

Hoover City Board of Education

Financial Statements

September 30, 2012

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Carr, Riggs & Ingram, LLC
2100 16th Avenue South
Suite 300
Birmingham, Alabama 35205

Independent Auditors' Report

To the Members of the
Hoover City Board of Education
Hoover, Alabama

Mailing Address:
P.O. Box 55765
Birmingham, Alabama 35255

(205) 933-7822
(205) 933-7944 (fax)
www.cricpa.com

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hoover City Board of Education (the "Board") as of and for the year ended September 30, 2012, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Board's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Board, as of September 30, 2012, and the respective changes in financial position thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2013, on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3.1 through 3.4 and 29 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board's basic financial statements. The accompanying schedule of bond disclosures, schedule of expenditures of federal awards and schedule of state government appropriations are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and are not a required part of the basic financial statements. These schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Caru, Riggs & Ingram, L.L.C.

Birmingham, Alabama
March 26, 2013

Hoover City Board of Education
Management's Discussion and Analysis (M D & A)
September 30, 2012

The management of the Hoover City Board of Education (the Board) has prepared this narrative overview and analysis of the Board's financial activities to facilitate the users' understanding of the annual report and draw attention to items of interest.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Board's basic financial statements. The basic financial statements consist of the 1) government-wide financial statements, 2) fund financial statements, 3) notes to financial statements, and 4) certain required supplementary financial information.

Government-wide Financial Statements

The government-wide financial statements are intended to provide an indication of the Board's finances in a manner similar to the private sector. Accordingly, the government-wide statements, comprised of the *Statement of Net Assets* and *Statement of Activities*, have been prepared using the accrual basis of accounting.

The *Statement of Net Assets* depicts all of the Board's assets and liabilities with the difference between the two reports as net assets. Over time, changes in net assets may serve as a useful indicator of whether the Board's financial position is improving or deteriorating.

The *Statement of Activities* illustrates how the Board's net assets changed during fiscal year 2012. The statement uses the accrual basis of accounting, which is similar to the accounting used by private-sector businesses. All of the revenues and expenses are reported regardless of the timing of when cash is received or paid. The statement identifies the extent to which each expenditure function draws from general revenues of the Board or is financed through charges for services and intergovernmental aid such as state and federal appropriations.

Fund Financial Statements

The fund financial statements have been prepared under the modified cash basis of accounting and their presentation is largely consistent with historical presentations.

A fund is a grouping of related accounts designed to facilitate control over resources that have been segregated for a specific activity or objective. All of the funds of the Board can be classified into two categories: governmental and fiduciary funds.

Governmental funds essentially measure and report the same activities and transactions as the governmental activities in the governmental-wide financial statements. However, unlike the accrual basis government-wide statements, the governmental funds focus on current, spendable resources and balances of such spendable resources available at the end of the year.

Fiduciary funds are used to account for assets held by the Board in a trustee capacity or as an agent for others. These funds are primarily comprised of booster and parent organization activity funds. However, balances of these funds are not considered material to the financial statements and therefore have been included in the governmental funds.

Government-wide Financial Analysis

Following is a condensed financial analysis, present in comparative format, of the government-wide net assets of the Board as of September 30, 2012:

	Government Activities		Percent Change
	2011	2012	
Current and other assets	\$134,535,373	\$124,949,477	-7.13%
Noncurrent assets	10,141,606	3,777,915	-62.75%
Capital assets	<u>240,840,766</u>	<u>244,132,808</u>	1.37%
Total assets	<u>385,517,745</u>	<u>372,860,200</u>	- 3.28%
Current liabilities	13,108,148	13,569,414	3.52%
Long-term liabilities	<u>187,570,000</u>	<u>181,894,400</u>	-3.03%
Total liabilities	<u>200,678,148</u>	<u>195,463,814</u>	-2.60%
Net assets:			
Invested in capital assets, net of related debt	55,449,674	65,003,328	17.23%
Unrestricted	<u>129,389,923</u>	<u>112,393,058</u>	-13.14%
Total net assets	<u>\$184,839,597</u>	<u>\$177,396,386</u>	- 4.03%

Following is a condensed schedule of revenues and expenditures from governmental activities for the year ended September 30, 2012 presented with comparative data for the previous year:

	<u>Government Activities</u>		Percent Change
	2011 ⁽¹⁾	2012	
Revenues			
Program Revenues:			
Charges for services	\$ 11,191,366	\$ 11,226,129	0.31%
Operating grants and contributions	66,548,442	63,205,628	-5.02%
Capital grants and contributions	3,263,230	3,111,877	-4.64%
General Revenues:			
Property taxes	63,766,136	63,873,342	0.17%
Local sales tax	1,477,581	1,505,450	1.89%
City appropriation	2,000,000	2,000,000	
Other general revenues	<u>6,810,871</u>	<u>6,847,326</u>	0.54%
	<u>155,057,626</u>	<u>151,769,752</u>	-2.12%
Expenses			
Instructional services	88,601,603	88,402,460	-0.22%
Instructional support services	22,908,451	22,952,522	0.19%
Operation and maintenance services	16,580,496	16,273,015	-1.85%
Auxiliary services	16,097,989	15,886,342	-1.31%
General administrative services	2,377,334	2,216,855	-6.75%
Interest and fiscal charges	9,161,735	9,118,639	-0.47%
Other expenses	<u>4,179,625</u>	<u>3,892,864</u>	-6.86%
	<u>159,907,233</u>	<u>158,742,697</u>	-0.73%
Decrease in net assets	(4,849,607)	(6,972,945)	43.78%
Net assets, beginning	<u>189,218,938</u>	<u>184,369,331</u>	-2.56%
Net assets, ending	<u>\$184,369,331</u>	<u>\$177,396,386</u>	-3.78%

(1) Fiscal year 2011 reflects a reclassification of \$470,266 in property tax receipts; a change in tax collection and reporting in Shelby County caused certain ad valorem tax receipts for fiscal year 2012 to be included in fiscal year 2011 results.

As noted in the above shown condensed presentations, the Board's total assets exceeded total liabilities at year-end by \$177.4 million. This represents a decrease of 3.78% over the previous year.

Fund Financial Analysis

The September 30, 2012 financial statements reported a combined fund balance of \$112,433,079 which is a decrease of \$10,047,162 from the previous year's fund balance. This net decrease was primarily the result of expenditures in conjunction with the construction of a classroom addition. Results of the Board's major funds are discussed below:

General Fund

The fiscal year 2012 financial statements reflected a net increase in the balance of the General Fund of \$4,440,008 as revenues received exceeded the amount of expenditures and transfers out of the General Fund to other funds.

Debt Service Fund

The Debt Service Fund decreased \$18.3 million in 2012 as a result of debt service payments of \$8.3 million and a transfer of \$10 million to the Capital Projects fund to provide for the anticipated expenditures necessary to complete various projects.

General Fund Budget Variances

Differences between original and final budget amounts were primarily a result of state and other appropriations not finalized for inclusion in the original budget.

The excess of revenues and other financing sources over expenditures and other fund uses exceeded the final budget amount by \$4.1 million. The difference was primarily the result of higher than anticipated ad valorem tax receipts and unanticipated miscellaneous local revenues of \$2.6 million and \$1.5 million, respectively.

Capital Assets and Debt Administration

Capital Assets

Net capital assets increased by \$3.3 million in 2012, which is net of \$8.2 million in depreciation expense. Additions to capital assets were primarily related to construction in progress on a high school classroom addition, textbooks and maintenance equipment.

Debt Administration

During the 2012 fiscal year, there was no change in the Board's outstanding warrant liability as debt service payments for the Series 2005 and Series 2010 were interest only.

Next Year's Budget

As a result of increased enrollment, the formula-based state funding mechanism is expected to yield an overall increase in revenues next year for Hoover City Schools.

Requests for Additional Information

This financial report is designed to provide the residents of the City, investors, creditors and other users with a general overview of the Board's finances. Inquiries about this report or requests for additional information may be directed to Cathy Antee, Hoover City Board of Education, 2810 Metropolitan Way, Hoover, Alabama 35243.

Hoover City Board of Education

Statement of Net Assets

<i>September 30, 2012</i>	Governmental Activities
Assets	
Current assets	
Cash and cash equivalents	\$ 108,165,049
Investments	14,616,819
Due from other governments	1,860,915
Prepaid items	28,732
Inventories	277,962
Total current assets	124,949,477
Noncurrent assets	
Bond discount and issuance costs, net	3,777,915
Capital assets:	
Land	18,758,170
Buildings and improvements	277,650,420
Equipment, furniture and vehicles	20,034,849
Textbooks and library books	9,776,430
Construction in progress	10,138,733
Accumulated depreciation	(92,225,794)
Total capital assets, net of depreciation	244,132,808
Total noncurrent assets	247,910,723
Total assets	372,860,200

See notes to financial statements.

	Governmental Activities
Liabilities	
Current liabilities	
Accounts payable	\$ 3,703,042
Deferred revenue	493,661
Salaries and benefits payable	8,319,695
Accrued interest payable	1,053,016
Total current liabilities	13,569,414
Noncurrent liabilities	
Warrants payable	187,570,000
Deferred charges on refunding	(5,675,600)
Total noncurrent liabilities	181,894,400
Total liabilities	195,463,814
Net assets	
Invested in capital assets, net of related debt	65,003,328
Unrestricted	112,393,058
Total net assets	\$ 177,396,386

Hoover City Board of Education

Statement of Activities

September 30, 2012

Functions/Programs	Expenses
Governmental activities	
Instructional services	\$ 88,402,460
Instructional support	22,952,522
Operation and maintenance	16,273,015
Auxiliary services	15,886,342
General administration and central support	2,216,855
Other	3,892,864
Interest and fiscal charges	9,118,639
Total governmental activities	\$ 158,742,697

See notes to financial statements.

Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Assets Total Governmental Activities
\$ 4,071,014	\$ 37,354,686	\$ 9,637	\$ (46,967,123)
-	8,610,946	-	(14,341,576)
-	10,994,252	-	(5,278,763)
7,155,115	6,245,744	627,077	(1,858,406)
-	-	-	(2,216,855)
-	-	-	(3,892,864)
-	-	2,475,163	(6,643,476)
<u>\$ 11,226,129</u>	<u>\$ 63,205,628</u>	<u>\$ 3,111,877</u>	<u>(81,199,063)</u>

General revenues

Taxes:

Property taxes for general purposes	63,873,342
Local sales tax	1,505,450
Miscellaneous taxes	4,288
City appropriations	2,000,000
Interest	566,927
General contributions to the Board	571,458
Insurance loss recoveries	22,810
Other	5,681,843
Total general revenues	<u>74,226,118</u>
Change in net assets	<u>(6,972,945)</u>
Net assets - beginning of year as originally stated	184,839,597
Prior period adjustment	(470,266)
Net assets - beginning of year as restated	<u>184,369,331</u>
Net assets - end of year	<u><u>\$ 177,396,386</u></u>

Hoover City Board of Education
Balance Sheet - Governmental Funds

September 30, 2012

General
(See Note 1.K.)

Assets

Current assets

Cash	\$ 69,326,343
Prepaid items	28,732
Interfund receivables	-
Due from government entities	1,562,858
Investments	-
Inventory	61,064

Total assets	\$ 70,978,997
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Liabilities and fund balances

Current liabilities

Accounts payable	\$ 2,038,183
Accrued liabilities	8,057,542
Deferred revenues	114,430
Interfund payables	1,059,562

Total current liabilities	11,269,717
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Fund balances

Non-spendable: inventory and prepaid items	89,796
Restricted for debt service	-
Committed for encumbrances	126,198
Committed for construction projects	-
Committed for special school purposes	49,309,279
Unassigned	10,184,007

Total fund balances	59,709,280
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Total liabilities and fund balances	\$ 70,978,997
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See notes to financial statements.

Debt Service	Other Governmental Funds	Totals Governmental Funds
\$ 18,880,960	\$ 19,957,746	\$ 108,165,049
-	-	28,732
-	1,468,123	1,468,123
-	298,057	1,860,915
14,605,905	10,914	14,616,819
-	216,898	277,962
<hr/>		
\$ 33,486,865	\$ 21,951,738	\$ 126,417,600

\$ -	\$ 1,664,859	\$ 3,703,042
-	262,153	8,319,695
-	379,231	493,661
-	408,561	1,468,123
-	2,714,804	13,984,521

-	216,898	306,694
33,486,865	-	33,486,865
-	1,511,612	1,637,810
-	4,100,226	4,100,226
-	11,141,308	60,450,587
-	2,266,890	12,450,897
<hr/>		
33,486,865	19,236,934	112,433,079
<hr/>		
\$ 33,486,865	\$ 21,951,738	\$ 126,417,600

Hoover City Board of Education

Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets

Year ended September 30, 2012

Total fund balances - Governmental funds \$ 112,433,079

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

Capital assets used in governmental activities that are not financial resources
consist of:

Land	\$ 18,758,170	
Buildings and improvements	277,650,420	
Equipment, furniture and vehicles	20,034,849	
Textbooks and library books	9,776,430	
Construction in progress	10,138,733	
Accumulated depreciation	<u>(92,225,794)</u>	
Total capital assets, net of depreciation		244,132,808

Debt issuance costs and discounts on debts are reported as current expenditures in the governmental funds. However, in the Statement of Activities, these items are deferred and amortized over the life of the debt and are included as deferred charges in the statement of net assets.

Unamortized discounts and issuance costs 3,777,915

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

	Current Liabilities	Noncurrent Liabilities	
Warrants payable	\$ -	\$ 181,894,400	
Accrued interest payable	1,053,016	-	
Total liabilities	<u>\$ 1,053,016</u>	<u>\$ 181,894,400</u>	<u>(182,947,416)</u>

Total net assets - governmental activities \$ 177,396,386

See notes to financial statements.

Hoover City Board of Education

Combined Statement of Revenues, Expenditures and Changes in
Fund Balances - Governmental Funds

Year ended September 30, 2012

	General (See Note 1.K.)
Fund balances beginning of year - as originally stated	\$ 55,739,538
Prior period adjustment	(470,266)
Fund balances beginning of year - as restated	55,269,272
Revenues	
State of Alabama	58,699,008
Federal government	39,069
Local	67,871,681
Other	1,915,949
Total revenues	128,525,707
Other financing sources	
Operating transfers in	609,412
Total revenues and other financing sources	129,135,119
Expenditures	
Instructional services	75,366,004
Instructional support	20,237,351
Operation and maintenance	15,573,605
Auxiliary services	6,882,037
General administration and central support	2,152,514
Capital outlay	-
Debt service	-
Other	619,742
Total expenditures	120,831,253
Other fund uses	
Operating transfers out	3,863,858
Total expenditures and other fund uses	124,695,111
Excess of revenues and other sources over (under) expenditures and other fund uses	4,440,008
Fund balances, end of year	\$ 59,709,280

See notes to financial statements.

Debt Service	Other Governmental Funds	Total Governmental Funds
\$ 51,768,961	\$ 14,971,742	\$ 122,480,241
-	-	(470,266)
51,768,961	14,971,742	122,009,975
-	3,415,973	62,114,981
-	5,724,884	5,763,953
148,452	14,421,222	82,441,355
-	64,765	1,980,714
148,452	23,626,844	152,301,003
-	18,249,535	18,858,947
148,452	41,876,379	171,159,950
-	7,615,738	82,981,742
-	2,667,844	22,905,195
-	264,772	15,838,377
-	8,271,416	15,153,453
-	27,902	2,180,416
-	9,964,053	9,964,053
8,430,548	-	8,430,548
-	3,804,373	4,424,115
8,430,548	32,616,098	161,877,899
10,000,000	4,995,089	18,858,947
18,430,548	37,611,187	180,736,846
(18,282,096)	4,265,192	(9,576,896)
\$ 33,486,865	\$ 19,236,934	\$ 112,433,079

Hoover City Board of Education

Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances - Governmental Funds to the Statement of Activities

Year ended September 30, 2012

Net changes in fund balances - total governmental funds	\$ (9,576,896)
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>	
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.</p>	
<p>This is the amount by which depreciation \$(8,152,695) was exceeded by capital outlay \$(11,444,737) in the current period.</p>	3,292,042
<p>Debt issuance costs and discounts on debt are reported in the governmental funds as expenditures. However, these items are deferred on the Statement of Net Assets and are amortized over the life of the debt.</p>	
<p>Amortization expense</p>	<u>(688,091)</u>
Change in net assets of governmental activities	<u><u>\$ (6,972,945)</u></u>

See notes to financial statements.

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Hoover City Board of Education (the “Board”) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government 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 Board's accounting policies are described below.

A. Reporting Entity

Statements No. 14 and 39 of the Governmental Accounting Standards Board establish standards for defining and reporting on the financial reporting entity. The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for agencies that make up its legal entity. It is also financially accountable for a legally separate agency if its officials appoint a voting majority of that agency's governing body and either it is able to impose its will on that agency or there is a potential for the agency to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. There are no material component units which should be included as part of the financial reporting entity of the Hoover City Board of Education.

The Board is a legally separate agency of the state of Alabama.

B. Basis of Presentation, Basis of Accounting

Government-wide Financial Statements

The Statement of Net Assets and the Statement of Activities display information about the Board. These statements include the financial activities of the overall government.

Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Although other governments may report both governmental activities and business-type activities, the Board has no business-type activities.

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. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements

The fund financial statements provide information about the Board's funds. 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 other governmental funds.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation, Basis of Accounting (continued)

Fund Financial Statements (continued)

The Board reports the following major governmental funds:

- (1) General Fund -- This is the Board's primary operating fund. It accounts for all financial resources, except those required to be accounted for in another fund. The Board's General Fund primarily received revenues from the Education Trust Fund (ETF), appropriated by the Alabama Legislature, and from local taxes including the special municipal ad valorem tax levied on all taxable property in the city for school purposes. The State Department of Education allocated amounts appropriated from the ETF to the school board on a formula basis. As a result of GASB 54 (see part K of note #1), the Board's 24 Mill Tax Fund is presented as part of the General Fund.
- (2) Debt Service Funds -- Debt Service Funds are used to account for the accumulation of resources for the payment of the Board's general long-term debt principal and interest.

The Board reports the following governmental fund types in the "Other Governmental Funds" column:

- (1) Capital Projects Funds -- Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary and trust funds).
- (2) Special Revenue Funds -- Special Revenue Funds account for the proceeds of specific revenue sources (other than those dedicated for major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action. Special revenue funds consist of the following: Other State Revenues, Federal Vocational, Title I, Title VI, IDEA Part B, Title III, Title IV, Title II, Federal Preschool, Child Nutrition, Local School Activity Funds, and Local School Extended Day Programs.

C. Measurement Focus, Basis of Accounting

Government-wide Financial Statements: The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. 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 property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. *Measurement Focus, Basis of Accounting (continued)*

Governmental Fund Financial Statements: Governmental funds are reported using a current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when 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 reported in the governmental funds (excluding state and federal reimbursements) to be available if the revenues are collected within thirty (30) days after year-end. Revenues from state and federal funds are considered available if transactions eligible for reimbursement have taken place. Expenditures are generally recorded when the related fund liability is incurred.

Local school activity funds and other funds under the control of school principals use the cash basis of accounting. However, any differences from the modified accrual basis of accounting are not considered to be significant.

D. *Cash and Investments*

Cash includes amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the Board.

The State Attorney General has issued a legal opinion that boards of education may not put public funds at risk by investing in companies not insured by the federal government.

Investments are stated at cost or amortized cost, which approximates market value.

E. *Receivables*

Receivables are reported as Receivables and Due from other governments in the government-wide financial statements and Receivables, Interfund receivables, and Due from other governments in the fund financial statements. Receivables due from other governments include amounts due from grantors for grants issued for specific programs and local taxes. No allowances are made for uncollectible amounts because the amounts are considered immaterial.

F. *Property Tax Calendar*

The Jefferson County Commission and the Shelby County Commission levy property taxes for all jurisdictions including the school boards and municipalities within the county. Millage rates for property taxes are levied at the first regular meeting of the County Commission in February of each year. Property taxes are assessed for property as of October 1 of the preceding year based on the millage rates established by the County Commission. Property taxes are due and payable the following October 1 and are delinquent after December 31.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**G. Inventories and Prepaid Items**

Inventories are valued at cost, which approximates market, using the first-in/first-out (FIFO) method. The costs of governmental fund type inventories are recorded as expenditures when purchased except commodities donated by the federal government and purchased food items which are expensed when consumed. Prepaid items, such as insurance premiums and rent are recorded as expenditures in governmental funds when paid.

In the government-wide financial statements, inventories and prepaid items are recorded on an accrual basis using the consumption method. Expenses reflect the amount of materials and supplies consumed and the amount of prepaid items applicable to the current period.

H. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical costs in the statement of net assets. Donated assets are recorded at their estimated fair value at the date of donation. The cost of maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Capital assets are recorded as expenditures at the acquisition date in the fund financial statements. The Board has no general infrastructure assets.

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

Asset Class	Capitalization Threshold	Estimated Useful Life
Land improvements	\$ 50,000	20 years
Buildings	50,000	50 years
Building improvements	50,000	7-30 years
Equipment and vehicles	5,000	5-20 years

The capitalization threshold for Land, Construction in Progress, and Inexhaustible Land Improvements is \$1 or more. However, these capital assets are not depreciated.

I. Long-term Obligations

In the government-wide financial statements, the unmatured principal of long-term debt and compensated absences are reported in the statement of net assets. Interest expense for long-term debt, including accrued interest payable, is reported in the statement of activities. For warrants (bonds) issued after October 1, 2002, the related debt issuance costs, premiums, and discounts are amortized under accrual accounting and the annual amortization of these accruals is included in the statement of activities. The unamortized portion is reported as an asset on the statement of net assets.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Long-term Obligations (continued)

In the fund financial statements, bond premiums and the face amount of debt issued during the year are reported as an other financing source. Debt issuance costs are not deducted from the amount reported as an other financing source but are reported as debt service expenditures. Any discount is reported as an other financing use. Expenditures for debt principal, interest and related costs are reported in the fiscal year payment is made. The balance sheet does not reflect a liability for long-term debt.

J. Compensated Absences

For vacation leave and other compensated absences with similar characteristics, GASB Statement No. 16 requires the accrual of a liability as the benefits are earned by the employees, if both of these conditions are met:

- a. The employee's right to receive compensation is attributable to services already rendered.
- b. It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

GASB Statement No. 16 also states that an accrual for earned sick leave is made only to the extent it is probable that the benefits will result in termination payments, rather than be taken as absences due to illness or other contingencies, such as medical appointments and funerals. Employees earn non-vesting sick leave at the rate of one day per month worked. Employees may accumulate an unlimited number of days of sick leave. Employees may use their accrued sick leave as membership service in determining the total years of creditable service in the teachers' retirement system, with no additional cost to the Board. Because employees do not receive compensation for unused sick leave at termination, no liability is recorded on the financial statements.

Certified and non-certified personnel are provided two days of personal leave per year with pay. For certified personnel, the principal and Superintendent may approve up to three additional days for which the employee is charged the rate of a substitute teacher's pay. Certified positions are paid at the Board's substitute rate for up to two days of unused personal leave, or the employee may elect to convert these days to sick leave. The additional three days automatically convert to sick leave if not used. Because unused personal leave cannot be carried over to succeeding years, no liability for unpaid leave is accrued in the financial statements.

Twelve-month employees are allowed at least two weeks of vacation per year with pay. Vacation is awarded each July 1st, each January 1st employees' unused vacation is capped at the maximum amount of vacation to which they are entitled. Board policy allows up to 10 days of vacation to be carried over to be used within the first three months of the succeeding year. Accordingly, at September 30, 2012 the Board has accrued a liability in the amount of \$545,980.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Net Assets / Fund Equity

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

Invested in Capital Assets, Net of Related Debt - Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets (any significant unspent proceeds at year-end related to capital assets are reported as restricted funds).

Restricted - Constraints imposed on net assets by external creditors, grantors, contributors, laws or regulations of other governments, or law through constitutional provision or enabling legislation.

Unrestricted - Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board.

GASB Statement No. 54 establishes standards for fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Additionally, the definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified by the provisions in this Statement. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

Under previous fund definitions, the Board's 24 Mill Tax Fund was reported as a special revenue fund. However, because those monies are available for payment of the routine costs of operating the public schools, this fund is now reported as a part of the General Fund under the provisions of GASB 54.

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form – prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted fund balance. This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**K. Net Assets / Fund Equity (continued)**

Committed fund balance. These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions, ordinances, or policies of the Board – the government’s highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the Board removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. (Fund balance that is reported as “committed for special school purposes” includes amounts available for the payment of principal and interest and the operation of the child nutrition, extended day and other various local school programs.)

Assigned fund balance. The classification reflects the amounts constrained by the Board’s “intent” to be used for specific purposes, but are neither restricted nor committed. The Board and management have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed. The Board has not presented any of its fund balance as assigned.

Unassigned fund balance. This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, it is the Board’s policy to use restricted resources first, then committed, assigned, and unassigned – in order as needed.

NOTE 2 – RECONCILIATION OF FINANCIAL STATEMENTS

The financial statements include summary reconciliations of the fund financial statements to the government-wide statements after the fund statements.

A. Explanation of certain differences between the Governmental Funds Balance Sheet and the Statement of Net Assets

The governmental fund balance sheet is followed by a reconciliation between *Total fund balance - governmental funds* and *Total net assets - governmental activities* as reported in the government-wide statement of net assets.

B. Explanation of certain differences between the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances and the Statement of Activities

The governmental funds statement of revenues, expenditures and changes in fund balances is followed by a reconciliation between *Total net change in fund balances-governmental funds* and *Change in net assets of governmental activities* as reported in the government-wide statement of activities.

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets

Annual budgets are adopted for all governmental funds except the permanent funds. All annual appropriations lapse at fiscal year-end. State law requires Alabama school boards to prepare and submit to the State Superintendent of Education the annual budget adopted by the local board of education. In accordance with the regulations of the State Board of Education, the due date for submission of the budget for the 2011-2012 fiscal year was September 15, 2011. The Board approved its original 2011-2012 annual budget on September 2, 2011 and amended May 22, 2012, primarily to allow for adjustments related to various funding sources as well as state and federal carryover balances that were not known at the time the original budget was prepared.

The city superintendent of education or Board cannot approve any budget for operations of the school system for any fiscal year that shows expenditures in excess of income estimated to be available plus any balances on hand. The superintendent with the approval of the board has the authority to make changes within the approved budget provided that a deficit is not incurred by such changes. The superintendent may approve amendments to program budgets without board approval.

NOTE 4 – DEPOSITS AND INVESTMENTS

Deposits

As of September 30, 2012, all of the Board's bank deposits (including deposits of the individual schools) were either covered by federal depository insurance or secured by collateral through the Security for Alabama Funds Enhancement Program (SAFE Program). Under the SAFE program all public deposits are protected through a collateral pool administered by the Alabama State Treasurer's office.

Public deposits include the funds of any covered public entity or covered public official placed on deposit in a qualified depository, including time and demand deposit accounts and certificates of deposit but excluding bonds, notes, money market mutual funds, repurchase agreements and similar investment instruments. Covered public entities include the state and its political subdivisions, including school boards. In the past, the bank pledged collateral directly to each public entity. Under SAFE, which is mandatory, each qualified public depository (QPD) is required to hold collateral for all of its public deposits on a pooled basis in a custody account (SAFE Custody Account) established for the State Treasurer as SAFE administrator. In the unlikely event a public entity should suffer a deposit loss due to QPD insolvency or default, a claim form would be filed with the State Treasurer, who would use the SAFE pool collateral or other means to reimburse the loss. The SAFE program is classified as a category 1 credit risk.

Investments

The following investments were held by the Board at September 30, 2012:

Certificates of Deposit	\$ 14,616,819
Total	\$ 14,616,819

Notes to Financial Statements

NOTE 4 – DEPOSITS AND INVESTMENTS (CONTINUED)

Interest Rate Risk. 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 increasing interest rates.

Credit Risk. State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The Board has no investment policy that would further limit its choices.

Interest revenues of \$566,927 are included in revenues for 2012.

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2012, was as follows:

	Balance October 1, 2011	Additions	Retirements and Reclassifications	Balance September 30, 2012
Capital assets not being depreciated:				
Land and improvements	\$ 18,584,170	\$ 174,000	\$ -	\$ 18,758,170
Construction progress	565,204	9,790,053	(216,524)	10,138,733
Total capital assets not being depreciated	19,149,374	9,964,053	(216,524)	28,896,903
Capital assets being depreciated:				
Exhaustible land improvements	3,129,757	-	-	3,129,757
Building and improvements	274,304,139	-	216,524	274,520,663
Equipment	19,882,097	407,516	(254,764)	20,034,849
Textbooks and library books	8,703,262	1,073,168	-	9,776,430
Total capital assets being depreciated	306,019,255	1,480,684	(38,240)	307,461,699
Less accumulated depreciation for:				
Exhaustible land improvements	1,106,361	156,488	-	1,262,849
Building and improvements	62,524,641	5,785,855	-	68,310,496
Equipment	13,961,506	1,583,187	(254,764)	15,289,929
Textbooks and library books	6,735,355	627,165	-	7,362,520
Total accumulated depreciation	84,327,863	8,152,695	(254,764)	92,225,794
Total capital assets being depreciated, net	221,691,392	(6,672,011)	216,524	215,235,905
Total governmental activities capital assets, net	\$ 240,840,766	\$ 3,292,042	\$ -	\$ 244,132,808

NOTE 5 – CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to governmental functions as follows:

Instructional services	\$	6,756,442
Instructional support		74,236
Operation and maintenance		485,800
Auxiliary services		785,189
General administrative and central support		51,028
Total governmental activities depreciation expense	\$	8,152,695

The Board has entered into contracts for the construction or renovation of various facilities as follows:

	Project Authorization	Expended to Date	Commitment
Hoover High School Expansion	\$ 13,586,000	\$ 9,494,889	\$ 4,091,111
Simmons and Berry Middle School Reroofing	411,959	406,959	5,000
Modular Building – Maintenance Department	59,000	57,098	1,902
Trace Crossings Athletic Fields	182,000	179,787	2,213
Total	\$ 14,238,959	\$ 10,138,733	\$ 4,100,226

NOTE 6 – DEFINED BENEFIT PENSION PLAN**A. Plan Description**

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

Substantially all employees of the Board are members of the Teachers' Retirement System. Membership is mandatory for covered or eligible employees of the Board. Benefits vest after ten years of creditable service. Vested employees may retire with full benefits at age 60 or after 25 years of service. Retirement benefits are calculated by two methods with the retiree receiving payment under the method which yields the highest monthly benefit. The methods are (1) Minimum Guaranteed, or (2) Formula, of which the Formula method usually produces the highest monthly benefit. Under this method, retirees are allowed 2.0125% of their average final salary (best three of the last ten years) for each year of service. Disability retirement benefits are calculated in the same manner. Pre-retirement death benefits in the amount of the annual salary for the fiscal year preceding death are provided to plan members.

The Teachers' Retirement System was established as of October 1, 1941, under the provisions of Act Number 419, Acts of Alabama 1939, for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by state-supported educational institutions. The responsibility for general administration and operation of the Teachers' Retirement System is vested in the Board of Control (currently 14 members). Benefit provisions are established by the Code of Alabama 1975, Sections 16-25-1 through 16-25-113, as amended, and Sections 36-27B-1 through 36-27B-6, as amended.

Notes to Financial Statements

NOTE 6 – DEFINED BENEFIT PENSION PLAN (CONTINUED)**A. Plan Description (continued)**

The Retirement Systems of Alabama issues a publicly available financial report that includes financial statements and required supplementary information for the Teachers' Retirement System of Alabama. That report may be obtained by writing to The Retirement Systems of Alabama, 135 South Union Street, Montgomery, Alabama 36130-2150.

B. Funding Policy

Employees are required to contribute 5 percent of their salary to the Teachers' Retirement System. The Board is required to contribute the remaining amounts necessary to fund the actuarially determined contributions to ensure sufficient assets will be available to pay benefits when due.

Each year the Teachers' Retirement System recommends to the Legislature the contribution rate for the following fiscal year, with the Legislature setting this rate in the annual appropriation bill. The percentages of the contributions and the amount of contributions made by the Board and the Board's employees equal the required contributions for each year as follows:

	2012	2011	2010
Fiscal year ended September 30,			
Total percentage of covered payroll	17.25%	17.51%	17.51%
Contributions:			
Percentage contributed by the Board	10.00%	12.51%	12.51%
Percentage contributed by the employees	7.25%	5.00%	5.00%
Contributed by the Board	\$ 8,022,899	\$ 9,975,235	\$ 10,112,428
Contributed by employees	5,816,602	3,986,904	4,042,775
Total contributions	\$ 13,839,501	\$ 13,962,139	\$ 14,155,203

NOTE 7 – LONG-TERM DEBT

On August 1, 2010 the Board issued \$117,885,000 in 24 Mill Tax special revenue refunding bonds with interest rates ranging between 4.25% and 5.00%. The Board issued the bonds to provide a portion of the funds needed to refund (on an advance basis) the Board's Capital Outlay Tax Anticipation Warrants, Series 2001; Capital Outlay Tax Anticipation Refunding Warrants, Series 2002; and its Capital Outlay Tax Anticipation Refunding Warrants, Series 2002-A; and for the payment of issuance expenses. The Board used a portion of the proceeds to purchase U.S. Government securities. These securities were deposited into an irrevocable trust to provide for the future debt service and redemption of the refunded bonds in accordance with the escrow trust agreement. As a result, the refunded warrants are considered defeased, and the Board has removed the liability from its accounts. The outstanding principal of the defeased warrants was \$108,060,000.

As a result of the refunding of the Series 2001, Series 2002 and Series 2002-A Warrants the Board has recorded deferred charges of \$6,810,722 in the Government-Wide Statement of Net Assets. These charges represent the difference between the reacquisition price and the net carrying amounts of the refunded warrants. These costs are being amortized over the average remaining life of the refunded warrants. The unamortized portion of these costs as of September 30, 2012 was \$5,675,600.

Notes to Financial Statements

NOTE 7 – LONG-TERM DEBT (CONTINUED)

As of September 30, 2012, the Board's long-term debt consisted of the following:

Series 2010 Capital Outlay Warrants with a maturity date of February 15, 2040, interest payable semi-annually at rates ranging from 4.25% to 5%.	\$ 117,885,000
Series 2005 Capital Outlay Warrant with a maturity date of February 15, 2027, interest payable semi-annually at rates ranging from 3% to 5%.	69,685,000
Total warrants	\$ 187,570,000

Following is a schedule of the total debt service on the Board's long-term debt:

	Warrants and Notes	
	Principal	Interest
2013	\$ -	\$ 8,424,125
2014	2,815,000	8,353,750
2015	2,945,000	8,209,750
2016	3,070,000	8,059,375
2017	3,215,000	7,902,250
2018-2022	30,925,000	35,622,219
2023-2027	38,760,000	26,941,219
2028-2032	33,740,000	19,653,251
2033-2037	42,095,000	11,177,845
2038-2040	30,005,000	1,948,945
Total	\$ 187,570,000	\$ 136,292,729

Interest paid on long-term debt was \$8,424,125 for the year ended September 30, 2012.

The Series 2005 and Series 2010 Warrants were issued in December 2005 and August 2010 respectively. The principal and interest payments are payable out of proceeds of a special 24 mill ad valorem tax levied in the City of Hoover. Total receipts from the special 24 mill ad valorem tax for the year ended September 30, 2012 were \$35,906,045.

The following changes occurred in the liabilities for warrants for the year ended September 30, 2012:

	Balance September 30, 2011	Additions	Deletions	Balance September 30, 2012
Capital outlay warrants	\$ 187,570,000	\$ -	\$ -	\$ 187,570,000

Notes to Financial Statements

NOTE 7 – LONG-TERM DEBT (CONTINUED)

For warrants (bonds) and other long-term debt issued after October 1, 2002, the related debt issuance costs, premiums, and discounts are amortized over the life of the debt in the government-wide statements.

	Issuance Costs	Discount	Total
Series 2005, Capital Outlay Warrants	\$ 360,073	\$ 1,041,621	\$ 1,401,694
Amount amortized in prior years	94,202	263,002	357,204
Series 2010, Capital Outlay Warrants	823,198	2,191,080	3,014,278
Amount amortized in prior years	31,861	84,803	116,664
Unamortized amount – beginning	1,057,208	2,884,896	3,942,104
Current year amortization	43,807	120,382	164,189
Unamortized amount – ending	\$ 1,013,401	\$ 2,764,514	\$ 3,777,915

NOTE 8 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund balances at September 30, 2012 consist of the following:

Due to Other Governmental Funds from:		
Other Governmental Funds	\$	408,561
Due to Other Governmental Funds from:		
General Fund		1,059,562
Total	\$	1,468,123

These interfund balances represent temporary loans to cover expenditures incurred prior to reimbursement from outside sources. These amounts are expected to be repaid within one year.

Interfund transfers for the fiscal year ended September 30, 2012 consist of the following:

General fund to:		
Other Governmental Funds	\$	3,863,858
Debt Service Fund to:		
Other Governmental Funds		10,000,000
Other Governmental Funds to:		
General Fund		609,412
Other Governmental Funds		4,385,677
	\$	18,858,947

NOTE 9 – 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 carries traditional insurance coverage for its buildings and contents through the State Insurance Fund (SIF), Alabama Department of Finance, Division of Risk Management, a public entity risk pool, which operates as a common risk management and insurance program for state-owned properties and boards of education. The Board pays an annual premium based on the amount of coverage. The SIF is self-insured up to \$3.5 million per occurrence. The Board purchases commercial insurance for claims in excess of \$3.5 million. The Board also purchases automobile liability insurance with coverage of \$300,000 per occurrence, errors and omissions insurance with coverage of up to \$1,000,000 per occurrence and property insurance with coverage of up to \$3.5 million per occurrence from the Alabama Risk Management For Schools Program (ARMS), a public entity risk pool. In addition, the Board has purchased physical damage coverage for school buses and maintenance vehicles.

The ARMS collects the premiums and purchases commercial insurance for the amount of coverage requested by pool participants. The Board purchases commercial insurance for fidelity bonds. Settled claims in the past three years have not exceeded the commercial insurance coverage.

Employee health insurance is provided through the Public Education Employees' Health Insurance Fund (PEEHIF) administered by the Public Education Employees' Health Insurance Board. PEEHIF was established to provide a uniform plan of health insurance for current and retired employees of educational institutions and is self-sustaining. Monthly premiums for employee and dependent coverage are set 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 the specified amount monthly to the PEEHIF for each employee. The Board contribution is applied against the employees' premiums for the coverage selected and the employee pays any remaining premium.

The State Board of Adjustments is a state agency with which people can file claims against the Board to collect reimbursement for damages when all other means have been exhausted. The Board does not have insurance coverage for job-related injuries. Claims for employee job-related injuries may be filed with the State Board of Adjustment. The Board of Adjustments determines if a claim is valid and determines the proper amount of compensation. Payments are made from state appropriated funds at no cost to the Board.

NOTE 10 – CONTINGENT LIABILITIES

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds or the general fund. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time although the Board expects such amounts, if any to be immaterial.

The Board is involved in certain litigation in the ordinary course of business. Management does not anticipate these claims to have a significant adverse impact on the financial position of the Board.

NOTE 11 – DONATED FOOD PROGRAM

The commodities received from the Federal government in connection with the donated food program are reflected in the accompanying financial statements. The total assigned value of commodities donated was \$277,290 for 2012. Commodities consumed were approximately \$251,185 for 2012.

NOTE 12 – RELATED PARTY TRANSACTIONS

The members of the Hoover City Board of Education are appointed by the Hoover City Council. The total appropriations received from the City for the year ended September 30, 2012 amounted to \$2,000,000.

NOTE 13 – OTHER POST-EMPLOYMENT BENEFITS (OPEB)

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 as an irrevocable trust fund. Responsibility for general administration and operations of the Trust is vested with the Public Education Employees' Health Insurance Board (PEEHIB) members. The *Code of Alabama 1975*, Section 16-25A-4, provides the PEEHIB with the authority to amend the benefit provisions in order to provide reasonable assurance of stability in future years. The Trust issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at the Public Education Employees' Health Insurance Plan website, <http://www.rsa-al.gov/PEEHIP/peehip.html> under the Trust Fund Financials tab.

The Public Education Employees' Health Insurance Fund (PEEHIF) was established in 1983 under the provisions of Act Number 255 to provide a uniform plan of health insurance for current and retired employees of state educational institutions. The plan is administered by the PEEHIB. Any Trust fund assets used in paying administrative costs and retiree benefits are transferred to and paid from the PEEHIF. The PEEHIB periodically reviews the funds available in the PEEHIF and if excess funds are determined to be available, the PEEHIB authorizes a transfer of funds from the PEEHIF to the Trust. Retirees are required to contribute monthly as follows:

	Fiscal Year Ending 09/30/2012
Individual Coverage - Non-Medicare Eligible	\$ 151.00
Individual Coverage - Medicare Eligible	10.00
Family Coverage - Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)	391.00
Family Coverage - Non-Medicare Eligible Retired Member and Dependent Medicare Eligible	250.00
Family Coverage - Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)	250.00

Notes to Financial Statements

NOTE 13 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

(continued)	Fiscal Year Ending 09/30/2012
Family Coverage - Medicare Eligible Retired Member and Dependent	
Medicare Eligible	\$ 109.00
Surviving Spouse - Non-Medicare Eligible	658.00
Surviving Spouse - Non-Medicare Eligible and Dependent Non-Medicare Eligible	847.00
Surviving Spouse - Non-Medicare Eligible and Dependent Medicare Eligible	816.00
Surviving Spouse - Medicare Eligible	328.00
Surviving Spouse - Medicare Eligible and Dependent Non-Medicare Eligible	517.00
Surviving Spouse - Medicare Eligible and Dependent Medicare Eligible	486.00

Members who retired on or after October 1, 2005, and before January 1, 2012, pay two percent of the employer premium for each year under 25 years of service, and for each year over 25 years of service, the retiree premium is reduced by two percent. 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. Additionally, non-Medicare eligible employees who retire on or after January 1, 2012 are required to pay 1% more for each year less than age 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 will no longer apply. However, 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 five year period.

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

Fiscal Year Ended September 30,	Active Health Insurance Premiums Paid by Board	Amount of Premium Attributable to Retirees	Percentage of Active Employee Premiums Attributable to Retirees	Total Amount Paid Attributable to Retirees	Percentage of Required Amount Contributed
2011	\$ 752	\$ 199.00	26.45%	\$ 4,313,901	100%
2012	714	228.85	32.05%	4,895,151	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.

The Board has accounted for payments made by the federal government for retiree drug subsidy (RDS) payments in accordance with GASB Technical Bulletin 2006-1. This bulletin requires the RDS to be recorded as an "on-behalf payment", resulting in offsetting revenues and expenditures. The amount recognized in the 2012 financial statements for RDS is \$603,303.

NOTE 14 – PRIOR PERIOD ADJUSTMENT

The Board recorded a prior period adjustment in order to correct for an error related to county property taxes received from the City of Hoover. A portion of the taxes received during the 2011 fiscal year were prepayments by taxpayers for the upcoming year which should have been presented as deferred revenue in 2011.

NOTE 15 – SUBSEQUENT EVENT

On December 27, 2012 the Board issued \$51,915,000 in 24 Mill Tax special revenue refunding bonds with interest rates of 4% or 5% depending upon the maturity date. The Board issued the bonds to provide a portion of the funds needed to refund, on an advance basis, those of the Board's Capital Outlay Warrants, Series 2005 that have stated maturities in 2018 through 2025.

Required Supplementary Information

Hoover City Board of Education

Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual - General Fund

Year ended September 30, 2012

	Budgeted Amounts		Actual on the Budgetary Basis*	Variance Favorable (Unfavorable)
	Original	Final Budget		
Fund balances, beginning of year - as restated	\$ 55,551,925	\$ 55,270,427	\$ 55,269,272	\$ (1,155)
Revenues				
State of Alabama	57,471,090	58,385,354	58,699,008	313,654
Federal government	-	37,143	39,069	1,926
Local and other	65,493,400	65,508,900	69,256,379	3,747,479
Total revenues	122,964,490	123,931,397	127,994,456	4,063,059
Other financing sources				
Operating transfers in	35,400,367	36,343,040	32,978,788	(3,364,252)
Total revenues and other financing sources	158,364,857	160,274,437	160,973,244	698,807
Expenditures				
Instructional services	73,854,533	75,281,597	75,366,004	(84,407)
Instructional support	19,965,517	19,986,590	20,237,351	(250,761)
Operation and maintenance	16,430,954	16,416,954	15,573,605	843,349
Auxiliary services	7,053,541	7,090,684	6,882,037	208,647
General administration and central support	2,545,694	2,552,200	2,152,514	399,686
Other	547,543	552,934	619,742	(66,808)
Total expenditures	120,397,782	121,880,959	120,831,253	1,049,706
Other fund uses				
Operating transfers out	37,871,826	38,016,731	35,701,983	2,314,748
Total expenditures and other fund uses	158,269,608	159,897,690	156,533,236	3,364,454
Excess of revenues and other sources over expenditures and other fund uses	95,249	376,747	4,440,008	4,063,261
Fund balances, end of year	\$ 55,647,174	\$ 55,647,174	\$ 59,709,280	\$ 4,062,106

* For budgetary purposes, the Board includes its indirect cost allocation along with operating transfers in. However, in the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds, this is included in other revenues. Actual other revenue and operating transfers in have been adjusted to reflect the budgetary grouping for the purposes of this budget to actual comparison.

Furthermore, for budgetary purposes, the Board separately accounts for the General and 24 Mill Tax Funds. However, in the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds, these are combined and transfers between the two have been netted. Operating transfers in and out between the funds have not been netted for purposes of this budget to actual comparison.

See notes to financial statements.

Supplementary Information

Hoover City Board of Education

Supplementary Schedule of Bond Disclosures Continuing Disclosure Information

This supplementary information to the financial statements is intended to constitute, along with the independent auditors' report, the annual report that the Board is required to provide under various Continuing Disclosure Agreements in connection with the provisions of Rule 15c 2-12 promulgated by the Securities and Exchange Commission pursuant to the Securities and Exchange Act of 1934.

1. The net proceeds of the Special Tax (that is, the ad valorem tax levied by the City of Hoover at the rate of 24 mills per annum) were \$35,906,045 for the fiscal year that ended September 30, 2012.
2. Attached hereto is a summary of revenue, expenditures and changes in fund balances for all governmental funds for the current and the five most recent fiscal years.
3. The following issues are payable solely out of the proceeds of the Special Tax:
 - (a) \$69,685,000 aggregate principal amount of the Board's Capital Outlay Warrants, Series 2005, dated December 15, 2005, and (as of September 30, 2012) outstanding in the aggregate principal amount of \$69,685,000.
 - (b) \$117,885,000 aggregate principal amount of the Board's Capital Outlay Warrants, Series 2010, dated August 1, 2010, and (as of September 30, 2012) outstanding in the aggregate principal amount of \$117,885,000.
4. The average annual debt service on the warrants listed above is \$11,566,526.
5. The maximum annual debt service on the warrants listed above is \$13,938,875.

Supplementary Schedule of Bond Disclosures (continued)
 Combined Schedule of Revenues, Expenditures and Changes in Fund Balances

Year ended September 30,	2007	2008	2009	2010	2011	2012
Revenues						
State of Alabama	\$ 57,365,398	\$ 65,097,385	\$ 63,395,490	\$ 54,787,560	\$ 58,299,626	\$ 62,114,981
Federal government	3,908,415	4,121,720	5,062,930	9,490,289	12,996,084	5,763,953
Local	174,451,467	99,100,595	85,388,694	85,049,609	82,993,731	82,441,355
Other	1,740,232	1,702,286	1,895,213	1,997,138	1,885,147	1,980,714
Total revenues	237,465,512	170,021,986	155,742,327	151,324,596	156,174,588	152,301,003
Other financing sources						
Proceeds from borrowings	-	-	-	117,885,000	-	-
Operating transfers in	56,005,543	50,986,536	52,483,405	46,468,694	38,906,938	18,858,947
Total other financing sources	56,005,543	50,986,536	52,483,405	164,353,694	38,906,938	18,858,947
Total revenues and other financing sources	293,471,055	221,008,522	208,225,732	315,678,290	195,081,526	171,159,950
Expenditures						
Instructional services	77,059,339	88,431,180	82,816,176	83,437,172	82,065,055	82,981,742
Instructional support	22,841,411	25,526,662	23,986,475	23,281,110	22,846,023	22,905,195
Operation and maintenance	15,966,775	18,333,502	17,530,106	16,074,690	16,108,511	15,838,377
Auxiliary services	15,318,777	16,534,236	15,324,563	15,501,587	16,479,695	15,153,453
General administrative and central support	2,533,526	2,922,538	2,466,097	2,377,197	2,324,549	2,180,416
Capital outlay	15,836,624	3,479,553	5,679,095	768,762	1,356,359	9,964,053
Debt service	15,977,729	15,955,453	15,924,879	16,350,161	8,490,436	8,430,548
Other	4,216,430	5,446,360	6,083,308	5,087,655	4,807,904	4,424,115
Total expenditures	169,750,611	176,629,484	169,810,699	162,878,334	154,478,532	161,877,899
Other fund uses						
Operating transfers out	56,005,543	50,986,536	52,483,405	46,468,694	38,906,938	18,858,947
Other uses	-	-	-	114,870,722	-	-
Total other fund uses	56,005,543	50,986,536	52,483,405	161,339,416	38,906,938	18,858,947
Total expenditures and other fund uses	225,756,154	227,616,020	222,294,104	324,217,750	193,385,470	180,736,846
Excess of revenues and other sources over (under) expenditures and other fund uses	67,714,901	(6,607,498)	(14,068,372)	(8,539,460)	1,696,056	(9,576,896)
Fund balances, beginning of year (as restated - see note below)	82,909,615	149,999,515	143,392,017	129,323,645	120,784,185	122,009,975
Fund balances, end of year	\$ 150,624,516	\$ 143,392,017	\$ 129,323,645	\$ 120,784,185	\$ 122,480,241	\$ 112,433,079

Note: The Board's fund balances as of September 30, 2007 and 2011 were restated due to corrections of the receivable from the City of Hoover. The revenues in the above schedule are shown as originally reported.

Hoover City Board of Education

Supplementary Schedule of Expenditures of Federal Awards

Year ended September 30, 2012

Description	Federal CFDA Number	Project Period	
		From	To
Federal Funds Passed Through State Dept. of Ed.			
ED-Vocational Education Basic Grant	84.048	10/1/2011	9/30/2012
ED-Vocational Education Basic Grant	84.048	10/1/2010	9/30/2011
ED-Education of the Handicapped (IDEA-B)	84.027	10/1/2011	9/30/2012
ED-Title I	84.01	10/1/2011	9/30/2012
ED-Title I	84.01	10/1/2010	9/30/2011
ED-Handicapped Preschool Grants	84.173	10/1/2011	9/30/2012
ED-English Language Acquisition	84.365	10/1/2011	9/30/2012
Enhance ED/TECH	84.318	10/1/2010	9/30/2011
Improving Teacher Quality	84.367	10/1/2011	9/30/2012
Improving Teacher Quality	84.367	10/1/2010	9/30/2011
State PGM Improvement Grant	84.323	10/1/2011	9/30/2012
Advanced Placement Fee Program	84.33	10/1/2011	9/30/2012
Education Jobs Fund	84.41	10/1/2011	9/30/2012
Total U.S. Department of Education			
USDA-Commodities	10.550	10/1/2011	9/30/2012
USDA-School Breakfast	10.553	10/1/2010	9/30/2011
USDA-School Breakfast	10.553	10/1/2011	9/30/2012
USDA-National School Lunch Program	10.555	10/1/2010	9/30/2011
USDA-National School Lunch Program	10.555	10/1/2011	9/30/2012
USDA-National School Lunch Program	10.555	10/1/2011	9/30/2012
Total U.S. Department of Agriculture			
HHS-Drug-Free Communities Support Program Grants	93.276	10/1/2011	9/30/2012
HHS-Disability Determination	96.001	10/1/2011	9/30/2012
HHS-Disability Determination	96.001	10/1/2011	9/30/2012
Total U.S. Department of Health and Human Services			
Total Federal Funds Passed through State Department of Education			
Direct Funding			
Safe and Drug Free Community	84.186	10/1/2011	9/30/2012
DOL- EBSA COBRA Premium Assistance	17.151	10/1/2011	9/30/2012
Total Direct Funding			
Federal Funds Passed Through City of Hoover			
HUD- Community Development Block Grant	14.218	10/1/2011	9/30/2012

Total Federal Awards

* Commodities only were received

See notes to supplementary schedules.

Total Grant Award	Accrued (Deferred) Grant Revenue September 30, 2011	Cash Received	Revenue Recognized	Expenditures	Accrued (Deferred) Grant Revenue September 30, 2012
\$ 89,565	\$ -	\$ 76,946	\$ 82,421	\$ 82,421	\$ 5,475
3,248	3,248	3,248	-	-	-
2,224,588	(191,542)	2,030,528	2,217,274	2,217,274	(4,796)
818,047	-	773,271	785,857	785,857	12,586
6,775	6,775	6,775	-	-	-
31,389	(517)	30,872	31,389	31,389	-
99,389	-	72,632	82,295	82,295	9,663
2,100	(1,644)	-	1,810	1,810	166
182,890	-	181,640	178,273	178,273	(3,367)
52,295	52,295	52,295	-	-	-
1,459	-	1,461	-	-	(1,461)
954	-	954	954	954	-
37,143	-	9,381	37,143	37,143	27,762
3,549,842	(131,385)	3,240,003	3,417,416	3,417,416	46,028
277,290	-	*	277,290	277,290	-
38,435	38,435	38,435	-	-	-
356,967	-	316,415	356,967	356,967	40,552
180,990	180,990	180,990	-	-	-
1,457,952	-	1,281,521	1,457,952	1,457,952	176,431
2,952	-	2,952	2,952	2,952	-
2,314,586	219,425	1,820,313	2,095,161	2,095,161	216,983
46,363	-	46,363	46,363	46,363	-
306	-	306	306	306	-
1,620	-	1,620	1,620	1,620	-
48,289	-	48,289	48,289	48,289	-
5,912,717	88,040	5,108,605	5,560,866	5,560,866	263,011
158,624	-	158,624	158,624	158,624	-
-	-	4,679	4,679	4,679	-
158,624	-	163,303	163,303	163,303	-
39,784	-	39,784	39,784	39,784	-
\$ 5,952,501	\$ 88,040	\$ 5,153,068	\$ 5,763,953	\$ 5,763,953	\$ 263,011

Hoover City Board of Education

Supplementary Schedule of State Government Appropriations

Year ended September 30, 2012

Description	Appropriation Period		Total Appropriation
	From	To	
Foundation Program Fund	10/1/2011	9/30/2012	\$ 56,697,956
Public School Fund	10/1/2011	9/30/2012	2,484,800
NBTS Grants	10/1/2011	9/30/2012	849,725
Alabama Reading Initiative	10/1/2011	9/30/2012	615,870
School Nurse Program	10/1/2011	9/30/2012	441,028
State-wide Purchasing	10/1/2011	9/30/2012	249,096
At Risk Student Program	10/1/2011	9/30/2012	237,910
Children's First - Alabama Tobacco Settlement	10/1/2011	9/30/2012	150,986
Exit Exam Failure	10/1/2011	9/30/2012	93,244
Commodity Rebates	10/1/2011	9/30/2012	64,637
English as a Second Language	10/1/2011	9/30/2012	57,448
Distance Learning	10/1/2011	9/30/2012	50,000
Legislative Special Appropriation	10/1/2011	9/30/2012	35,146
Financial Assistance - Preschool	10/1/2011	9/30/2012	27,694
Technology Coordinator	10/1/2011	9/30/2012	27,219
Driver's Education	10/1/2011	9/30/2012	19,520
Tenure Arbitration	10/1/2011	9/30/2012	6,506
Operations and Maintenance	10/1/2011	9/30/2012	3,550
Career Tech Initiative	10/1/2011	9/30/2012	2,365
Teacher of the Year Program	10/1/2011	9/30/2012	200
Teacher Testing	10/1/2011	9/30/2012	81
Total state assistance			\$ 62,114,981

Cash Received				
October 1, 2011-	Revenue			
September 30, 2012	Recognized	Expenditures	Encumbrances	
\$ 56,697,956	\$ 56,697,956	\$ 56,697,956	\$	-
2,484,800	2,484,800	2,484,800		-
849,725	849,725	849,725		-
615,870	615,870	615,870		-
441,028	441,028	441,028		-
249,096	249,096	249,096		-
237,910	237,910	237,910		-
150,986	150,986	150,986		-
93,244	93,244	93,244		-
64,637	64,637	64,637		-
57,448	57,448	57,448		-
50,000	50,000	50,000		-
35,146	35,146	35,146		-
27,694	27,694	27,694		-
27,219	27,219	27,219		-
19,520	19,520	19,520		-
6,506	6,506	6,506		-
3,550	3,550	3,550		-
2,365	2,365	2,365		-
200	200	200		-
81	81	81		-
\$ 62,114,981	\$ 62,114,981	\$ 62,114,981	\$	-

NOTE 1 – SCOPE OF AUDIT PURSUANT TO OMB CIRCULAR A-133

The Hoover City Board of Education (the "Board"), is an agency of the State of Alabama. All significant operations of the Board are included in the scope of the Circular A-133.

The U. S. Department of Education has been designated as the Board's cognizant agency for the "single-audit".

NOTE 2 – FISCAL PERIOD AUDITED

Single audit testing procedures were performed for program transactions occurring during the fiscal year ended September 30, 2012.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *Basis of Presentation*

The Schedule of Expenditures of Federal Awards and the Schedule of State Government Appropriations has been prepared on the modified accrual basis of accounting. Federal grant revenues are recorded for financial reporting purposes when the Board has met the qualifications for the respective grants. Several programs are funded jointly by State appropriations and Federal funds. Encumbrances for purchase orders and contracts are not recorded as expenditures because the liability has not been incurred for goods received or services rendered; however, these encumbrances (if any) are reserved in the fund balances of the governmental funds. The encumbrances are shown as deductions from the 2012 appropriations of state funds on the schedule because subsequent expenditures against the encumbrances are made under the authority of the 2012 appropriations. Costs incurred in programs partially funded by Federal grants are applied against grant funds to the extent of revenue available when they properly apply to the grant, except as described below.

B. *Accrued and Deferred Reimbursement*

Various reimbursement procedures are used for Federal awards received by the Board. Consequently, timing differences between expenditures and program reimbursements can exist at the beginning and end of the year. Accrued balances at year-end represent an excess of expenditures over cash reimbursements received to date. Generally, accrued or deferred balances caused by differences in the timing of cash reimbursements and expenditures will be reversed in the remaining grant period.

Summary Schedule of Prior Year Audit Report Findings

The following significant deficiencies were disclosed in the audit of the Hoover Board of Education for the year ended September 30, 2011:

- 11-1 Audit procedures were performed at each of the Board's local schools by the Board's internal auditor. Several deficiencies in internal controls were noted in the reports to each school including:
- a) Items purchased without purchase orders or purchased prior to the preparation of purchase orders.
 - b) Teachers failing to remit collected funds to school bookkeepers in a timely manner.
 - c) Payment of invoices without proof of receipt of the goods or services.
 - d) Checks not supported by invoice or adequate support.
 - e) Deposits not made timely.
 - f) Checks not properly voided.
 - g) Various other documentation/procedural deficiencies.

Current Status:

Similar deficiencies are still being noted by the internal auditor (see current finding 12-1). Management is continuing with efforts to provide ongoing training for school personnel, as well as timely monitoring and follow-up on internal control findings.

Hoover City Board of Education

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

To the Members of the
Hoover City Board of Education
Hoover, Alabama

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hoover City Board of Education (the "Board"), as of and for the year ended September 30, 2012, which collectively comprise the Board's basic financial statements and have issued our report thereon dated March 26, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Board is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Board's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting (12-1). 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the Board in a separate letter dated March 26, 2013.

The Board's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Board's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Carly Riggs & Ingram, L.L.C.

Birmingham, Alabama
March 26, 2013

Hoover City Board of Education

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

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

To the Members of the
Hoover City Board of Education
Hoover, Alabama

Compliance

We have audited the compliance of the Hoover City Board of Education (the "Board") with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Board's major federal programs for the year ended September 30, 2012. The Board's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Board's management. Our responsibility is to express an opinion on the Board's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Board's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Board's compliance with those requirements.

In our opinion, the Board complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012.

Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above.

This report is intended solely for the information and use of the Board's management, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Carly Riggs & Ingram, L.L.C.

Birmingham, Alabama
March 26, 2013

Hoover City Board of Education
Schedule of Findings and Questioned Costs

Schedule of Findings and Questioned Costs

Year ended September 30, 2012

Section I - Summary of Auditors' Results

Financial statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

 yes x no

Significant deficiency(ies) identified?

 x yes none reported

Noncompliance material to financial statements noted?

 yes x no

Federal awards

Internal control over major programs:

Material weakness(es) identified?

 yes x no

Significant deficiency(ies) identified?

 yes x none reported

Type of auditors' report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510 (a) of OMB Circular A-133?

 yes x no

Identification of major programs:

CFDA Number(s)

10.553

Name of Federal Program or Cluster

USDA- School Breakfast

10.555

USDA - National School Lunch Program

Dollar threshold used to distinguish between Type A and Type B program:

\$ 300,000

Auditee qualified as low-risk auditee?

 x yes no

Schedule of Findings and Questioned Costs (Continued)

Year ended September 30, 2012

Section II - Financial statement findings

The following significant deficiencies were disclosed in the financial statements during the audit of the Hoover City Board of Education:

12-1 Audit procedures were performed at each of the Board's local schools by the Board's internal auditor. Several deficiencies in internal controls were noted in the reports to each school including:

- a) Items purchased without purchase orders or purchased prior to the preparation of purchase orders.
- b) Teachers failed to follow general receipting procedures for collected funds.
- c) Purchase orders gave insufficient descriptions of items being requested.
- d) Payments to vendors were not made.
- e) All vendor information was not obtained.
- f) Inappropriate accounts were charged.
- g) Invoices were not paid timely.
- h) Various other documentation/procedural deficiencies.

Management's response:

Management agrees with the finding and plans to continue with efforts to provide continuing training for school personnel, as well as timely monitoring and follow-up on internal control findings.

Section III - Federal Award Findings and Questioned Costs

Findings: None

Questioned costs: None