

Report on the

# **Birmingham City Board of Education**

**Jefferson County, Alabama**

**October 1, 2015 through September 30, 2016**

**Filed: October 27, 2017**



## **Department of Examiners of Public Accounts**

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*Ronald L. Jones, Chief Examiner*





Ronald L. Jones  
Chief Examiner

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

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

Dear Sir:

Under the authority of the *Code of Alabama 1975*, Section 41-5-21, we submit this report on the results of the audit of the Birmingham City Board of Education, Jefferson County, Alabama, for the period October 1, 2015 through September 30, 2016.

Sworn to and subscribed before me this  
the 17<sup>th</sup> day of October, 20 17.

Kelly D. Matthews  
Notary Public

Sworn to and subscribed before me this  
the 17<sup>th</sup> day of October, 20 17.

Kelly D. Matthews  
Notary Public

rb

Respectfully submitted,

Whitney B. Atchison

Whitney B. Atchison  
Examiner of Public Accounts

Kenyata Dukes

Kenyata Dukes  
Examiner of Public Accounts



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Department of  
**Examiners of Public Accounts**

**SUMMARY**

**Birmingham City Board of Education  
October 1, 2015 through September 30, 2016**

The Birmingham City Board of Education (the "Board") is governed by a nine-member body elected by the citizens of the City of Birmingham. The members and administrative personnel in charge of governance of the Board are listed in Exhibit 13. 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, 2016.

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

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

**UNRESOLVED PRIOR FINDING**

- ◆ 2002-042 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 16) and they are summarized below:

- ◆ 2016-001 relates to problems with documentation of expenditures at the local schools.
- ◆ 2015-001 relates to problems with proper accounting of concessions and school stores.
- ◆ 2002-014 relates to problems with receipting of funds at the local schools.

The following officials and administrative personnel were invited to an exit conference to discuss the findings and recommendations appearing in this report: Superintendent: Dr. Larry J. Contri; former Superintendent: Dr. Kelley Castlin-Gacutan; Chief School Financial Officer: Sharon Roberts; and Board Members: Sherman Collins, Jr., Lyord Watson, Jr., Brian Giattina, Daagye Hendricks, Randall Woodfin, Cheri A. Gardner, Wardine T. Alexander, April M. Williams, and Sandra K. Brown. The following individuals attended the exit conference, held at the Examiners of Public Accounts' Birmingham office: Chief School Financial Officer: Sharon Roberts; and Board Members: Lyord Watson, Jr., Brian Giattina, Daagye Hendricks, Wardine T. Alexander, and April M. Williams; and representatives of the Department of Examiners of Public Accounts: Whitney Atchison, Audit Manager; and Matt Schlosser, Examiner.

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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, 2016***

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<b>Ref. No.</b>	<b>Finding/Noncompliance</b>										
2002-042	<p><b><u>Finding:</u></b> Section 94, Constitution of Alabama 1901, 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 were using 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, 2016:</p> <table><tr><td>Bush Hills Academy</td><td>\$ (1,226.04)</td></tr><tr><td>Bush K-8</td><td>\$ (2,225.06)</td></tr><tr><td>Huffman High School</td><td>\$ (47,008.83)</td></tr><tr><td>Inglenook K-8</td><td>\$ (1,252.36)</td></tr><tr><td>Smith Middle</td><td>\$ (7,850.32)</td></tr></table> <p><b><u>Recommendation:</u></b> The Board should ensure that the schools take measures to eliminate deficit cash balances.</p>	Bush Hills Academy	\$ (1,226.04)	Bush K-8	\$ (2,225.06)	Huffman High School	\$ (47,008.83)	Inglenook K-8	\$ (1,252.36)	Smith Middle	\$ (7,850.32)
Bush Hills Academy	\$ (1,226.04)										
Bush K-8	\$ (2,225.06)										
Huffman High School	\$ (47,008.83)										
Inglenook K-8	\$ (1,252.36)										
Smith Middle	\$ (7,850.32)										

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# *Independent Auditor's Report*

## **Independent Auditor's Report**

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

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Birmingham City Board of Education, as of and for the year ended September 30, 2016, 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 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, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A), Schedule of the Employer's Proportionate Share of the Net Pension Liability, Schedule of the Employer's Contributions, and the Schedules of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual, (Exhibits 8 through 11), be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The Birmingham City Board of Education has not presented a Management's Discussion and Analysis (MD&A) that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

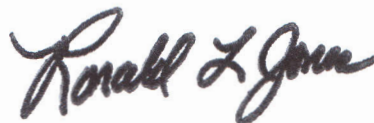
#### *Supplementary Information*

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 12) as required by Title 2 U. S. ***Code of Federal Regulations*** Part 200, ***Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)***, 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 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with ***Government Auditing Standards***, we have also issued our report dated September 7, 2017, 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 the 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

September 7, 2017

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# *Basic Financial Statements*

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# Statement of Net Position

## September 30, 2016

	Governmental Activities
<b><u>Assets</u></b>	
Cash and Cash Equivalents	\$ 52,399,223.62
Investments	2,972,009.62
Ad Valorem Property Taxes Receivable	70,761,840.18
Receivables (Note 4)	6,318,145.30
Inventories	367,395.52
Other Assets	280,823.15
Capital Assets (Note 5):	
Nondepreciable	54,324,226.59
Depreciable, Net	517,570,466.61
Total Assets	<u>704,994,130.59</u>
<b><u>Deferred Outflows of Resources</u></b>	
Loss on Refunding of Debt	746,836.03
Employer Pension Contribution	15,185,624.76
Proportionate Share of Collective Deferred Outflows Related to Net Pension Liability	14,481,000.00
Total Deferred Outflows of Resources	<u>30,413,460.79</u>
<b><u>Liabilities</u></b>	
Payables (Note 9)	9,852,495.65
Unearned Revenue	304,416.37
Salaries and Benefits Payable	17,439,541.90
Long-Term Liabilities:	
Portion Due or Payable Within One Year	2,250,192.95
Portion Due or Payable After One Year	231,396,350.53
Total Liabilities	<u>261,242,997.40</u>
<b><u>Deferred Inflows of Resources</u></b>	
Unavailable Revenue - Property Taxes	70,144,007.68
Proportionate Share of Collective Deferred Inflows Related to Net Pension Liability	4,954,000.00
Total Deferred Inflows of Resources	<u>75,098,007.68</u>
<b><u>Net Position</u></b>	
Net Investment in Capital Assets	556,451,053.76
Restricted for:	
Capital Projects	10,437,917.90
Other Purposes	5,627,648.31
Unrestricted	<u>(173,450,033.67)</u>
Total Net Position	<u>\$ 399,066,586.30</u>

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

# ***Statement of Activities*** ***For the Year Ended September 30, 2016***

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
<b><u>Governmental Activities</u></b>			
Instruction	\$ 147,654,046.53	\$ 1,567,111.07	\$ 92,882,693.52
Instructional Support	48,168,224.13	161,760.73	32,559,551.19
Operation and Maintenance	30,432,467.54	119,925.82	9,921,496.63
Auxiliary Services:			
Student Transportation	8,942,291.65	334,592.18	6,324,960.13
Food Service	17,538,038.65	15,440,936.93	945,375.68
General Administrative	13,217,279.86	36,416.57	2,212,521.78
Interest and Fiscal Charges	622,998.68		
Other Expenses	10,576,547.95	881,673.13	5,316,881.96
Total Governmental Activities	<u>\$ 277,151,894.99</u>	<u>\$ 18,542,416.43</u>	<u>\$ 150,163,480.89</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.

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		Net (Expenses) Revenues and Changes in Net Position	
Capital Grants and Contributions		Total Governmental Activities	
\$	2,666,179.77	\$	(50,538,062.17)
	1,086.60		(15,445,825.61)
	2,148,275.51		(18,242,769.58)
	612,708.00		(1,670,031.34)
			(1,151,726.04)
			(10,968,341.51)
			(622,998.68)
			(4,377,992.86)
\$	5,428,249.88		(103,017,747.79)

84,470,493.26
1,830,992.75
3,950,392.20
117,755.60
7,559,490.42
97,929,124.23
(5,088,623.56)
404,155,209.86
\$ 399,066,586.30

***Balance Sheet***  
***Governmental Funds***  
***September 30, 2016***

	General Fund	Special Revenue Fund
<b><u>Assets</u></b>		
Cash and Cash Equivalents	\$ 40,057,777.58	\$ 4,490,313.54
Investments		61,278.25
Ad Valorem Property Taxes Receivable	70,761,840.18	
Receivables (Note 4)	279,083.65	6,039,061.65
Interfund Receivables	171,205.22	554,434.75
Inventories		367,395.52
Other Assets	280,823.15	
Total Assets	<u>111,550,729.78</u>	<u>11,512,483.71</u>
<b><u>Liabilities, Deferred Inflows of Resources and Fund Balances</u></b>		
<b><u>Liabilities</u></b>		
Payables (Note 9)	7,637,315.25	1,897,338.58
Interfund Payables	556,646.25	162,889.57
Unearned Revenues		304,416.37
Salaries and Benefits Payable	16,741,058.53	698,483.37
Total Liabilities	<u>24,935,020.03</u>	<u>3,063,127.89</u>
<b><u>Deferred Inflows of Resources</u></b>		
Unavailable Revenue - Property Taxes	70,144,007.68	
Total Deferred Inflows of Resources	<u>70,144,007.68</u>	
<b><u>Fund Balances</u></b>		
Nonspendable:		
Inventories		367,395.52
Restricted for:		
Capital Projects		
Child Nutrition		5,260,252.79
Assigned for:		
Local Schools		2,821,707.51
Other Purposes	901,570.30	
Unassigned	15,570,131.77	
Total Fund Balances	<u>16,471,702.07</u>	<u>8,449,355.82</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 111,550,729.78</u>	<u>\$ 11,512,483.71</u>

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



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Other Governmental Funds	Total Governmental Funds
\$ 7,851,132.50	\$ 52,399,223.62
2,910,731.37	2,972,009.62
	70,761,840.18
	6,318,145.30
	725,639.97
	367,395.52
	280,823.15
10,761,863.87	133,825,077.36
317,841.82	9,852,495.65
6,104.15	725,639.97
	304,416.37
	17,439,541.90
323,945.97	28,322,093.89
	70,144,007.68
	70,144,007.68
	367,395.52
10,437,917.90	10,437,917.90
	5,260,252.79
	2,821,707.51
	901,570.30
	15,570,131.77
10,437,917.90	35,358,975.79
\$ 10,761,863.87	\$ 133,825,077.36

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***Reconciliation of the Balance Sheet of Governmental Funds to the  
Statement of Net Position  
September 30, 2016***

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Total Fund Balances - Governmental Funds \$ 35,358,975.79

Amounts reported for governmental activities in the Statement of Net Position  
are different because:

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

The Cost of Capital Assets is	\$ 718,647,428.11	
Accumulated Depreciation is	<u>(146,752,734.91)</u>	
		571,894,693.20

Losses on refunding of debt are reported as deferred outflows of resources and are not  
available to pay for current-period expenditures and, therefore, are deferred on the  
Statement of Net Position. 746,836.03

Deferred outflows and inflows of resources related to pensions are applicable to  
future periods and, therefore, are not reported in the governmental funds. 24,712,624.76

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	\$ 2,250,192.95	
Noncurrent Portion of Long-Term Debt	<u>231,396,350.53</u>	
		<u>(233,646,543.48)</u>

Total Net Position - Governmental Activities \$399,066,586.30

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, 2016***

	General Fund	Special Revenue Fund
<b><u>Revenues</u></b>		
State	\$ 119,777,858.61	\$
Federal	1,978,015.85	42,186,262.59
Local	92,443,134.48	5,184,883.14
Other	251,270.08	425,860.61
Total Revenues	214,450,279.02	47,797,006.34
<b><u>Expenditures</u></b>		
Current:		
Instruction	118,558,224.21	16,994,660.23
Instructional Support	36,404,742.76	11,521,890.25
Operation and Maintenance	28,006,968.38	119,408.42
Auxiliary Services:		
Student Transportation	7,866,285.96	263,509.73
Food Service		18,788,060.01
General Administrative	7,640,856.08	1,553,344.45
Other	6,233,855.67	4,335,289.31
Capital Outlay	1,591,982.42	185,637.91
Debt Service:		
Principal Retirement	55,894.40	
Interest and Fiscal Charges		
Total Expenditures	206,358,809.88	53,761,800.31
Excess (Deficiency) of Revenues Over Expenditures	8,091,469.14	(5,964,793.97)
<b><u>Other Financing Sources (Uses)</u></b>		
Indirect Cost	2,179,330.34	
Long-Term Debt Issued	167,683.20	
Transfers In	482,254.29	7,421,199.61
Other Financing Sources	2,309,093.36	4,167.83
Sale of Capital Assets	87,978.25	227.90
Transfers Out	(7,421,199.61)	(438,335.38)
Total Other Financing Sources (Uses)	(2,194,860.17)	6,987,259.96
Net Changes in Fund Balances	5,896,608.97	1,022,465.99
Fund Balances - Beginning of Year	10,575,093.10	7,426,889.83
Fund Balances - End of Year	\$ 16,471,702.07	\$ 8,449,355.82

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

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Other Governmental Funds	Total Governmental Funds
\$ 5,410,645.88	\$ 125,188,504.49
	44,164,278.44
2,092,079.00	99,720,096.62
	677,130.69
7,502,724.88	269,750,010.24
171,421.50	135,724,305.94
270,053.67	48,196,686.68
2,006,677.79	30,133,054.59
	8,129,795.69
	18,788,060.01
	9,194,200.53
	10,569,144.98
5,613,640.43	7,391,260.76
1,825,387.00	1,881,281.40
762,773.55	762,773.55
10,649,953.94	270,770,564.13
(3,147,229.06)	(1,020,553.89)
	2,179,330.34
	167,683.20
	7,903,453.90
	2,313,261.19
392,210.64	480,416.79
(43,918.91)	(7,903,453.90)
348,291.73	5,140,691.52
(2,798,937.33)	4,120,137.63
13,236,855.23	31,238,838.16
\$ 10,437,917.90	\$ 35,358,975.79

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***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, 2016***

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Net Changes in Fund Balances - Total Governmental Funds \$ 4,120,137.63

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

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

Capital Outlays	\$ 7,391,260.76	
Depreciation Expense	<u>(14,796,967.22)</u>	(7,405,706.46)

Some of the capital assets acquired this year were financed with capital leases. The  
amount financed by the leases is reported in the governmental funds as a source of  
financing. On the other hand, the capital leases are not revenues in the Statement of  
Activities, but rather constitute long-term liabilities in the Statement of Net Position. (167,683.20)

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. 1,881,281.40

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	\$ (480,416.79)	
Loss on Disposition of Capital Assets	<u>(3,178,709.47)</u>	(3,659,126.26)

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.

Compensated Absences, Current Year Increase/(Decrease) in Noncurrent Portion	\$ (406,680.70)	
Amortization of Premiums/Gain or Loss on Refunding	(139,774.87)	
Pension Expense, Current Year Increase/Decrease	<u>403,982.24</u>	
		<u>142,473.33</u>

Change in Net Position of Governmental Activities	<u><u>\$ (5,088,623.56)</u></u>
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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, 2016***

	<b>Agency Funds</b>
<hr/>	
<b><u>Assets</u></b>	
Cash and Cash Equivalents	\$ 2,472,158.63
Receivables	20,079.57
Total Assets	<u>2,492,238.20</u>
<b><u>Liabilities</u></b>	
Accounts Payable	2,164.41
Salaries and Benefits Payable	2,490,073.79
Total Liabilities	<u>\$ 2,492,238.20</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, 2016***

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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 nonexchange transactions.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2016*

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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. All remaining governmental funds are aggregated and reported as nonmajor funds in the Other Governmental Funds' 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, Improving Teacher Quality State Grants, Gaining Early Awareness and Readiness for Undergraduate Programs 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.

The Board reports the following fund type in the Other Governmental Funds' column:

#### **Governmental Fund Type**

- ◆ **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, 2016*

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

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows. Nonexchange transactions, in which the Board gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied.

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

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

Under the terms of grant agreements, the Board funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net 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, 2016***

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#### **D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources 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. Certificates of deposit are reported at 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 is assessed for taxation 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 classified as restricted assets on the balance sheet because they are maintained separately and their use is limited. The Capital Projects Fund is used to report proceeds that are restricted for use in various construction projects and for debt service.

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## ***Notes to the Financial Statements***

### ***For the Year Ended September 30, 2016***

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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. Deferred Outflows of Resources**

Deferred outflows of resources are reported in the Statement of Net Position. Deferred outflows of resources are defined as a consumption of net position by the government that is applicable to a future reporting period. Deferred outflows of resources increase net position, similar to assets.

#### **7. Long-Term Obligations**

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position. Bond/Warrant premiums and discounts are deferred and amortized over the life of the debt. Bonds/Warrants payable are reported net of the applicable bond/warrant premium or discount. Bond/Warrant issuance costs are reported as an expense in the period incurred.

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

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## ***Notes to the Financial Statements***

### ***For the Year Ended September 30, 2016***

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#### **8. 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 of 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.

#### **9. Deferred Inflows of Resources**

Deferred inflows of resources are reported in the government-wide and fund level financial statements. Deferred inflows of resources are defined as an acquisition of net position/fund balances by the government that is applicable to a future reporting period. Deferred inflows of resources decrease net position/fund balances, similar to liabilities.

#### **10. Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, the Teachers' Retirement System of Alabama (the "Plan") financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to plan requirements. Benefits and refunds are recognized as revenues when due and payable in accordance with the terms of the Plan. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. Investments are reported at fair value. Financial statements are prepared in accordance with requirements of the Governmental Accounting Standards Board (GASB). Under these requirements, the Plan is considered a component unit of the State of Alabama and is included in the State's Comprehensive Annual Financial Report.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2016*

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#### **11. Net Position/Fund Balances**

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 of 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 of 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.

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 intact. 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.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2016*

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- ♦ **Assigned** – Assigned fund balances consist of amounts that are intended to be used by the Board 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.

#### **12. 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.



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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2016*

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#### **Note 2 – Stewardship, Compliance, and Accountability**

##### **Budgets**

Budgets are adopted on a basis of accounting consistent with accounting principles generally accepted in the United States of America (GAAP) for the General Fund with the exception of salaries and benefits, which are budgeted only to the extent expected to be paid rather than on the modified accrual basis of accounting. The Special Revenue Fund budgets on a basis of accounting consistent with GAAP with the exception of salaries and benefits, which are budgeted only to the extent expected to be paid rather than on the modified accrual basis of accounting. The Capital Projects Fund adopts 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.

#### **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 \$2,769,507.62, 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.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2016***

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**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, 2016, the Board had the following investments and maturities:

Investment Type	Maturities			Fair Value
	Less Than 1 Year	Less Than 5 Years	More Than 5 Years	
Federal Home Loan Bank	\$202,502.00	\$	\$	\$202,502.00
Total	\$202,502.00	\$	\$	\$202,502.00

**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.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2016*

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**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 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, 2016, receivables for the Board's individual major funds are as follows:

	General Fund	Special Revenue Fund	Total
<b><u>Receivables:</u></b>			
Accounts	\$ 3,677.00	\$ 29,747.82	\$ 33,424.82
Intergovernmental	265,002.33	5,885,522.58	6,150,524.91
Returned Checks	1,081.00	262.66	1,343.66
Other	9,323.32	123,528.59	132,851.91
Total Receivables	<u>\$279,083.65</u>	<u>\$6,039,061.65</u>	<u>\$6,318,145.30</u>

# Notes to the Financial Statements

## For the Year Ended September 30, 2016

### Note 5 – Capital Assets

Capital asset activity for the year ended September 30, 2016, was as follows:

	Balance 10/01/2015	Additions/ Reclassifications (*)	Deletions/ Reclassifications (*)	Balance 09/30/2016
<b>Governmental Activities:</b>				
Capital Assets, Not Being Depreciated:				
Land	\$ 52,349,040.06	\$ 1,446,566.86	\$ (1,093,227.50)	\$ 52,702,379.42
Construction in Progress	7,932,256.14	873,800.52	(7,184,209.49)	1,621,847.17
Total Capital Assets, Not Being Depreciated	60,281,296.20	2,320,367.38	(8,277,436.99)	54,324,226.59
Capital Assets Being Depreciated:				
Land Improvements	33,828,561.37	620,073.13		34,448,634.50
Buildings	489,753,877.79		(4,405,533.52)	485,348,344.27
Building Improvements	100,468,762.94	9,737,264.48	(369,568.71)	109,836,458.71
Equipment and Furniture	19,263,070.05	582,559.75	(262,009.55)	19,583,620.25
Vehicles	13,144,932.83	1,146,806.31	(771,417.75)	13,520,321.39
Capital Leases		168,399.20		168,399.20
Other Assets	1,538,544.27		(121,121.07)	1,417,423.20
Total Capital Assets Being Depreciated	657,997,749.25	12,255,102.87	(5,929,650.60)	664,323,201.52
Less Accumulated Depreciation for:				
Land Improvements	(3,392,694.52)	(613,261.15)		(4,005,955.67)
Buildings	(82,683,564.83)	(8,357,195.90)	2,253,936.30	(88,786,824.43)
Building Improvements	(33,166,897.54)	(3,865,933.56)	184,044.89	(36,848,786.21)
Equipment and Furniture	(8,655,920.80)	(1,058,795.41)	178,913.87	(9,535,802.34)
Vehicles	(6,708,916.35)	(851,706.03)	694,276.01	(6,866,346.37)
Capital Leases		(15,155.93)		(15,155.93)
Other Assets	(711,525.49)	(34,919.24)	52,580.77	(693,863.96)
Total Accumulated Depreciation	(135,319,519.53)	(14,796,967.22)	3,363,751.84	(146,752,734.91)
Total Capital Assets Being Depreciated, Net	522,678,229.72	(2,541,864.35)	(2,565,898.76)	517,570,466.61
Total Governmental Activities Capital Assets, Net	\$ 582,959,525.92	\$ (221,496.97)	\$ (10,843,335.75)	\$ 571,894,693.20
(*) Included in the "Additions/Reclassifications" and the "Retirements/Reclassifications" columns are \$7,184,209.49 of Construction in Progress which was reclassified when projects were completed.				

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2016***

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

	Current Year Depreciation Expense
<b>Governmental Activities:</b>	
Instruction	\$11,577,762.15
Instructional Support	214,948.98
Operations and Maintenance	288,953.89
Auxiliary Services:	
Food Service	419,201.88
Student Transportation	801,724.12
General Administration and Central Support	1,478,152.04
Other Expenditures	16,224.16
Total Depreciation Expense – Governmental Activities	<u>\$14,796,967.22</u>

**Note 6 – Defined Benefit Pension Plan**

**A. Plan Description**

The Teachers' Retirement System of Alabama (TRS), a cost-sharing multiple-employer public employee retirement plan (the "Plan"), was established as of September 15, 1939, 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 the general administration and operation of the TRS is vested in its Board of Control. The TRS Board of Control consists of 15 trustees. The Plan is administered by the Retirement Systems of Alabama (RSA). The ***Code of Alabama 1975***, Section 16-25-2, grants the authority to establish and amend the benefit terms to the TRS Board of Control. The Plan issues a publicly available financial report that can be obtained at [www.rsa-al.gov](http://www.rsa-al.gov).

**B. Benefits Provided**

State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the TRS. Benefits for TRS members vest after 10 years of creditable service. TRS members who retire after age 60 with 10 years or more of creditable service or with 25 years of service (regardless of age) are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, members of the TRS are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2016*

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Act Number 2012-377, Acts of Alabama, established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 TRS members are eligible for retirement after age 62 with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the TRS are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service. Members are eligible for disability retirement if they have 10 years of creditable service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits are calculated and paid to the beneficiary based on the member's age, service credit, employment status and eligibility for retirement.

#### **C. Contributions**

Covered members of the TRS contributed 5% of earnable compensation to the TRS as required by statute until September 30, 2011. From October 1, 2011 to September 30, 2012, covered members of the TRS were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered members of the TRS are required by statute to contribute 7.50% of earnable compensation. Certified law enforcement, correctional officers, and firefighters of the TRS contributed 6% of earnable compensation as required by statute until September 30, 2011. From October 1, 2011 to September 30, 2012, certified law enforcement, correctional officers, and firefighters of the TRS were required by statute to contribute 8.25% of earnable compensation. Effective October 1, 2012, certified law enforcement, correctional officers, and firefighters of the TRS are required by statute to contribute 8.50% of earnable compensation.

Tier 2 covered members of the TRS contribute 6% of earnable compensation to the TRS as required by statute. Tier 2 certified law enforcement, correctional officers, and firefighters of the TRS are required by statute to contribute 7% of earnable compensation.

Participating employers' contractually required contribution rate for the year ended September 30, 2016, was 11.94% of annual pay for Tier 1 members and 10.84% of annual pay for Tier 2 members. These required contribution rates are a percent of annual payroll, actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the Board were \$15,185,624.76 for the year ended September 30, 2016.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2016*

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#### **D. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At September 30, 2016, the Board reported a liability of \$215,317,000.00 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2014. The Board's proportion of the collective net pension liability was based on the employers' shares of contributions to the pension plan relative to the total employer contributions of all participating TRS employers. At September 30, 2015, the Board's proportion was 2.057362%, which was an increase of .004818% from its proportion measured as of September 30, 2014.

For the year ended September 30, 2016, the Board recognized pension expense of \$15,592,000.00. At September 30, 2016, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$	\$1,167,000.00
Net difference between projected and actual earnings on pension plan investments	14,097,000.00	
Changes in proportion and differences between Employer contributions and proportionate share of contributions	384,000.00	3,787,000.00
Employer contributions subsequent to the measurement date	15,185,624.76	
Total	<u>\$29,666,624.76</u>	<u>\$4,954,000.00</u>

The \$15,185,624.76 reported as deferred outflows of resources related to pensions resulting from Board contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending:	
September 30, 2017	\$1,315,000.00
2018	\$1,315,000.00
2019	\$1,315,000.00
2020	\$5,619,000.00
2021	\$ (37,000.00)
Thereafter	\$

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2016*

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#### *E. Actuarial Assumptions*

The total pension liability was determined by an actuarial valuation as of September 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Investment Rate of Return (*)	8.00%
Projected Salary Increases	3.50% - 8.25%
(*) Net of Pension Plan Investment Expense	

The actuarial assumptions used in the actuarial valuation as of September 30, 2014, were based on the results of an investigation of the economic and demographic experience for the TRS based upon participant data as of September 30, 2010. The Board of Control accepted and approved these changes on January 27, 2012, which became effective at the beginning of fiscal year 2012.

Mortality rates for TRS were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA projected to 2015 and set back one year for females.

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

	Target Allocation	Long-Term Expected Rate of Return (*)
Fixed Income	25.00%	5.00%
U. S. Large Stocks	34.00%	9.00%
U. S. Mid Stocks	8.00%	12.00%
U. S. Small Stocks	3.00%	15.00%
International Developed Market Stocks	15.00%	11.00%
International Emerging Market Stocks	3.00%	16.00%
Real Estate	10.00%	7.50%
Cash	2.00%	1.50%
Total	<u>100.00%</u>	
(*) Net assumed rate of inflation of 2.50%		



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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2016*

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#### **F. Discount Rate**

The discount rate used to measure the total pension liability was 8%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

#### **G. Sensitivity of the Board's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate**

The following table presents the Board's proportionate share of the net pension liability calculated using the discount rate of 8%, as well as what the Board's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (7%) or 1-percentage-point higher (9%) than the current rate:

	1% Decrease (7.00%)	Current Rate (8.00%)	1% Increase (9.00%)
Board's proportionate share of collective net pension liability	\$284,849	\$215,317	\$156,344
(Dollar amounts in thousands)			

#### **H. Pension Plan Fiduciary Net Position**

Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2015. The supporting actuarial information is included in the GASB Statement Number 67 Report for the TRS prepared as of September 30, 2015. The auditor's report dated October 17, 2016, on the total pension liability, total deferred outflows of resources, total deferred inflows of resources, total pension expense for the sum of all participating entities as of September 30, 2015, along with supporting schedules is also available. The additional financial and actuarial information is available at [www.rsa-al.gov](http://www.rsa-al.gov).

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2016*

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#### **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> under the Employers' Financial Reports section.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2016*

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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 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 2016
Individual Coverage – Non-Medicare Eligible	\$ 151.00
Individual Coverage – Medicare Eligible	\$ 10.00
Family Coverage – Non-Medicare Eligible Retired Member and Non-Medicare Non-Spousal Dependent	\$ 391.00
Family Coverage – Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependents with Non-Medicare Eligible Spouse	\$ 416.00
Family Coverage – Non-Medicare Eligible Retired Member and Dependent Medicare Eligible	\$ 250.00
Family Coverage – Non-Medicare Eligible Retired Member and Spouse Dependent Medicare Eligible	\$ 260.00
Family Coverage – Medicare Eligible Retired Member and Non-Medicare Eligible Dependent – No Spouse	\$ 250.00
Family Coverage – Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) – with Non-Medicare Eligible Spouse	\$ 275.00
Family Coverage – Medicare Eligible Retired Member and Non-Spousal Dependent Medicare Eligible	\$ 109.00
Family Coverage – Medicare Eligible Retired Member and Spousal Dependent Medicare Eligible	\$ 119.00
Surviving Spouse – Non-Medicare Eligible	\$ 740.00
Surviving Spouse – Non-Medicare Eligible and Dependent Non-Medicare Eligible	\$ 987.00
Surviving Spouse – Non-Medicare Eligible and Dependent Medicare Eligible	\$1,033.00
Surviving Spouse – Medicare Eligible	\$ 425.00
Surviving Spouse – Medicare Eligible and Dependent Non-Medicare Eligible	\$ 679.00
Surviving Spouse – Medicare Eligible and Dependent Medicare Eligible	\$ 725.00

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 \$50.00 per month for retired members that use tobacco.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2016*

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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
2016	\$780.00	\$211.21	27.08%	\$6,772,045.08	100%
2015	\$780.00	\$180.76	23.17%	\$5,753,818.61	100%
2014	\$714.00	\$220.09	30.83%	\$8,166,788.95	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 – 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.

#### **Note 9 – Payables**

On September 30, 2016, payables for the Board's individual major funds are as follows:

	General Fund	Special Revenue Fund	Other Governmental Fund	Total
<b>Payables:</b>				
Vendors	\$7,536,878.26	\$1,891,487.81	\$145,865.53	\$9,574,231.60
Intergovernmental		1,416.97		1,416.97
Other	100,436.99	4,433.80		104,870.79
Retainage			171,976.29	171,976.29
<b>Total Receivables</b>	<b>\$7,637,315.25</b>	<b>\$1,897,338.58</b>	<b>\$317,841.82</b>	<b>\$9,852,495.65</b>

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2016*

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#### **Note 10 – Long-Term Debt**

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

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

On May 28, 2014, the Alabama Public School and College Authority, on behalf of the various Boards of Education in the pool, issued PSCA Capital Improvement Pool Refunding Bonds, Series 2014-A with interest rates ranging from 2.00% to 5.00% to refund and retire Capital Improvement Pool Bonds, Series 2006. The Board has an 11.02% participation in the bonds resulting in the Board's share of the principal, issuance costs, and premium in the amount of \$8,822,237.22, \$56,575.36, and \$1,314,397.99, respectively. The Alabama Department of Education withholds the required debt service payments from the Board's Public School Fund allocation.

## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2016*

The following is a summary of long-term debt transactions for the Board for the year ended September 30, 2016:

	Debt Outstanding 10/01/2015	Issued/ Increased	Repaid/ Decreased	Debt Outstanding 09/30/2016	Amounts Due Within One Year
<u>Governmental Activities:</u>					
Bonds Payable:					
PSCA Capital Improvement					
Pool Refunding Bonds:					
Series 2009-B	\$ 3,793,536.48	\$	\$(1,205,632.86)	\$ 2,587,903.62	\$1,263,472.00
Series 2011-B	4,206,160.00			4,206,160.00	
Series 2014-A	8,217,297.92		(619,754.14)	7,597,543.78	639,189.66
Unamortized Premium	1,978,716.16		(291,636.89)	1,687,079.27	291,636.89
Total Bonds Payable	18,195,710.56		(2,117,023.89)	16,078,686.67	2,194,298.55
Other Liabilities:					
Capital Leases		167,683.20	(55,894.40)	111,788.80	55,894.40
Estimated Liability for Compensated Absences	2,545,748.71		(406,680.70)	2,139,068.01	
Pension Liability	186,465,000.00	28,852,000.00		215,317,000.00	
Total Other Liabilities	189,010,748.71	29,019,683.20	(462,575.10)	217,567,856.81	55,894.40
Total Governmental Activities Long-Term Liabilities	\$207,206,459.27	\$29,019,683.20	\$(2,579,598.99)	\$233,646,543.48	\$2,250,192.95

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

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

Fiscal Year Ending	Bonds Payable		Capital Lease	Total Principal and Interest Requirements to Maturity
	Principal	Interest		
September 30, 2017	\$ 1,902,661.66	\$ 683,635.49	\$ 55,894.40	\$ 2,642,191.55
2018	1,987,395.71	597,610.00	55,894.40	2,640,900.11
2019	1,840,770.06	504,394.92		2,345,164.98
2020	2,210,428.88	414,998.40		2,625,427.28
2021	2,322,865.98	303,551.03		2,626,417.01
2022-2026	4,127,485.11	509,476.19		4,636,961.30
Totals	\$14,391,607.40	\$3,013,666.03	\$111,788.80	\$17,517,062.23

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2016*

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#### *Deferred Inflows/Outflows on Refunding, Discounts and Premiums*

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 Board has bond issuance costs, premium and deferred loss on refunding in connection with the Capital Improvement Pool Refunding Bonds, Series 2014-A. The premium and deferred loss on refunding are being amortized using the straight-line method over a period of 12 years. In accordance with GASB Statement Number 65, bond issuance costs are expensed in the year the debt is issued.

	Deferred Outflows on Refunding	Premium
Total Deferred Outflows on Refunding and Premium	\$1,567,897.58	\$3,073,823.60
Amount Amortized Prior Years	669,199.53	1,095,107.44
Balance Deferred Outflows on Refunding and Premium	898,698.05	1,978,716.16
Current Amount Amortized	151,862.02	291,636.89
Balance Deferred Outflows on Refunding and Premium	<u>\$ 746,836.03</u>	<u>\$1,687,079.27</u>

#### *Pledged Revenues*

The Board, as part of a pooled bond issuance with other school systems within the State of Alabama, issued Capital Improvement Pool Bonds, Series 2014-A in anticipation of their Public School Fund Allocations, which are received from the Alabama Department of Education. The proceeds were used to advance refund Series 2006 Leverage Bonds for the acquisition, construction, and renovation for school facilities. Future revenues in the amount of \$9,553,800.21 are pledged to repay the remaining principal and interest on the bonds at September 30, 2016. Proceeds of the Public School Fund allocation in the amount of \$4,761,369.88 were received by the Board during the fiscal year ended. Pledged funds in the amount of \$982,618.95 (2014-A) were used to pay principal and interest on the bonds during the fiscal year ended September 30, 2016. This represents 21 percent of the pledged funds received by the Board. The Capital Improvement Pool Bonds, Series 2014-A, will mature in fiscal year 2026.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2016*

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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 \$5,068,040.00 are pledged to repay the remaining principal and interest on the bonds at September 30, 2016. Proceeds of the Public School Fund allocation in the amount of \$4,761,369.88 were received by the Board during the fiscal year ended. Pledged funds in the amount of \$210,308.00 were used to pay interest on the bonds during the fiscal year ended September 30, 2016. This represents 4 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 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 \$2,783,433.22 are pledged to repay the remaining principal and interest on the bonds at September 30, 2016. Proceeds of the Public School Fund allocation in the amount of \$4,761,369.88 were received by the Board during the fiscal year ended. Pledged funds in the amount of \$1,395,233.60 were used to pay principal and interest on the bonds during the fiscal year ended September 30, 2016. This represents 29 percent of the pledged funds received by the Board. The Capital Improvement Bonds, Series 2009-B will mature in fiscal year 2018.

#### **Note 11 – Risk Management**

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board has insurance for its buildings and contents through the State Insurance Fund (SIF) part of the State of Alabama, Department of Finance, Division of Risk Management, which operates as a common risk management and insurance program for state owned properties and county boards of education. The Board pays an annual premium based on the amount of coverage requested. The SIF is self-insured up to \$3.5 million per occurrence and purchases commercial insurance for claims in excess of \$3.5 million.

General liability, and errors and omissions insurance are purchased from the Alabama Trust for Boards of Education (ATBE), a public entity risk pool. The Board also purchases automobile insurance from the ATBE. The ATBE 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.



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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2016*

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Employee health insurance is provided through the Public Education Employees' Health Insurance Fund (PEEHIF), administered by the Public Education Employees' Health Insurance Board (PEEHIB). The Fund was established to provide a uniform plan of health insurance for current and retired employees of state educational institutions and is self-sustaining. Monthly premiums for employee and dependent coverage are determined annually by the plan's actuary and are based on anticipated claims in the upcoming year, considering any remaining fund balance on hand available for claims. The Board contributes a specified amount monthly to the PEEHIF for each employee of state educational institutions. The Board's contribution is applied against the employees' premiums for the coverage selected and the employee pays any remaining premium.

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

#### **Note 12 – Interfund Transactions**

##### **Interfund Receivables and Payables**

The interfund receivables and payables at September 30, 2016, were as follows:

	<u>Interfund Receivables</u>		
	General Fund	Special Revenue Fund	Total
<u>Interfund Payables:</u>			
General Fund	\$ 2,211.50	\$554,434.75	\$556,646.25
Special Revenue Fund	162,889.57		162,889.57
Other Governmental Funds	6,104.15		6,104.15
Total	<u>\$171,205.22</u>	<u>\$554,434.75</u>	<u>\$725,639.97</u>

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2016*

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#### **Interfund Transfers**

The amounts of interfund transfers during the fiscal year ending September 30, 2016, were as follows:

	Transfers Out			Totals
	General Fund	Special Revenue Fund	Other Governmental Funds	
<u>Transfers In:</u>				
General Fund	\$	\$438,335.38	\$43,918.91	\$ 482,254.29
Special Revenue Fund	7,421,199.61			7,421,199.61
Totals	<u>\$7,421,199.61</u>	<u>\$438,335.38</u>	<u>\$43,918.91</u>	<u>\$7,903,453.90</u>

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

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## *Required Supplementary Information*

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***Schedule of the Employer's Proportionate Share of the  
Net Pension Liability  
For the Year Ended September 30, 2016  
(Dollar amounts in thousands)***

	<b>2016</b>	<b>2015</b>
Employer's proportion of the net pension liability	2.057362%	2.052544%
Employer's proportionate share of the net pension liability	\$ 215,317	\$ 186,465
Employer's covered-employee payroll during the measurement period (*)	\$ 130,172	\$ 130,582
Employer's proportionate share of the collective net pension liability as a percentage of its covered-employee payroll	165.41%	142.80%
Plan fiduciary net position as a percentage of the total collective pension liability	67.51%	71.01%

(\*) Employer's covered-employee payroll during the measurement period is the total payroll paid to covered employees (not just pensionable payroll). For fiscal year 2016, the measurement period is October 1, 2014 - September 30, 2015.

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

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***Schedule of the Employer's Contributions***  
***For the Year Ended September 30, 2016***  
***(Dollar amounts in thousands)***

	2016	2015
Contractually required contribution	\$ 15,186	\$ 15,180
Contributions in relation to the contractually required contribution	<u>\$ 15,186</u>	<u>\$ 15,180</u>
Contribution deficiency (excess)	\$	\$
Employer's covered-employee payroll	\$ 128,603	\$ 130,172
Contributions as a percentage of covered-employee payroll	11.81%	11.66%

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

***Schedule of Revenues, Expenditures and Changes in Fund Balances***  
***Budget and Actual - General Fund***  
***For the Year Ended September 30, 2016***

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>
	<b>Original</b>	<b>Final</b>	<b>Budgetary Basis</b>
<b><u>Revenues</u></b>			
State	\$ 117,162,906.00	\$ 118,085,602.00	\$ 119,777,858.61
Federal	510,000.00	556,000.00	1,978,015.85
Local	89,424,010.00	90,349,389.00	92,443,134.48
Other	110,000.00	35,000.00	251,270.08
Total Revenues	207,206,916.00	209,025,991.00	214,450,279.02
<b><u>Expenditures</u></b>			
Current:			
Instruction	113,431,058.49	116,318,271.84	119,354,531.67
Instructional Support	34,825,829.40	34,886,637.95	36,407,606.30
Operation and Maintenance	27,504,045.68	26,824,823.53	28,040,245.07
Auxiliary Services:			
Student Transportation	8,021,793.00	7,815,109.34	7,867,190.90
Food Service		4,069.58	
General Administrative	7,711,275.50	7,442,321.34	7,648,525.12
Other	5,849,054.00	6,352,684.93	6,202,635.70
Capital Outlay:			
Personal Property	330,000.00	1,468,275.70	
Real Property	744,931.00	1,803,403.14	1,591,982.42
Debt Service:			
Principal Retirement			55,894.40
Total Expenditures	198,417,987.07	202,915,597.35	207,168,611.58
Excess (Deficiency) of Revenues Over Expenditures	8,788,928.93	6,110,393.65	7,281,667.44
<b><u>Other Financing Sources (Uses)</u></b>			
Indirect Cost	2,231,977.20	2,291,778.67	2,179,330.34
Long-Term Debt Issued			167,683.20
Transfers In		307,171.00	482,254.29
Other Financing Sources	2,500,000.00	1,723,000.00	2,309,093.36
Sale of Capital Assets	110,000.00	10,000.00	87,978.25
Transfers Out	(8,605,187.13)	(7,887,309.19)	(7,421,199.61)
Total Other Financing Sources (Uses)	(3,763,209.93)	(3,555,359.52)	(2,194,860.17)
Net Change in Fund Balances	5,025,719.00	2,555,034.13	5,086,807.27
Fund Balances - Beginning of Year	28,128,470.00	28,130,988.00	28,125,953.33
Fund Balances - End of Year	\$ 33,154,189.00	\$ 30,686,022.13	\$ 33,212,760.60

<b>Budget to GAAP Differences</b>	<b>Actual Amounts GAAP Basis</b>
\$	\$ 119,777,858.61
	1,978,015.85
	92,443,134.48
	251,270.08
	<u>214,450,279.02</u>
(796,307.46)	118,558,224.21
(2,863.54)	36,404,742.76
(33,276.69)	28,006,968.38
(904.94)	7,866,285.96
(7,669.04)	7,640,856.08
31,219.97	6,233,855.67
	1,591,982.42
	55,894.40
(809,801.70)	<u>206,358,809.88</u>
809,801.70	<u>8,091,469.14</u>
	2,179,330.34
	167,683.20
	482,254.29
	2,309,093.36
	87,978.25
	(7,421,199.61)
	<u>(2,194,860.17)</u>
809,801.70	5,896,608.97
(17,550,860.23)	<u>10,575,093.10</u>
\$ (16,741,058.53)	<u>\$ 16,471,702.07</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, 2016***

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**Explanation of differences:**

The Board budgets revenues and expenditures to the extent they are expected to be received or paid in the current fiscal period, rather than on the modified accrual basis.



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\$ 809,801.70

***Schedule of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual - Special Revenue Fund  
For the Year Ended September 30, 2016***

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>
	<b>Original</b>	<b>Final</b>	<b>Budgetary Basis</b>
<b><u>Revenues</u></b>			
Federal	\$ 40,903,679.75	\$ 44,548,991.31	\$ 42,186,262.59
Local	4,296,928.53	4,296,928.53	5,184,883.14
Other	540,646.00	540,646.00	425,860.61
Total Revenues	45,741,254.28	49,386,565.84	47,797,006.34
<b><u>Expenditures</u></b>			
Current:			
Instruction	14,241,891.57	16,171,388.77	16,994,660.23
Instructional Support	13,518,040.66	17,749,089.37	11,521,890.25
Operation and Maintenance	90,771.98	90,771.98	119,408.42
Auxiliary Services:			
Student Transportation	243,186.26	246,141.26	263,509.73
Food Service	17,459,948.94	17,512,555.26	18,813,585.11
General Administrative	904,288.20	1,078,339.67	1,553,344.45
Other	6,404,984.44	3,995,058.28	4,335,289.31
Capital Outlay			
Personal Property		330,487.00	
Real Property			185,637.91
Total Expenditures	52,863,112.05	57,173,831.59	53,787,325.41
Excess (Deficiency) of Revenues Over Expenditures	(7,121,857.77)	(7,787,265.75)	(5,990,319.07)
<b><u>Other Financing Sources (Uses)</u></b>			
Transfers In	8,605,187.13	7,580,138.19	7,421,199.61
Other Financing Sources			4,167.83
Sale of Capital Assets			227.90
Transfers Out			(438,335.38)
Total Other Financing Sources (Uses)	8,605,187.13	7,580,138.19	6,987,259.96
Net Change in Fund Balances	1,483,329.36	(207,127.56)	996,940.89
Fund Balances - Beginning of Year	9,719,707.00	8,147,109.00	8,150,898.30
Fund Balances - End of Year	\$ 11,203,036.36	\$ 7,939,981.44	\$ 9,147,839.19

**Explanation of differences:**

The Board budgets revenues and expenditures to the extent they are expected to be received or paid in the current fiscal period, rather than on the modified accrual basis.

<b>Budget to GAAP Differences</b>	<b>Actual Amounts GAAP Basis</b>
\$	\$ 42,186,262.59
	5,184,883.14
	425,860.61
	<u>47,797,006.34</u>
	16,994,660.23
	11,521,890.25
	119,408.42
	263,509.73
(25,525.10)	18,788,060.01
	1,553,344.45
	4,335,289.31
	185,637.91
(25,525.10)	<u>53,761,800.31</u>
25,525.10	(5,964,793.97)
	7,421,199.61
	4,167.83
	227.90
	(438,335.38)
	<u>6,987,259.96</u>
25,525.10	1,022,465.99
(724,008.47)	<u>7,426,889.83</u>
\$ (698,483.37)	<u>\$ 8,449,355.82</u>
<u>\$ 25,525.10</u>	

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## *Supplementary Information*

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***Schedule of Expenditures of Federal Awards***  
***For the Year Ended September 30, 2016***

<b>Federal Grantor/ Pass-Through Grantor/ Program Title</b>	<b>Federal CFDA Number</b>
<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	10.553
National School Lunch Program:	
Cash Assistance	10.555
Non-Cash Assistance (Commodities)	10.555
Sub-Total National School Lunch Program	
Sub-Total Child Nutrition Cluster	
State Administrative Expenses for Child Nutrition	10.560
Child Nutrition Discretionary Grants Limited Availability	10.579
Sub-Total U. S. Department of Agriculture	
<b><u>Direct Program</u></b>	
Farm to School Grant Program	10.575
Total U. S. Department of Agriculture	
<b><u>U. S. Department of Education</u></b>	
<b><u>Passed Through Alabama Department of Education</u></b>	
Special Education Cluster:	
Special Education - Grants to States	84.027
Special Education - Preschool Grants	84.173
Sub-Total Special Education Cluster	
Title I Grants to Local Educational Agencies (M)	84.010
Career and Technical Education - Basic Grants to States	84.048
Education for Homeless Children and Youth	84.196
Education Research, Development and Dissemination	84.305
Advanced Placement Program	84.330
English Language Acquisition State Grants	84.365
Improving Teacher Quality State Grants (M)	84.367
School Improvement Grants	84.377
Sub-Total U. S. Department of Education	
<b><u>Direct Program</u></b>	
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334
Total U. S. Department of Education	
Sub-Total Forward	

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Pass-Through Grantor's Number	Total Federal Expenditures
N.A.	\$ 3,164,120.65
N.A.	10,612,414.06
N.A.	902,234.86
	<u>11,514,648.92</u>
	14,678,769.57
N.A.	30,733.20
N.A.	26,308.84
	<u>14,735,811.61</u>
N.A.	73,904.59
	<u>14,809,716.20</u>
N.A.	6,464,047.00
N.A.	102,588.04
	<u>6,566,635.04</u>
N.A.	16,072,210.39
N.A.	582,979.26
N.A.	32,000.00
N.A.	4,033.03
N.A.	2,940.00
N.A.	101,490.20
N.A.	2,179,002.99
N.A.	413,844.20
	<u>25,955,135.11</u>
N.A.	2,729,794.32
	<u>28,684,929.43</u>
	\$ 43,494,645.63

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***Schedule of Expenditures of Federal Awards***  
***For the Year Ended September 30, 2016***

<b>Federal Grantor/ Pass-Through Grantor/ Program Title</b>	<b>Federal CFDA Number</b>
Sub-Total Brought Forward	
<b><u>Corporation for National and Community Service</u></b>	
<b><u>Direct Program</u></b>	
AmeriCorps	94.006
<b><u>U. S. Department of Social Security Administration</u></b>	
<b><u>Passed Through Alabama Department of Education</u></b>	
Social Security - Disability Insurance	96.001
<b><u>U. S. Department of Defense</u></b>	
<b><u>Direct Program</u></b>	
ROTC	N.A.

Total Expenditures of Federal Awards

(M) - Major Program

(N) - Non-Cash Assistance

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.



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<b>Pass-Through Grantor's Number</b>	<b>Total Federal Expenditures</b>
	\$ 43,494,645.63
N.A.	110,069.25
N.A.	10,076.00
N.A.	<u>549,487.56</u>
	<u><u>\$ 44,164,278.44</u></u>

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***Notes to the Schedule of Expenditures  
of Federal Awards  
For the Year Ended September 30, 2016***

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**Note 1 – Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) 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 Title 2 U. S. ***Code of Federal Regulations*** Part 200, ***Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*** (*Uniform Guidance*). Because the Schedule presents only a selected portion of the operations of the Birmingham City Board of Education, it is not intended to and does not present the financial position or changes in net position of the Birmingham City Board of Education.

**Note 2 – Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the *Uniform Guidance* wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Birmingham City Board of Education did not elect to use the 10-percent de minimis indirect cost rate as allowed in the *Uniform Guidance*.

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## *Additional Information*

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***Board Members and Administrative Personnel***  
***October 1, 2015 through September 30, 2016***

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<b>Board Members</b>			<b>Term Expires</b>
Hon. Sherman Collins, Jr.	Member	District 1	2017
Hon. Lyord Watson, Jr.	Vice-President	District 2	2017
Hon. Brian Giattina	Member	District 3	2017
Hon. Daagye Hendricks	Member	District 4	2017
Hon. Randall Woodfin	Member	District 5	2017
Hon. Cheri A. Gardner	Member	District 6	2017
Hon. Wardine T. Alexander	President	District 7	2017
Hon. April M. Williams	Member	District 8	2017
Hon. Sandra K. Brown	Member	District 9	2017

**Administrative Personnel**

Dr. Larry J. Contri	Interim Superintendent	September 22, 2016 – June 2017
Dr. Kelley Castlin-Gacutan	Superintendent	July 1, 2015 – September 22, 2016
Ms. Sharon Roberts	Chief School Financial Officer	Indefinite

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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**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards*** issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Birmingham City Board of Education, as of and for the year ended September 30, 2016, 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 September 7, 2017.

**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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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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 that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control described in the accompanying Schedule of Findings and Questioned Costs as items 2002-014, 2015-001, and 2016-001 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 a certain matter that we have reported to the management of the Birmingham City Board of Education in the Schedule of State and Local Compliance and Other Findings.

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

Birmingham City Board of Education's response to the findings identified in our audit are described in the accompanying Auditee Response/Corrective Action Plan. 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.

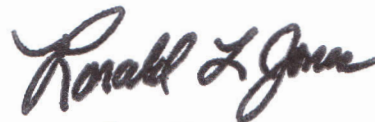
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# ***Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards***

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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

September 7, 2017

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# ***Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance***

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## **Independent Auditor's Report**

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

### **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 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, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the 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 the audit requirements of Title 2 U. S. ***Code of Federal Regulations*** Part 200, ***Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*** (*Uniform Guidance*). Those standards and the *Uniform Guidance* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 the Uniform Guidance***

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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, 2016.

## **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 program and to test and report on internal control over compliance in accordance with the *Uniform Guidance*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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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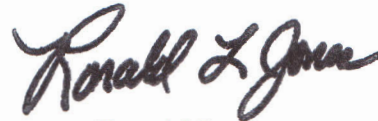
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***Report on Compliance for Each Major Federal Program and  
Report on Internal Control Over Compliance Required  
by the Uniform Guidance***

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



Ronald L. Jones  
Chief Examiner

Department of Examiners of Public Accounts

Montgomery, Alabama

September 7, 2017

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## ***Schedule of Findings and Questioned Costs***

### ***For the Year Ended September 30, 2016***

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#### **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 2 CFR 200.516(a) of the *Uniform Guidance*? \_\_\_\_\_ Yes    X No

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
84.010	Title I Grants to Local Educational Agencies
84.367	Improving Teacher Quality State Grants

Dollar threshold used to distinguish between Type A and Type B programs: \$1,324,928.35

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

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## ***Schedule of Findings and Questioned Costs***

### ***For the Year Ended September 30, 2016***

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

Ref. No.	Type of Finding	Finding/Noncompliance	Questioned Costs
2016-001	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 Ramsay High School:</p> <ul style="list-style-type: none"> <li>✓ Numerous instances of either no documentation or no supporting documentation was available for review.</li> <li>✓ Several purchase orders were dated after the invoice date.</li> </ul> <p><b><u>Recommendation:</u></b> Procedures should be implemented to ensure the proper requisition and documentation of expenditures and disbursements are properly filed and accounted for.</p> <p><b><u>Views of Responsible Officials of the Auditee:</u></b> The Board agreed with the finding.</p>	
2015-001	Internal Control	<p><b><u>Finding:</u></b> The Financial Procedures for Local Schools developed by the State of Alabama Department of Education provides guidelines for the proper accounting of concessions and school stores. Procedures recommended include collecting funds on a timely basis, issuing a master receipt at the time the funds are actually received and accompanying the funds collected with supporting documentation of items sold. The following matters were noted at EPIC Elementary School related to school snack sales:</p> <ul style="list-style-type: none"> <li>✓ It was noted during testing that several weeks were lapsing between master receipt dates, thus, indicating that funds were not being receipted and/or deposited in a timely manner.</li> <li>✓ The school does not maintain an inventory of snack items purchased or document items sold.</li> </ul>	

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## *Schedule of Findings and Questioned Costs*

### *For the Year Ended September 30, 2016*

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

Ref. No.	Type of Finding	Finding/Noncompliance	Questioned Costs
		<p><b><u>Recommendation:</u></b> Procedures should be implemented to ensure the proper accounting of concessions and school stores.</p> <p><b><u>Views of Responsible Officials of the Auditee:</u></b> The Board agreed with the finding.</p>	
2002-014	Internal Control	<p><b><u>Finding:</u></b> An adequate system of internal control requires the proper receipting and depositing of all funds collected. The following matters were noted related to receipting at local schools:</p> <ul style="list-style-type: none"> <li>✓ At Ramsay High School, teacher receipts were not turned into the bookkeeper in a timely manner, bank deposits did not equal master receipt totals and not all teacher receipts were maintained for review. It was also noted on a few instances master receipts were not being entered into the computer in sequential order. For example, receipt numbers 4308-4319 were receipted and deposited in February; however, they were not entered into the computer until March and backdated to the February date.</li> <li>✓ At Epic Elementary for the after school care program, it was noted all individual receipts and the master receipt were written the day the bank deposit was prepared instead of receipting the funds the day the money is actually being collected.</li> </ul> <p><b><u>Recommendation:</u></b> Procedures should be implemented to ensure the proper receipting and depositing of all funds collected.</p> <p><b><u>Views of Responsible Officials of the Auditee:</u></b> The Board agreed with the finding.</p>	

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***Schedule of Findings and Questioned Costs***  
***For the Year Ended September 30, 2016***

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

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

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## *Summary Schedule of Prior Audit Findings*

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## ***Summary Schedule of Prior Audit Findings***

***For the Year Ended September 30, 2016***

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As required by the *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, 2 CFR 200.511, the Birmingham City Board of Education has prepared and hereby submits the following Summary Schedule of Prior Audit Findings as of September 30, 2016.

**Finding  
Ref.  
No.**

**Status of Prior Audit Finding**

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2015-001

**Finding:**

The Financial Procedures for Local Schools developed by the State of Alabama Department of Education provides guidelines for the proper accounting of concessions and school stores. Procedures recommended include collecting funds on a timely basis, issuing a master receipt at the time the funds are actually received and accompanying the funds collected with supporting documentation of items sold. The following matters were noted at EPIC Elementary School related to school snack sales:

- ✓ There were only 3 master receipts noted during the audit period that indicated the funds being collected were for snack sales.
- ✓ There were purchases totaling \$4,305.31 coded to an activity with “school snacks” noted on the purchase order, however there were only \$477.00 in receipts coded to the same activity with “snacks” noted on the master receipt.
- ✓ The school does not maintain an inventory of snack items purchased or document items sold.

**Corrective Action Plan:**

The finding has not been resolved because the audit finding was not detected until the beginning of the new fiscal year. However following discussion of the audit finding with the examiners, the CFO and the Comptroller along with the Director of Schools assigned to EPIC and the Academic Officer met with both the Principal of EPIC and the school bookkeeper to discuss this audit finding. The Birmingham City Schools procedures for inventory, receipting, snacks, and account coding for local schools were discussed in detail to ensure the principal and bookkeeper was aware of their respective responsibilities. The Finance Department will also provide additional oversight of this school during the next fiscal year to ensure that procedures are being followed.



2002-014

**Finding:**

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

- ✓ At EPIC Elementary, teacher receipts were requested to trace the corresponding master receipt and bank deposit. Items master receipted during the month of May 2015 were selected for review. Out of 53 items master receipted, only 3 could be traced to a teacher receipt book.
- ✓ At Parker High, teacher receipts were not turned into the bookkeeper in a timely manner, bank deposits did not equal master receipt totals, and not all teacher receipt books were retained for subsequent review. In addition, during review a teacher receipt book was found in the school safe along with cash that had not been deposited. The receipts were dated August 30<sup>th</sup> through September 1<sup>st</sup> 2015. The funds were deposited in the school's account when they were discovered on May 31, 2016.

**Corrective Action Plan:**

Corrective action was taken for Parker High School, and the finding has been resolved. The Finance Department provides annual training and workshops with bookkeepers and principals to ensure that the proper procedures are communicated to staff; however, issues still persists at EPIC. Beginning in FY 2017, Finance Local School Accountants will make regular visits to EPIC Elementary to review the school's backup information to their monthly financials, to monitor school practices, and to provide further one-on-one training as need for the bookkeeper, secretary, and/or principal.

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## *Auditee Response/Corrective Action Plan*



October 2, 2017

Mr. Ronald L. Jones  
Chief Examiner  
State of Alabama  
Department of Examiners of Public Accounts  
PO Box 302251  
Montgomery, AL 36104-3833

Dear Mr. Jones:

The Corrective Action Plan for Birmingham City Board of Education for the findings for the year ended September 30, 2016 is listed below:

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## ***Corrective Action Plan***

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***For the Year Ended September 30, 2016***

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As required by the *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Audits*, 2 CFR 200.511(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, 2016.

### **Finding**

### **Ref.**

### **No.**

### **Corrective Action Plan Details**

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#### **Finding 2016-001:**

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

- Numerous instances of either no documentation or no supporting documentation was available for review.
- Several purchase orders were dated after the invoice date.

**Response:**

Finance has written procedures detailing the proper requisition and documentation of expenditures and has provided training to all bookkeepers at the school level. Finance will continue to provide relevant and timely training. Local School Accountants within Finance will review the work of the bookkeeper to insure the procedures are being followed.

Following the discussion of the finding with the examiners, the CFO and the Comptroller along with the Director of Schools assigned to Ramsay and the Academic Officer met with both the Principal and bookkeeper of Ramsay High School to discuss the finding and to offer guidance on proper procedures to prevent this occurring in the future.

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**Finding 2015-001:**

The Financial Procedures for Local Schools developed by the State of Alabama Department of Education provides guidelines for the proper accounting of concessions and school stores. Procedures recommended include collecting funds on a timely basis, issuing a master receipt at the time the funds are actually received and accompanying the funds collected with supporting documentation of items sold. The following matters were noted at EPIC Elementary School related to school snack sales:

- It was noted during testing that several weeks were lapsing between master receipt dates, thus, indicating that funds were not being receipted and/or deposited in a timely manner.
- The school does not maintain an inventory of snack items purchased or document items sold.

**Response:**

Following the discussion of the finding with the examiners, the CFO and the Comptroller along with the Director of Schools assigned to EPIC and the Academic Officer met with both the Principal of EPIC and the school bookkeeper to discuss all audit findings related to EPIC. The Birmingham City Schools procedures for inventory, receipting, snacks, and account coding for local schools were discussed in detail to ensure the Principal and bookkeeper were aware of their respective responsibilities. The decision was made to discontinue the selling of snacks in the after school program.

Finance will also provide additional oversight of this school during the FY 2018 school year to ensure procedures are being followed.

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**Finding 2002-014:**

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

- At Ramsay High School, teacher receipts were not turned into the bookkeeper in a timely manner, bank deposits did not equal master receipt totals and not all teacher receipts were



maintained for review. It was also noted on a few instances master receipts were not being entered into the computer in sequential order. For example, receipt numbers 4308-4319 were receipted and deposited in February; however, they were not entered into the computer until March and backdated to the February date.

- AT EPIC Elementary for the after school care program, it was noted all individual receipts and the master receipt were written the day the bank deposit was prepared instead of receipting the funds the day the money is actually being collected.

**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 annual training and workshops with bookkeepers and principals to ensure that the proper procedures are communicated to staff. All school bookkeepers are strongly encouraged to obtain the local school financial management certification through the Alabama Association of School Business Officials (AASBO).

Following the discussion of the finding with the examiners, the CFO and the Comptroller along with the Director of Schools assigned to the individual school and the Academic Officer met with both the Principal and bookkeeper of Ramsay High School and of EPIC to discuss the finding and to offer guidance on proper procedures to prevent this occurring in the future.

Finance will follow up and review the work of these schools to ensure compliance.

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## **Other Matters in Schedule of State and Local Compliance and Other Findings**

*For the Year Ended September 30, 2016*

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**Finding 2002-042:**

Section 94, Constitution of Alabama 1901, 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 are using public funds to finance operations of their non-public activities. The following schools had deficit cash balance in their non-public activities at September 30, 2016:

Bush Hills Academy	\$ (1,226.04)
Bush K-8	\$ (2,225.06)
Huffman High School	\$(47,008.83)
Inglenook K-8	\$ (1,252.36)
Smith Middle	\$ (7,850.362)

**Response:**

The Finance Department conducts training and workshops for principals and bookkeepers on a continuous basis. Every principal has been told of the importance of monitoring all expenditures made from their local accountants and the importance of making sure funds are available prior to committing those funds. 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.

Following the discussion of the finding with the examiners, the CFO and the Comptroller along with the Director of Schools assigned to the individual school and the Academic Officer met with both the Principal and bookkeeper of Bush Hills Academy, Bush K-8, Huffman High School, Inglenook K-8, and Smith Middle School to discuss the finding and to offer guidance on proper procedures to prevent this occurring in the future as well as means of alleviating the current deficit balance.

Finance local school accountants will make a minimum of three visits to each and every school within a twelve month window to review the school's backup information to their monthly financials, to monitor school practices, and to provide further one-on-one training as needed for the bookkeeper, secretary, and/or principal.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Lisa N. Herring', with a large, sweeping flourish extending to the right.

Lisa N. Herring, Ed. D.  
Superintendent

cc: Sharon Roberts, CPA  
Chief Financial Officer