46</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>1,751,184.48</u>	<u>(7,069,897.60)</u>
<u>Other Financing Sources (Uses)</u>		
Indirect Cost	2,252,507.34	
Long-Term Debt Issued		
Premium On Long-Term Debt Issued		
Transfers In	4,175,529.77	5,792,019.57
Other Financing Sources	3,689,314.93	12,554.81
Sale of Capital Assets	52,850.01	
Transfers Out	(5,792,019.57)	(949,502.07)
Payments to Refunding Escrow Agent		
Total Other Financing Sources (Uses)	<u>4,378,182.48</u>	<u>4,855,072.31</u>
Net Changes in Fund Balances	6,129,366.96	(2,214,825.29)
Fund Balances - Beginning of Year	(16,314,577.39)	7,922,238.83
Fund Balances - End of Year	<u>\$ (10,185,210.43)</u>	<u>\$ 5,707,413.54</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Capital Projects Fund	Total Governmental Funds
\$ 7,663,936.46	\$ 126,165,050.82
	59,691,013.59
2,095,675.04	87,164,956.10
	722,540.65
<u>9,759,611.50</u>	<u>273,743,561.16</u>
12,425,414.21	147,772,509.60
2,219,222.14	58,129,542.67
3,183,447.70	33,772,312.14
5,184.84	8,416,078.98
21,603.50	17,457,720.02
965,019.63	9,957,799.03
4,320.70	12,354,883.06
86,171,754.85	86,437,784.85
1,487,724.29	1,487,724.29
1,204,689.59	1,204,689.59
32,286.97	32,286.97
<u>107,720,668.42</u>	<u>377,023,331.20</u>
<u>(97,961,056.92)</u>	<u>(103,279,770.04)</u>
	2,252,507.34
6,240,800.00	6,240,800.00
834,495.18	834,495.18
	9,967,549.34
77,761.39	3,779,631.13
	52,850.01
(3,226,027.70)	(9,967,549.34)
(7,043,008.21)	(7,043,008.21)
<u>(3,115,979.34)</u>	<u>6,117,275.45</u>
(101,077,036.26)	(97,162,494.59)
254,379,986.79	245,987,648.23
<u>\$ 153,302,950.53</u>	<u>\$ 148,825,153.64</u>

***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, 2011***

Net Changes in Fund Balances - Total Governmental Funds (Exhibit 5)	\$ (97,162,494.59)
Amounts reported for governmental activities in the Statement of Activities (Exhibit 2) are different because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$86,437,784.85) exceeded depreciation (\$9,581,080.36) in the period.	76,856,704.49
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.	1,487,724.29
Issuance costs on debt issuance are recorded as financing uses in the governmental funds, but are deferred and amortized in the Statement of Activities.	32,286.97
Payments to refunding escrow agent are recorded as other financing uses in the governmental funds, but reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities.	7,043,008.21
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.	(6,240,800.00)
Premiums on debt issuance are reported as other financing sources in the governmental funds, but are amortized in the Statement of Activities.	(834,495.18)
In the Statement of Activities, only the loss on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. The change in net assets differs from the change in fund balances this amount.	(447,172.08)
The accompanying Notes to the Financial Statements are an integral part of this statement.	

Some items 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. These items consists of:

Accrued Interest Payable, Current Year Decrease	\$	7,953.11	
Compensated Absences, Current Year Decrease in Noncurrent Portion		518,191.45	
Amortization of Bond Premium		147,891.82	
Amortization of Bond Issuance Costs		(9,792.20)	
Amortization of Deferred Loss on Refunding		<u>(98,400.07)</u>	
			<u>565,844.11</u>
Change in Net Assets of Governmental Activities (Exhibit 2)			<u>\$ (18,699,393.78)</u>

Statement of Fiduciary Net Assets
September 30, 2011

	Agency Funds
<u>Assets</u>	
Cash	\$ 2,027.26
Receivables	3,035.91
Total Assets	<u>5,063.17</u>
<u>Liabilities</u>	
Payroll Taxes Payable	5,063.17
Total Liabilities	<u>\$ 5,063.17</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Notes to the Financial Statements

For the Year Ended September 30, 2011

Note 1 – Summary of Significant Accounting Policies

The financial statements of the Birmingham City Board of Education (the “Board”) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government’s accounting policies are described below.

A. Reporting Entity

The Board is governed by a separately elected board composed of nine members elected by the qualified electors of the City. The Board is responsible for the general administration and supervision of the public schools for the educational interests of the City.

Generally accepted accounting principles (GAAP) require that the financial reporting entity consist of the primary government and its component units. Accordingly, the accompanying financial statements present the Board (a primary government).

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete. Based on the application of these criteria, there are no component units which should be included as part of the financial reporting entity of the Board.

B. Government-Wide and Fund Financial Statements

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 no exchange transactions.

Notes to the Financial Statements

For the Year Ended September 30, 2011

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) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or program and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements

The fund financial statements provide information about the Board's funds, including 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.

The Board reports the following major governmental funds:

- ◆ **General Fund** – The general fund is the primary operating fund of the Board. It is used to account for all financial resources except those required to be accounted for in another fund. The Board primarily receives revenues from the Education Trust Fund (ETF) and local taxes. Amounts appropriated from the ETF were allocated to the school board on a formula basis.
- ◆ **Special Revenue Fund** – This fund is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Various federal and local funding sources are included in this fund. Some of the significant federal funding sources include the federal funds that are received for Special Education, Title I, State Fiscal Stabilization, Education Jobs, Education Technology and the Child Nutrition Program in addition to various smaller grants, which are required to be spent for the purposes of the applicable federal grants. Also included in this fund are the public and nonpublic funds received by the local schools which are generally not considered restricted or committed.
- ◆ **Capital Projects Fund** – This fund is used to account for financial resources that are restricted, committed, or assigned to expenditure for capital outlay, including the acquisition or construction of capital facilities and other capital assets.

Notes to the Financial Statements

For the Year Ended September 30, 2011

The Board reports the following fiduciary fund type:

Fiduciary Fund Type

- ◆ *Agency Funds* – These funds are used to account for assets held by the school system as agent. These funds account for assets held solely in a custodial capacity. Accordingly, assets in agency fund types are always matched by liabilities to the owners of those assets. Agency fund sources do not report operations and use only balance sheet accounts.

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

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 at the time liabilities are incurred, regardless of the timing of related cash flows. Nonexchange transactions, in which the Board gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. 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 Board considers revenues to be available if they are collected within sixty (60) days of the end of the current fiscal year. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. General long-term debt issued is reported as other financing sources.

Under the terms of grant agreements, the Board funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Board's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general revenues.

Notes to the Financial Statements
For the Year Ended September 30, 2011

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

D. Assets, Liabilities and Net Assets/Fund Balances

1. Deposits and Investments

Cash includes cash on hand and demand deposits.

Statutes authorize the Board to invest in obligations of the U. S. Treasury, obligations of any state of the United States, general obligations of any Alabama county or city board of education secured by the pledged of the three-mill school tax and certificates of deposit.

Investments are reported at fair value, based on quoted market prices, except for money market investments and repurchase agreements, which are reported at amortized cost. The Board reports all money market investments - U. S. Treasury bills and bankers' acceptances having a remaining maturity at time of purchase of one year or less-at amortized cost.

2. Receivables

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. Amounts receivable, net of estimated refunds and estimated uncollectible amounts, are recorded for the property taxes levied in the current year. However, since the amounts are not available to fund current year operations, the revenue is deferred and recognized in the subsequent fiscal year when the taxes are both due and collectible and available to fund operations.

Receivables due from other governments include amounts due from grantors for grants issued for specific programs and capital projects.

3. Inventories

Inventories are valued at cost, which approximates market, using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Notes to the Financial Statements

For the Year Ended September 30, 2011

4. Restricted Assets

Certain funds received from the State Department of Education for capital projects and improvements, as well as certain resources set aside for repayment of debt, are classified as restricted assets on the balance sheet because they are maintained separately and their use is limited. The Capital Projects fund is used to report proceeds that are restricted for use in various construction projects, and debt service.

5. Capital Assets

Capital assets, which include property and equipment, are reported in the government-wide financial statements. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Major outlays of capital assets and improvements are capitalized as projects are constructed.

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

	Capitalization Threshold	Estimated Useful Life
Buildings	\$50,000	40 years
Building Improvements	\$ 5,000	20 – 25 years
Equipment and Furniture	\$ 5,000	5 – 10 years
Vehicles	\$ 5,000	5 – 10 years

6. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets. Bond premiums, as well as issuance cost, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium. Bond issuance cost are reported as deferred charges and amortized over the term of the related debt.

Notes to the Financial Statements

For the Year Ended September 30, 2011

In the fund financial statement, governmental fund types recognized bond premiums and discounts, as well as bond issuance cost, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance cost, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

7. Compensated Absences

The Board's vacation leave policy consists of the following: Regular full-time, twelve-month employees shall be entitled to vacation leave with pay. Vacation leave will be earned only for full months of employment in the Birmingham System during the ten-month period, September through June of each year. No vacation leave will be earned during the months of July and August. Individuals with fifteen or fewer full years of employment will earn vacation leave at the rate of one day per month to a maximum of ten days per year. Beginning with the first full month of service of the sixteenth continuous year of employment, individuals will earn vacation leave at the rate of one and one-half vacation days per month to a maximum of fifteen days per year. Vacation leave may be accumulated to a maximum of thirty days. Any days earned above thirty days but not taken will be lost. If an employee resigns and written notice of resignation is submitted at least ten days in advance of the last day of active service, unused vacation leave will be provided.

8. Net Assets/Fund Equity

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

- ◆ **Invested in Capital Assets, Net of Related Debt** – Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Any significant unspent related debt proceeds at year-end related to capital assets are not included in this calculation.
- ◆ **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.

Notes to the Financial Statements

For the Year Ended September 30, 2011

Fund balance is reported in governmental funds in the fund financial statements under the following five categories:

- ◆ **Nonspendable** – Nonspendable fund balances include amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained in-tact. Examples of nonspendable fund balance reserves for which fund balance shall not be available for financing general operating expenditures include: inventories, prepaid items, and long-term receivables.
- ◆ **Restricted** – Restricted fund balances consist of amounts that are subject to externally enforceable legal restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments; or through constitutional provisions or enabling legislation.
- ◆ **Committed** – Committed fund balances consist of amounts that are subject to a purpose constraint imposed by formal action or resolution of the Board, which is the highest level of decision-making authority, before the end of the fiscal year and that require the same level of formal action to remove or modify the constraint.
- ◆ **Assigned** – Assigned fund balances consist of amounts that are intended to be used by the school system for specific purposes. The Board or its designee makes the determination of the assigned amounts of fund balance. Such assignments may not exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund. Assigned fund balances require the same level of authority to remove the constraint.
- ◆ **Unassigned** – Unassigned fund balances include all spendable amounts not contained in the other classifications. This portion of the total fund balance in the general fund is available to finance operating expenditures.

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

Notes to the Financial Statements
For the Year Ended September 30, 2011

9. Minimum Fund Balance Policy

All cost centers and department managers shall be kept abreast of revenue trends so that prudent spending decisions can be made. As conditions change, personnel adjustments and other expenditures shall be made annually in accordance to funding received by state, federal and local sources. Department heads and managers shall work closely with Finance and Business Affairs Department on an ongoing basis in order to clearly understand the current fiscal status of the district. The Board shall establish and maintain a one-month fund balance as required by State Law.

Note 2 – Stewardship, Compliance, and Accountability

A. Budgets

Budgets are adopted on a basis of accounting consistent with accounting principles generally accepted in the United States of America (GAAP) for the General Fund with the exception of salaries and benefits, which are budgeted only to the extent expected to be paid rather than on the modified accrual basis of accounting. Also, ad valorem taxes are budgeted only to the extent expected to be received rather than on the modified accrual basis of accounting. The Special Revenue Fund budgets on a basis of accounting consistent with GAAP with the exception of salaries and benefits, which are budgeted only to the extent expected to be paid rather than on the modified accrual basis of accounting. Capital projects funds adopt project-length budgets. All appropriations lapse at fiscal year-end.

On or before October 1 of each year, each city board of education shall prepare and submit to the State Superintendent of Education the annual budget to be adopted by the City Board of Education. The Superintendent or City Board of Education shall not approve any budget for operations of the school for any fiscal year which shall show expenditures in excess of income estimated to be available plus any balances on hand.

B. Deficit Fund Balances/Net Assets of Individual Funds

At September 30, 2011, the following governmental funds had deficit fund balances:

General Fund	<u>\$10,185,210.43</u>
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The deficit in the General Fund is a result of salary accruals and will be eliminated on October 1, 2011, when State appropriations for the 2011-2012 year are available.

Notes to the Financial Statements

For the Year Ended September 30, 2011

Note 3 – Deposits and Investments

A. Deposits

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the Board will not be able to cover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Board's deposits at year-end were covered by federal depository insurance or by the Security for Alabama Funds Enhancement Program (SAFE Program). The SAFE Program was established by the Alabama Legislature and is governed by the provisions contained in the *Code of Alabama 1975*, Sections 41-14A-1 through 41-14A-14. Under the SAFE Program all public funds are protected through a collateral pool administered by the Alabama State Treasurer's Office. Under this program, financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation (FDIC). If the securities pledged fail to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance. Some of the Board's investments, totaling \$60,962.39, were in certificates of deposit. These certificates of deposit are classified as "Deposits" in order to determine insurance and collateralization. However, they are classified as "Investments" on the financial statements.

B. Investments

Statutes authorize the Board to invest in obligations of the U. S. Treasury, obligations of any state of the United States, general obligations of any Alabama county or city board of education secured by pledge of the three-mill school tax and other obligations as outlined in the *Code of Alabama 1975*, Section 19-3-120 and Section 19-3-120.1.

As of September 30, 2011, the Board had the following investments and maturities:

Investment Type	Maturities			Fair Value
	Less Than 1 Year	Less Than 5 Years	More than 5 Years	
Federal Home Loan Mortgage Company	\$	\$ 18,208,690.00	\$ 7,007,460.00	\$ 25,216,150.00
Federal Home Loan Bank	1,644,206.00	47,099,727.70	12,681,466.00	61,425,399.70
Federal National Mortgage Association		38,147,760.43	3,261,437.50	41,409,197.93
Federal Farm Credit Bank	2,533,600.00	5,000,050.00		7,533,650.00
Total	\$4,177,806.00	\$108,456,228.13	\$22,950,363.50	\$135,584,397.63

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect fair value of an investment. The Board does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increased interest rates.

Notes to the Financial Statements

For the Year Ended September 30, 2011

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Board does not have an investment policy that specifically addresses its investment choices related to this risk. The Birmingham City Board of Education has funds invested in Federal Home Loan Mortgage Company, Federal Home Loan Bank, Federal National Mortgage Association, and Federal Farm Credit Bank, which each have a credit risk rating of Aaa from Moody’s Investors Service.

Custodial Credit Risk – For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to cover the value of its investments or collateral securities that are in the possession of an outside party. The Board does not have an investment policy that limits the amount of securities that can be held by counterparties.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. The Board does not have an investment policy that places limits on the amount the Board may invest in any one issuer.

Note 4 – Receivables

On September 30, 2011, receivables for the Board’s individual major funds are as follows:

	General Fund	Special Revenue Fund	Capital Projects Fund	Total
Receivables:				
Accounts Receivable	\$ 650,000.00	\$ 9,022.17	\$	\$ 659,022.17
Due From Other Governments	1,982,434.36	2,748,536.58	2,379.37	4,733,350.31
Other	64,097.36	276.06	13,200.00	77,573.42
Total	\$2,696,531.72	\$2,757,834.81	\$15,579.37	\$5,469,945.90

Governmental funds report deferred revenues in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At September 30, 2011, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
Ad Valorem Property Taxes	\$46,055,421.51	\$
Grant Drawdowns Prior to Meeting All Eligibility Requirements		1,654,096.81
Total Deferred/Unearned Revenue	\$46,055,421.51	\$1,654,096.81

Notes to the Financial Statements

For the Year Ended September 30, 2011

Note 5 – Capital Assets

Capital asset activity for the year ended September 30, 2011, was as follows:

	Balance October 1, 2010	Additions/ Reclassifications (*)	Retirements/ Reclassifications (*)	Balance September 30, 2011
<u>Governmental Activities:</u>				
Capital Assets, Not Being Depreciated:				
Land	\$ 31,613,632.40	\$ 1,189,154.39	\$	\$ 32,802,786.79
Construction in Progress	97,158,570.42	76,783,683.69	(8,837,614.94)	165,104,639.17
Total Capital Assets, Not Being Depreciated	128,772,202.82	77,972,838.08	(8,837,614.94)	197,907,425.96
Capital Assets Being Depreciated:				
Land Improvements	17,839,376.85	1,396,627.82		19,236,004.67
Buildings	292,869,923.14	11,347,131.05	(2,171,733.41)	302,045,320.78
Building Improvements	70,790,646.91	1,188,003.56	(6,221.28)	71,972,429.19
Equipment and Furniture	13,771,969.98	1,565,797.17		15,337,767.15
Vehicles	9,292,327.70	1,725,254.20	(454,932.00)	10,562,649.90
Other Assets	1,728,989.49	79,747.91		1,808,737.40
Total Capital Assets Being Depreciated	406,293,234.07	17,302,561.71	(2,632,886.69)	420,962,909.09
Less Accumulated Depreciation for:				
Land Improvements	(2,137,591.72)	(241,291.79)		(2,378,883.51)
Buildings	(58,939,251.63)	(5,043,748.10)	1,770,054.53	(62,212,945.20)
Building Improvements	(21,102,712.93)	(2,820,633.01)	6,221.28	(23,917,124.66)
Equipment and Furniture	(6,037,059.01)	(949,003.43)		(6,986,062.44)
Vehicles	(6,699,909.76)	(490,632.91)	409,438.80	(6,781,103.87)
Other Assets	(767,473.66)	(35,771.12)		(803,244.78)
Total Accumulated Depreciation	(95,683,998.71)	(9,581,080.36)	2,185,714.61	(103,079,364.46)
Total Capital Assets Being Depreciated, Net	310,609,235.36	7,721,481.35	(447,172.08)	317,883,544.63
Total Governmental Activities Capital Assets, Net	\$439,381,438.18	\$85,694,319.43	\$(9,284,787.02)	\$ 515,790,970.59
(*) Included in the "Additions/Reclassifications" and the "Retirements/Reclassifications" columns are \$8,837,614.94 in reclassifications.				

Depreciation expense was charged to functions/programs of the primary government as follows:

	Current Year Depreciation Expense
<u>Governmental Activities:</u>	
Instruction	\$4,946,711.80
Instructional Support	198,328.36
Auxiliary Services:	
Food Service	335,337.81
Student Transportation	19,162.16
General Administrative and Central Support	4,081,540.23
Total Depreciation Expense – Governmental Activities	\$9,581,080.36

Notes to the Financial Statements

For the Year Ended September 30, 2011

Note 6 – Defined Benefit Pension Plan

A. Plan Description

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

Substantially all employees of the Board are members of the Teachers' Retirement System. Membership is mandatory for covered or eligible employees of the Board. Benefits vest after 10 years of creditable service. Vested employees may retire with full benefits at age 60 or after 25 years of service. Retirement benefits are calculated by two methods with the retiree receiving payment under the method 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 as of 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 for general administration and operation of the Teachers' Retirement System is vested in the Board of Control (currently 14 members). Benefit provisions are established by the *Code of Alabama 1975*, Sections 16-25-1 through 16-25-113, as amended, and Sections 36-27B-1 through 36-27B-6, 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, 135 South Union Street, Montgomery, Alabama 36130-2150.

Notes to the Financial Statements
For the Year Ended September 30, 2011

B. Funding Policy

Employees are required by statute to contribute 5 percent 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 Legislature the contribution rate for the following fiscal year, with the Legislature setting this rate in the annual appropriation bill. The percentages of the contributions and the amount of contributions made by the Board and the Board's employees equal the required contributions for each year as follows:

Fiscal Year Ended September 30,	2011	2010	2009
Total Percentage of Covered Payroll	17.51%	17.51%	17.07%
Contributions:			
Percentage Contributed by the Board	12.51%	12.51%	12.07%
Percentage Contributed by the Employees	5.00%	5.00%	5.00%
Contributed by the Board	\$18,606,967.57	\$19,349,429.96	\$18,943,344.47
Contributed by Employees	7,437,263.96	7,733,718.45	7,847,295.96
Total Contributions	<u>\$26,044,231.53</u>	<u>\$27,083,148.41</u>	<u>\$26,790,640.43</u>

Note 7 – Other Postemployment Benefits (OPEB)

A. Plan Description

The Board contributes to the Alabama Retired Education Employees' Health Care Trust (the "Trust"), a cost-sharing multiple-employer defined benefit postemployment healthcare plan. The Trust provides health care benefits to state and local school system retirees and was established in 2007 under the provisions of Act Number 2007-16, Acts of Alabama, as an irrevocable trust fund. Responsibility for general administration and operations of the Trust is vested with the Public Education Employees' Health Insurance Board (PEEHIB) members. The *Code of Alabama 1975*, Section 16-25A-4, provides the PEEHIB with the authority to amend the benefit provisions in order to provide reasonable assurance of stability in future years. The Trust issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at the Public Education Employees' Health Insurance Plan website, <http://www.rsa-al.gov/PEEHIP/peehip.html> under the Trust Fund Financials tab.

Notes to the Financial Statements
For the Year Ended September 30, 2011

B. Funding Policy

The Public Education Employees' Health Insurance Fund (PEEHIF) was established in 1983 under the provisions of Act Number 83-455, Acts of Alabama, to provide a uniform plan of health insurance for current and retired employees of state educational institutions. The plan is administered by the PEEHIB. Any Trust Fund assets used in paying administrative costs and retiree benefits are transferred to and paid from the PEEHIF. The PEEHIB periodically reviews the funds available in the PEEHIF and if excess funds are determined to be available, the PEEHIB authorizes a transfer of funds from the PEEHIF to the Trust. Retirees are required to contribute monthly as follows:

	Fiscal Year 2011
Individual Coverage – Non-Medicare Eligible	\$146.00
Individual Coverage – Medicare Eligible	\$ 10.00
Family Coverage – Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)	\$381.00
Family Coverage – Non-Medicare Eligible Retired Member and Dependent Medicare Eligible	\$245.00
Family Coverage – Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)	\$245.00
Family Coverage – Medicare Eligible Retired Member and Dependent Medicare Eligible	\$109.00
Surviving Spouse – Non-Medicare Eligible	\$701.00
Surviving Spouse – Non-Medicare Eligible and Dependent Non-Medicare Eligible	\$890.00
Surviving Spouse – Non-Medicare Eligible and Dependent Medicare Eligible	\$859.00
Surviving Spouse – Medicare Eligible	\$369.00
Surviving Spouse – Medicare Eligible and Dependent Non-Medicare Eligible	\$558.00
Surviving Spouse – Medicare Eligible and Dependent Medicare Eligible	\$527.00

For employees that retire other than for disability, for each year under 25 years of service, the retiree pays two percent of the employer premium and for each year over 25 years of service, the retiree premium is reduced by two percent of the employer premium. A tobacco surcharge is \$27.00 per month for retired members that smoke.

Notes to the Financial Statements
For the Year Ended September 30, 2011

The Board is required to contribute at a rate specified by the State for each active employee. The Board's share of premiums for retired Board employees health insurance is included as part of the premium for active employees. The following shows the required contributions in dollars and the percentage of that amount contributed for Board retirees:

Fiscal Year Ended September 30,	Active Health Insurance Premiums Paid By Board	Amount of Premium Attributable to Retirees	Percentage of Active Employee Premiums Attributable to Retirees	Total Amount Paid Attributable to Retirees	Percentage of Required Amount Contributed
2011	\$752.00	\$198.94	26.45%	\$8,694,727.34	100%
2010	\$752.00	\$241.27	32.08%	\$9,940,144.15	100%
2009	\$752.00	\$205.45	27.32%	\$8,358,148.44	100%

Each year the PEEHIB certifies to the Governor and to the Legislature the contribution rates based on the amount needed to fund coverage for benefits for the following fiscal year and the Legislature sets the premium rate in the annual appropriation bill. This results in a pay-as-you-go funding method.

Notes to the Financial Statements
For the Year Ended September 30, 2011

Note 8 – Construction and Other Significant Commitments

As of September 30, 2011, the Board was obligated under the following significant construction contracts:

School	Project	Remaining Amount
Glenn K-8 School	New Construction	\$ 1,143,268.39
Jones Valley K-8 School	New Construction	241,387.40
Oxmoor K-8 School	New Construction	10,008,171.43
Wenonah High	New Field House	49,125.00
Ramsay School	Renovation/Addition	3,145,708.55
Wylam K-8 School	New Construction	91,589.42
Oliver Elementary	New Construction	30,176.86
Inglenook K-8 School	Renovation	158,044.55
Hayes K-8 School	New Construction	6,850,498.45
Parker High	New Construction	5,886,493.70
Huffman High	New Construction	22,272,739.84
Lee Elementary	New Construction	4,607,545.76
Brown Elementary	New Construction	3,466,583.44
Bush Hills School	New Construction	696,301.85
Tuggle/Hill School	New Construction	8,896,123.65
Wenonah High	New Track	4,175.00
Wilkerson Middle School	New Roof	36,389.08
Glen Iris Elementary	New Roof	55,535.93
Sun Valley Elementary	New Roof	71,298.56
McCaw Elementary	Demolition	42,194.00
Total Construction and Other Significant Commitments		\$67,753,350.86

Note 9 – Contingent Liabilities

The Board is a defendant in various lawsuits. Management is unable to predict the outcome of the litigation, but believes it has strong grounds upon which to defend these proceedings. Accordingly, no provision for possible loss, if any, is included in the financial statements.

Notes to the Financial Statements
For the Year Ended September 30, 2011

Note 10 – Payables

On September 30, 2011, payables for the Board’s individual major funds are as follows:

	General Fund	Special Revenue Fund	Capital Projects Fund	Total Governmental Funds
Payables:				
Vendors	\$1,377,080.85	\$ 806,248.53	\$2,686,704.97	\$ 4,870,034.35
Intergovernmental		1,662,561.75		1,662,591.75
Other	100,435.99	451.90		100,887.89
Retainage Payable			3,952,699.73	3,952,699.73
Total Payables	\$1,477,516.84	\$2,469,292.18	\$6,639,404.70	\$10,586,213.72

Note 11 – Short-Term Debt

During the year, the Board used the line of credit with Regions Bank to borrow money to meet its payroll obligations for October, November, and December 2010. This loan was paid off on January 21, 2011. Short-term debt activity for the year ended September 30, 2011, was as follows:

	Beginning Balance	Proceeds	Repaid	Ending Balance
Note Payable	\$	\$20,000,000.00	\$20,000,000.00	\$

Note 12 – Long-Term Debt

Pursuant to Act Number 98-373, Acts of Alabama, enacted by the 1998 Regular Session of the Alabama Legislature, the Alabama Public School and College Authority (PSCA) is authorized to issue bonds to finance loans to local boards of education. Such bonds are secured by certain taxes deposited in the Education Trust Fund, as specified in Act Number 98-373, Acts of Alabama. Loans to be made to local school boards are payable solely out of and secured by the capital outlay funds allocated to participating school boards from the Public School Fund pursuant to the *Code of Alabama 1975*, Section 16-13-234. Effective June 1, 2001, the Board entered into an agreement to participate in the PSCA Capital Improvement Pool Bonds, Series 2001-A. Payment of principal and interest on this warrant shall be made by the Finance Director of the State of Alabama causing to be transferred from the Public School Fund to the Education Trust Fund on each payment date an amount of Pledged Capital Outlay funds equal to the principal and interest payable on this warrant on each such payment date.

Notes to the Financial Statements
For the Year Ended September 30, 2011

During fiscal year 2006, the Board, as part of a pooled bond issuance with other school systems within the State of Alabama, issued Capital Improvements Pool Bonds, Series 2006 in anticipation of their Public School Fund allocations, which are received from the Alabama Department of Education. The Alabama Department of Education withholds the required debt service payments from the Board's Public School Fund allocation. The proceeds from these bonds provided funds for the acquisition, construction and renovation of school facilities.

During fiscal year 2010, the Board, as part of a pooled bond issuance with other school systems within the State of Alabama, issued Capital Improvement Pool Refunding Bonds, Series 2009-B in anticipation of their Public School Fund allocations, which are received from the Alabama Department of Education. The Alabama Department of Education withholds the required debt service payments from the Board's Public School Fund allocation. The proceeds from these bonds provided funds for the purpose of advance refunding a portion of the Board's Capital Improvement Pools Bonds, Series 2001-A.

On May 2, 2011, the Alabama Public School and College Authority, on behalf of various Boards of Education in the pool, issued \$26,900,000 in Capital Improvement Pool Refunding Bonds Series 2011-B ("Series 2011-B") with interest rates ranging from 2.00% to 5.00% to refund and retire on a current basis \$29,795,000.00 of outstanding Capital Improvement Pool Bonds Series 2001-A ("Series 2001-A") with interest rates of 5.00%. The Board had 23.2% participation in the bonds, resulting in the Board's share of the principal, issuance costs, and premium of \$6,240,800.00, \$32,286.98, and \$834,495.18, respectively. The Alabama Department of Education withholds the required debt service payments from the Board's Public School Fund allocation.

Notes to the Financial Statements
For the Year Ended September 30, 2011

The following is a summary of long-term debt transactions for the Board for the year ended September 30, 2011:

	Debt Outstanding 10/01/2010	Issued/ Increased	Repaid/ Decreased	Debt Outstanding 09/30/2011	Amounts Due Within One Year
Governmental Activities:					
Bonds Payable:					
PSCA Capital Improvement Pool Bonds Series 2001-A Series 2006 Leverage Bond	\$ 7,910,040.00 11,446,933.02	\$	\$(7,910,040.00) (490,124.29)	\$ 10,956,808.73	\$ 513,581.12
PSCA Capital Improvement Pool Refunding Bonds, Series 2009-B Series 2011-B	6,054,504.00	6,240,800.00		6,054,504.00 6,240,800.00	1,002,240.00
Unamortized Premium	1,080,043.64	834,495.18	(147,891.82)	1,766,647.00	197,818.88
Less: Unamortized Deferred Charges	(804,442.00)	(130,568.21)	98,400.07	(836,610.14)	(106,211.84)
Total Bonds Payable	<u>25,687,078.66</u>	<u>6,944,726.97</u>	<u>(8,449,656.04)</u>	<u>24,182,149.59</u>	<u>1,607,428.16</u>
Other Liabilities:					
Estimated Liability for Compensated Absences	3,183,698.40		(518,191.45)	2,665,506.95	
Total Other Liabilities	<u>3,183,698.40</u>		<u>(518,191.45)</u>	<u>2,665,506.95</u>	
Governmental Activities Long-Term Liabilities	<u>\$28,870,777.06</u>	<u>\$6,944,726.97</u>	<u>\$(8,967,847.49)</u>	<u>\$26,847,656.54</u>	<u>\$1,607,428.16</u>

The compensated absences liability will be liquidated by the General Fund or the fund for which the employee worked.

The following is a schedule of debt service requirements to maturity:

Fiscal Year Ending	Bonds Payable		Total Principal and Interest Requirements to Maturity
	Principal	Interest	
September 30, 2012	\$ 1,515,821.12	\$1,027,558.35	\$ 2,543,379.47
2013	1,571,907.09	1,003,689.32	2,575,596.41
2014	1,673,382.20	955,032.08	2,628,414.28
2015	1,752,353.31	860,653.09	2,613,006.40
2016	1,833,097.56	772,263.82	2,605,361.38
2017-2021	10,408,012.96	2,440,348.98	12,848,361.94
2022-2026	4,497,538.49	499,625.62	4,997,164.11
Total	<u>\$23,252,112.73</u>	<u>\$7,559,171.26</u>	<u>\$30,811,283.99</u>

Notes to the Financial Statements

For the Year Ended September 30, 2011

Issuance Costs and Premium

The Board has bond issuance costs as well as a premium in connection with the issuance of its Capital Improvements Pool Bonds, Series 2006. The issuance costs and premium are being amortized using the straight-line method over a period of twenty years. The Board has bond issuance costs, premium and deferred loss on refunding in connection with the Capital Improvement Pool Refunding Bonds, Series 2009-B. The issuance costs, premium and deferred loss on refunding are being amortized using the straight-line method over a period of 115 months. The Board has issuance costs, premium, and deferred loss on refunding in connection with the Capital Improvement Pool Refunding Bonds, Series 2011-B. These items are being amortized using the straight-line method over a period of 117 months.

	Issuance Costs	Loss on Refunding	Premium
Total Issuance Costs and Premium	\$162,053.38	\$1,020,095.42	\$2,073,728.60
Amount Amortized Prior Years	24,618.11	85,085.21	159,189.78
Balance Issuance Costs and Premium	137,435.27	935,010.21	1,914,538.82
Current Amount Amortized	9,792.20	98,400.07	147,891.82
Balance Issuance Costs and Premium	\$127,643.07	\$ 836,610.14	\$1,766,647.00

Pledged Revenue

The Board, as part of a pooled bond issuance with other school systems within the State of Alabama, issued Capital Improvement Pool Bonds, Series 2011-B in anticipation of their Public School Fund Allocations, which are received from the Alabama Department of Education. The proceeds were used to refund Series 2001-A Warrants for the acquisition, construction, and renovation for school facilities. Future revenues in the amount of \$8,213,705.83 are pledged to repay the remaining principal and interest on the bonds at September 30, 2011. Proceeds of the Public School Fund allocation in the amount of \$5,469,761.00 were received by the Board during the fiscal year ended. Pledged funds in the amount of \$1,368,162.00 (2001-A) were used to pay principal and interest on the bonds during the fiscal year ended September 30, 2011. The Capital Improvement Pool Bonds, Series 2011-B, will mature in fiscal year 2021.

Notes to the Financial Statements

For the Year Ended September 30, 2011

The Board, as part of a pooled bond issuance with other school systems within the State of Alabama, issued Capital Improvement Bonds, Series 2006 in anticipation of their Public School Fund Allocations, which are received from the Alabama Department of Education. The proceeds were used for the acquisition, construction and renovation of school facilities. Future revenues in the amount of \$15,002,269.36 are pledged to repay the remaining principal and interest on the bonds at September 30, 2011. Proceeds of the Public School Fund allocation in the amount of \$5,469,761.00 were received by the Board during the fiscal year ended. Pledged funds in the amount of \$998,777.62 were used to pay principal and interest on the bonds during the fiscal year ended September 30, 2011. This represents 18.25 percent of the pledged funds received by the Board. The Capital Improvement Bonds, Series 2006 will mature in fiscal year 2026.

The Board, as part of a pooled bond issuance with other school systems within the State of Alabama, issued Capital Improvement Pool Refunding Bonds, Series 2009-B in anticipation of their Public School Fund Allocations, which are received from the Alabama Department of Education. The proceeds were used to advance refund a portion of the Capital Improvement Pool Bonds, Series 2001-A, which were scheduled to mature in fiscal years 2014 through 2018. Future revenues in the amount of \$7,595,308.80 are pledged to repay the remaining principal and interest on the bonds at September 30, 2011. Proceeds of the Public School Fund allocation in the amount of \$5,469,761.00 were received by the Board during the fiscal year ended. Pledged funds in the amount of \$302,725.20 were used to pay interest on the bonds during the fiscal year ended September 30, 2011. This represents 5.04 percent of the pledged funds received by the Board. The Capital Improvement Bonds, Series 2009-B will mature in fiscal year 2019.

Defeased Debt

On May 2, 2011, the Alabama Public School and College Authority, on behalf of the various Boards of Education in the pool, issued \$26,900,000 in Capital Improvement Pool Refunding Bonds Series 2011-B (“Series 2011-B”) with interest rates ranging from 2.00% to 5.00% to refund and retire on a current basis \$29,795,000.00 of outstanding Capital Improvement Pool Bonds Series 2001-A (“Series 2001-A”) with interest rates of 5.00%. The net proceeds of \$30,357,794 after a premium of \$3,596,962 and payment of \$139,168 in underwriting fees and other issuance costs were used to purchase U. S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Series 2001-A. As a result, the Series 2001-A are considered to be defeased and the liabilities for those bonds have been removed.

The Board had a 23.2% participation in the Series 2001-A. This resulted in the Board being obligated for \$6,240,800 of the total principal of \$26,900,000 for the Series 2011-B. The Board’s portion of the net proceeds deposited in an irrevocable trust with an escrow agent was \$7,043,008.21. The liability removed was \$6,912,440.00.

Notes to the Financial Statements

For the Year Ended September 30, 2011

The Board's portion of the refunding resulted in a difference between the reacquisition price and the net carrying amount of the Series 2001-A of \$130,568.21. The difference is being amortized over the remaining life of the old debt which is shorter than the life of the new debt issued. As a result of the refunding, the Board reduced its total debt service requirements by \$1,013,224.17, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$291,493.55.

Prior Year Defeasance of Debt

In prior years, the Board defeased a portion of the certificates of participation relating to the Capital Improvement Pool Bonds Series 2001-A. The Board deposited funds into an irrevocable with an escrow agent to provide for the future debt service payments on the Capital Improvement Pool Bonds when they mature in fiscal years 2014 through 2018. Accordingly, the trust account assets and the liability for the defeased debt are not included on the Board's financial statements. At September 30, 2011 the total of \$6,054,504.00 of the Capital Improvement Pool Bonds outstanding are considered defeased.

Note 13 – 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) part of the State of Alabama, Department of Finance, Division of Risk Management, which operates as a common risk management and insurance program for state owned properties and county boards of education. The Board pays an annual premium based on the amount of coverage requested. The SIF is self-insured up to \$3.5 million per occurrence and purchases commercial insurance for claims in excess of \$3.5 million.

General liability and errors and omissions insurance are 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 and Board owned vehicles.

Notes to the Financial Statements
For the Year Ended September 30, 2011

Employee health insurance is provided through the Public Education Employees' Health Insurance Fund (PEEHIF), administered by the Public Education Employees' Health Insurance Board (PEEHIB). The Fund 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 determined 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 a specified amount monthly to the PEEHIF for each employee of state educational institutions. The Board's contribution is applied against the employees' premiums for the coverage selected and the employee pays any remaining premium.

The Board does not have insurance coverage of job-related injuries. Board employees who are injured while on the job are entitled to salary and fringe benefits of up to ninety working days in accordance with the *Code of Alabama 1975*, Section 16-1-18.1(d). Any unreimbursed medical expenses and costs which the employee incurs as a result of an on-the-job injury may be filed for reimbursement with the State Board of Adjustment.

Note 14 – Interfund Transactions

Interfund Receivables and Payables

The interfund receivables and payables at September 30, 2011, were as follows:

	Interfund Receivables			Totals
	General Fund	Special Revenue Fund	Capital Projects Fund	
<u>Interfund Payables:</u>				
General Fund	\$	\$405,579.81	\$	\$ 405,579.81
Special Revenue Fund	140,617.25		662,762.93	803,380.18
Capital Projects Fund	597,175.22		660,766.70	1,257,941.92
Totals	<u>\$737,792.47</u>	<u>\$405,579.81</u>	<u>\$1,323,529.63</u>	<u>\$2,466,901.91</u>

Notes to the Financial Statements
For the Year Ended September 30, 2011

Interfund Transfers

The amounts of interfund transfers during the fiscal year ended September 30, 2011, were as follows:

	Transfers Out			Totals
	General Fund	Special Revenue Fund	Capital Projects Fund	
Transfers In:				
General Fund	\$	\$949,502.07	\$3,226,027.70	\$4,175,529.77
Special Revenue Fund	5,792,019.57			5,792,019.57
Totals	\$5,792,019.57	\$949,502.07	\$3,226,027.70	\$9,967,549.34

The Board typically used transfers to fund ongoing operating subsidies, to recoup certain expenditures paid on-behalf of the local schools, and to service current-year debt requirements.

Note 15 – Subsequent Events

The Board approved the following construction contracts subsequent to September 30, 2011:

Epic Elementary	\$ 1,590,510.00
Woodlawn High	\$16,949,361.00
Lawson School	\$ 1,586,444.00

The *Code of Alabama 1975*, Section 16-6B-4, requires that all local boards of education be fiscally accountable. The State Board of Education is directed by this Code section to assess and ensure the financial stability of each local board of education. On June 14, 2012, the State Board of Education intervened in the Birmingham City Board of Education’s financial management, appointing a Chief Financial Officer to manage its fiscal operations.

Required Supplementary Information

***Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
For the Year Ended September 30, 2011***

	<u>Budgeted Amounts</u>		<u>Actual Amounts Budgetary Basis</u>
	<u>Original</u>	<u>Final</u>	
<u>Revenues</u>			
State	\$ 120,930,152.00	\$ 117,803,989.00	\$ 118,501,114.36
Federal	712,000.00	712,000.00	2,849,927.88
Local	79,383,435.00	79,258,435.00	77,311,189.13
Other			501,194.96
Total Revenues	<u>201,025,587.00</u>	<u>197,774,424.00</u>	<u>199,163,426.33</u>
<u>Expenditures</u>			
Current:			
Instruction	118,253,676.00	116,933,019.98	117,918,596.57
Instructional Support	37,154,828.70	37,463,346.95	37,122,168.44
Operation and Maintenance	27,673,180.25	27,822,315.19	24,128,927.74
Auxiliary Services:			
Student Transportation	8,476,042.00	8,328,625.00	6,996,112.04
General Administrative and Central Support	8,780,363.00	8,896,516.00	7,267,858.07
Other	1,199,802.00	2,558,960.95	6,556,781.37
Capital Outlay			260,700.00
Total Expenditures	<u>201,537,891.95</u>	<u>202,002,784.07</u>	<u>200,251,144.23</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(512,304.95)</u>	<u>(4,228,360.07)</u>	<u>(1,087,717.90)</u>
<u>Other Financing Sources (Uses)</u>			
Indirect Cost	2,215,045.95	2,371,580.41	2,252,507.34
Transfers In	1,703,872.00	1,703,872.00	4,175,529.77
Other Financing Sources	1,875,000.00	1,875,000.00	3,689,314.93
Sale of Capital Assets			52,850.01
Transfers Out	<u>(5,320,613.00)</u>	<u>(2,429,473.34)</u>	<u>(5,792,019.57)</u>
Total Other Financing Sources (Uses)	<u>473,304.95</u>	<u>3,520,979.07</u>	<u>4,378,182.48</u>
Net Change in Fund Balances	(39,000.00)	(707,381.00)	3,290,464.58
Fund Balances - Beginning of Year	<u>2,104,858.00</u>	<u>3,055,305.00</u>	<u>3,062,175.95</u>
Fund Balances - End of Year	<u>\$ 2,065,858.00</u>	<u>\$ 2,347,924.00</u>	<u>\$ 6,352,640.53</u>

	Budget to GAAP Differences	Actual Amounts GAAP Basis
	\$	\$ 118,501,114.36
		2,849,927.88
(1)	1,864,258.47	79,175,447.60
		501,194.96
	<u>1,864,258.47</u>	<u>201,027,684.80</u>
(2)	668,979.34	117,249,617.23
(2)	253,757.63	36,868,410.81
(2)	14,440.30	24,114,487.44
(2)	41,219.06	6,954,892.98
(2)	7,092.66	7,260,765.41
(2)	(10,845.08)	6,567,626.45
		260,700.00
	<u>974,643.91</u>	<u>199,276,500.32</u>
	<u>2,838,902.38</u>	<u>1,751,184.48</u>
		2,252,507.34
		4,175,529.77
		3,689,314.93
		52,850.01
		<u>(5,792,019.57)</u>
		<u>4,378,182.48</u>
	2,838,902.38	6,129,366.96
(3)	<u>(19,376,753.34)</u>	<u>(16,314,577.39)</u>
	<u>\$ (16,537,850.96)</u>	<u>\$ (10,185,210.43)</u>

***Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
For the Year Ended September 30, 2011***

**Explanation of differences between Actual Amounts on
Budgetary Basis and Actual Amounts GAAP Basis:**

The Board budgets on the modified accrual basis of accounting except as shown below:

- (1) The Board recognizes property taxes and other taxes as they are actually received without regard to when they were earned (GAAP).
- (2) The Board budgets for salaries only to the extent expected to be paid, rather than on the modified accrual basis (GAAP).

Net Increase in Fund Balance - Budget to GAAP

- (3) The amount reported as "fund balance" on the budgetary basis of accounting derives from the basis of accounting used in preparing the Board's budget. This amount differs from the fund balance reported in the Statements of Revenues, Expenditures and Changes in Fund Balances because of the cumulative effect of transactions such as those described above.

\$ 1,864,258.47

974,643.91

\$ 2,838,902.38

***Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Special Revenue Fund
For the Year Ended September 30, 2011***

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary Basis</u>
<u>Revenues</u>			
Federal	\$ 60,614,699.00	\$ 62,647,174.45	\$ 56,841,085.71
Local	4,614,589.00	4,614,589.00	5,893,833.46
Other	279,335.00	279,335.00	221,345.69
Total Revenues	<u>65,508,623.00</u>	<u>67,541,098.45</u>	<u>62,956,264.86</u>
<u>Expenditures</u>			
Current:			
Instruction	20,218,293.74	21,485,951.03	18,097,478.16
Instructional Support	18,946,354.77	20,655,866.62	19,041,909.72
Operation and Maintenance	6,593,888.00	6,593,888.00	6,474,377.00
Auxiliary Services:			
Student Transportation	319,340.00	1,537,340.00	1,456,001.16
Food Service	16,693,711.16	16,693,711.16	17,503,794.47
General Administrative and Central Support	1,250,287.95	1,421,022.41	1,732,013.99
Other	5,860,014.54	5,568,160.39	5,782,935.91
Capital Outlay	2,041,574.00		5,330.00
Total Expenditures	<u>71,923,464.16</u>	<u>73,955,939.61</u>	<u>70,093,840.41</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(6,414,841.16)</u>	<u>(6,414,841.16)</u>	<u>(7,137,575.55)</u>
<u>Other Financing Sources (Uses)</u>			
Transfers In	7,116,741.00	4,225,601.34	5,792,019.57
Other Financing Sources			12,554.81
Transfers Out			(949,502.07)
Total Other Financing Sources (Uses)	<u>7,116,741.00</u>	<u>4,225,601.34</u>	<u>4,855,072.31</u>
Net Change in Fund Balances	701,899.84	(2,189,239.82)	(2,282,503.24)
Fund Balances - Beginning of Year	<u>5,927,930.00</u>	<u>8,617,106.00</u>	<u>8,656,879.14</u>
Fund Balances - End of Year	<u>\$ 6,629,829.84</u>	<u>\$ 6,427,866.18</u>	<u>\$ 6,374,375.90</u>

	Budget to GAAP Differences	Actual Amounts GAAP Basis
	\$	\$ 56,841,085.71
		5,893,833.46
		221,345.69
		<u>62,956,264.86</u>
		18,097,478.16
		19,041,909.72
		6,474,377.00
		1,456,001.16
(1)	67,677.95	17,436,116.52
		1,732,013.99
		5,782,935.91
		5,330.00
	<u>67,677.95</u>	<u>70,026,162.46</u>
	<u>67,677.95</u>	<u>(7,069,897.60)</u>
		5,792,019.57
		12,554.81
		<u>(949,502.07)</u>
		<u>4,855,072.31</u>
	67,677.95	(2,214,825.29)
(2)	<u>(734,640.31)</u>	<u>7,922,238.83</u>
	<u>\$ (666,962.36)</u>	<u>\$ 5,707,413.54</u>

***Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Special Revenue Fund
For the Year Ended September 30, 2011***

**Explanation of differences between Actual Amounts on
Budgetary Basis and Actual Amounts GAAP Basis:**

The Board budgets on the modified accrual basis of accounting except as shown below:

- (1) The Board budgets for salaries only to the extent expected to be paid, rather than on the modified accrual basis (GAAP).

Net Increase in Fund Balance - Budget to GAAP

- (2) The amount reported as "fund balance" on the budgetary basis of accounting derives from the basis of accounting used in preparing the Board's budget. This amount differs from the fund balance reported in the Statements of Revenues, Expenditures and Changes in Fund Balances because of the cumulative effect of transactions such as those described above.

\$ 67,677.95

\$ 67,677.95

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Supplementary Information

***Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2011***

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number
<u>U. S. Department of Education</u>		
<u>Direct Program</u>		
Fund for the Improvement of Education	84.215	N.A.
<u>Passed Through Alabama Department of Education</u>		
Special Education Cluster:		
Special Education - Grants to States	84.027	N.A.
Special Education - Preschool Grants	84.173	N.A.
ARRA - Special Education - Grants to States, Recovery Act	84.391	N.A.
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	N.A.
Sub-Total Special Education Cluster (M)		
Title I, Part A Cluster:		
Title I Grants to Local Educational Agencies	84.010	N.A.
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	N.A.
Sub-Total Title I, Part A Cluster (M)		
Career and Technical Education - Basic Grants to States	84.048	N.A.
Education for Homeless Children and Youth Cluster:		
Education for Homeless Children and Youth	84.196	N.A.
ARRA - Education for Homeless Children and Youth	84.387	N.A.
Sub-Total Education for Homeless Children and Youth Cluster		
Tech-Prep Education	84.243	N.A.
Special Education - State Personnel Development	84.323	N.A.
Education Technology State Grants Cluster:		
Education Technology State Grants	84.318	N.A.
ARRA - Education Technology State Grants, Recovery Act	84.386	N.A.
Sub-Total Educational Technology State Grant Cluster (M)		
ARRA - State Fiscal Stabilization Fund - Education State Grants, Recovery Act (M)	84.394	N.A.
Arts in Education	84.351	N.A.
English Language Acquisition Grants	84.365	N.A.
Improving Teacher Quality State Grants	84.367	N.A.
Education Jobs Fund (M)	84.410	N.A.
Hurricane Education Recovery	84.938	N.A.
Total U. S. Department of Education		
Sub-Total Forward		

Assistance Period	Budget		Revenue Recognized	Expenditures
	Total	Federal Share		
06/01/2008-05/31/2013	\$ 263,712.84	\$ 263,712.84	\$ 263,712.84	\$ 263,712.84
10/01/2010-09/30/2011	3,962,048.14	3,962,048.14	3,962,048.14	3,962,048.14
10/01/2010-09/30/2011	113,086.00	113,086.00	113,086.00	113,086.00
10/01/2010-09/30/2011	6,225,962.04	6,225,962.04	6,225,962.04	6,225,962.04
10/01/2010-09/30/2011	194,117.50	194,117.50	194,117.50	194,117.50
	<u>10,495,213.68</u>	<u>10,495,213.68</u>	<u>10,495,213.68</u>	<u>10,495,213.68</u>
10/01/2010-09/30/2011	15,259,036.72	15,259,036.72	15,259,036.72	15,259,036.72
10/01/2010-09/30/2011	5,175,717.51	5,175,717.51	5,175,717.51	5,175,717.51
	<u>20,434,754.23</u>	<u>20,434,754.23</u>	<u>20,434,754.23</u>	<u>20,434,754.23</u>
10/01/2010-09/30/2011	682,864.00	682,864.00	682,864.00	682,864.00
10/01/2010-09/30/2011	48,000.00	48,000.00	48,000.00	48,000.00
10/01/2010-09/30/2011	23,576.00	23,576.00	23,576.00	23,576.00
	<u>71,576.00</u>	<u>71,576.00</u>	<u>71,576.00</u>	<u>71,576.00</u>
10/01/2010-09/30/2011	65,270.00	65,270.00	65,270.00	65,270.00
10/01/2010-09/30/2011	10,217.00	10,217.00	10,217.00	10,217.00
10/01/2010-09/30/2011	277,956.73	277,956.73	277,956.73	277,956.73
10/01/2010-09/30/2011	351,767.60	351,767.60	351,767.60	351,767.60
	<u>629,724.33</u>	<u>629,724.33</u>	<u>629,724.33</u>	<u>629,724.33</u>
10/01/2010-09/30/2011	6,513,603.00	6,513,603.00	6,513,603.00	6,513,603.00
10/01/2010-09/30/2011	174,030.25	174,030.25	174,030.25	174,030.25
10/01/2010-09/30/2011	108,547.10	108,547.10	108,547.10	108,547.10
10/01/2010-09/30/2011	2,224,705.06	2,224,705.06	2,224,705.06	2,224,705.06
10/01/2010-09/30/2011	5,428,398.00	5,428,398.00	5,428,398.00	5,428,398.00
10/01/2010-09/30/2011	228,438.00	228,438.00	228,438.00	228,438.00
	<u>47,331,053.49</u>	<u>47,331,053.49</u>	<u>47,331,053.49</u>	<u>47,331,053.49</u>
	\$ 47,331,053.49	\$ 47,331,053.49	\$ 47,331,053.49	\$ 47,331,053.49

***Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2011***

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number
Sub-Total Brought Forward		
<u>U. S. Department of Agriculture</u>		
<u>Passed Through Alabama Department of Education</u>		
Child Nutrition Cluster:		
School Breakfast Program - Cash Assistance	10.553	N.A.
National School Lunch Program:		
Cash Assistance	10.555	N.A.
Non-Cash Assistance (Commodities)	10.555	N.A.
Sub-Total National School Lunch Program		
Sub-Total Child Nutrition Cluster		
Total U. S. Department of Agriculture		
<u>Corporation for National and Community Service</u>		
<u>Direct Program</u>		
AmeriCorps	94.006	N.A.
<u>Social Security Administration</u>		
<u>Passed Through Alabama Department of Education</u>		
Social Security - Disability Insurance	96.001	N.A.
<u>Other Federal Assistance</u>		
<u>U. S. Department of Defense</u>		
<u>Direct Program</u>		
ROTC	N.A.	N.A.
Total Expenditures of Federal Awards		

(M) = Major Program

N.A. = Not Available or Not Applicable

The accompanying Notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

Assistance Period	Budget		Revenue Recognized	Expenditures
	Total	Federal Share		
	\$ 47,331,053.49	\$ 47,331,053.49	\$ 47,331,053.49	\$ 47,331,053.49
10/01/2010-09/30/2011	2,171,334.54	2,171,334.54	2,171,334.54	2,171,334.54
10/01/2010-09/30/2011	8,295,675.12	8,295,675.12	8,295,675.12	8,295,675.12
10/01/2010-09/30/2011	854,311.77	854,311.77	854,311.77	854,311.77
	<u>9,149,986.89</u>	<u>9,149,986.89</u>	<u>9,149,986.89</u>	<u>9,149,986.89</u>
	<u>11,321,321.43</u>	<u>11,321,321.43</u>	<u>11,321,321.43</u>	<u>11,321,321.43</u>
	<u>11,321,321.43</u>	<u>11,321,321.43</u>	<u>11,321,321.43</u>	<u>11,321,321.43</u>
10/01/2010-09/30/2011	184,225.44	184,225.44	184,225.44	184,225.44
10/01/2010-09/30/2011	11,952.00	11,952.00	11,952.00	11,952.00
10/01/2010-09/30/2011	<u>842,461.23</u>	<u>842,461.23</u>	<u>842,461.23</u>	<u>842,461.23</u>
	<u>\$ 59,691,013.59</u>	<u>\$ 59,691,013.59</u>	<u>\$ 59,691,013.59</u>	<u>\$ 59,691,013.59</u>

***Notes to the Schedule of Expenditures
of Federal Awards
For the Year Ended September 30, 2011***

Note 1 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Birmingham 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 basic financial statements.

Additional Information

Board Members and Administrative Personnel
October 1, 2010 through September 30, 2011

Board Members		Term Expires
Hon. Tyrone Belcher, Sr.	District 1	2013
Hon. Virginia S. Volker	District 2	2013
Hon. Brian Giattina	District 3	2013
Hon. Edward Maddox	District 4	2013
Hon. Emanuel Ford	District 5	2013
Hon. W. J. Maye, Jr.	District 6	2013
Hon. Alana Edwards	District 7	2013
Hon. April M. Williams	District 8	2013
Hon. Phyllis F. Wyne	District 9	2013

Administrative Personnel

Dr. Craig Witherspoon	Superintendent
Mr. Arthur Watts, Jr.	Chief School Financial Officer

***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***

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Birmingham City Board of Education as of and for the year ended September 30, 2011, which collectively comprise the Birmingham City Board of Education's basic financial statements and have issued our report thereon dated January 29, 2013. 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

Management of the Birmingham City Board of Education is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Birmingham City Board of Education's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Birmingham City Board of Education's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Birmingham City Board of Education'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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as items 2002-14 and 2002-15 that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

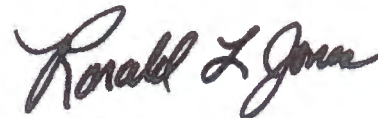
***Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance With
Government Auditing Standards***

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Birmingham 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***. However, we noted a certain matter that we have reported to the management of the Birmingham City Board of Education in the Schedule of State and Local Compliance and Other Findings.

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

This report is intended solely for the information and use of management, members of the Birmingham City Board of Education, the Superintendent, the Chief School Financial Officer, others within the entity, 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.



Ronald L. Jones
Chief Examiner

Department of Examiners of Public Accounts

January 29, 2013

***Report on Compliance With Requirements That Could
Have a Direct and Material Effect on Each Major
Program and on Internal Control Over Compliance in
Accordance With OMB Circular A-133***

Independent Auditor's Report

Compliance

We have audited the Birmingham City Board of Education's compliance with the types of compliance requirements described in the ***OMB Circular A-133 Compliance Supplement*** that could have a direct and material effect on each of the Birmingham City Board of Education's major federal programs for the year ended September 30, 2011. The Birmingham City Board of Education's major federal programs are identified in the Summary of Examiner'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 Birmingham City Board of Education's management. Our responsibility is to express an opinion on the Birmingham City Board of Education's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States; and OMB Circular A-133, ***Audits of States, Local Governments, and Non-Profit Organizations***. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Birmingham 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 of the Birmingham City Board of Education's compliance with those requirements.

In our opinion, the Birmingham City Board of Education complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2011.

***Report on Compliance With Requirements That Could
Have a Direct and Material Effect on Each Major
Program and on Internal Control Over Compliance in
Accordance With OMB Circular A-133***

Internal Control Over Compliance

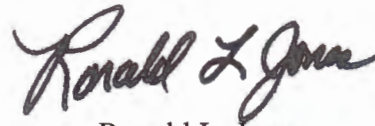
Management of the Birmingham City Board of Education is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Birmingham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

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

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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.

***Report on Compliance With Requirements That Could
Have a Direct and Material Effect on Each Major
Program and on Internal Control Over Compliance in
Accordance With OMB Circular A-133***

This report is intended solely for the information and use of management, members of the Birmingham City Board of Education, the Superintendent, the Chief School Financial Officer, others within the entity, 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.



Ronald L. Jones
Chief Examiner

Department of Examiners of Public Accounts

January 29, 2013

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2011

Section I – Summary of Examiner's Results

Financial Statements

Type of opinion issued: Unqualified
 Internal control over financial reporting:
 Material weakness(es) identified? _____ Yes X No
 Significant deficiency(ies) identified? X Yes _____ None reported
 Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:
 Material weakness(es) identified? _____ Yes X No
 Significant deficiency(ies) identified? _____ Yes X None reported
 Type of auditor's report issued on compliance for major programs: Unqualified
 Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? _____ Yes X No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.010 and 84.389	Title I, Part A Cluster
84.027, 84.173, 84.391 and 84.392	Special Education Cluster
84.318 and 84.386	Education Technology State Grants Cluster
84.394	State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act
84.410	Education Jobs Fund

Dollar threshold used to distinguish between Type A and Type B programs: \$1,790,730.41
 Auditee qualified as low-risk auditee? _____ Yes X No

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2011

Section II – Financial Statement Findings (GAGAS)

Ref. No.	Type of Finding	Finding/Noncompliance	Questioned Costs
2002-14	Internal Control	<p><u>Finding:</u> An adequate system of internal controls requires the proper receipting and depositing of all funds collected. The following matters were noted relating to receipting at the local schools:</p> <ul style="list-style-type: none"> ◆ At Center Street Middle, teacher receipts were not remitted to the school office in a timely manner, deposits were not made in a timely manner, and not all teacher receipt control sheets were available for subsequent review. ◆ At North Roebuck Elementary, teacher receipts were not remitted to the school office in a timely manner. ◆ At Smith Middle, teacher receipts were not remitted to the school office in a timely manner. <p><u>Recommendation:</u> Procedures should be implemented to ensure the proper receipting and depositing of all funds collected.</p>	
2002-15	Internal Control	<p><u>Finding:</u> An adequate system of internal controls requires the proper requisition and documentation of expenditures. The following matters were noted relating to expenditures at the local schools:</p> <ul style="list-style-type: none"> ◆ At Phillips Academy, expenditures were not supported with original invoices. Additionally, two invoices were not paid until the School was contacted by a collection agency. ◆ At Putnam Middle, purchase orders were dated after the invoice date. ◆ At Wilkerson Middle, purchase orders were not properly completed, receipts for items purchased were not retained for subsequent review, and sales tax was paid. <p><u>Recommendation:</u> Procedures should be implemented to ensure the proper requisition and documentation of expenditures.</p>	

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2011

Section III – Federal Awards Findings and Questioned Costs

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
			No matters were reportable.	

Auditee Response/Corrective Action Plan

Craig Witherspoon, Ed. D.
Superintendent



February 15, 2013

Mr. Ronald L. Jones
Chief Examiner
Examiners of Public Accounts
P.O. Box 302251
Montgomery, AL 36130-2251

Dear Mr. Jones:

The Corrective Action Plan for the fiscal year 2011 audit findings is attached.

We are very appreciative of the services provided by your department. Please do not hesitate to contact me at 205-231-4220 should you need additional information.

Sincerely,

A handwritten signature in black ink, appearing to read "C. Witherspoon", with a long horizontal flourish extending to the right.

Craig Witherspoon, Ed. D.
Superintendent

Enclosure

Cc: Mr. Arthur Watts, Jr., Chief Financial Officer

Craig Witherspoon, Ed. D.
Superintendent



Corrective Action Plan

For the Year Ended September 30, 2011

As required by the Office of Management and Budget (OMB) Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section .315(c), the Birmingham City Board of Education has prepared and hereby submits the following Corrective Action Plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2011.

Finding

Ref.

No.

Corrective Action Plan Details

Finding #2002-14:

An adequate system of internal controls requires the proper receipting and depositing of all funds collected. The following matters were noted relating to receipting at the local schools:

- At Center Street Middle, teacher receipts were not remitted to the school office in a timely manner, deposits were not made in a timely manner, and not all teacher receipts controls sheets were available for subsequent review.
- At North Roebuck Elementary, teacher receipts were not remitted to the school office in a timely manner.
- At Smith Middle, teacher receipts were not remitted to the school office in a timely manner.

Response:

All funds must be receipted and deposited intact on a daily basis. Teacher receipts must be submitted to the school office on a timely basis. The Finance Department provides training and workshops with bookkeepers and principals to ensure that the proper procedures are

communicated to staff. Finance staff will continue to monitor and review receipts at the above schools on a monthly basis.

Finding 2002-15:

An adequate system of internal controls requires the proper requisition and documentation of expenditures. The following matters were noted relating to expenditures at the local schools:

- At Phillips Academy, expenditures were not supported with original invoices. Additionally, two invoices were not paid until the School was contacted by a collection agency.
- At Putnam Middle, purchase orders were dated after the invoice date.
- At Wilkerson Middle, purchase orders were not properly completed, receipts for items purchased were not retained for subsequent review, and sales tax was paid.

Response:

All expenditures must be paid from an itemized invoice. Pre-numbered purchase orders approved by the principal must be completed prior to making a purchase. A copy of the approved purchase order should be attached to the payment. The Finance Department provides training and workshops with principals and bookkeepers to ensure that they are knowledgeable of the procedures relating to expenditures and that procedures are being followed. Finance staff will continue to monitor and review expenditures at the above schools on a monthly basis.

Other Matters in Report to the Chief Examiner

For the Year Ended September 30, 2011

Finding # 2002-42:

Section 94, *Constitution of Alabama, 1901*, states the Board cannot lend its credit, or to grant public money or a thing of value to any individual, association, or corporation. Several of the schools are using public funds to finance operation of its non-public activities. The following schools had deficit fund balances in their non-public activities at September 30, 2011:

- | | |
|-----------------------------|--------------|
| • Bush Hills Academy | \$(2,656.00) |
| • Bush Middle School | \$(3,363.31) |
| • Putnam Middle School | \$(1,495.98) |
| • Smith Middle School | \$(1,318.87) |
| • Washington School | \$ (131.00) |
| • West End Community School | \$(2,811.79) |

Response:

The Finance Department conducts training and workshops for principals and bookkeepers on a continuous basis. Principals are required to ensure that non-public activities will have at least a zero balance. Principals have also been informed that they are responsible for all monetary transactions occurring at their school. They cannot spend monies from activities where no funds exist. Finance staff will continue to review and monitor the local school activities.