

Report on the

# Birmingham City Board of Education

Jefferson County, Alabama

October 1, 2012 through September 30, 2013

Filed: September 12, 2014



## Department of Examiners of Public Accounts

50 North Ripley Street, Room 3201

P.O. Box 302251

Montgomery, Alabama 36130-2251

Website: [www.examiners.alabama.gov](http://www.examiners.alabama.gov)

*Ronald L. Jones, Chief Examiner*





Ronald L. Jones  
Chief Examiner

State of Alabama  
Department of  
**Examiners of Public Accounts**

P.O. Box 302251, Montgomery, AL 36130-2251  
50 North Ripley Street, Room 3201  
Montgomery, Alabama 36104-3833  
Telephone (334) 242-9200  
FAX (334) 242-1775

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, 2012 through September 30, 2013.

Sworn to and subscribed before me this  
the 20<sup>th</sup> day of August, 2014.

Jan E Hall  
Notary Public

Sworn to and subscribed before me this  
the 20<sup>th</sup> day of August, 2014.

Jan E Hall  
Notary Public

Sworn to and subscribed before me this  
the 20<sup>th</sup> day of August, 2014.

Jan E Hall  
Notary Public

rb

Respectfully submitted,

Whitney B Atchison

Whitney B. Atchison  
Examiner of Public Accounts

Kate Dahlberg

Kate Dahlberg  
Examiner of Public Accounts

Matt Schlosser

Matt Schlosser  
Examiner of Public Accounts



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Department of  
**Examiners of Public Accounts**

**SUMMARY**

**Birmingham City Board of Education  
October 1, 2012 through September 30, 2013**

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 with governance of the Board are listed in Exhibit 11. The Board is the governmental agency that provides general administration and supervision for Birmingham City public schools, preschool through high school.

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 programs. 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 in compliance with Act Number 2001-224, Acts of Alabama.

An unmodified 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, 2013.

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

Instances of noncompliance with state and local laws and regulations and other matters were found during the audit as shown on the Schedule of State and Local Compliance and Other Findings and they are summarized below.

**CURRENT FINDINGS**

- ◆ 2013-001 relates to the Board not properly obtaining E-Verification documentation when awarding a contract.
- ◆ 2013-002 relates to the Board failing to comply with aspects of the Public Works Law.
- ◆ 2013-003 relates to purchasing unallowable items with public funds.

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**

- ◆ 2002-042 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 (Exhibit 14) and they are summarized below:

- ◆ 2002-014 relates to problems with receipting of funds at the local schools.
- ◆ 2002-015 relates to problems with documentation of expenditures at the local schools.

Expenditures in the amount of \$8,419.93 for unallowable purchases were made with public funds and repaid prior to the completion of field work.

The following officials and administrative personnel 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, Jr.; State Appointed Chief Financial Officer: Dr. Ed Richardson; and Board Members: Tyrone Belcher, Sr.; Virginia Volker; Brian Giattina; Edward Maddox; Emanuel Ford; W. J. Maye, Jr.; Alana Edwards Haynes; April M. Williams; Phyllis Wyne, Carol Clarke, and Wardine Alexander. The following individuals attended the exit conferences, held at the offices of the Birmingham City Board of Education: Chief School Financial Officer: Arthur Watts, Jr.; Board Members: Brian Giattina, Phyllis Wyne, and Carol Clarke; and representatives of the Department of Examiners of Public Accounts: David Howell, Assistant Division Director; Whitney Atchison, Examiner; and Kate Dahlberg, Examiner. The following individuals participated in the exit conference via teleconference: Superintendent: Dr. Craig Witherspoon; and April M. Williams, Board Member. An exit conference was held via telephone with: Board Members: Alana Edwards Haynes, Virginia Volker, and W. J. Maye, Jr.; and State Appointed Chief Financial Officer: Dr. Ed Richardson.

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*Schedule of State and Local  
Compliance and Other Findings*

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***Schedule of State and Local Compliance and Other Findings***  
***For the Year Ended September 30, 2013***

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Ref. No.	Finding/Noncompliance
2013-001	<p><b><u>Finding:</u></b>  The <i>Code of Alabama 1975</i>, Section 31-13-9, requires that when the school board awards a contract or grant to a business entity or employer, the school board obtain a notarized affidavit and documentation of enrollment in the E-Verify Program. Six out of the eight bid contracts examined did not have E-Verify documentation.</p> <p><b><u>Recommendation:</u></b>  When awarding a contract, the Board should obtain proper documentation of the business entity's or employer's enrollment in the E-Verify Program.</p>
2013-002	<p><b><u>Finding:</u></b>  According to the <i>Code of Alabama 1975</i>, Section 39-3-1, a public works contract should contain a provision whereby the materials, supplies, and products manufactured, mined, or processed, are produced in the United States. Also, as stated by the <i>Code of Alabama 1975</i>, Section 39-1-1(a), a performance bond and a payment bond are required for a public works contract. Furthermore, in relation to the <i>Code of Alabama 1975</i>, Section 39-1-1(f), the contractor shall advertise for final completion after all work is completed for a period of four successive weeks. The contractor shall provide proof of publication and an affidavit from the publisher. In all bids examined for compliance with the Public Works Law, there were no contract provisions requiring the materials to be produced in the United States, there were no performance or payment bonds, and there were no notices of completion.</p> <p><b><u>Recommendation:</u></b>  The Board should comply with all aspects of the Public Works Law.</p>
2013-003	<p><b><u>Finding:</u></b>  Financial Procedures for Local Schools, as prescribed by the Alabama State Department of Education, specifies that some of the expenditures that are not allowable purchases from public funds, but may be allowable expenditures from non-public funds includes championship rings. At Wenonah High School, championship rings were purchased using public funds. Public funds totaling \$8,419.93 were paid out of the basketball activity. These unallowable purchases were repaid when brought to the attention of the Principal.</p> <p><b><u>Recommendation:</u></b>  The Board should ensure that the local school public funds are not used to purchase unallowable items.</p>

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***Schedule of State and Local Compliance and Other Findings***  
***For the Year Ended September 30, 2013***

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Ref. No.	Finding/Noncompliance												
2002-042	<p><b><u>Finding:</u></b> Section 94, <i>Constitution of Alabama 1901</i>, states the Board cannot lend its credit, or grant public money or a thing of value to any individual, association, or corporation. Several of the schools used public funds to finance operations of their non-public activities. The following schools had deficit cash balances in their non-public activities at September 30, 2013:</p> <table border="1" style="margin-left: auto; margin-right: auto;"><tbody><tr><td>Bush Hills Academy</td><td style="text-align: right;">\$(1,806.57)</td></tr><tr><td>Bush K-8</td><td style="text-align: right;">\$(1,969.01)</td></tr><tr><td>Council Elementary</td><td style="text-align: right;">\$ (114.69)</td></tr><tr><td>Putnam Middle School</td><td style="text-align: right;">\$(1,157.63)</td></tr><tr><td>Oliver Elementary</td><td style="text-align: right;">\$ (128.61)</td></tr><tr><td>Smith Middle School</td><td style="text-align: right;">\$(3,330.61)</td></tr></tbody></table>	Bush Hills Academy	\$(1,806.57)	Bush K-8	\$(1,969.01)	Council Elementary	\$ (114.69)	Putnam Middle School	\$(1,157.63)	Oliver Elementary	\$ (128.61)	Smith Middle School	\$(3,330.61)
Bush Hills Academy	\$(1,806.57)												
Bush K-8	\$(1,969.01)												
Council Elementary	\$ (114.69)												
Putnam Middle School	\$(1,157.63)												
Oliver Elementary	\$ (128.61)												
Smith Middle School	\$(3,330.61)												
	<p><b><u>Recommendation:</u></b> The Board should ensure that the schools take measures to eliminate deficit cash balances.</p>												

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*Independent Auditor's Report*

## **Independent Auditor's Report**

To: Members of the Birmingham City Board of Education, Superintendent and Chief School Financial Officer

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Birmingham City Board of Education, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the Birmingham City Board of Education's basic financial statements as listed in the table of contents as Exhibits 1 through 7.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

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

**Other Matters**

*Required Supplementary Information*

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

*Supplementary Information*

Our audit was conducted 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 the purposes of additional analysis and is not a required part of the basic financial statements.

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated July 30, 2014, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Birmingham City Board of Education's internal control over financial reporting and compliance.



Ronald L. Jones  
Chief Examiner

Department of Examiners of Public Accounts

Montgomery, Alabama

July 30, 2014

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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, 2013**

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, 2013. 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.

**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 \$.09 million (unrestricted net position) for the 2013 fiscal year.
- The assets of the Board exceeded its liabilities at the close of the 2013 fiscal year by \$610.98 million (net position). Of this amount, approximately \$576.40 million is invested in Capital Assets while .09 million is unrestricted.
- The total cost of the Board's programs for the year was \$271.47 million. (The state's Foundation Program provided \$105.05 million towards the cost of the programs).
- For the General Fund, revenues and other sources exceeded expenditures and other uses during the year by \$4.63 million resulting in a fund balance of (\$.48 million) at year end. Please note that this includes accrued salaries as of September 30, 2013.

**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 12<sup>th</sup> 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 position* (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 position. The net position reported in this statement represents the accumulation of changes in net position for the current fiscal year and all fiscal years in the past combined. Over time, the increases or decreases in net position 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 position 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 position 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 position 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 position 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 position. The Board's assets exceeded liabilities by \$610.98 million at September 30, 2013.

- Of this figure, \$576.40 million reflects the Board's net investment in capital assets. This amount is not available for future spending or funding of operations.
- Restricted net position is reported separately to show the external legal constraints from debt covenants and enabling legislation that limit the Board's ability to use that net position for day-to-day operations. Restricted net position totaled \$34.49 million.
- Unrestricted net position totaled \$.09 million.

**Table 1: Summary of Net Position**

(in millions)

	Governmental Activities	
	9/30/2013	9/30/2012
Current and other assets	\$101.16	\$133.47
Capital assets	597.31	576.59
<b>Total Assets</b>	<b>\$698.47</b>	<b>\$710.06</b>
Current and other liabilities	\$64.47	\$60.80
Long-term liability	23.02	25.00
<b>Total Liabilities</b>	<b>\$87.49</b>	<b>\$85.80</b>
<b>Net Position:</b>		
Net Investment in Capital Assets	\$576.40	\$628.12
Restricted	34.49	4.25
Unrestricted	.09	(8.11)
<b>Total Net Position</b>	<b>\$610.98</b>	<b>\$624.26</b>

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 Position from Operating Results**  
(in millions)

	Governmental Activities	
	9/30/2013	9/30/2012
<b>Revenues</b>		
Program Revenues:		
Charges for services	16.47	15.13
Operating grants and contributions	149.27	151.10
Capital grants and contributions	5.48	6.40
General Revenues:		
Property Taxes for General Purposes	72.17	73.15
Miscellaneous Taxes	1.78	1.76
Grants & Contributions not restricted for Spec. Purp.	1.89	1.89
Interest	.18	.84
Gain on disposition of Capital Assets		
Miscellaneous	10.95	6.84
<b>Total Revenues</b>	<b>\$258.19</b>	<b>\$257.11</b>
<b>Expenses</b>		
Instruction	\$147.04	\$144.24
Instructional support services	46.81	50.21
Operation and maintenance services	31.02	32.29
Auxiliary Services	24.39	23.72
General administrative services	12.13	9.82
Interest and fiscal charges	.64	.74
Other expenses	9.44	9.50
<b>Total Expenses</b>	<b>\$271.47</b>	<b>\$270.52</b>
<b>Changes in Net Position</b>	<b>\$(13.28)</b>	<b>\$(13.41)</b>
<b>Net Position – Beginning of Year</b>	<b>624.26</b>	<b>637.67</b>
<b>Net Position – End of Year</b>	<b>\$610.98</b>	<b>\$624.26</b>

The Board's net position decreased by \$13.28 million during the current fiscal year. This is partially attributable to the decrease in state and federal funding.

Governmental Activities – As shown in Table 2, the cost of services rendered from the Board’s governmental activities for the year ended September 30, 2013 was \$271.47 million. It is important to note that not all of these costs were borne by the taxpayers of Birmingham City. Some of the cost, \$16.47 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 \$154.75 million. Other general revenue sources, such as interest earnings, unrestricted grants, donations, etc. provided for \$13.02 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	
	2013	2012	2013	2012
Instruction	\$147.04	\$144.24	\$47.05	\$46.59
Instructional support services	46.81	50.21	16.48	18.10
Operation & maintenance services	31.02	32.29	20.53	19.83
Auxiliary Service	24.39	23.72	2.27	2.15
General administrative services	12.13	9.82	10.52	7.38
Interest and fiscal charges	.64	.74	.64	.74
Other expenses	9.44	9.50	2.76	3.11
<b>Total</b>	<b>\$271.47</b>	<b>\$270.52</b>	<b>\$100.25</b>	<b>\$97.90</b>

### 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 \$36.70 million.

- Approximately (\$.48 million) of this amount constitutes total fund balance of the General Fund. The grand majority of this amount includes salary accruals at 9/30/13.
- The Special Revenue Fund ended the year with a fund balance of \$7.49 million.
- The Capital Projects Fund ended the year with a fund balance of \$29.69 million.

**General Fund** - The general fund is the primary operating fund of the Board. The General Fund's prior year negative fund balance of (\$5.10) was reduced by \$4.62 million as a result of operations this year. The fund balance at year end was (\$.48 million). 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.

**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, 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.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At September 30, 2012 Capital Assets were approximately \$576.585 million. At September 30, 2013 Capital Assets were \$597.309 million. See the Notes to the Financial Statements for additional information.

**TABLE 4: Capital Assets**  
(in millions)

	Beginning Balance 10/1/12	Additions/ Reclass	Retirements/ Reclass	Balance 9/30/13
<u>Governmental Activities:</u>				
Capital Assets, Not Being Depreciated:	\$ 202.431	39.709	(140.506)	101.634
Capital Assets Being Depreciated:				
Land Improvements	26.052	4.176	(.234)	29.994
Buildings	357.752	118.350	(3.899)	472.203
Building Improvements	72.507	10.518	(5.862)	77.163
Vehicles	11.826	2.247	(1.747)	12.326
Equipment and Furniture	16.780	3.580	(2.278)	18.082
Other Assets	1.834		(.254)	1.580
Equipment Under Capital Leases				
Total Capital Assets Being Depreciated	486.751	138.871	(14.274)	611.348
Less Accumulated Depreciation	(112.597)	(12.239)	9.163	(115.673)
Total Capital Assets Being Depreciated, Net	374.154	126.632	(5.111)	495.675
Total Governmental Activities Capital Assets, Net	\$ 576.585	166.342	(145.618)	597.309

## Long-Term Debt

At year-end the Birmingham City Board of Education had \$23.02 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 10/01/2012	Issued/ Increased	Repaid/ Decreased	Debt Outstanding 9/30/2013
<u>Governmental Activities</u>				
<u>Bonds Payable:</u>				
PSCA Capital Improvement Pool Bonds 2001-A Series 2006 Leverage Bond	10.44		(.54)	9.90
PSCA Capital Improvement Refunding 2009-B	6.05			6.05
PSCA Capital Improvement Refunding 2011-B	5.24		(1.03)	4.21
Unamortized Premium	1.57		(.20)	1.37
Less: Unamortized Deferred Charges	(.73)		.11	(.62)
Total Bonds Payable	22.57		(1.66)	20.91
<u>Other Liabilities:</u>				
Estimated Liability For				
Compensated Absences	2.42		(.31)	2.11
Total Other Liabilities	2.42		(.31)	2.11
Governmental Activity Long-Term Liabilities	\$24.99		\$(1.97)	\$23.02

## 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 2013 fiscal year budget, adopted by the Board on September 25, 2012, was based on a conservative approach that reflected only guaranteed revenues and necessary expenditures. On June 11, 2013 the Board approved the final budget to include federal programs carryover funds, and other federal and state grants that were not available at the time of the original budget. 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 and other financing sources of the General Fund increased by \$517,590.00. Budgeted transfers out were reduced by \$1,636,303.00 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 2012. The final budgeted ending fund balance was approximately \$11.5 million in the general fund.

## Economic Factors and Next Year's Budget

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

- The unemployment rate in the Birmingham Metropolitan area for September 2013 was 5.5 percent which is lower than the state rate of 6.4 percent and the national rate of 7.2 percent.
- Uncertainty continues to exist in the area of state funding. This uncertainty and increasing payroll expenditures has caused the Board to budget conservatively for the 2014 fiscal year.
- 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 and that the required one month fund balance is achieved.

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:

<b>Fiscal Year</b>	<b>Percentage Proration</b>
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 2013-2014 school year is 24,629 which indicates a decline in ADM of approximately 248 which will negatively impact funding for the 2014-2015 fiscal year. However, when compared with the previous years’ totals, this figure is a small decrease which could indicate that the student enrollment is stabilizing in the District.

<b>School Year</b>	<b>ADM</b>	<b>Increase/(Decrease)</b>	<b>Fiscal year</b>
2013-2014	24,629.00	(248.00)	2014-2015
2012-2013	24,877.00	(129.00)	2013-2014
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 were \$714.00 per month per employee for fiscal years 2012, 2013, and 2014. However costs will increase to \$780.00 per month in fiscal year 2015.

Employer contributions to the Teachers Retirement System (TRS) increased from 10.00 percent in fiscal year 2012 to 10.08 percent for fiscal year 2013. The amount increased to 11.71 percent in fiscal year 2014 and will remain at that rate for fiscal year 2015. For employees hired after January 1, 2013 the rate was 9.44 percent for fiscal year 2013, 11.08 for fiscal year 2014, and will be 11.05 percent in fiscal year 2015.

**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) 231-4606 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](mailto:awatts@bhm.k12.al.us)



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# *Basic Financial Statements*

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***Statement of Net Position***  
***September 30, 2013***

	<b>Governmental Activities</b>
<b><u>Assets</u></b>	
Cash and Cash Equivalents	\$ 32,445,939.52
Investments	17,837,171.62
Ad Valorem Property Taxes Receivable	45,232,773.37
Receivables (Note 4)	5,286,444.21
Inventories	359,205.35
Capital Assets (Note 5):	
Nondepreciable	101,634,408.76
Depreciable, Net	495,674,583.86
Total Assets	<u>698,470,526.69</u>
<b><u>Liabilities</u></b>	
Payables (Note 10)	5,014,565.74
Deferred Revenue	45,700,055.24
Salaries and Benefits Payable	13,749,406.70
Long-Term Liabilities:	
Portion Payable Within One Year	1,764,989.24
Portion Payable After One Year	21,256,870.92
Total Liabilities	<u>87,485,887.84</u>
<b><u>Net Position</u></b>	
Net Investment in Capital Assets	576,397,785.32
Restricted for:	
Capital Projects	29,689,885.09
Other Purposes	4,803,592.24
Unrestricted	93,376.20
Total Net Position	<u>\$ 610,984,638.85</u>

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

***Statement of Activities***  
***For the Year Ended September 30, 2013***

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
<b><u>Governmental Activities</u></b>			
Instruction	\$ 147,043,346.95	\$ 1,619,746.54	\$ 97,344,059.57
Instructional Support	46,805,056.03	214,642.99	30,058,980.79
Operation and Maintenance	31,024,239.62	115,753.29	8,675,249.80
Auxiliary Services:			
Student Transportation	8,195,982.19	233,461.97	5,944,122.62
Food Service	16,194,087.80	13,443,423.59	706,774.89
General Administrative and Central Support	12,130,501.41	35,866.65	671,380.85
Interest and Fiscal Charges	644,198.64		
Other Expenses	9,440,121.06	805,019.46	5,876,701.22
Total Governmental Activities	<u>\$ 271,477,533.70</u>	<u>\$ 16,467,914.49</u>	<u>\$ 149,277,269.74</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 Position

Net Position - Beginning of Year

Net Position - End of Year

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

		<b>Net (Expenses) Revenues and Changes in Net Position</b>	
<b>Capital Grants and Contributions</b>		<b>Total Governmental Activities</b>	
\$	1,027,458.55	\$	(47,052,082.29)
	48,587.38		(16,482,844.87)
	1,704,494.50		(20,528,742.03)
	1,711,939.21		(306,458.39)
	77,111.36		(1,966,777.96)
	905,748.28		(10,517,505.63)
			(644,198.64)
			(2,758,400.38)
<b>\$</b>	<b>5,475,339.28</b>		<b>(100,257,010.19)</b>

72,167,490.88
1,777,101.51
1,894,971.00
185,450.93
10,954,803.54
<b>86,979,817.86</b>
(13,277,192.33)
<b>624,261,831.18</b>
<b>\$ 610,984,638.85</b>

***Balance Sheet***  
***Governmental Funds***  
***September 30, 2013***

	<b>General Fund</b>	<b>Special Revenue Fund</b>
<b><u>Assets</u></b>		
Cash and Cash Equivalents	\$ 12,546,959.68	\$ 5,164,603.68
Investments		61,114.42
Ad Valorem Property Taxes Receivable	45,232,773.37	
Receivables (Note 4)	2,262,497.25	2,933,438.56
Due from Other Funds	84,950.14	694,917.12
Inventories		359,205.35
Total Assets	<u>60,127,180.44</u>	<u>9,213,279.13</u>
<b><u>Liabilities and Fund Balances</u></b>		
<b><u>Liabilities</u></b>		
Payables (Note 10)	1,333,948.60	643,105.72
Due to Other Funds	821,371.87	84,950.14
Deferred Revenues	45,232,773.37	467,281.87
Salaries and Benefits Payable	13,221,010.74	528,395.96
Total Liabilities	<u>60,609,104.58</u>	<u>1,723,733.69</u>
<b><u>Fund Balances</u></b>		
Nonspendable:		
Inventories		359,205.35
Restricted for:		
Capital Projects		
Child Nutrition		4,803,592.24
Assigned to:		
Local Schools		2,342,767.08
Unassigned	(481,924.14)	(16,019.23)
Total Fund Balances	<u>(481,924.14)</u>	<u>7,489,545.44</u>
Total Liabilities and Fund Balances	<u>\$ 60,127,180.44</u>	<u>\$ 9,213,279.13</u>

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

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<b>Capital Projects Fund</b>	<b>Total Governmental Funds</b>
\$ 14,734,376.16	\$ 32,445,939.52
17,776,057.20	17,837,171.62
	45,232,773.37
90,508.40	5,286,444.21
1,518,090.25	2,297,957.51
	359,205.35
<u>34,119,032.01</u>	<u>103,459,491.58</u>

3,037,511.42	5,014,565.74
1,391,635.50	2,297,957.51
	45,700,055.24
	13,749,406.70
<u>4,429,146.92</u>	<u>66,761,985.19</u>

	359,205.35
29,689,885.09	29,689,885.09
	4,803,592.24
	2,342,767.08
	(497,943.37)
<u>29,689,885.09</u>	<u>36,697,506.39</u>
<u>\$ 34,119,032.01</u>	<u>\$ 103,459,491.58</u>

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***Reconciliation of the Balance Sheet of Governmental Funds to the  
Statement of Net Position  
September 30, 2013***

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Total Fund Balances - Governmental Funds (Exhibit 3) \$ 36,697,506.39

Amounts reported for governmental activities in the Statement of Net Position (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.

The Cost of Capital Assets is	\$ 712,982,831.83	
Accumulated Depreciation is	<u>(115,673,839.21)</u>	
		597,308,992.62

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

Current Portion of Long-Term Debt	1,764,989.24	
Noncurrent Portion of Long-Term Debt	<u>\$ 21,256,870.92</u>	
		<u>(23,021,860.16)</u>

Total Net Position - Governmental Activities (Exhibit 1) \$ 610,984,638.85

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, 2013***

	<b>General Fund</b>	<b>Special Revenue Fund</b>
<b><u>Revenues</u></b>		
State	\$ 116,857,769.43	\$
Federal	1,745,760.15	42,370,800.67
Local	78,940,472.56	6,474,454.76
Other	172,009.76	245,769.69
Total Revenues	197,716,011.90	49,091,025.12
<b><u>Expenditures</u></b>		
Current:		
Instruction	114,000,392.49	18,285,566.30
Instructional Support	33,525,261.85	11,804,465.77
Operation and Maintenance	26,440,699.15	72,576.01
Auxiliary Services:		
Student Transportation	6,354,812.47	199,182.61
Food Service		16,562,782.83
General Administrative and Central Support	6,120,732.14	1,235,498.67
Other	2,701,426.26	6,730,214.00
Capital Outlay	162,832.00	105,731.00
Debt Service:		
Principal Retirement		
Interest and Fiscal Charges		
Total Expenditures	189,306,156.36	54,996,017.19
Excess (Deficiency) of Revenues Over Expenditures	8,409,855.54	(5,904,992.07)
<b><u>Other Financing Sources (Uses)</u></b>		
Indirect Cost	1,112,902.57	
Transfers In	743,459.89	7,378,373.28
Other Financing Sources	1,607,092.92	14,193.01
Sale of Capital Assets	131,173.60	
Transfers Out	(7,378,373.28)	(739,551.89)
Total Other Financing Sources (Uses)	(3,783,744.30)	6,653,014.40
Net Changes in Fund Balances	4,626,111.24	748,022.33
Fund Balances - Beginning of Year	(5,108,035.38)	6,741,523.11
Fund Balances - End of Year	\$ (481,924.14)	\$ 7,489,545.44

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

<b>Capital Projects Fund</b>	<b>Total Governmental Funds</b>
\$ 5,475,339.28	\$ 122,333,108.71
	44,116,560.82
3,285,175.49	88,700,102.81
1,001,928.01	1,419,707.46
<u>9,762,442.78</u>	<u>256,569,479.80</u>
3,972,563.12	136,258,521.91
1,519,143.00	46,848,870.62
4,541,236.71	31,054,511.87
1,630,315.97	8,184,311.05
280,380.94	16,843,163.77
263,582.28	7,619,813.09
8,480.80	9,440,121.06
37,837,463.71	38,106,026.71
1,571,907.09	1,571,907.09
1,003,613.24	1,003,613.24
<u>52,628,686.86</u>	<u>296,930,860.41</u>
<u>(42,866,244.08)</u>	<u>(40,361,380.61)</u>
	1,112,902.57
	8,121,833.17
9,575.64	1,630,861.57
1,359,707.90	1,490,881.50
(3,908.00)	(8,121,833.17)
<u>1,365,375.54</u>	<u>4,234,645.64</u>
(41,500,868.54)	(36,126,734.97)
<u>71,190,753.63</u>	<u>72,824,241.36</u>
<u>\$ 29,689,885.09</u>	<u>\$ 36,697,506.39</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, 2013***

Net Changes in Fund Balances - Total Governmental Funds (Exhibit 5) \$ (36,126,734.97)

Amounts reported for governmental activities in the Statement of Activities (Exhibit 2) are different because:

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

Capital Outlays	\$ 38,106,026.71	
Depreciation Expense	<u>(12,239,595.86)</u>	25,866,430.85

Repayment of debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities. 1,571,907.09

In the Statement of Activities, only the gain or loss on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. The change in net position differs from the change in fund balances by this amount.

Proceeds from Sale of Capital Assets	\$ (1,490,881.50)	
Loss on Disposition of Capital Assets	<u>(3,651,575.70)</u>	(5,142,457.20)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Accrued Interest Payable, Current Year Increase/(Decrease)	\$ 267,807.56	
Compensated Absences, Current Year Increase/(Decrease) in Noncurrent Portion	310,166.48	
Amortization of Loss on Refunding/Premiums/Issuance Costs	<u>(24,312.14)</u>	<u>553,661.90</u>

Change in Net Position of Governmental Activities (Exhibit 2) \$ (13,277,192.33)

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

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***Statement of Fiduciary Net Position***  
***September 30, 2013***

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	<b>Agency Funds</b>
<b><u>Assets</u></b>	
Receivables	\$ 30,439.78
Total Assets	<u>30,439.78</u>
<b><u>Liabilities</u></b>	
Accounts Payable	7,970.02
Salaries and Benefits Payable	22,469.76
Total Liabilities	<u>\$ 30,439.78</u>

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

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2013*

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#### **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 position 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.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2013*

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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 Title I, Special Education, 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.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2013*

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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 is both restricted and unrestricted net position 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.



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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2013***

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**D. Assets, Liabilities and Net Position/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.

**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 considered restricted assets 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.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2013***

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**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	50 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 position. 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.

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 and premiums on debt issuances are reported as other financing sources. Issuance cost, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2013*

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#### **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. Twelve-month employees will be granted .8333 days' vacation leave per month (10 days per year). Beginning with the sixteenth (16<sup>th</sup>) year of service with the Birmingham City Board of Education, individuals will earn 1.25 days per month (15 days per year). Taking unearned vacation shall not be allowed and no vacation days will be granted in advance of the days actually earned. 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, the employee will be reimbursed for earned vacation days at his or her current daily rate. Employees will only be reimbursed for earned vacation after the end of their employment with the School System. Should an employee die, his or her beneficiary will be paid for unused vacation leave.

#### **8. Net Position/Fund Equity**

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

- ◆ **Net Investment in Capital Assets** – Capital assets minus accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets plus or minus any deferred outflows of resources and deferred inflows or resources that are attributable to those assets or related debt. Any significant unspent related debt proceeds and any deferred outflows or inflows at year-end related to capital assets are not included in this calculation.
  
- ◆ **Restricted** – Constraints imposed on net position by external creditors, grantors, contributors, laws or regulations of other governments, or law through constitutional provision or enabling legislation.
  
- ◆ **Unrestricted** – is the net amount of assets, deferred outflows or resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted portion of net position. Assignments and Commitments of unrestricted net position should not be reported on the face of the Statement of Net Position.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2013*

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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.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2013***

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**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 and the Special Revenue 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. 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 Positions of Individual Funds**

At September 30, 2013, the following governmental fund had a deficit fund balance:

General Fund	\$481,924.14
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The deficit in the General Fund is a result of salary accruals and will be eliminated on October 1, 2013, when State appropriations for the 2013-2014 year are available.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2013*

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#### 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 Deposit 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 \$3,101,428.72, 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, 2013, 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 National Mortgage Association	\$	\$ 611,314.50	\$	\$ 611,314.50
Federal Home Loan Bank	2,359,881.50	1,733,007.50		4,092,889.00
Federal Farm Credit Bank		8,127,340.00		8,127,340.00
Federal Home Loan Mortgage Company		1,904,199.40		1,904,199.40
Totals	\$2,359,881.50	\$12,375,861.40	\$	\$14,735,742.90

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2013*

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**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.

**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, 2013, receivables for the Board’s individual major funds are as follows:

	General Fund	Special Revenue Fund	Capital Projects Fund	Total
<u>Receivables:</u>				
Accounts Receivable	\$1,860,960.57	\$	\$	\$1,860,960.57
Due From Other Governments	392,264.73	2,933,125.90	77,282.90	3,402,673.53
Other	9,271.95	312.66	13,225.50	22,810.11
Total	\$2,262,497.25	\$2,933,438.56	\$90,508.40	\$5,286,444.21

**Notes to the Financial Statements**  
**For the Year Ended September 30, 2013**

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, 2013, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
Ad Valorem Property Taxes	\$45,232,773.37	\$
Grant Drawdowns Prior to Meeting All Eligibility Requirements		467,281.87
<b>Total Deferred/Unearned Revenue</b>	<b>\$45,232,773.37</b>	<b>\$467,281.87</b>

**Note 5 – Capital Assets**

Capital asset activity for the year ended September 30, 2013, was as follows:

	Balance 10/01/2012	Additions/ Reclassification (*)	Retirements/ Reclassification (*)	Balance 09/30/2013
<b>Governmental Activities:</b>				
<b>Capital Assets, Not Being Depreciated:</b>				
Land	\$ 33,095,291.30	\$ 11,761,926.76	\$ (30,789.48)	\$ 44,826,428.58
Construction in Progress	169,335,440.64	27,947,755.79	(140,475,216.25)	56,807,980.18
<b>Total Capital Assets, Not Being Depreciated</b>	<b>202,430,731.94</b>	<b>39,709,682.55</b>	<b>(140,506,005.73)</b>	<b>101,634,408.76</b>
<b>Capital Assets Being Depreciated:</b>				
Land Improvements	26,052,617.04	4,176,101.59	(234,363.72)	29,994,354.91
Buildings	357,753,060.68	118,349,649.91	(3,899,740.71)	472,202,969.88
Building Improvements	72,505,270.65	10,518,456.31	(5,860,691.47)	77,163,035.49
Equipment and Furniture	16,779,529.09	3,580,542.35	(2,278,207.13)	18,081,864.31
Vehicles	11,826,724.64	2,246,810.25	(1,747,426.96)	12,326,107.93
Other Assets	1,834,043.97		(253,953.42)	1,580,090.55
<b>Total Capital Assets Being Depreciated</b>	<b>486,751,246.07</b>	<b>138,871,560.41</b>	<b>(14,274,383.41)</b>	<b>611,348,423.07</b>
<b>Less Accumulated Depreciation for:</b>				
Land Improvements	(2,635,911.10)	(347,429.20)	159,755.81	(2,823,584.49)
Buildings	(67,344,171.49)	(7,073,962.46)	3,093,825.88	(71,324,308.07)
Building Improvements	(26,590,910.83)	(2,803,061.16)	2,172,555.66	(27,221,416.33)
Equipment and Furniture	(7,905,759.44)	(1,313,032.32)	1,945,828.89	(7,272,962.87)
Vehicles	(7,279,590.69)	(664,539.70)	1,570,397.74	(6,373,732.65)
Other Assets	(840,615.49)	(37,571.02)	220,351.71	(657,834.80)
<b>Total Accumulated Depreciation</b>	<b>(112,596,959.04)</b>	<b>(12,239,595.86)</b>	<b>9,162,715.69</b>	<b>(115,673,839.21)</b>
<b>Total Capital Assets Being Depreciated, Net</b>	<b>374,154,287.03</b>	<b>126,631,964.55</b>	<b>(5,111,667.72)</b>	<b>495,674,583.86</b>
<b>Total Governmental Activities Capital Assets, Net</b>	<b>\$ 576,585,018.97</b>	<b>\$166,341,647.10</b>	<b>\$(145,617,673.45)</b>	<b>\$ 597,308,992.62</b>
(*) Included in the "Additions/Reclassifications" and the "Retirements/Reclassifications" columns are \$140,475,216.25 in reclassifications.				



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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2013***

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

	Current Year Depreciation Expense
<u>Governmental Activities:</u>	
Instruction	\$10,786,934.17
Instructional Support	120,046.36
Auxiliary Services:	
Food Service	120,046.36
Student Transportation	12,105.37
General Administrative and Central Support	1,200,463.60
Total Depreciation Expense – Governmental Activities	<u>\$12,239,595.86</u>

**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.

The provisions of Act Number 2012-377, Acts of Alabama, established a new defined benefit plan tier for employees (Tier 2). Tier 2 employees are those hired on or after January 1, 2013. Employees who were hired before January 1, 2013 are considered to be Tier 1 employees.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2013*

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Vested Tier 1 employees may retire with full benefits at age 60 or after 25 years of service. Vested Tier 2 employees may retire after completing at least 10 years of service at the age of 62. 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 Tier 1 retirees are allowed 2.0125% of their average final salary (best three of the last ten years) for each year of service, whereas Tier 2 retirees are allowed 1.6500% of their average final salary (best five of the last ten year) for each year of service with a benefit cap of 80% of the average final salary. Retirees may also elect to receive a reduced retirement allowance (*Special Privileges at Retirement*) in order to provide an allowance to a designated beneficiary after the member's death. 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, 201 South Union Street, Montgomery, Alabama 36130-2150.

**Notes to the Financial Statements**  
**For the Year Ended September 30, 2013**

**B. Funding Policy**

Tier 1 employees are required to contribute 7.50 percent of their salary to the Teachers' Retirement System, whereas Tier 2 employees are required to contribute 6 percent of their salary. The Board is required to contribute the remaining amounts necessary to fund the actuarially determined contributions to ensure sufficient assets will be available to pay benefits when due. Each year the Teachers' Retirement System recommends to the 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,	2013	2012	2011
Total Percentage of Covered Payroll (Tier 1)	17.58%	17.25%	17.51%
Total Percentage of Covered Payroll (Tier 2)	15.44%		
<b>Contributions:</b>			
Percentage Contributed by the Board (Tier 1)	10.08%	10.00%	12.51%
Percentage Contributed by the Employees (Tier 1)	7.50%	7.25%	5.00%
Percentage Contributed by the Board (Tier 2)	9.44%		
Percentage Contributed by the Employees (Tier 2)	6.00%		
Contributed by the Board	\$13,362,682.76	\$14,097,028.56	\$18,606,967.57
Contributed by Employees	9,937,870.86	10,220,345.71	7,437,263.96
Total Contributions	<u>\$23,300,553.62</u>	<u>\$24,317,374.27</u>	<u>\$26,044,231.53</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.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2013***

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**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 2013
Individual Coverage – Non-Medicare Eligible	\$151.00
Individual Coverage – Medicare Eligible	\$ 10.00
Family Coverage – Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)	\$391.00
Family Coverage – Non-Medicare Eligible Retired Member and Dependent Medicare Eligible	\$250.00
Family Coverage – Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)	\$250.00
Family Coverage – Medicare Eligible Retired Member and Dependent Medicare Eligible	\$109.00
Surviving Spouse – Non-Medicare Eligible	\$671.00
Surviving Spouse – Non-Medicare Eligible and Dependent Non-Medicare Eligible	\$860.00
Surviving Spouse – Non-Medicare Eligible and Dependent Medicare Eligible	\$829.00
Surviving Spouse – Medicare Eligible	\$317.00
Surviving Spouse – Medicare Eligible and Dependent Non-Medicare Eligible	\$506.00
Surviving Spouse – Medicare Eligible and Dependent Medicare Eligible	\$475.00

For employees that retire other than for disability on or after October 1, 2005 and before January 1, 2012, 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. Employees who retire on or after January 1, 2012, with less than 25 years of service, are required to pay 4% for each year under 25 years of service. In addition, non-Medicare eligible employees who retire after January 1, 2012 are required to pay 1% more for each year less than 65 (age premium) and to pay the net difference between the active employee subsidy and the non-Medicare eligible retiree subsidy (subsidy premium). When the retiree becomes Medicare eligible, the age and subsidy premium no longer applies, but the years of service premium (if applicable to the retiree) will continue to be applied throughout retirement. These changes are being phased in over a 5 year period. The tobacco premium is \$28.00 per month for retired members that smoke.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2013***

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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
2013	\$714.00	\$216.90	30.38%	\$7,135,441.71	100%
2012	\$714.00	\$228.85	32.05%	\$8,047,980.63	100%
2011	\$752.00	\$198.94	26.45%	\$8,694,727.34	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.

**Note 8 – Construction and Other Significant Commitments**

As of September 30, 2013, the Board was obligated under the following significant construction contracts:

School	Project	Remaining Amount
Oxmoor K-8	New construction	\$ 424,658.35
Inglenook K-8	Renovation	158,044.55
Lincoln	Elevator project	8,643.55
Parker High	New construction	370,685.62
Huffman High	New construction	962,067.26
Tuggle/Hill	New construction	246,519.65
Woodlawn High	Renovation	853,453.04
Total Construction and Other Significant Commitments		<u>\$3,024,072.02</u>

**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.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2013***

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**Note 10 – Payables**

On September 30, 2013, payables for the Board’s individual major funds are as follows:

	General Fund	Special Revenue Fund	Capital Projects Fund	Total Governmental Funds
<b>Payables:</b>				
Vendors	\$ 997,100.98	\$639,924.96	\$1,614,893.49	\$3,251,919.43
Other	336,847.62	3,180.76		340,028.38
Retainage			1,422,617.93	1,422,617.93
<b>Total Payables</b>	<b>\$1,333,948.60</b>	<b>\$643,105.72</b>	<b>\$3,037,511.42</b>	<b>\$5,014,565.74</b>

**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 December 2012. This loan was paid off on December 27, 2012. Short-term debt activity for the year ended September 30, 2013, was as follows:

	Beginning Balance	Proceeds	Repaid	Ending Balance
Note Payable	\$	\$10,500,000.00	\$10,500,000.00	\$

**Note 12 – Long-Term Debt**

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.

**Notes to the Financial Statements**  
**For the Year Ended September 30, 2013**

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.

The following is a summary of long-term debt transactions for the Board for the year ended September 30, 2013:

	Debt Outstanding 10/01/2012	Issued/ Increased	Repaid/ Decreased	Debt Outstanding 09/30/2013	Amounts Due Within One Year
<b>Governmental Activities:</b>					
Bonds Payable:					
PSCA Capital Improvement Series 2006 Leverage Bond	\$10,443,227.61	\$	\$ (539,507.09)	\$ 9,903,720.52	\$ 567,902.20
PSCA Capital Improvement Pool Refunding Bonds, Series 2009-B	6,054,504.00			6,054,504.00	
Series 2011-B	5,238,560.00		(1,032,400.00)	4,206,160.00	1,105,480.00
Unamortized Premium	1,568,828.12		(197,818.88)	1,371,009.24	197,818.88
Less: Unamortized Deferred Charges	(730,398.30)		106,211.84	(624,186.46)	(106,211.84)
Total Bonds Payable	<u>22,574,721.43</u>		<u>(1,663,514.13)</u>	<u>20,911,207.30</u>	<u>1,764,989.24</u>
Other Liabilities:					
Estimated Liability for Compensated Absences	2,420,819.34		(310,166.48)	2,110,652.86	
Total Other Liabilities	<u>2,420,819.34</u>		<u>(310,166.48)</u>	<u>2,110,652.86</u>	
Governmental Activities Long-Term Liabilities	<u>\$24,995,540.77</u>	<u>\$</u>	<u>\$(1,973,680.61)</u>	<u>\$23,021,860.16</u>	<u>\$1,764,989.24</u>

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

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2013***

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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, 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	1,922,732.38	679,806.47	2,602,538.85
2018	2,013,684.63	586,348.87	2,600,033.50
2019-2023	8,154,314.86	1,490,238.38	9,644,553.24
2024-2027	2,814,819.58	183,580.88	2,998,400.46
Totals	<u>\$20,164,384.52</u>	<u>\$5,527,923.59</u>	<u>\$25,692,308.11</u>

**Issuance Costs, Loss on Refunding 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 premium is 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 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. The premium and deferred loss on refunding are being amortized using the straight-line method over a period of 117 months. The balance of the issuance costs on all bonds was expensed in the current year.

	Issuance Costs	Loss on Refunding	Premium
Total Issuance Costs, Loss on Refunding and Premium	\$162,053.38	\$1,020,095.42	\$2,073,728.60
Amount Amortized Prior Years	46,134.20	289,697.12	504,900.48
Balance Issuance Costs and Premium	<u>115,919.18</u>	<u>730,398.30</u>	<u>1,568,828.12</u>
Current Amount Amortized	115,919.18	106,211.84	197,818.88
Balance Issuance Costs, Loss on Refunding and Premium	<u>\$</u>	<u>\$ 624,186.46</u>	<u>\$1,371,009.24</u>



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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2013*

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#### *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 \$5,698,964.00 are pledged to repay the remaining principal and interest on the bonds at September 30, 2013. Proceeds of the Public School Fund allocation in the amount of \$5,059,715.00 were received by the Board during the fiscal year ended. Pledged funds in the amount of \$1,273,680.00 (2001-A) were used to pay principal and interest on the bonds during the fiscal year ended September 30, 2013. This represents 25 percent of the pledged funds received by the Board. The Capital Improvement Pool Bonds, Series 2011-B, will mature in fiscal year 2021.

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 \$13,003,485.71 are pledged to repay the remaining principal and interest on the bonds at September 30, 2013. Proceeds of the Public School Fund allocation in the amount of \$5,059,715.00 were received by the Board during the fiscal year ended. Pledged funds in the amount of \$999,191.21 were used to pay principal and interest on the bonds during the fiscal year ended September 30, 2013. This represents 20 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 \$6,989,858.40 are pledged to repay the remaining principal and interest on the bonds at September 30, 2013. Proceeds of the Public School Fund allocation in the amount of \$5,059,715.00 were received by the Board during the fiscal year ended September 30, 2013. Pledged funds in the amount of \$302,649.12 were used to pay interest on the bonds during the fiscal year ended September 30, 2013. This represents 6 percent of the pledged funds received by the Board. The Capital Improvement Bonds, Series 2009-B will mature in fiscal year 2019.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2013*

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#### *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 local 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.

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.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2013***

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**Note 14 – Interfund Transactions**

**Interfund Receivables and Payables**

The interfund receivables and payables at September 30, 2013, were as follows:

	Interfund Receivable			Totals
	General Fund	Special Revenue Fund	Capital Projects Fund	
<u>Interfund Payables:</u>				
General Fund	\$	\$694,917.12	\$ 126,454.75	\$ 821,371.87
Special Revenue Fund	84,950.14			84,950.14
Capital Project Fund			1,391,635.50	1,391,635.50
Totals	<u>\$84,950.14</u>	<u>\$694,917.12</u>	<u>\$1,518,090.25</u>	<u>\$2,297,957.51</u>

**Interfund Transfers**

The amounts of interfund transfers during the fiscal year ended September 30, 2013, were as follows:

	Transfers Out			Totals
	General Fund	Special Revenue Fund	Capital Projects Fund	
<u>Transfers In:</u>				
General Fund	\$	\$739,551.89	\$3,908.00	\$ 743,459.89
Special Revenue Fund	7,378,373.28			7,378,373.28
Totals	<u>\$7,378,373.28</u>	<u>\$739,551.89</u>	<u>\$3,908.00</u>	<u>\$8,121,833.17</u>

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

**Note 15 – Assumption of Fiscal Management by the State Department of Education**

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. The State appointed Chief Financial Officer is still overseeing the fiscal operations of the Board.

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*Required Supplementary Information*

***Schedule of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual - General Fund  
For the Year Ended September 30, 2013***

	<u>Budgeted Amounts</u>		<u>Actual Amounts Budgetary Basis</u>
	<u>Original</u>	<u>Final</u>	
<b><u>Revenues</u></b>			
State	\$ 115,628,642.00	\$ 115,803,102.00	\$ 116,857,769.43
Federal	812,000.00	812,000.00	1,745,760.15
Local	76,939,061.00	77,224,061.00	78,940,472.56
Other	321,690.30	321,690.30	172,009.76
Total Revenues	<u>193,701,393.30</u>	<u>194,160,853.30</u>	<u>197,716,011.90</u>
<b><u>Expenditures</u></b>			
Current:			
Instruction	110,386,892.00	110,384,194.00	112,253,099.76
Instructional Support	34,075,224.39	33,930,663.39	33,245,449.69
Operation and Maintenance	26,404,247.53	27,273,309.53	26,493,595.32
Auxiliary Services:			
Student Transportation	6,919,623.24	6,922,623.24	6,330,058.80
General Administration and Central Support	6,974,120.83	6,865,742.83	6,135,471.14
Other	1,450,193.00	1,706,745.00	2,673,533.62
Capital Outlay			162,832.00
Total Expenditures	<u>186,210,300.99</u>	<u>187,083,277.99</u>	<u>187,294,040.33</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>7,491,092.31</u>	<u>7,077,575.31</u>	<u>10,421,971.57</u>
<b><u>Other Financing Sources (Uses)</u></b>			
Indirect Cost	1,035,651.16	1,093,770.95	1,112,902.57
Transfers In	665.50	665.50	743,459.89
Other Financing Sources	2,150,000.00	2,150,000.00	1,607,092.92
Sales of Capital Assets			131,173.60
Transfers Out	(6,543,205.00)	(4,906,902.00)	(7,378,373.28)
Total Other Financing Sources (Uses)	<u>(3,356,888.34)</u>	<u>(1,662,465.55)</u>	<u>(3,783,744.30)</u>
Net Change in Fund Balances	4,134,203.97	5,415,109.76	6,638,227.27
Fund Balances - Beginning of Year	<u>2,000,000.00</u>	<u>6,091,022.00</u>	<u>6,100,859.33</u>
Fund Balances - End of Year	<u>\$ 6,134,203.97</u>	<u>\$ 11,506,131.76</u>	<u>\$ 12,739,086.60</u>

	<b>Budget to GAAP Differences</b>	<b>Actual Amounts GAAP Basis</b>
	\$	\$ 116,857,769.43
		1,745,760.15
		78,940,472.56
		172,009.76
		<u>197,716,011.90</u>
(1)	1,747,292.73	114,000,392.49
(1)	279,812.16	33,525,261.85
(1)	(52,896.17)	26,440,699.15
(1)	24,753.67	6,354,812.47
(1)	(14,739.00)	6,120,732.14
(1)	27,892.64	2,701,426.26
		162,832.00
	<u>2,012,116.03</u>	<u>189,306,156.36</u>
	<u>(2,012,116.03)</u>	<u>8,409,855.54</u>
		1,112,902.57
		743,459.89
		1,607,092.92
		131,173.60
		<u>(7,378,373.28)</u>
		<u>(3,783,744.30)</u>
	(2,012,116.03)	4,626,111.24
(2)	<u>(11,208,894.71)</u>	<u>(5,108,035.38)</u>
	<u>\$ (13,221,010.74)</u>	<u>\$ (481,924.14)</u>

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***Schedule of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual - General Fund  
For the Year Ended September 30, 2013***

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**Explanation of differences between Actual Amounts on  
Budgetary Basis and Actual Amounts on 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.

Net Decrease 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.



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\$ (2,012,116.03)

\$ (2,012,116.03)

***Schedule of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual - Special Revenue Fund  
For the Year Ended September 30, 2013***

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary Basis</u>
<b><u>Revenues</u></b>			
Federal	\$ 38,542,928.00	\$ 43,777,925.18	\$ 42,370,800.67
Local	5,073,934.65	5,073,934.65	6,474,454.76
Other	627,870.00	627,870.00	245,769.69
Total Revenues	<u>44,244,732.65</u>	<u>49,479,729.83</u>	<u>49,091,025.12</u>
<b><u>Expenditures</u></b>			
Current:			
Instruction	16,867,374.66	16,239,470.84	18,285,566.30
Instructional Support	10,634,286.50	12,542,817.64	11,804,465.77
Operation and Maintenance	32,528.05	82,528.05	72,576.01
Auxiliary Services:			
Student Transportation	286,520.30	288,520.30	199,182.61
Food Service	15,750,751.00	15,750,751.00	16,511,393.26
General Administration and Central Support	613,591.16	648,903.95	1,235,498.67
Other	3,856,813.48	7,723,870.55	6,730,214.00
Capital Outlay			105,731.00
Total Expenditures	<u>48,041,865.15</u>	<u>53,276,862.33</u>	<u>54,944,627.62</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(3,797,132.50)</u>	<u>(3,797,132.50)</u>	<u>(5,853,602.50)</u>
<b><u>Other Financing Sources (Uses)</u></b>			
Transfers In	6,543,205.00	4,906,902.00	7,378,373.28
Other Financing Sources	25.00		14,193.01
Transfers Out	(665.50)	(665.50)	(739,551.89)
Total Other Financing Sources (Uses)	<u>6,542,564.50</u>	<u>4,906,236.50</u>	<u>6,653,014.40</u>
Net Change in Fund Balances	2,745,432.00	1,109,104.00	799,411.90
Fund Balances - Beginning of Year	<u>3,300,000.00</u>	<u>7,218,513.88</u>	<u>7,218,529.50</u>
Fund Balances - End of Year	<u>\$ 6,045,432.00</u>	<u>\$ 8,327,617.88</u>	<u>\$ 8,017,941.40</u>

	<b>Budget to GAAP Differences</b>	<b>Actual Amounts GAAP Basis</b>
	\$	\$ 42,370,800.67
		6,474,454.76
		245,769.69
		<u>49,091,025.12</u>
		18,285,566.30
		11,804,465.77
		72,576.01
		199,182.61
(1)	51,389.57	16,562,782.83
		1,235,498.67
		6,730,214.00
		105,731.00
	<u>51,389.57</u>	<u>54,996,017.19</u>
	<u>(51,389.57)</u>	<u>(5,904,992.07)</u>
		7,378,373.28
		14,193.01
		<u>(739,551.89)</u>
		<u>6,653,014.40</u>
	(51,389.57)	748,022.33
(2)	<u>(477,006.39)</u>	<u>6,741,523.11</u>
	<u>\$ (528,395.96)</u>	<u>\$ 7,489,545.44</u>

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***Schedule of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual - Special Revenue Fund  
For the Year Ended September 30, 2013***

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**Explanation of differences between Actual Amounts on  
Budgetary Basis and Actual Amounts on 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.

Net Decrease 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.

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\$ (51,389.57)

\$ (51,389.57)

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## *Supplementary Information*

***Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2013***

<b>Federal Grantor/ Pass-Through Grantor/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grantor's Number</b>
<b><u>U. S. Department of Education</u></b>		
<b><u>Direct Program</u></b>		
Fund for the Improvement of Education	84.215	N.A.
<b><u>Passed Through Alabama Department of Education</u></b>		
Special Education Cluster:		
Special Education - Grants to States	84.027	N.A.
Special Education - Preschool Grants	84.173	N.A.
Sub-Total Special Education Cluster (M)		
Title I Grants to Local Educational Agencies (M)	84.010	N.A.
Career and Technical Education - Basic Grants to States	84.048	N.A.
Education for Homeless Children and Youth	84.196	N.A.
Arts in Education	84.351	N.A.
English Language Acquisition State Grants	84.365	N.A.
Improving Teacher Quality State Grants (M)	84.367	N.A.
ARRA - School Improvement Grants (M)	84.388	N.A.
Total U. S. Department of Education		
<b><u>U. S. Department of Agriculture</u></b>		
<b><u>Passed Through Alabama Department of Education</u></b>		
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		
<b><u>U. S. Department of Health and Human Services</u></b>		
<b><u>Passed Through Alabama Department of Education</u></b>		
Child Care and Development Block Grant	93.575	N.A.
<b><u>Corporation for National and Community Service</u></b>		
<b><u>Direct Program</u></b>		
AmeriCorps	94.006	N.A.
Sub-Total Forward		



Assistance Period	Budget		Revenue Recognized	Expenditures
	Total	Federal Share		
06/01/2008-05/31/2013	\$ 327,437.72	\$ 327,437.72	\$ 327,437.72	\$ 327,437.72
10/01/2012-09/30/2013	7,831,047.46	7,831,047.46	7,831,047.46	7,831,047.46
10/01/2012-09/30/2013	125,113.31	125,113.31	125,113.31	125,113.31
	<u>7,956,160.77</u>	<u>7,956,160.77</u>	<u>7,956,160.77</u>	<u>7,956,160.77</u>
10/01/2012-09/30/2013	18,498,946.87	18,498,946.87	17,074,658.20	17,074,658.20
10/01/2012-09/30/2013	590,875.00	590,875.00	590,875.00	590,875.00
10/01/2012-09/30/2013	50,000.00	50,000.00	50,000.00	50,000.00
10/01/2012-09/30/2013	292,939.18	292,939.18	292,939.18	292,939.18
10/01/2012-09/30/2013	142,331.23	142,331.23	85,809.80	85,809.80
10/01/2012-09/30/2013	3,292,778.31	3,292,778.31	2,850,993.02	2,850,993.02
10/01/2012-09/30/2013	1,540,674.00	1,540,674.00	1,540,674.00	1,540,674.00
	<u>32,692,143.08</u>	<u>32,692,143.08</u>	<u>30,769,547.69</u>	<u>30,769,547.69</u>
10/01/2012-09/30/2013	2,610,378.41	2,610,378.41	2,610,378.41	2,610,378.41
10/01/2012-09/30/2013	9,110,525.27	9,110,525.27	9,110,525.27	9,110,525.27
10/01/2012-09/30/2013	730,894.41	730,894.41	730,894.41	730,894.41
	<u>9,841,419.68</u>	<u>9,841,419.68</u>	<u>9,841,419.68</u>	<u>9,841,419.68</u>
	<u>12,451,798.09</u>	<u>12,451,798.09</u>	<u>12,451,798.09</u>	<u>12,451,798.09</u>
	<u>12,451,798.09</u>	<u>12,451,798.09</u>	<u>12,451,798.09</u>	<u>12,451,798.09</u>
10/01/2012-09/30/2013	7,000.00	7,000.00	7,000.00	7,000.00
10/01/2012-09/30/2013	215,574.73	215,574.73	215,574.73	215,574.73
	<u>\$ 45,366,515.90</u>	<u>\$ 45,366,515.90</u>	<u>\$ 43,443,920.51</u>	<u>\$ 43,443,920.51</u>

***Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2013***

<b>Federal Grantor/ Pass-Through Grantor/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grantor's Number</b>
Sub-Total Brought Forward		
<b><u>Social Security Administration</u> <u>Passed Through Alabama Department of Education</u></b>		
Social Security - Disability Insurance	96.001	N.A.
<b><u>Other Federal Assistance</u> <u>U. S. Department of Defense</u> <u>Direct Program</u></b>		
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		
	\$ 45,366,515.90	\$ 45,366,515.90	\$ 43,443,920.51	\$ 43,443,920.51
10/01/2012-09/30/2013	13,666.00	13,666.00	13,666.00	13,666.00
10/01/2012-09/30/2013	658,974.31	658,974.31	658,974.31	658,974.31
	<u>\$ 46,039,156.21</u>	<u>\$ 46,039,156.21</u>	<u>\$ 44,116,560.82</u>	<u>\$ 44,116,560.82</u>

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***Notes to the Schedule of Expenditures  
of Federal Awards  
For the Year Ended September 30, 2013***

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**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 financial statements.

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## *Additional Information*

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***Board Members and Administrative Personnel***  
***October 1, 2012 through September 30, 2013***

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<b>Board Members</b>			<b>Term Expires</b>
Hon. Tyrone Belcher, Sr.	Member	District 1	2013
Hon. Virginia Volker	Member	District 2	2013
Hon. Brian Giattina	Vice-President	District 3	2017
Hon. Edward Maddox	Member	District 4	2012 (*)
Hon. Carole Clarke	Member	District 4	2013
Hon. Emanuel Ford	Member	District 5	2013
Hon. W. J. Maye, Jr.	Member	District 6	2013
Hon. Alana Edwards Haynes	Member	District 7	2013 (**)
Hon. Wardine Alexander	Member	District 7	2017
Hon. April M. Williams	President	District 8	2017
Hon. Phyllis Wyne	Member	District 9	2013

**Administrative Personnel**

Dr. Craig Witherspoon	Superintendent
Mr. Arthur Watts, Jr.	Chief School Financial Officer
Dr. Ed Richardson	State Appointed Chief Financial Officer

(\*) Mr. Edward Maddox resigned on October 23, 2012 and was replaced by Ms. Carol Clarke on November 8, 2012.

(\*\*) Ms. Alana Edwards Haynes resigned on February 12, 2013 and was replaced by Ms. Wardine Alexander on March 12, 2013.

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***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***

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**Independent Auditor's Report**

To: Members of the Birmingham City Board of Education, Superintendent and Chief School Financial Officer

We have audited, 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, 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, 2013, and the related notes to the financial statements, which collectively comprise the Birmingham City Board of Education's basic financial statements and have issued our report thereon dated July 30, 2014.

**Internal Control Over Financial Reporting**

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

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

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***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***

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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weakness or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control described in the accompanying Schedule of Findings and Questioned Costs as items 2002-014 and 2002-015 that we consider to be significant deficiencies.

**Compliance and Other Matters**

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

**Birmingham City Board of Education's Response to Findings**

The Birmingham City Board of Education's response to the findings identified in our audit is described in the accompanying Auditee Response/Corrective Action Plan. The Birmingham City Board of Education's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.



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***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***

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**Purpose of this Report**

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



Ronald L. Jones  
Chief Examiner

Department of Examiners of Public Accounts

Montgomery, Alabama

July 30, 2014

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***Report on Compliance for Each Major Federal Program  
and Report on Internal Control Over Compliance  
Required by OMB Circular A-133***

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***Independent Auditor's Report***

To: Members of the Birmingham City Board of Education, Superintendent and Chief School Financial Officer

***Report on Compliance for Each Major Federal Program***

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, 2013. 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.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

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***Report on Compliance for Each Major Federal Program  
and Report on Internal Control Over Compliance  
Required by OMB Circular A-133***

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

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

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

Management of the Birmingham City Board of Education is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Birmingham City Board of Education's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of 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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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***Report on Compliance for Each Major Federal Program  
and Report on Internal Control Over Compliance  
Required by OMB Circular A-133***

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



Ronald L. Jones  
Chief Examiner

Department of Examiners of Public Accounts

Montgomery, Alabama

July 30, 2014

***Schedule of Findings and Questioned Costs***  
***For the Year Ended September 30, 2013***

**Section I – Summary of Examiner's Results**

**Financial Statements**

Type of opinion issued: Unmodified

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: Unmodified

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 Numbers	Name of Federal Program or Cluster
84.010	Title I Grants to Local Educational Agencies
84.027 and 84.173	Special Education Cluster
84.367	Improving Teacher Quality State Grants
84.388	ARRA – School Improvement Grants

Dollar threshold used to distinguish between Type A and Type B programs: \$1,323,496.82

Auditee qualified as low-risk auditee? \_\_\_\_\_ Yes  X  No

***Schedule of Findings and Questioned Costs***  
***For the Year Ended September 30, 2013***

**Section II – Financial Statement Findings (GAGAS)**

Ref. No.	Type of Finding	Finding/Noncompliance	Questioned Costs
2002-014	Internal Control	<p><b><u>Finding:</u></b>            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"> <li>✓ At Smith Middle School, teacher receipts were not remitted to the school office in a timely manner. Bank deposits were not being made daily. Amounts receipted into the master receipt book could not be traced to a bank deposit, and several bank deposits could not be traced to a master receipt.</li> <li>✓ At Bush Hills Academy, teacher receipts were not remitted to the office bookkeeper in a timely manner; therefore, corresponding bank deposits were not made in a timely manner. Some teacher receipts pages were not turned into the bookkeeper for testing.</li> <li>✓ At Hayes K-8 School, teacher receipts were not remitted to the office bookkeeper in a timely manner.</li> <li>✓ At Wenonah High School, teacher receipts were not remitted to the office bookkeeper in a timely manner; therefore, corresponding bank deposits were not made in a timely manner.</li> </ul> <p><b><u>Recommendation:</u></b>            Procedures should be implemented to ensure the proper receipting and depositing of all funds collected.</p>	

***Schedule of Findings and Questioned Costs***  
***For the Year Ended September 30, 2013***

**Section II – Financial Statement Findings (GAGAS)**

Ref. No.	Type of Finding	Finding/Noncompliance	Questioned Costs
2002-015	Internal Control	<p><b><u>Finding:</u></b>            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"> <li>✓ At Putnam Middle School, some purchase orders were dated after the invoice date and documentation was not available for several disbursements selected for review.</li> <li>✓ At Wilkerson Middle School, documentation was not available for a disbursement selected for review.</li> <li>✓ At Bush Hills Academy, purchase orders were not always properly completed and/or some were dated after the invoice.</li> <li>✓ At Hayes K-8 School, purchase orders were not always properly completed.</li> <li>✓ At Wenonah High School, purchase orders were not always properly completed and/or some were dated after the invoice.</li> </ul> <p><b><u>Recommendation:</u></b>            Procedures should be implemented to ensure the proper requisition and documentation of expenditures.</p>	

**Section III – Federal Awards Findings and Questioned Costs**

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



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*Auditee Response/Corrective Action Plan*

Craig Witherspoon, Ed. D.  
Superintendent



August 21, 2014

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

Dear Mr. Jones:

The Corrective Action Plan for Birmingham City Board of Education for the year ended September 30, 2013 is listed below:

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### *Corrective Action Plan*

*For the Year Ended September 30, 2013*

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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, 2013.

Finding

Ref.

No.

Corrective Action Plan Details

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**Finding #2002-014:**

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 Smith Middle School, teacher receipts were not remitted to the school office in a timely manner. Bank deposits were not being made daily. Amounts receipted into the master receipt book could not be traced to a bank deposit, and several bank deposits could not be traced to a master receipt.

- At Bush Hills Academy, teacher receipts were not remitted to the office bookkeeper in a timely manner; therefore, corresponding bank deposits were not made in a timely manner. Some teacher receipts pages were not turned into the bookkeeper for testing.
- At Hayes K-8 School, teacher receipts were not remitted to the office bookkeeper in a timely manner.
- At Wenonah High School, teacher receipts were not remitted to the office bookkeeper in a timely manner; therefore, corresponding bank deposits were not made 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. Recently, the Superintendent has required all school bookkeepers to obtain the local school financial management certification through the Alabama Association of School Business Officials (AASBO). Finance staff will continue to monitor and review receipts at the above schools on a regular basis.

**Finding #2002-015:**

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 Putnam Middle School, some purchase orders were dated after the invoice date and documentation was not available for several disbursements selected for review.
- At Wilkerson Middle School, documentation was not available for a disbursement selected for review.
- At Bush Hills Academy, purchase orders were not always properly completed and/or some were dated after the invoice.
- At Hayes K-8 School, purchase orders were not always properly completed.
- At Wenonah High School, purchase orders were not always properly completed and/or some were dated after the invoice. Also, there were several unallowable purchases made with public funds.

**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 those procedures are being followed. Recently, the Superintendent has required all school bookkeepers to obtain the local school financial management certification through the Alabama Association of School Business Officials (AASBO). Finance staff will continue to monitor and review expenditures at the above schools on a regular basis.

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## Other Matters in Report to the Chief Examiner

*For the Year Ended September 30, 2013*

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### **Finding #2013-001:**

The *Code of Alabama 1975*, Section 31-13-9, requires that when the school board awards a contract or grant to a business entity or employer, the school board obtain a notarized affidavit and documentation of enrollment in the E-Verify Program. Six out of the eight bids examined did not have E-Verify documentation.

### **Response:**

The Purchasing Director will ensure that a checklist is developed to ensure that the Board is in compliance with E-Verify requirements.

### **Finding #2013-002:**

According to the *Code of Alabama 1975*, Section 39-3-1, a public works contract should contain a provision whereby the materials, supplies, and products manufactured, mined, or processed, are produced in the United States. Also, as stated by the *Code of Alabama 1975*, Section 39-1-1(a), a performance bond and a payment bond are required for a public works contract. Furthermore, in relation to the *Code of Alabama 1975*, Section 39-1-1(f), the contractor shall advertise for final completion after all work is completed for a period of four successive weeks. The contractor shall provide proof of publication and an affidavit from the publisher. In all bids examined for compliance with the Public Works Law, there were no contract provisions requiring the materials to be produced in the United States, there were no performance or payment bonds, and there were no notices of completion.

### **Response:**

The Purchasing Director will ensure that a checklist is developed for all bid requirements and will ensure that the Board is in compliance with all aspects of the Public Works Laws.

### **Finding #2013-003:**

Financial Procedures for Local Schools, as prescribed by the Alabama State Department of Education, specifies that some of the expenditures that are not allowable purchases from public funds, but may be allowable expenditures from non-public funds includes championship rings. At Wenonah High School, championship rings were purchased using public funds. Public funds totaling \$8,419.93 were paid out of the basketball activity. These unallowable purchases were repaid when brought to the attention of the Principal.

### **Response:**

The Finance Department provides training and workshops with bookkeepers and principals to ensure that the proper procedures are communicated to staff. Recently, the Superintendent has required all school bookkeepers to obtain the local school financial management certification

through the Alabama Association of School Business Officials (AASBO). Finance staff will continue to monitor and review expenditures to ensure that only allowable purchases are made from public funds.

**Finding #2002-42:**

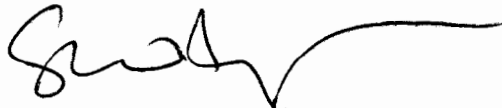
Section 94, *Constitution of Alabama 1901*, states the Board cannot lend its credit, or to grant public money or a thing of value to any individual, association, or corporation. Several of the schools are using public funds to finance operation of its non-public activities. The following schools had deficit fund balances in their non-public activities at September 30, 2013:

Bush Hills Academy	\$(1,806.57)
Bush K-8	\$(1,969.01)
Council Elementary	\$ (114.69)
Putnam Middle School	\$(1,157.63)
Oliver Elementary	\$ (128.61)
Smith Middle School	\$(3,330.61)

**Response:**

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

Sincerely,



Craig Witherspoon, Ed.D.  
Superintendent