

Report on the

Birmingham City Board of Education

Jefferson County, Alabama

October 1, 2016 through September 30, 2017

Filed: November 30, 2018



Department of Examiners of Public Accounts

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Rachel Laurie Riddle, Chief Examiner



State of Alabama
Department of
Examiners of Public Accounts

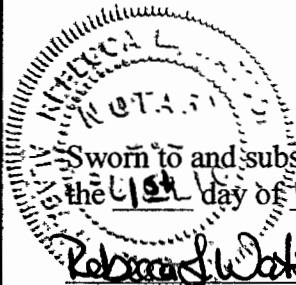
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Rachel Laurie Riddle
Chief Examiner

Honorable Rachel Laurie Riddle
Chief Examiner of Public Accounts
Montgomery, Alabama 36130

Dear Madam:

Under the authority of the *Code of Alabama 1975*, Section 41-5A-19, as added by Act Number 2018-129, 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, 2016 through September 30, 2017.



Sworn to and subscribed before me this
the 15th day of November, 2018.

Rebecca Watson
Notary Public

Sworn to and subscribed before me this
the 9th day of November, 2018.

Kelly D. Matthews
Notary Public

Respectfully submitted,

Cathy M. Cook

Cathy M. Cook
Examiner of Public Accounts

Laura Madison

Laura Madison
Examiner of Public Accounts

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Department of
Examiners of Public Accounts

SUMMARY

**Birmingham City Board of Education
October 1, 2016 through September 30, 2017**

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 under the authority of the 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, 2017.

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

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

CURRENT FINDING

- ◆ 2017-001 relates to improper use of At-Risk funds.

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

UNRESOLVED PRIOR FINDING

- ◆ 2002-042 relates to local schools having deficit fund balances in non-public activities at year-end.

Problems were found with the Board's internal controls over financial reporting (Exhibit 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.

Board members and administrative personnel, as reflected on Exhibit 13, were invited to discuss the results of this report at an exit conference. Individuals in attendance were: Superintendent, Dr. Lisa Herring; Chief School Financial Officer, Sharon Roberts; and Board Members: Lyord Watson, Jr., Brian Giattina, and Sandra K. Brown. Also in attendance were representatives from the Department of Examiners of Public Accounts: Whitney Atchison, Audit Manager; Cathy Cook, Examiner; and Laura Madison, Examiner.

*Schedule of State and Local
Compliance and Other Findings*

Schedule of State and Local Compliance and Other Findings
For the Year Ended September 30, 2017

Ref. No.	Finding/Noncompliance								
2017-001	<p><u>Finding:</u> Act Number 2016-199, Acts of Alabama (Education Trust Fund), made appropriations for public education for fiscal year 2017. Section 3-b of Act Number 2016-199, states that the at-risk student program funds received by each district is based on a pro-rata share for each student who is defined as being at-risk of dropping out of school or is performing at an academic level below current grade placement. At-risk funds may be expended for student programs to improve the efficiency and utilization of technology-based educational resources in the classroom. During the 2017 fiscal year, the Birmingham City Board of Education received \$821,237.00 of at-risk funds. While testing at-risk expenditures, it was noted that \$4,862.50 was used for central office security, \$1,835.90 for maintenance, and \$2,323.36 for security guard uniforms. These expenditures do not appear to be allowable. It was also noted that supporting documentation for two expenditures totaling \$1,867.50 was unavailable for review.</p> <p><u>Recommendation:</u> The Board should ensure that all at-risk funds are being expensed in accordance with Act Number 2016-199, Acts of Alabama.</p>								
2002-042	<p><u>Finding:</u> 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, 2017:</p> <table border="1" data-bbox="643 1304 1146 1493"> <tbody> <tr> <td>Bush K-8</td> <td align="right">\$ (1,197.86)</td> </tr> <tr> <td>Huffman High School</td> <td align="right">\$ (9,795.75)</td> </tr> <tr> <td>Inglenook K-8</td> <td align="right">\$ (389.25)</td> </tr> <tr> <td>Smith Middle</td> <td align="right">\$ (21,175.74)</td> </tr> </tbody> </table> <p><u>Recommendation:</u> The Board should ensure that the schools take measures to eliminate deficit cash balances.</p>	Bush K-8	\$ (1,197.86)	Huffman High School	\$ (9,795.75)	Inglenook K-8	\$ (389.25)	Smith Middle	\$ (21,175.74)
Bush K-8	\$ (1,197.86)								
Huffman High School	\$ (9,795.75)								
Inglenook K-8	\$ (389.25)								
Smith Middle	\$ (21,175.74)								

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, 2017, 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, 2017, 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 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.

Management of the Birmingham City Board of Education has omitted the Management's Discussion and Analysis (MD&A) that accounting principles generally accepted in the United States require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

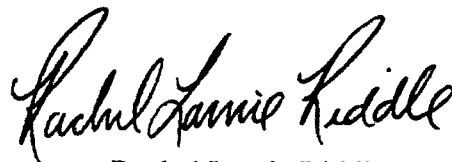
Supplementary Information

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 October 29, 2018, 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 solely 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 effectiveness of the Birmingham City Board of Education's 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.



Rachel Laurie Riddle
Chief Examiner
Department of Examiners of Public Accounts

Montgomery, Alabama

October 29, 2018

Basic Financial Statements

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Statement of Net Position
September 30, 2017

	Governmental Activities
<u>Assets</u>	
Cash and Cash Equivalents	\$ 65,920,535.69
Investments	4,689,682.21
Ad Valorem Property Taxes Receivable	74,318,160.92
Receivables (Note 4)	9,977,703.70
Inventories	386,122.09
Capital Assets (Note 5):	
Nondepreciable	54,357,407.16
Depreciable, Net	507,052,284.56
Total Assets	<u>716,701,896.33</u>
<u>Deferred Outflows of Resources</u>	
Loss on Refunding of Debt	594,974.01
Employer Pension Contribution	15,850,695.00
Proportionate Share of Collective Deferred Outflows Related to Net Pension Liability	18,878,000.00
Total Deferred Outflows of Resources	<u>35,323,669.01</u>
<u>Liabilities</u>	
Payables (Note 9)	6,362,229.63
Unearned Revenue	111,146.38
Salaries and Benefits Payable	18,139,760.22
Long-Term Liabilities:	
Portion Due or Payable Within One Year	2,333,722.67
Portion Due or Payable After One Year	232,432,454.95
Total Liabilities	<u>259,379,313.85</u>
<u>Deferred Inflows of Resources</u>	
Unavailable Revenue - Property Taxes	74,318,160.92
Proportionate Share of Collective Deferred Inflows Related to Net Pension Liability	11,387,000.00
Total Deferred Inflows of Resources	<u>85,705,160.92</u>
<u>Net Position</u>	
Net Investment in Capital Assets	548,064,383.21
Restricted for:	
Capital Projects	26,334,350.22
Other Purposes	4,527,988.63
Unrestricted	<u>(171,985,631.49)</u>
Total Net Position	<u>\$ 406,941,090.57</u>

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

Statement of Activities
For the Year Ended September 30, 2017

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
<u>Governmental Activities</u>			
Instruction	\$ 152,363,677.83	\$ 1,633,837.17	\$ 96,673,061.25
Instructional Support	50,673,466.61	147,824.55	32,069,145.11
Operation and Maintenance	31,072,356.93	113,129.12	10,374,210.45
Auxiliary Services:			
Student Transportation	8,938,547.07	244,542.42	5,472,259.52
Food Service	17,091,742.98	14,364,612.44	1,144,789.15
General Administrative and Central Support	11,697,319.72	44,194.73	3,413,618.95
Interest and Fiscal Charges	543,828.12		
Other Expenses	11,682,621.29	1,150,115.72	6,741,783.18
Total Governmental Activities	<u>\$ 284,063,560.55</u>	<u>\$ 17,698,256.15</u>	<u>\$ 155,888,867.61</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.

		Net (Expenses) Revenues and Changes in Net Position	
Capital Grants and Contributions		Total Governmental Activities	
\$	4,030,813.69	\$	(50,025,965.72)
	871,427.64		(18,456,496.95)
	677,713.67		(19,713,589.72)
			(2,544,031.46)
			(1,582,341.39)
			(8,239,506.04)
			(543,828.12)
			(3,790,722.39)
\$	5,579,955.00		(104,896,481.79)

84,605,203.86
17,862,342.38
2,390,000.00
126,368.27
7,787,071.55
<u>112,770,986.06</u>
7,874,504.27
<u>399,066,586.30</u>
<u>\$ 406,941,090.57</u>

Balance Sheet
Governmental Funds
September 30, 2017

	General Fund	Special Revenue Fund
<u>Assets</u>		
Cash and Cash Equivalents	\$ 57,096,206.64	\$ 2,618,928.45
Investments		37,918.42
Ad Valorem Property Taxes Receivable	74,318,160.92	
Receivables (Note 4)	2,259,955.27	7,717,418.43
Interfund Receivables	168,106.40	2,748.98
Inventories		386,122.09
Total Assets	<u>133,842,429.23</u>	<u>10,763,136.37</u>
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>		
<u>Liabilities</u>		
Payables (Note 9)	3,201,510.62	2,636,902.99
Interfund Payables	2,748.98	168,106.40
Unearned Revenues	89,700.00	21,446.38
Salaries and Benefits Payable	17,471,578.39	668,181.83
Total Liabilities	<u>20,765,537.99</u>	<u>3,494,637.60</u>
<u>Deferred Inflows of Resources</u>		
Unavailable Revenue - Property Taxes	<u>74,318,160.92</u>	
Total Deferred Inflows of Resources	<u>74,318,160.92</u>	
<u>Fund Balances</u>		
Nonspendable:		
Inventories		386,122.09
Restricted for:		
Capital Projects	16,000,671.85	
Child Nutrition		4,141,866.54
Assigned for:		
Local Schools		2,740,510.14
Other Purposes	842,129.50	
Unassigned	21,915,928.97	
Total Fund Balances	<u>38,758,730.32</u>	<u>7,268,498.77</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 133,842,429.23</u>	<u>\$ 10,763,136.37</u>

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

Other Governmental Funds	Total Governmental Funds
\$ 6,205,400.60	\$ 65,920,535.69
4,651,763.79	4,689,682.21
	74,318,160.92
330.00	9,977,703.70
	170,855.38
	386,122.09
<u>10,857,494.39</u>	<u>155,463,059.99</u>
523,816.02	6,362,229.63
	170,855.38
	111,146.38
	18,139,760.22
<u>523,816.02</u>	<u>24,783,991.61</u>
	74,318,160.92
	<u>74,318,160.92</u>
	386,122.09
10,333,678.37	26,334,350.22
	4,141,866.54
	2,740,510.14
	842,129.50
	21,915,928.97
<u>10,333,678.37</u>	<u>56,360,907.46</u>
<u>\$ 10,857,494.39</u>	<u>\$ 155,463,059.99</u>

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***Reconciliation of the Balance Sheet of Governmental Funds to the
Statement of Net Position
September 30, 2017***

Total Fund Balances - Governmental Funds \$ 56,360,907.46

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	\$ 723,216,293.75	
Accumulated Depreciation is	<u>(161,806,602.03)</u>	
		561,409,691.72

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. 594,974.01

Deferred outflows and inflows of resources related to pensions are applicable to
future periods and, therefore, are not reported in the governmental funds. 23,341,695.00

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	\$ 2,333,722.67	
Noncurrent Portion of Long-Term Debt	<u>232,432,454.95</u>	
		<u>(234,766,177.62)</u>

Total Net Position - Governmental Activities \$ 406,941,090.57

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, 2017

	General Fund	Special Revenue Fund
<u>Revenues</u>		
State	\$ 123,302,641.48	\$
Federal	1,749,768.51	43,977,303.93
Local	111,625,541.26	4,524,290.00
Other	270,976.89	217,941.87
Total Revenues	236,948,928.14	48,719,535.80
<u>Expenditures</u>		
Current:		
Instruction	118,247,323.71	18,270,094.81
Instructional Support	38,066,183.64	11,366,877.89
Operation and Maintenance	29,509,970.86	50,992.22
Auxiliary Services:		
Student Transportation	7,887,985.15	90,174.87
Food Service	2,174.33	18,237,629.61
General Administrative and Central Support	10,857,072.27	857,652.56
Other	7,813,966.22	3,766,013.64
Capital Outlay	1,997,690.59	339,995.63
Debt Service:		
Principal Retirement	55,894.40	
Interest and Fiscal Charges		
Total Expenditures	214,438,261.17	52,979,431.23
Excess (Deficiency) of Revenues Over Expenditures	22,510,666.97	(4,259,895.43)
<u>Other Financing Sources (Uses)</u>		
Indirect Cost	2,299,216.33	
Transfers In	379,570.65	3,457,925.41
Other Financing Sources	555,499.71	683.62
Transfers Out	(3,457,925.41)	(379,570.65)
Total Other Financing Sources (Uses)	(223,638.72)	3,079,038.38
Net Changes in Fund Balances	22,287,028.25	(1,180,857.05)
Fund Balances - Beginning of Year	16,471,702.07	8,449,355.82
Fund Balances - End of Year	\$ 38,758,730.32	\$ 7,268,498.77

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

Other Governmental Funds	Total Governmental Funds
\$ 5,562,864.00	\$ 128,865,505.48
	45,727,072.44
44,831.47	116,194,662.73
250.00	489,168.76
<u>5,607,945.47</u>	<u>291,276,409.41</u>
	136,517,418.52
12,475.00	49,445,536.53
875,522.90	30,436,485.98
	8,030,518.13
52,358.11	18,239,803.94
	11,714,724.83
	11,579,979.86
2,291,036.42	4,628,722.64
	1,958,556.06
1,902,661.66	683,602.99
683,602.99	683,602.99
<u>5,817,657.08</u>	<u>273,235,349.48</u>
<u>(209,711.61)</u>	<u>18,041,059.93</u>
	2,299,216.33
	3,837,496.06
105,472.08	661,655.41
	<u>(3,837,496.06)</u>
<u>105,472.08</u>	<u>2,960,871.74</u>
	21,001,931.67
(104,239.53)	
<u>10,437,917.90</u>	<u>35,358,975.79</u>
<u>\$ 10,333,678.37</u>	<u>\$ 56,360,907.46</u>

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended September 30, 2017

Net Changes in Fund Balances - Total Governmental Funds \$ 21,001,931.67

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

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

Capital Outlays	\$ 4,628,722.64	
Depreciation Expense	<u>(15,086,258.58)</u>	(10,457,535.94)

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. 1,958,556.06

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.

Loss on Disposition of Capital Assets		(27,465.54)
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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	\$ 186,827.09	
Amortization of Premiums/Gain or Loss on Refunding Pension Expense, Current Year Increase/(Decrease)	(139,774.87)	
	<u>4,553,929.76</u>	<u>(4,600,981.98)</u>

Change in Net Position of Governmental Activities		<u><u>\$ 7,874,504.27</u></u>
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The accompanying Notes to the Financial Statements are an integral part of this statement.

Statement of Fiduciary Net Position
September 30, 2017

	Agency Funds
<u>Assets</u>	
Cash and Cash Equivalents	\$ 7,739.47
Receivables	27,905.90
Total Assets	<u>35,645.37</u>
<u>Liabilities</u>	
Accounts Payable	8,166.37
Salaries and Benefits Payable	27,479.00
Total Liabilities	<u>\$ 35,645.37</u>

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

Notes to the Financial Statements

For the Year Ended September 30, 2017

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.

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.

Notes to the Financial Statements

For the Year Ended September 30, 2017

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, Title I Part A School Improvement 1003(g) grant, Special Education, and the Child Nutrition Program in addition to various smaller grants which are required to be spent for the purposes of the applicable federal grants. Also included in this fund are the public and nonpublic funds received by the local schools which are generally not considered restricted or committed.

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.

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.

Notes to the Financial Statements
For the Year Ended September 30, 2017

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.

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.

Notes to the Financial Statements

For the Year Ended September 30, 2017

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.

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.

Notes to the Financial Statements
For the Year Ended September 30, 2017

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.

Notes to the Financial Statements
For the Year Ended September 30, 2017

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 (16th) 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.

Notes to the Financial Statements

For the Year Ended September 30, 2017

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.

Notes to the Financial Statements

For the Year Ended September 30, 2017

- ◆ ***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.

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.

Notes to the Financial Statements

For the Year Ended September 30, 2017

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 \$37,918.42, were in certificates of deposit. These certificates of deposit are classified as "Deposits" in order to determine insurance and collateralization. However, they are classified as "Investments" on the financial statements.

B. Investments

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

The Board categorizes its fair value measurements within the fair value hierarchy established by the Governmental Accounting Standards Board (GASB) Statement Number 72, *Fair Value Measurement and Application*. The hierarchy is based on the valuation inputs used to measure fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

Notes to the Financial Statements

For the Year Ended September 30, 2017

As of September 30, 2017, the Board had the following investments, maturities and fair market value hierarchies:

Investment Type	Fair Market Value Hierarchies			
	Total	Level 1	Level 2	Level 3
Federal Home Loan Banks Debenture	\$ 249,622.50	\$ 249,622.50	\$	\$
Federal Home Loan Banks Debenture	499,875.00	499,875.00		
Federal Farm Credit Banks Debenture	499,735.00	499,735.00		
Federal Farm Credit Banks Debenture	499,875.00	499,875.00		
Federal Farm Credit Banks Debenture	698,201.00	698,201.00		
Federal National Mortgage Association Note	1,045,607.49	1,045,607.49		
Federal Home Loan Mortgage Corporation Note	659,062.80	659,062.80		
US Treasury Bills	499,785.00	499,785.00		
Totals	<u>\$4,651,763.79</u>	<u>\$4,651,763.79</u>	\$	\$

All of the investments above have a maturity date of less than one year.

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

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Board does not have an investment policy that specifically addresses its investment choices related to this risk. The Birmingham City Board of Education has funds invested in Federal Home Loan 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.

Notes to the Financial Statements

For the Year Ended September 30, 2017

Note 4 – Receivables

On September 30, 2017, receivables for the Board's individual major funds and other governmental funds are as follows:

	General Fund	Special Revenue Fund	Other Governmental Fund	Total
Receivables:				
Accounts	\$ 399.84	\$ 29,747.82	\$	\$ 30,147.66
Intergovernmental	2,248,417.82	7,686,867.32	330.00	9,935,615.14
Returned Checks	1,412.37	262.66		1,675.03
Other	9,725.24	540.63		10,265.87
Total Receivables	\$2,259,955.27	\$7,717,418.43	\$330.00	\$9,977,703.70

Note 5 – Capital Assets

Capital asset activity for the year ended September 30, 2017, was as follows:

	Balance 10/01/2016	Additions/ Reclassifications (*)	Retirements/ Reclassifications (*)	Balance 09/30/2017
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land and Land Improvements	\$ 52,702,379.42	\$ 74,267.88	\$	\$ 52,776,647.30
Construction in Progress	1,621,847.17	785,358.68	(826,445.99)	1,580,759.86
Total Capital Assets, Not Being Depreciated	54,324,226.59	859,626.56	(826,445.99)	54,357,407.16
Capital Assets Being Depreciated:				
Land Improvements - Exhaustible	34,448,634.50	623,481.50		35,072,116.00
Buildings	485,348,344.27			485,348,344.27
Building Improvements	109,836,458.71	1,799,588.59		111,636,047.30
Equipment and Furniture	19,583,620.25	1,078,672.10	(59,857.00)	20,602,435.35
Vehicles	13,520,321.39	1,093,799.88		14,614,121.27
Capital Leases	168,399.20			168,399.20
Other Capital Outlay	1,417,423.20			1,417,423.20
Total Capital Assets Being Depreciated	664,323,201.52	4,595,542.07	(59,857.00)	668,858,886.59
Less Accumulated Depreciation for:				
Land Improvements - Exhaustible	(4,005,955.67)	(638,132.24)		(4,644,087.91)
Buildings	(88,786,824.43)	(8,307,709.96)		(97,094,534.39)
Building Improvements	(36,848,786.21)	(4,091,856.09)		(40,940,642.30)
Equipment and Furniture	(9,535,802.34)	(1,075,620.09)	32,391.46	(10,579,030.97)
Vehicles	(6,866,346.37)	(909,274.20)		(7,775,620.57)
Capital Leases	(15,155.93)	(30,311.86)		(45,467.79)
Other Capital Outlay	(693,863.96)	(33,354.14)		(727,218.10)
Total Accumulated Depreciation	(146,752,734.91)	(15,086,258.58)	32,391.46	(161,806,602.03)
Total Capital Assets Being Depreciated, Net	517,570,466.61	(10,490,716.51)	(27,465.54)	507,052,284.56
Total Governmental Activities Capital Assets, Net	\$ 571,894,693.20	\$ (9,631,089.95)	\$(853,911.53)	\$ 561,409,691.72
(*) Included in the "Additions/Reclassifications" and the "Retirements/Reclassifications" columns are \$826,445.99 of Construction in Progress which was reclassified when projects were completed.				

Notes to the Financial Statements
For the Year Ended September 30, 2017

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

	Current Year Depreciation Expense
Governmental Activities:	
Instruction	\$12,996,121.03
Instructional Support	194,571.42
Operation and Maintenance	325,081.74
Auxiliary:	
Student Transportation	828,458.97
Food Service	426,667.18
General Administrative and Central Support	291,204.62
Other Expenditures	24,153.62
Total Depreciation Expense - Governmental Activities	<u>\$15,086,258.58</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.

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.

Notes to the Financial Statements

For the Year Ended September 30, 2017

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, 2017, was 12.01% of annual pay for Tier 1 members and 10.82% 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 \$15,850,695.00 for the year ended September 30, 2017.

Notes to the Financial Statements
For the Year Ended September 30, 2017

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

At September 30, 2017, the Board reported a liability of \$218,500,000.00 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2015. 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, 2016, the Board's proportion was 2.018295%, which was a decrease of 0.039067% from its proportion measured as of September 30, 2015.

For the year ended September 30, 2017, the Board recognized pension expense of \$20,392,000.00. At September 30, 2017, 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	\$	\$ 5,627,000.00
Changes of assumptions	15,427,000.00	
Net difference between projected and actual earnings on pension plan investments	3,158,000.00	
Changes in proportion and differences between Employer contributions and proportionate share of contributions	293,000.00	5,760,000.00
Employer contributions subsequent to the measurement date	15,850,695.00	
Total	\$34,728,695.00	\$11,387,000.00

The \$15,850,695.00 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, 2018. 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, 2018	\$1,007,000.00
2019	\$1,007,000.00
2020	\$5,245,000.00
2021	\$ (297,000.00)
2022	\$ 529,000.00
Thereafter	\$ 0

Notes to the Financial Statements

For the Year Ended September 30, 2017

E. Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of September 30, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Investment Rate of Return (*)	7.75%
Projected Salary Increases	3.25% - 5.00%

(*) Net of Pension Plan Investment Expense

The actuarial assumptions used in the actuarial valuation as of September 30, 2015, 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, 2015. The Board of Control accepted and approved these changes in September 2016, which became effective at the beginning of fiscal year 2016.

Mortality rates for TRS and JRF were based on the White Collar Mortality Table projected to 2020 using Scale BB and adjusted 115% for males and 112% for females age 78 and older. The rates of disabled mortality were based on the RP-2000 Disabled Mortality Table projected to 2020 using Scale BB and adjusted 105% for males and 120% 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	17.00%	4.40%
U. S. Large Stocks	32.00%	8.00%
U. S. Mid Stocks	9.00%	10.00%
U. S. Small Stocks	4.00%	11.00%
International Developed Market Stocks	12.00%	9.50%
International Emerging Market Stocks	3.00%	11.00%
Alternatives	10.00%	10.10%
Real Estate	10.00%	7.50%
Cash	3.00%	1.50%
Total	100.00%	

(*) Net assumed rate of inflation of 2.50%

Notes to the Financial Statements
For the Year Ended September 30, 2017

F. Discount Rate

The discount rate used to measure the total pension liability was 7.75%. 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 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 7.75%, 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 (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Board's Proportionate Share of Collective Net Pension Liability	\$291,091	\$218,500	\$157,045
(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 Financial Report for the fiscal year ended September 30, 2016. The supporting actuarial information is included in the GASB Statement Number 67 Report for the TRS prepared as of September 30, 2016. The auditor's report dated September 22, 2017, 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, 2016, along with supporting schedules is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

Notes to the Financial Statements

For the Year Ended September 30, 2017

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.

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 2017
Individual Coverage - Non-Medicare Eligible	\$ 166.00
Individual Coverage - Medicare Eligible	\$ 25.00
Family Coverage - Non-Medicare Eligible Retired Member and Non-Medicare Eligible Non-Spousal Dependent(s)	\$ 421.00
Family Coverage - Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) With Non-Medicare Eligible Spouse	\$ 521.00
Family Coverage - Non-Medicare Eligible Retired Member and Non-Spousal Dependent(s) Medicare Eligible	\$ 280.00
Family Coverage - Non-Medicare Eligible Retired Member and Spouse Dependent Medicare Eligible	\$ 310.00
Family Coverage - Medicare Eligible Retired Member and Non-Medicare Eligible Non-Spousal Dependent(s)	\$ 280.00
Family Coverage - Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) With Non-Medicare Eligible Spouse	\$ 380.00
Family Coverage - Medicare Eligible Retired Member and Non-Spousal Dependent Medicare Eligible	\$ 139.00
Family Coverage - Medicare Eligible Retired Member and Spousal Dependent Medicare Eligible	\$ 169.00
Surviving Spouse - Non-Medicare Eligible	\$ 816.00
Surviving Spouse - Non-Medicare Eligible and Dependent Non-Medicare Eligible	\$1,028.00
Surviving Spouse - Non-Medicare Eligible and Dependent Medicare Eligible	\$1,067.00
Surviving Spouse - Medicare Eligible	\$ 430.00
Surviving Spouse - Medicare Eligible and Dependent Non-Medicare Eligible	\$ 720.00
Surviving Spouse - Medicare Eligible and Dependent Medicare Eligible	\$ 759.00

Notes to the Financial Statements

For the Year Ended September 30, 2017

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.

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
2017	\$800.00	\$152.57	19.07%	\$4,883,893.11	100%
2016	\$780.00	\$211.21	27.08%	\$6,772,045.08	100%
2015	\$780.00	\$180.76	23.17%	\$5,753,818.61	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.

Notes to the Financial Statements
For the Year Ended September 30, 2017

Note 9 – Payables

On September 30, 2017, payables for the Board’s individual major funds are as follows:

	General Fund	Special Revenue Fund	Capital Projects Fund	Total
Payables:				
Vendors	\$3,079,978.53	\$2,632,801.91	\$514,178.07	\$6,226,958.51
Other	111,894.14	1,929.20		113,823.34
Retainage	9,637.95	2,171.88	9,637.95	21,447.78
Total Payables	\$3,201,510.62	\$2,636,902.99	\$523,816.02	\$6,362,229.63

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, 2017

The following is a summary of long-term debt transactions for the Board for the year ended September 30, 2017:

	Debt Outstanding 10/01/2016	Issued/ Increased	Repaid/ Decreased	Debt Outstanding 09/30/2017	Amounts Due Within One Year
Governmental Activities:					
Bonds Payable:					
PSCA Capital Improvement					
Pool Refunding Bonds:					
Series 2009-B	\$ 2,587,903.62	\$	\$(1,263,154.40)	\$ 1,324,749.22	\$1,323,560.00
Series 2011-B	4,206,160.00			4,206,160.00	
Series 2014-A	7,597,543.78		(639,507.26)	6,958,036.52	662,631.38
Unamortized Premium	1,687,079.27		(291,636.89)	1,395,442.38	291,636.89
Total Bonds Payable	<u>16,078,686.67</u>		<u>(2,194,298.55)</u>	<u>13,884,388.12</u>	<u>2,277,828.27</u>
Other Liabilities:					
Capital Leases	111,788.80		(55,894.40)	55,894.40	55,894.40
Estimated Liability for					
Compensated Absences	2,139,068.01	186,827.09		2,325,895.10	
Pension Liability	215,317,000.00	3,183,000.00		218,500,000.00	
Total Other Liabilities	<u>217,567,856.81</u>	<u>3,369,827.09</u>	<u>(55,894.40)</u>	<u>220,881,789.50</u>	<u>55,894.40</u>
Total Governmental Activities Long-Term Liabilities	<u>\$233,646,543.48</u>	<u>\$3,369,827.09</u>	<u>\$(2,250,192.95)</u>	<u>\$234,766,177.62</u>	<u>\$2,333,722.67</u>

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

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

Fiscal Year Ending	Bonds Payable		Capital Lease	Total Principal and Interest Requirements to Maturity
	Principal	Interest		
September 30, 2018	\$ 1,986,191.38	\$ 597,610.00	\$55,894.40	\$ 2,639,695.78
2019	1,841,698.25	504,394.92		2,346,093.17
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	796,297.65	186,450.94		982,748.59
2023-2026	3,331,463.60	323,025.25		3,654,488.85
Totals	<u>\$12,488,945.74</u>	<u>\$2,330,030.54</u>	<u>\$55,894.40</u>	<u>\$14,874,870.68</u>

Notes to the Financial Statements

For the Year Ended September 30, 2017

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	821,061.55	1,386,744.33
Balance Deferred Outflows on Refunding and Premium	746,836.03	1,687,079.27
Current Amount Amortized	151,862.02	291,636.89
Balance Deferred Outflows on Refunding and Premium	<u>\$ 594,974.01</u>	<u>\$1,395,442.38</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 \$8,570,317.06 are pledged to repay the remaining principal and interest on the bonds at September 30, 2017. Proceeds of the Public School Fund allocation in the amount of \$4,899,436.00 were received by the Board during the fiscal year ended September 30, 2014. Pledged funds in the amount of \$983,483.15 (2014-A) were used to pay principal and interest on the bonds during the fiscal year ended September 30, 2017. This represents 20 percent of the pledged funds received by the Board. The Capital Improvement Pool Bonds, Series 2014-A, will mature in fiscal year 2026.

Notes to the Financial Statements

For the Year Ended September 30, 2017

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 \$4,857,732.00 are pledged to repay the remaining principal and interest on the bonds at September 30, 2017. Proceeds of the Public School Fund allocation in the amount of \$4,899,436.00 were received by the Board during the fiscal year ended September 30, 2011. Pledged funds in the amount of \$210,308.00 were used to pay interest on the bonds during the fiscal year ended September 30, 2017. 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 \$1,390,959.72 are pledged to repay the remaining principal and interest on the bonds at September 30, 2017. Proceeds of the Public School Fund allocation in the amount of \$4,899,436.00 were received by the Board during the fiscal year ended September 30, 2010. Pledged funds in the amount of \$1,392,473.50 were used to pay principal and interest on the bonds during the fiscal year ended September 30, 2017. This represents 28 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.

Notes to the Financial Statements
For the Year Ended September 30, 2017

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, 2017, were as follows:

	Interfund Receivables		Total
	General Fund	Special Revenue Fund	
<u>Interfund Payables:</u>			
General Fund	\$	\$2,748.98	\$ 2,748.98
Special Revenue Fund	168,106.40		168,106.40
Total	<u>\$168,106.40</u>	<u>\$2,748.98</u>	<u>\$170,855.38</u>

Notes to the Financial Statements
For the Year Ended September 30, 2017

Interfund Transfers

The amounts of interfund transfers during the fiscal year ending September 30, 2017, were as follows:

	Transfers Out		Totals
	General Fund	Special Revenue Fund	
<u>Transfers In:</u>			
General Fund	\$	\$379,570.65	\$ 379,570.65
Special Revenue Fund	3,457,925.41		3,457,925.41
Totals	\$3,457,925.41	\$379,570.65	\$3,837,496.06

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

***Schedule of the Employer's Proportionate Share of the
Net Pension Liability
For the Year Ended September 30, 2017
(Dollar amounts in thousands)***

	2017	2016	2015
Employer's proportion of the net pension liability	2.018295%	2.057362%	2.052544%
Employer's proportionate share of the net pension liability	\$ 218,500	\$ 215,317	\$ 186,465
Employer's covered payroll during the measurement period (*)	\$ 128,603	\$ 130,172	\$ 130,582
Employer's proportionate share of the collective net pension liability as a percentage of its covered-employee payroll	169.90%	165.41%	142.80%
Plan fiduciary net position as a percentage of the total collective pension liability	67.93%	67.51%	71.01%

(*) Employer's covered payroll during the measurement period is the total covered payroll (See GASB Statement Number 82). For fiscal year 2017, the measurement period is October 1, 2015 - September 30, 2016.

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

Schedule of the Employer's Contributions
For the Year Ended September 30, 2017
(Dollar amounts in thousands)

	2017	2016	2015
Contractually required contribution	\$ 15,851	\$ 15,186	\$ 15,180
Contributions in relation to the contractually required contribution	<u>\$ 15,851</u>	<u>\$ 15,186</u>	<u>\$ 15,180</u>
Contribution deficiency (excess)	\$	\$	\$
Employer's covered-employee payroll	\$ 133,472	\$ 128,603	\$ 130,172
Contributions as a percentage of covered-employee payroll	11.88%	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, 2017***

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary Basis</u>
<u>Revenues</u>			
State	\$ 122,581,922.00	\$ 122,439,651.56	\$ 123,302,641.48
Federal	510,000.00	529,152.00	1,749,768.51
Local	90,407,932.00	90,720,031.00	111,625,541.26
Other	20,000.00	33,385.00	270,976.89
Total Revenues	<u>213,519,854.00</u>	<u>213,722,219.56</u>	<u>236,948,928.14</u>
<u>Expenditures</u>			
Current:			
Instruction	118,662,057.45	118,070,272.45	117,536,593.19
Instructional Support	38,507,901.92	38,816,368.24	38,091,266.15
Operation and Maintenance	28,146,518.46	28,938,380.50	29,562,976.47
Auxiliary Services:			
Student Transportation	7,784,302.00	8,051,089.00	7,896,314.76
Food Service			2,174.33
General Administrative and Central Support	9,575,972.00	10,809,268.75	10,853,974.02
Other	7,057,472.20	7,509,674.20	7,710,857.40
Capital Outlay:			
Personal Property	2,005,836.00	1,793,711.00	
Real Property	786,328.00	1,021,660.00	1,997,690.59
Debt Service:			
Principal Retirement			55,894.40
Total Expenditures	<u>212,526,388.03</u>	<u>215,010,424.14</u>	<u>213,707,741.31</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>993,465.97</u>	<u>(1,288,204.58)</u>	<u>23,241,186.83</u>
<u>Other Financing Sources (Uses)</u>			
Indirect Cost	2,361,143.28	2,444,980.35	2,299,216.33
Transfers In			379,570.65
Other Financing Sources	1,400,000.00	960,210.00	555,499.71
Transfers Out	<u>(3,736,615.93)</u>	<u>(3,736,615.93)</u>	<u>(3,457,925.41)</u>
Total Other Financing Sources (Uses)	<u>24,527.35</u>	<u>(331,425.58)</u>	<u>(223,638.72)</u>
Net Change in Fund Balances	1,017,993.32	(1,619,630.16)	23,017,548.11
Fund Balances - Beginning of Year	28,923,760.00	32,784,619.60	33,212,760.60
Fund Balances - End of Year	<u>\$ 29,941,753.32</u>	<u>\$ 31,164,989.44</u>	<u>\$ 56,230,308.71</u>

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.

Budget to GAAP Differences	Actual Amounts GAAP Basis
\$	\$ 123,302,641.48
	1,749,768.51
	111,625,541.26
	270,976.89
	<u>236,948,928.14</u>
710,730.52	118,247,323.71
(25,082.51)	38,066,183.64
(53,005.61)	29,509,970.86
(8,329.61)	7,887,985.15
	2,174.33
3,098.25	10,857,072.27
103,108.82	7,813,966.22
	1,997,690.59
	55,894.40
<u>730,519.86</u>	<u>214,438,261.17</u>
<u>(730,519.86)</u>	<u>22,510,666.97</u>
	2,299,216.33
	379,570.65
	555,499.71
	<u>(3,457,925.41)</u>
	<u>(223,638.72)</u>
(730,519.86)	22,287,028.25
(16,741,058.53)	16,471,702.07
<u>\$ (17,471,578.39)</u>	<u>\$ 38,758,730.32</u>

\$ (730,519.86)

***Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Special Revenue Fund
For the Year Ended September 30, 2017***

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary Basis</u>
<u>Revenues</u>			
Federal	\$ 44,984,626.00	\$ 49,618,957.59	\$ 43,977,303.93
Local	3,809,360.74	3,809,360.74	4,524,290.00
Other	537,198.00	537,198.00	217,941.87
Total Revenues	<u>49,331,184.74</u>	<u>53,965,516.33</u>	<u>48,719,535.80</u>
<u>Expenditures</u>			
Current:			
Instruction	16,259,628.82	19,759,904.74	18,270,094.81
Instructional Support	14,515,922.98	14,296,395.10	11,366,877.89
Operation and Maintenance	25,645.79	62,664.79	50,992.22
Auxiliary Services:			
Student Transportation	193,548.23	234,548.23	90,174.87
Food Service	17,743,276.32	17,807,733.29	18,267,931.15
General Administrative and Central Support	915,659.55	994,735.54	857,652.56
Other	3,403,842.26	4,151,268.81	3,766,013.64
Capital Outlay:			
Personal Property	369,240.00	577,040.00	
Real Property			339,995.63
Total Expenditures	<u>53,426,763.95</u>	<u>57,884,290.50</u>	<u>53,009,732.77</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(4,095,579.21)</u>	<u>(3,918,774.17)</u>	<u>(4,290,196.97)</u>
<u>Other Financing Sources (Uses)</u>			
Transfers In	3,736,615.93	3,736,615.93	3,457,925.41
Other Financing Sources			683.62
Transfers Out			(379,570.65)
Total Other Financing Sources (Uses)	<u>3,736,615.93</u>	<u>3,736,615.93</u>	<u>3,079,038.38</u>
Net Change in Fund Balances	(358,963.28)	(182,158.24)	(1,211,158.59)
Fund Balances - Beginning of Year	<u>6,573,553.00</u>	<u>9,147,839.19</u>	<u>9,147,839.19</u>
Fund Balances - End of Year	<u>\$ 6,214,589.72</u>	<u>\$ 8,965,680.95</u>	<u>\$ 7,936,680.60</u>

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.

Budget to GAAP Differences	Actual Amounts GAAP Basis
\$	\$ 43,977,303.93
	4,524,290.00
	217,941.87
	<u>48,719,535.80</u>
	18,270,094.81
	11,366,877.89
	50,992.22
	90,174.87
(30,301.54)	18,237,629.61
	857,652.56
	3,766,013.64
	339,995.63
<u>(30,301.54)</u>	<u>52,979,431.23</u>
30,301.54	<u>(4,259,895.43)</u>
	3,457,925.41
	683.62
	<u>(379,570.65)</u>
	<u>3,079,038.38</u>
30,301.54	(1,180,857.05)
<u>(698,483.37)</u>	<u>8,449,355.82</u>
<u>\$ (668,181.83)</u>	<u>\$ 7,268,498.77</u>
<u>\$ 30,301.54</u>	

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Supplementary Information

***Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2017***

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number
---	------------------------------------

**U. S. Department of Agriculture
Passed Through Alabama Department of Education**

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 (M)	
State Administrative Expenses for Child Nutrition	10.560
Child Nutrition Discretionary Grants Limited Availability	10.579
Total U. S. Department of Agriculture	

**U. S. Department of Education
Passed Through Alabama Department of Education**

Special Education Cluster:	
Special Education - Grants to States	84.027
Special Education - Preschool Grants	84.173
Sub-Total Special Education Cluster (M)	
Title I Grants to Local Educational Agencies	84.010
Career and Technical Education - Basic Grants to States	84.048
Education for Homeless Children and Youth	84.196
Advanced Placement Program	84.330
English Language Acquisition State Grants	84.365
Supporting Effective Instruction State Grants	84.367
School Improvement Grants (M)	84.377
Sub-Total U. S. Department of Education	

Direct Program

Gaining Early Awareness and Readiness for Undergraduate Programs	84.334
Total U. S. Department of Education	

Sub-Total Forward

Pass-Through Grantor's Number	Total Federal Expenditures
N.A.	\$ 2,995,735.35
N.A.	10,146,763.96
N.A.	1,036,000.79
	<u>11,182,764.75</u>
	14,178,500.10
N.A.	56,504.90
N.A.	66,941.16
	<u>14,301,946.16</u>
N.A.	6,384,192.27
N.A.	116,759.98
	<u>6,500,952.25</u>
N.A.	16,565,612.66
N.A.	607,578.55
N.A.	32,000.00
N.A.	19,152.00
N.A.	140,759.70
N.A.	2,077,154.08
N.A.	1,423,236.09
	<u>27,366,445.33</u>
N.A.	3,374,149.00
	<u>30,740,594.33</u>
	\$ 45,042,540.49

***Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2017***

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

(M) - Major Program

N.A. - Not Available or Not Applicable

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



<u>Pass-Through Grantor's Number</u>	<u>Total Federal Expenditures</u>
	\$ 45,042,540.49
N.A.	181,643.70
N.A.	12,978.00
N.A.	<u>489,910.25</u>
	<u>\$ 45,727,072.44</u>

***Notes to the Schedule of Expenditures
of Federal Awards
For the Year Ended September 30, 2017***

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*.

Additional Information

Board Members and Administrative Personnel
October 1, 2016 through September 30, 2017

Board Members			Term Expires
Hon. Sherman Collins, Jr.	Vice-President	District 1	2017
Hon. Lyord Watson, Jr.	Member	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. Lisa N. Herring	Superintendent	May 2017 – Current
Dr. Larry J. Contri	Interim Superintendent	September 22, 2016 – May 2017
Ms. Sharon Roberts	Chief School Financial Officer	Indefinite

***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***

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 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, 2017, 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 October 29, 2018.

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.

***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***

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 certain matters that we have reported to the management of the Birmingham City Board of Education in the Schedule of State and Local Compliance and Other Findings.

Birmingham City Board of Education's Response to Findings

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

***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***

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 Birmingham City Board of Education'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.



Rachel Laurie Riddle
Chief Examiner
Department of Examiners of Public Accounts

Montgomery, Alabama

October 29, 2018

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

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, 2017. 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.

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

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, 2017.

Report on Internal Control Over Compliance

Management of the Birmingham City Board of Education is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Birmingham City Board of Education's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 a 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 a 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.

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

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.



Rachel Laurie Riddle
Chief Examiner
Department of Examiners of Public Accounts

Montgomery, Alabama

October 29, 2018

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2017

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
10.553 and 10.555	Child Nutrition Program Cluster
84.027 and 84.173	Special Education Cluster
84.377	School Improvement Grants

Dollar threshold used to distinguish between Type A and Type B programs: \$1,371,812.17
Auditee qualified as low-risk auditee? _____ Yes X No

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2017

Section II – Financial Statement Findings (GAGAS)

Ref. No.	Type of Finding	Finding/Noncompliance	Questioned Costs
2016-001	Internal Control	<p><u>Finding:</u> An adequate system of internal controls requires the proper requisition and documentation of expenditures. The following matters were noted relating to expenditures at Woodlawn High School:</p> <ul style="list-style-type: none"> ✓ Several instances of either no documentation or no supporting documentation was available for review. ✓ A check was written for an amount that exceeded the purchase price. We were unable to determine if the refund was deposited into the bank. ✓ Employees were reimbursed amounts in excess of allowable amounts for expenses related to attendance at an out of town conference. <p><u>Recommendation:</u> Procedures should be implemented to ensure the proper documentation of expenditures and that disbursements are properly filed and accounted for.</p> <p><u>Views of Responsible Officials of the Board:</u> The Board agreed with the finding.</p>	
2015-001	Internal Control	<p><u>Finding:</u> The Financial Procedures for Local Schools developed by the State of Alabama Department of Education provide guidelines for the proper accounting of concessions and school stores. Procedures recommended include maintaining an inventory of items purchased, items sold by sales price, and items unsold that is reconciled to the cash collected. Woodlawn High School and Oliver Elementary School sold concessions and did not maintain inventories or reconciliations.</p> <p><u>Recommendation:</u> Procedures should be implemented to ensure the proper accounting of concessions.</p> <p><u>Views of Responsible Officials of the Board:</u> The Board agreed with the finding.</p>	

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2017

Section II – Financial Statement Findings (GAGAS)

Ref. No.	Type of Finding	Finding/Noncompliance	Questioned Costs
2002-014		<p><u>Finding:</u> An adequate system of internal control requires the proper receipting and depositing of all funds collected. The following matters were noted relating to receipting at local schools:</p> <ul style="list-style-type: none"> ✓ At Woodlawn High School, one deposit made in August 2017 was \$100.00 less than the amounts receipted. No explanation was given for the shortage. ✓ At Woodlawn High School, a receipt was recorded in July but not deposited until August and was also not properly recorded. ✓ At Woodlawn High School, it did not appear that teacher receipts were turned into the bookkeeper in a timely manner. In one instance, receipts were held for two months before being deposited. ✓ At Woodlawn High School, receipts lacked adequate documentation to determine from whom the money was received, its purpose, and if it had been receipted and deposited in a timely manner. ✓ At Bush K-8, the bookkeeper did not retain adequate documentation to determine if deposits had been made timely and intact. ✓ Vending receipts are to be deposited into a public fund and used for public purposes. Testing showed that numerous schools are depositing vending receipts into a non-public fund and are spending them for non-public purposes. <p><u>Recommendation:</u> Procedures should be implemented to ensure that all receipts are properly accounted for.</p> <p><u>Views of Responsible Officials of the Board:</u> The Board agreed with the finding.</p>	

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2017

Section III – Federal Awards Findings and Questioned Costs

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

Summary Schedule of Prior Audit Findings

Birmingham City Schools

Believe. Create. Succeed.

Attachment B

Summary Schedule of Prior Audit Findings *For the Year Ended September 30, 2017*

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, 2017.

Finding

Ref.

No.

Status of Prior Audit Finding

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.

Continuing problems have occurred with Ramsay High School during FY 2017. Further meetings and training has been held with both the principal and bookkeeper. This school has been determined to be high risk and will receive several visits from local school accountants throughout the year to review accounts.

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.

Corrective action was taken at this school. However, we are continuing to work on these issues at another school. We continue to train principals and bookkeepers and monitor their activities.

Finding 2002-014:

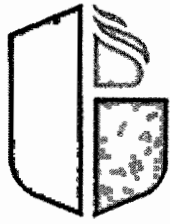
An adequate system of internal control requires the proper receipting and depositing of all funds collected. The following matters were noted related to receipting at local schools.

- 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.

Continuing problems have occurred with Ramsay High School during FY 2017. Further meetings and training has been held with both the principal and bookkeeper. This school has been determined to be high risk and will receive several visits from local school accountants throughout the year to review accounts.

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Auditee Response/Corrective Action Plan



BIRMINGHAM
CITY SCHOOLS
BUILDING LEADERS. IMPACTING THE WORLD.

October 11, 2018

Mr. James E. Hall
Director County Audit Division
State of Alabama
Department of Examiners of Public Accounts
Gordon Persons Building
50 North Ripley Street, Room 3201
Montgomery, Alabama 36104-3833

Dear Mr. Hall:

Birmingham City Schools is in receipt of your letter dated October 2, 2018 requesting a written Corrective Action Plan to the audit findings for the audit of FY 2017.

The findings and audit recommendations are listed below along with the Corrective Action Plan of Birmingham City Schools responsible officials concerning the finding and recommendation.

Finding 2017-001:

Act Number 2016-199, Acts of Alabama (Education Trust Fund), made appropriations for public education for fiscal year 2017. Section 3(b) of Act Number 2016-199 states that the at-risk student program funding received by each district is based on a pro-rata share for each student who is defined as being at-risk of dropping out of school or is performing at an academic level below current grade placement. At-risk funds may be expended for student programs to improve the efficiency and utilization of technology-based, educational resources in the classroom. During the 2017 fiscal year, the Birmingham City Board of Education received \$821,237.00 of at-risk funds. While testing at-risk expenditures, it was noted that \$4,862.50 was used for central office security, \$1,835.90 for maintenance, and \$2,323.36 for security guard uniforms. These expenditures do not appear to be allowable uses of at-risk funds. It was also noted that supporting documentation for two expenditures totaling \$1,867.50 was unavailable for review.

Recommendation:

The Board should ensure that all at-risk funds are being expensed in accordance with Act Number 2016-199, Acts of Alabama.

Corrective Action Plan:

Birmingham City Schools agrees that all at-risk funds should be expensed in accordance with Act Number 2016-199, Acts of Alabama. BCS agrees these errors in coding did occur. The District would like to acknowledge that it had substantial expenses that would have been allowable substitutions for these expenses if the error had been identified before the closing of the books for FY17.

Birmingham City Schools will continue to monitor expenses charged to the At-Risk Program for accuracy and allowability. During late FY 2018, a new administrator has also joined BCS with oversight responsibilities for this program. This added review procedure should help in FY 2019 to lessen the likelihood of miscoding errors.

BCS has also worked throughout FY 2018 to increase Finance efficiencies and to utilize new technology to help eliminate paper flow and loss of documents. In September 2018 BCS implemented a new data management process that will capture all checks written through the accounts payable process along with all supporting documentation and store electronically. For FY 2019, this will correct the issue of missing checks that may be misfiled or misplaced.

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 Woodlawn High School:

- ✓ Several instances of either no documentation or no supporting documentation was available for review.
- ✓ A check was written for an amount that exceeded the purchase price. We were unable to determine if the refund was deposited into the bank.
- ✓ Employees were reimbursed amounts in excess of allowable amounts for expenses related to attendance at an out of town conference.

Recommendation:

Procedures should be implemented to ensure the proper documentation of expenditures and that disbursements are properly filed and accounted for.

Corrective Action Plan:

Birmingham City Schools has written procedures for local school bookkeeping processes in place to prevent these occurrences. Continued training of bookkeepers and principals has been held in FY 2018 and will continue to be held in FY 2019. Closer monitoring of the local school records will be provided by the local school accountants in the Comptroller's department. Additional staffing of Instructional Superintendents and Operational Specialists in late FY 2018 will also add an additional level of oversight and support to Finance to ensure that procedures are followed at the school level.

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 maintaining an inventory of items purchase, items sold by sales price, and items unsold that is reconciled to the cash collected. Woodlawn High school and Oliver Elementary School sold concessions and did not maintain inventories or reconciliations.

Recommendation:

Procedures should be implemented to ensure the proper accounting of concessions.

Corrective Action Plan:

Birmingham City Schools has written procedures for local school bookkeeping processes in place to prevent these occurrences. Continued training of bookkeepers and principals has been held in FY 2018 and will continue to be held in FY 2019. Closer monitoring of the local school records will be provided by the local school accountants in the Comptroller's department. Additional staffing of Instructional

Superintendents and Operational Specialists in late FY 2018 will also add an additional level of oversight and support to Finance to ensure that procedures are followed at the school level.

Finding 2002-042:

Section 4, 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 operation of their non-public activities. The following schools had deficit cash balances in their non-public activities at September 30, 2017:

Bush K-8	\$ (1,197.86)
Huffman High School	\$ (9,795.75)
Inglenook K-8	\$ (389.25)
Smith Middle	\$ (21,175.74)

Recommendation:

The Board should ensure that the schools take measures to eliminate deficit cash balances.

Corrective Action Plan:

Birmingham City Schools has written procedures for local school bookkeeping processes in place to prevent these occurrences. Continued training of bookkeepers and principals has been held in FY 2018 and will continue to be held in FY 2019. Closer monitoring of the local school records will be provided by the local school accountants in the Comptroller's department. Additional staffing of Instructional Superintendents and Operational Specialists in late FY 2018 will also add an additional level of oversight and support to Finance to ensure that procedures are followed at the school level.

Finding 2002-014:

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

- ✓ At Woodlawn High School, one deposit made in August 2017 was \$100.00 less than the amounts receipted. No explanation was given for the shortage.
- ✓ At Woodlawn High School, a receipt was recorded in July but not deposited until August and was also not properly recorded.
- ✓ At Woodlawn High School, it did not appear that teacher receipts were turned into the bookkeeper in a timely manner. In one instance receipts were held for two months before being deposited.
- ✓ At Woodlawn High School, receipts lacked adequate documentation to determine from whom the money was received, its purpose, and if it had been receipted and deposited in a timely manner.
- ✓ At Bush K-8, the bookkeeper did not retain adequate documentation to determine if receipts had been made timely and intact.
- ✓ Vending receipts are to be deposited into a public fund and used for public purposes. Testing showed that numerous schools are depositing vending receipts into a non-public fund and are spending them for non-public purposes.

Recommendation:

Procedures should be implemented to ensure that all receipts are properly accounted for.

Corrective Action Plan:

Birmingham City Schools has written procedures for local school bookkeeping processes in place to prevent these occurrences. Continued training of bookkeepers and principals has been held in FY 2018 and will continue to be held in FY 2019. Closer monitoring of the local school records will be provided by the local school accountants in the Comptroller's department. Additional staffing of Instructional Superintendents and Operational Specialists in late FY 2018 will also add an added oversight and support to Finance to ensure that procedures are followed at the school level.

In FY 2019, BCS will also roll out new technology that will allow teachers to do web based receipting directly in their classroom as students turn in money. The bookkeeper will be notified of all funds being collected and can then ensure that all receipts are turned in by the end of the day so deposits can be made timely. This should prevent teachers from holding money in a classroom at the end of a day.

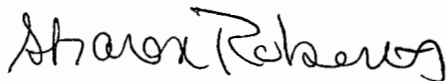
Conclusions:

Birmingham City Schools recognizes the issues that face local school support staff, while still recognizing the importance of accurate and timely reporting of financial activities. BCS continues to strive for improvements in processes and procedures, as well as additional training and oversight, that will ensure the protection of BCS cash and other assets, will provide adequate documentation of expenditures, and will ensure all expenditures are reasonable and allowable.

Sincerely,



Dr. Lisa N. Herring
Superintendent



Sharon Roberts, CPA
Chief School Finance Officer