

Hoover City Board of Education

Financial Statements

September 30, 2013

Hoover City Board of Education
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Independent Auditors' Report

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Hoover City Board of Education, as of September 30, 2013, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4.1 through 4.5 and 31 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.

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2014, 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* in considering the Board's internal control over financial reporting and compliance.

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

Birmingham, Alabama
March 24, 2014

Hoover City Board of Education
Management's Discussion and Analysis (M D & A)
September 30, 2013

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 Position* and *Statement of Activities*, have been prepared using the accrual basis of accounting.

The *Statement of Net Position* depicts all of the Board's assets and liabilities with the difference between the two reported as net position. Over time, changes in net position 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 position changed during fiscal year 2013. 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 government-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, presented in comparative format, of the government-wide net assets of the Board as of September 30, 2013:

	Government Activities		Percent Change
	2012	2013	
Current and other assets	\$124,949,477	\$115,391,903	-7.65%
Noncurrent assets	3,777,915	2,106,605	-44.24%
Capital assets	244,132,808	245,088,744	0.39%
Deferred charges on refunding	<u> </u>	<u>11,572,500</u>	
Total assets and deferred outflows of resources	<u>372,860,200</u>	<u>374,159,752</u>	0.35%
Current liabilities	13,569,414	13,700,080	0.96%
Long-term liabilities	<u>181,894,400</u>	<u>193,917,451</u>	6.61%
Total liabilities	<u>195,463,814</u>	<u>207,617,531</u>	6.22%
Deferred revenues	<u> </u>	<u>503,235</u>	
Total liabilities and deferred inflows of resources	<u>195,463,814</u>	<u>208,120,766</u>	<u>6.48%</u>
Net position			
Invested in capital assets, net of related debt	65,003,328	64,850,398	- 0.24%
Unrestricted	<u>112,393,058</u>	<u>101,188,588</u>	- 9.97%
Total net position	<u>\$177,396,386</u>	<u>\$166,038,986</u>	- 6.40%

Following is a condensed schedule of revenues and expenditures from governmental activities for the year ended September 30, 2013 presented with comparative data for the previous year:

	<u>Government Activities</u>		Percent Change
	2012	2013	
Revenues			
Program Revenues:			
Charges for services	\$ 11,226,129	\$ 12,143,580	8.17%
Operating grants and contributions	63,205,628	65,086,254	2.98%
Capital grants and contributions	3,111,877	3,273,400	5.19%
General Revenues:			
Property taxes	63,873,342	63,489,079	-0.60%
Local sales tax	1,505,450	1,522,356	1.12%
City appropriation	2,000,000	2,000,000	
Other general revenues	<u>6,847,326</u>	<u>6,722,231</u>	-1.83%
	<u>151,769,752</u>	<u>154,236,900</u>	1.63%
Expenses			
Instructional services	88,402,460	94,301,790	6.67%
Instructional support services	22,952,522	23,090,615	0.60%
Operation and maintenance services	16,273,015	15,936,005	-2.07%
Auxiliary services	15,886,342	16,183,466	1.87%
General administrative services	2,216,855	2,506,477	13.06%
Interest and fiscal charges	9,118,639	8,296,683	-9.01%
Other expenses	<u>3,892,864</u>	<u>4,265,864</u>	9.58%
	<u>158,742,697</u>	<u>164,580,900</u>	3.68%
Decrease in net position	(6,972,945)	(10,344,000)	48.34%
Net position, beginning ¹	<u>184,369,331</u>	<u>176,382,986</u>	-4.33%
Net position, ending	<u>\$177,396,386</u>	<u>\$166,038,986</u>	-6.40%

As noted in the above shown condensed presentations, the Board's total assets exceeded total liabilities at year-end by \$166.0 million. This represents a decrease of 6.4% over the previous year.

¹2013 Net Position beginning balance reflects the Board's adoption of Governmental Accounting Standards Board Statement 65 *Items Previously Reported as Assets and Liabilities* as described in Note 14 to the Hoover City Board of Education's 2013 Financial Statements.

Fund Financial Analysis

The September 30, 2013 financial statements reported a combined fund balance of \$102,192,194 which is a decrease of \$10,240,885 from the previous year's fund balance. This net decrease was primarily the result of debt service expenditures and 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 2013 financial statements reflected a net increase in the balance of the General Fund of \$309,598 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 \$7.1 million in 2013 as a result of debt service payments.

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.

Actual general fund revenues and other financing sources were 0.14% less than budget. Actual expenditures were \$1.58 million or 1.2% less than budgeted expenditures. The variance in expenditures was primarily related to personnel costs and timing of various technology and building maintenance projects.

Capital Assets and Debt Administration

Capital Assets

Net capital assets increased by \$955,936 in 2013, which is net of \$8.0 million in depreciation expense. Additions to capital assets were primarily related to construction on a high school classroom addition, textbooks and maintenance equipment.

Debt Administration

The Board's outstanding warrant liability decreased by \$3.2 million to \$184.4 million during 2013. The decrease is a result of the issuance of \$51,915,000 in 24 Mill Tax special revenue refunding bonds offset by the subsequent advance refunding of its Capital Outlay Warrants, Series 2005 that have stated maturities in 2018 through 2025. The outstanding principal of the defeased warrants was \$55,070,000. As a result of the refunding, a deferred charge of \$6.9 million was recorded in the Government-Wide Statement of Net Position. This charge represents

the difference between the reacquisition price and the net carrying amounts of the refunded warrants and will be amortized over the average remaining life of the refunded warrants.

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 Position

<i>September 30, 2013</i>	Governmental Activities
Assets	
Current assets	
Cash and cash equivalents	\$ 88,235,524
Investments	24,758,746
Due from other governments	2,048,885
Prepaid items	24,340
Inventories	324,408
Total current assets	115,391,903
Noncurrent assets	
Bond discount, net	2,106,605
Capital assets:	
Land	18,771,456
Buildings and improvements	293,291,186
Equipment, furniture and vehicles	21,586,727
Textbooks and library books	10,952,599
Construction in progress	521,906
Accumulated depreciation	(100,035,130)
Total capital assets, net of depreciation	245,088,744
Total noncurrent assets	247,195,349
Total assets	362,587,252
Deferred Outflows of Resources	
Deferred charges on refunding	11,572,500
Total assets and deferred outflows of resources	\$ 374,159,752

See notes to financial statements.

	Governmental Activities
Liabilities	
Current liabilities	
Accounts payable	\$ 3,690,940
Salaries and benefits payable	9,005,534
Accrued interest payable	1,003,606
Total current liabilities	13,700,080
Noncurrent liabilities	
Warrants payable	184,415,000
Bond premium	9,502,451
Total noncurrent liabilities	193,917,451
Total liabilities	207,617,531
Deferred inflows of resources	
Deferred revenue	503,235
Net Position	
Net investment in capital assets	64,850,398
Unrestricted	101,188,588
Total net position	\$ 166,038,986

Hoover City Board of Education

Statement of Activities

September 30, 2013

Functions/Programs	Expenses
Governmental activities	
Instructional services	\$ 94,301,790
Instructional support	23,090,615
Operation and maintenance	15,936,005
Auxiliary services	16,183,466
General administration and central support	2,506,477
Other	4,265,864
Interest and fiscal charges	8,296,683
Total governmental activities	\$ 164,580,900

Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Assets Total Governmental Activities
\$ 4,597,414	\$ 39,696,482	\$ 9,861	\$ (49,998,033)
-	8,592,305	-	(14,498,310)
-	10,067,613	597,004	(5,271,388)
7,546,166	6,729,854	-	(1,907,446)
-	-	-	(2,506,477)
-	-	-	(4,265,864)
-	-	2,666,535	(5,630,148)
\$ 12,143,580	\$ 65,086,254	\$ 3,273,400	(84,077,666)

General revenues

Taxes:

Property taxes for general purposes 63,489,079

Local sales tax 1,522,356

Miscellaneous taxes 4,641

City appropriations 2,000,000

Interest 346,874

General contributions to the Board 548,268

Insurance loss recoveries 57,764

Other 5,764,684

Total general revenues 73,733,666

Change in net position (10,344,000)

Net position - beginning of year as originally stated 177,396,386

Restatement (1,013,400)

Net position - beginning of year as restated 176,382,986

Net position - end of year \$ 166,038,986

Hoover City Board of Education
Balance Sheet - Governmental Funds

September 30, 2013

	General
Assets	
Current assets	
Cash	\$ 59,803,151
Prepaid items	24,340
Interfund receivables	294,617
Due from government entities	1,713,664
Investments	10,050,195
Inventory	66,454
Total assets	\$ 71,952,421
 Liabilities	
Current liabilities	
Accounts payable	\$ 2,069,935
Accrued liabilities	8,743,381
Interfund payables	1,064,446
Total current liabilities	11,877,762
Deferred inflows of resources	
Deferred revenues	55,781
 Fund balances	
Non-spendable: inventory and prepaid items	90,794
Restricted for debt service	-
Committed for encumbrances	64,601
Committed for construction projects	-
Committed for special school purposes	49,218,878
Unassigned	10,644,605
Total fund balances	60,018,878
Total liabilities, deferred inflows of resources and fund balances	\$ 71,952,421

See notes to financial statements.

Debt Service	Other Governmental Funds	Totals Governmental Funds
\$ 11,646,976	\$ 16,785,397	\$ 88,235,524
-	-	24,340
-	1,471,746	1,766,363
-	335,221	2,048,885
14,697,633	10,918	24,758,746
-	257,954	324,408
\$ 26,344,609	\$ 18,861,236	\$ 117,158,266

\$ -	\$ 1,621,005	\$ 3,690,940
-	262,153	9,005,534
-	701,917	1,766,363
-	2,585,075	14,462,837

	447,454	503,235
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-	257,954	348,748
-	-	-
26,344,609	-	26,344,609
-	157,658	222,259
-	130,306	130,306
-	11,467,910	60,686,788
-	3,814,879	14,459,484
26,344,609	15,828,707	102,192,194

\$ 26,344,609	\$ 18,861,236	\$ 117,158,266
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Hoover City Board of Education

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

Year ended September 30, 2013

Total fund balances - Governmental funds \$ 102,192,194

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	\$	18,771,456	
Buildings and improvements		293,291,186	
Equipment, furniture and vehicles		21,586,727	
Textbooks and library books		10,952,599	
Construction in progress		521,906	
Accumulated depreciation		<u>(100,035,130)</u>	
Total capital assets, net of depreciation			245,088,744

Debt discounts and deferred charges from refunding 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		2,106,605	
Deferred charges from refunding		11,572,500	

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	\$ -	\$ 193,917,451	
Accrued interest payable	1,003,606	-	
Total liabilities	<u>\$ 1,003,606</u>	<u>\$ 193,917,451</u>	<u>(194,921,057)</u>

Total net position - governmental activities **\$ 166,038,986**

Hoover City Board of Education

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

Year ended September 30, 2013

	General
Fund balances beginning of year	\$ 59,709,280
Revenues	
State of Alabama	60,149,620
Federal government	1,980
Local	67,471,271
Other	1,972,577
Total revenues	129,595,448
Other financing sources	
Proceeds of refunding bonds	-
Operating transfers in	615,425
Total other financing sources	615,425
Total revenues and other financing sources	130,210,873
Expenditures	
Instructional services	80,780,364
Instructional support	20,672,241
Operation and maintenance	15,217,844
Auxiliary services	6,984,415
General administration and central support	2,476,103
Capital outlay	-
Debt service	-
Other	654,627
Total expenditures	126,785,594
Other fund uses	
Payment to refunded bond escrow agent	-
Operating transfers out	3,115,681
Total other fund uses	3,115,681
Total expenditures and other fund uses	129,901,275
Excess of revenues and other sources over (under) expenditures and other fund uses	309,598
Fund balances, end of year	\$ 60,018,878

See notes to financial statements.

Debt Service	Other Governmental Funds	Total Governmental Funds
\$ 33,486,865	\$ 19,236,934	\$ 112,433,079
-	3,425,142	63,574,762
-	6,570,955	6,572,935
91,728	15,115,621	82,678,620
3,648	25,987	2,002,212
95,376	25,137,705	154,828,529
61,999,234	-	61,999,234
-	7,619,264	8,234,689
61,999,234	7,619,264	70,233,923
62,094,610	32,756,969	225,062,452
-	8,337,091	89,117,455
-	2,345,876	23,018,117
-	278,586	15,496,430
-	9,971,128	16,955,543
-	26,191	2,502,294
-	6,076,147	6,076,147
7,788,900	-	7,788,900
-	4,011,169	4,665,796
7,788,900	31,046,188	165,620,682
61,447,966	-	61,447,966
-	5,119,008	8,234,689
61,447,966	5,119,008	69,682,655
69,236,866	36,165,196	235,303,337
(7,142,256)	(3,408,227)	(10,240,885)
\$ 26,344,609	\$ 15,828,707	\$ 102,192,194

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, 2013

Net changes in fund balances - total governmental funds	\$ (10,240,885)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
This is the amount by which depreciation (\$8,011,214) was exceeded by capital outlay (\$9,158,848) in the current period.	1,147,634
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. This is the amount by which debt issued exceeded repayments.	
Advance refunding:	
Proceeds of refunding bonds	(61,999,234)
Advance refunding:	
Payment to escrow	61,447,966
The net effect of transactions involving the disposition of capital assets is to decrease net assets.	(191,698)
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.	
Amortization expense (included in interest expense)	<u>(557,194)</u>
Some expenses reported in the Statement of Activities do not require the use of current financial resources and are not reported as expenditures in the funds:	
Decrease in accrued interest payable	<u>49,411</u>
Change in net position of governmental activities	<u><u>\$ (10,344,000)</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

Statement No. 61 of the Governmental Accounting Standards Board establishes standards for defining and reporting on the financial reporting entity. The definition of the reporting entity is based primarily on the notion of fiscal dependency. In general, fiscal dependency occurs when the primary government has the authority over any of the following: approving and modifying the component unit's budget; levying taxes or setting of rates or charges; or the issuance of bonded debt. In addition to fiscal dependency, a financial benefit or burden relationship must also exist between the potential component unit and 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 Position 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 position. Interest expense for long-term debt, including accrued interest payable, is reported in the statement of activities. Debt issuance costs include all costs incurred to issue the debt including insurance, financing and other related costs. Debt issuance costs (except for prepaid insurance costs) are recognized as an expense in the period incurred. Premiums and discounts on debt are capitalized and amortized under accrual accounting and the annual amortization of these accruals is included in the statement of activities. The unamortized portion is reported in the statement of net position.

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, 2013 the Board has accrued a liability in the amount of \$545,980.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Net Position / Fund Equity

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

Net Investment in Capital Assets - 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 position by external creditors, grantors, contributors, laws or regulations of other governments, or law through constitutional provision or enabling legislation.

Unrestricted - Net position that is not subject to externally imposed stipulations. Unrestricted net position 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 Position

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

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 2012-2013 fiscal year was September 15, 2012. The Board approved its original 2012-2013 annual budget on September 10, 2012 and amended June 10, 2013, 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, 2013, 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, 2013:

Certificates of Deposit	\$	14,708,551
US Treasury Strips		10,050,195
Total	\$	24,758,746

Hoover City Board of Education

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 \$346,874 are included in revenues for 2013.

NOTE 5 – CAPITAL ASSETS

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

	Balance October 1, 2012	Additions	Retirements and Reclassifications	Balance September 30, 2013
Capital assets not being depreciated:				
Land and improvements	\$ 18,758,170	\$ 13,461	\$ (175)	\$ 18,771,456
Construction progress	10,138,733	6,062,685	(15,679,512)	521,906
Total capital assets not being depreciated	28,896,903	6,076,146	(15,679,687)	19,293,362
Capital assets being depreciated:				
Exhaustible land improvements	3,129,757	-	614,951	3,744,708
Building and improvements	274,520,663	-	15,025,815	289,546,478
Equipment	20,034,849	1,906,533	(354,655)	21,586,727
Textbooks and library books	9,776,430	1,176,169	-	10,952,599
Total capital assets being depreciated	307,461,699	3,082,702	15,286,111	325,830,512
Less accumulated depreciation for:				
Exhaustible land improvements	1,262,849	231,291	-	1,494,140
Building and improvements	68,310,496	3,867,447	-	72,177,943
Equipment	15,289,929	2,597,495	(201,878)	17,685,546
Textbooks and library books	7,362,520	1,314,981	-	8,677,501
Total accumulated depreciation	92,225,794	8,011,214	(201,878)	100,035,130
Total capital assets being depreciated, net	215,235,906	(4,928,512)	15,487,989	225,795,382
Total governmental activities capital assets, net	\$ 244,132,808	\$ 1,147,634	\$ (191,698)	\$ 245,088,744

NOTE 5 – CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to governmental functions as follows:

Instructional services	\$	6,639,192
Instructional support		72,948
Operation and maintenance		477,369
Auxiliary services		771,563
General administrative and central support		50,142
Total governmental activities depreciation expense	\$	8,011,214

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

	Project Authorization	Expended to Date	Commitment
Shades Mnt. Elementary School Parking Lot	\$ 514,600	\$ 384,294	\$ 130,306
Mechanical Upgrades	137,612	137,612	-
Total	\$ 652,212	\$ 521,906	\$ 130,306

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.

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 a percent of their salary to the Teachers' Retirement System. Two tiers of employees have been created by the legislature. Tier 1 employees are those who were hired prior to January 1, 2013. Tier 2 employees are those hired on or after January 1, 2013. Tier 1 and tier 2 employees are required to contribute 7.5% and 6.00% of their salary, respectively. Eligibility requirements in order to receive retirement benefits are different for each tier. These requirements may be found on the Retirement Systems of Alabama website. 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:

	2013	2012	2011
Fiscal year ended September 30,			
Total percentage of covered payroll	17.58%	17.25%	17.51%
Contributions:			
Percentage contributed by the Board	10.08%*	10.00%	12.51%
Percentage contributed by the employees	7.50%*	7.25%	5.00%
Contributed by the Board	\$ 8,272,393	\$ 8,022,899	\$ 9,975,235
Contributed by employees	6,155,054	5,816,602	3,986,904
Total contributions	\$ 14,427,447	\$ 13,839,501	\$ 13,962,139

*These are the rates applicable for tier 1 employees

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.

NOTE 7 – LONG-TERM DEBT (CONTINUED)

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, 2013 was \$5,151,700.

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. 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 \$55,070,000.

As a result of the refunding of the Series 2005 Warrants, the Board has recorded deferred charges of \$6,955,869 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, 2013 was \$6,420,800.

As of September 30, 2013, the Board's long-term debt consisted of the following:

Series 2012 Special School Tax Warrants with a final maturity date of February 15, 2025, interest payable semi-annually at rates ranging from 4% to 5%	\$ 51,915,000
Series 2010 Capital Outlay Warrants with a final 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%.	14,615,000
Total warrants	\$ 184,415,000

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

	Warrants and Notes	
	Principal	Interest
2014	\$ 2,815,000	\$ 8,028,850
2015	2,945,000	7,884,850
2016	3,070,000	7,734,475
2017	3,215,000	7,577,350
2018	4,535,000	7,406,275
2019-2023	31,960,000	33,350,975
2024-2028	36,290,000	25,344,313

Hoover City Board of Education

Notes to Financial Statements

NOTE 7 – LONG-TERM DEBT (CONTINUED)

2029-2033	35,165,000	18,102,888
2034-2038	43,995,000	9,275,758
2039-2040	20,425,000	877,307
Total	\$ 184,415,000	\$ 125,583,041

Interest paid on long-term debt was \$7,237,632 for the year ended September 30, 2013.

The Series 2005, Series 2010 and Series 2012 Warrants were issued in December 2005, August 2010 and December 2012, 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, 2013 were \$35,659,995.

The following changes occurred in the liabilities for warrants for the year ended September 30, 2013:

Balance September 30, 2012	Additions	Deletions	Balance September 30, 2013
\$ 187,570,000	\$ 51,915,000	\$ (55,070,000)	\$ 184,415,000

The Board has elected to early implement the provisions of GASB 65. As a result, debt issuance costs, except prepaid insurance costs, are recognized as an expense in the period incurred. As a result, issuance costs that were previously capitalized related to the Series 2005 and Series 2010 Warrants have been removed from the financial statements. See note 14 for a description of this transaction.

	Premium	Discount	Total
Series 2005, Capital Outlay Warrants	\$ -	\$ 1,041,621	\$ 1,041,621
Amount amortized in prior years	-	310,348	310,348
Series 2010, Capital Outlay Warrants	-	2,191,080	2,191,080
Amount amortized in prior years	-	157,839	157,839
Series 2012, Special School Tax Warrants	(10,084,234)	-	(10,084,234)
Amount amortized in prior years	-	-	-
Unamortized amount – beginning	(10,084,234)	2,764,514	(7,319,720)
Portion related to refunded debt	-	577,903	577,903
Current year amortization	(581,783)	80,006	(501,777)
Unamortized amount – ending	\$ (9,502,451)	\$ 2,106,605	\$ (7,395,846)

NOTE 8 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund balances at September 30, 2013 consist of the following:

Due to the General Fund from Other Governmental Funds	\$ 294,617
Due to Other Governmental Funds from:	
Other Governmental Funds	407,300
General Fund	1,064,446
Total	\$ 1,766,363

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, 2013 consist of the following:

General fund to Other Governmental Funds	\$ 3,115,681
Other Governmental Funds to:	
General Fund	615,425
Other Governmental Funds to Other Governmental Funds	4,503,583
	\$ 8,234,689

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.

NOTE 9 – RISK MANAGEMENT (CONTINUED)

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 \$299,908 for 2013. Commodities consumed were approximately \$267,892 for 2013.

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, 2013 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 09/30/2013
Individual Coverage - Non-Medicare Eligible	\$ 151.00
Individual Coverage - Medicare Eligible	10.00
Family Coverage - Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)	391.00
Family Coverage - Non-Medicare Eligible Retired Member and Dependent Medicare Eligible	250.00
Family Coverage - Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)	250.00
Family Coverage - Medicare Eligible Retired Member and Dependent Medicare Eligible	109.00
Surviving Spouse - Non-Medicare Eligible	671.00
Surviving Spouse - Non-Medicare Eligible and Dependent Non-Medicare Eligible	860.00
Surviving Spouse - Non-Medicare Eligible and Dependent Medicare Eligible	829.00
Surviving Spouse - Medicare Eligible	317.00
Surviving Spouse - Medicare Eligible and Dependent Non-Medicare Eligible	506.00
Surviving Spouse - Medicare Eligible and Dependent Medicare Eligible	475.00

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

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
2012	\$ 714	\$ 228.85	32.05%	\$ 4,895,151	100%
2013	714	216.90	30.38%	4,765,801	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 2013 financial statements for RDS is \$454,932.

NOTE 14 –RESTATEMENT

The Board recorded a retroactive restatement as a result of implementing Governmental Accounting Standards Board Statement 65 *Items Previously Reported as Assets and Liabilities*. The statement establishes that the costs of issuing bonds ("bond issuance costs") other than prepaid insurance, are no longer be capitalized but rather be treated as an expense of the period. Accounting changes adopted to conform to this Statement should be applied retroactively. The Board elected not to restate previously issued financial statements. As a result, the cumulative effect of applying this Statement has been reported as a restatement of beginning net position. The amount of the adjustment was \$1,013,400.

NOTE 15 – FUTURE ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board has issued statements that will become effective in subsequent fiscal years. The statements address:

- Accounting and financial reporting for pensions;
- Mergers, acquisitions and transfers of operations; and
- Financial guarantees.

The Board is currently evaluating the effects that these statements will have on its financial statements for subsequent fiscal years.

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, 2013

	Budgeted Amounts		Actual on the Budgetary Basis*	Variance Favorable (Unfavorable)
	Original	Final Budget		
Fund balances, beginning of year	\$ 64,560,000	\$ 64,500,000	\$ 59,709,280	\$ (4,790,720)
Revenues				
State of Alabama	59,062,190	60,137,719	60,149,620	11,901
Federal government	-	-	1,980	1,980
Local and other	64,934,732	65,634,732	68,840,588	3,205,856
Total revenues	123,996,922	125,772,451	128,992,188	3,219,737
Other financing sources				
Operating transfers in	37,974,849	40,659,260	37,210,804	(3,448,456)
Total revenues and other financing sources	161,971,771	166,431,711	166,202,992	(228,719)
Expenditures				
Instructional services	78,877,310	83,126,495	80,780,364	2,346,131
Instructional support	19,074,766	19,137,627	20,672,241	(1,534,614)
Operation and maintenance	15,739,880	15,824,919	15,217,844	607,075
Auxiliary services	7,132,884	7,132,884	6,984,415	148,469
General administration and central support	2,574,594	2,574,594	2,476,103	98,491
Other	565,950	565,950	654,627	(88,677)
Total expenditures	123,965,384	128,362,469	126,785,594	1,576,875
Other fund uses				
Operating transfers out	44,542,453	43,995,437	39,107,800	4,887,637
Total expenditures and other fund uses	168,507,837	172,357,906	165,893,394	6,464,512
Excess of revenues and other sources over expenditures and other fund uses	(6,536,066)	(5,926,195)	309,598	6,235,793
Fund balances, end of year	\$ 58,023,934	\$ 58,573,805	\$ 60,018,878	\$ 1,445,073

* 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.

Other 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 \$35,659,995 for the fiscal year that ended September 30, 2013.
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) \$14,615,000 aggregate principal amount of the Board's Capital Outlay Warrants, Series 2005, dated December 15, 2005, and (as of September 30, 2013) outstanding in the aggregate principal amount of \$14,615,000.
 - (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, 2013) outstanding in the aggregate principal amount of \$117,885,000.
 - (c) \$51,915,000 aggregate principal amount of the Board's Special School Tax Warrants, Series 2012, dated December 27, 2012, and (as of September 30, 2013) outstanding in the aggregate principal amount of \$51,915,000.
4. The average annual debt service on the warrants listed above is \$11,481,409.
5. The maximum annual debt service on the warrants listed above is \$13,773,525.

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

Year ended September 30,	2008	2009	2010	2011	2012	2013
Revenues						
State of Alabama	\$ 65,097,385	\$ 63,395,490	\$ 54,787,560	\$ 58,299,626	\$ 62,114,981	\$ 63,574,762
Federal government	4,121,720	5,062,930	9,490,289	12,996,084	5,763,953	6,572,935
Local	99,100,595	85,388,694	85,049,609	82,993,731	82,441,355	82,678,620
Other	1,702,286	1,895,213	1,997,138	1,885,147	1,980,714	2,002,212
Total revenues	170,021,986	155,742,327	151,324,596	156,174,588	152,301,003	154,828,529
Other financing sources						
Proceeds from borrowings	-	-	117,885,000	-	-	61,999,234
Operating transfers in	50,986,536	52,483,405	46,468,694	38,906,938	18,858,947	8,234,689
Total other financing sources	50,986,536	52,483,405	164,353,694	38,906,938	18,858,947	70,233,923
Total revenues and other financing sources	221,008,522	208,225,732	315,678,290	195,081,526	171,159,950	225,062,452
Expenditures						
Instructional services	88,431,180	82,816,176	83,437,172	82,065,055	82,981,742	89,117,455
Instructional support	25,526,662	23,986,475	23,281,110	22,846,023	22,905,195	23,018,117
Operation and maintenance	18,333,502	17,530,106	16,074,690	16,108,511	15,838,377	15,496,430
Auxiliary services	16,534,236	15,324,563	15,501,587	16,479,695	15,153,453	16,955,543
General administrative and central support	2,922,538	2,466,097	2,377,197	2,324,549	2,180,416	2,502,294
Capital outlay	3,479,553	5,679,095	768,762	1,356,359	9,964,053	6,076,147
Debt service	15,955,453	15,924,879	16,350,161	8,490,436	8,430,548	7,788,900
Other	5,446,360	6,083,308	5,087,655	4,807,904	4,424,115	4,665,796
Total expenditures	176,629,484	169,810,699	162,878,334	154,478,532	161,877,899	165,620,682
Other fund uses						
Operating transfers out	50,986,536	52,483,405	46,468,694	38,906,938	18,858,947	8,234,689
Other uses	-	-	114,870,722	-	-	61,447,966
Total other fund uses	50,986,536	52,483,405	161,339,416	38,906,938	18,858,947	69,682,655
Total expenditures and other fund uses	227,616,020	222,294,104	324,217,750	193,385,470	180,736,846	235,303,337
Excess of revenues and other sources over (under) expenditures and other fund uses	(6,607,498)	(14,068,372)	(8,539,460)	1,696,056	(9,576,896)	(10,240,885)
Fund balances, beginning of year (as restated - see note below)	149,999,515	143,392,017	129,323,645	120,784,185	122,009,975	112,433,079
Fund balances, end of year	\$ 143,392,017	\$ 129,323,645	\$ 120,784,185	\$ 122,480,241	\$ 112,433,079	\$ 102,192,194

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, 2013

Description	Federal CFDA Number	Project Period	
		From	To
Federal Funds Passed Through State Dept. of Ed.			
ED-Vocational Education Basic Grant	84.048	10/1/2012	9/30/2013
ED-Vocational Education Basic Grant	84.048	10/1/2011	9/30/2012
ED-Education of the Handicapped (IDEA-B)	84.027	10/1/2012	9/30/2013
ED-Title I	84.010	10/1/2012	9/30/2013
ED-Title I	84.010	10/1/2011	9/30/2012
ED-Handicapped Preschool Grants	84.173	10/1/2012	9/30/2013
ED-English Language Acquisition	84.365	10/1/2012	9/30/2013
ED-English Language Acquisition	84.365	10/1/2011	9/30/2012
Enhance ED/TECH	84.318	10/1/2011	9/30/2012
Improving Teacher Quality	84.367	10/1/2012	9/30/2013
College Access Challenge Grant	84.323	10/1/2012	9/30/2013
Advanced Placement Fee Program	84.330	10/1/2012	9/30/2013
Education Jobs Fund	84.410	10/1/2012	9/30/2013
Total U.S. Department of Education			
USDA-Commodities	10.550	10/1/2012	9/30/2013
Team Nutrition Grant	10.574	10/1/2012	9/30/2013
USDA-School Breakfast	10.553	10/1/2011	9/30/2012
USDA-School Breakfast	10.553	10/1/2012	9/30/2013
USDA-National School Lunch Program	10.555	10/1/2011	9/30/2012
USDA-National School Lunch Program	10.555	10/1/2012	9/30/2013
USDA-National School Lunch Program	10.555	10/1/2012	9/30/2013
Total U.S. Department of Agriculture			
HHS-Drug-Free Communities Support Program Grants	93.276	10/1/2012	9/30/2013
HHS-Disability Determination	96.001	10/1/2012	9/30/2013
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	10/1/2012	9/30/2013
DOL- EBSA COBRA Premium Assistance	17.151	10/1/2012	9/30/2013
Total Direct Funding			
Federal Funds Passed Through City of Hoover			
HUD- Community Development Block Grant	14.218	10/1/2012	9/30/2013

Total Federal Awards

* Commodities only were received

See notes to supplementary schedules.

Total Grant Award	Accrued (Deferred) Grant Revenue September 30, 2012	Cash Received	Revenue Recognized	Expenditures	Accrued (Deferred) Grant Revenue September 30, 2013
\$ 116,545	\$ -	\$ 116,545	\$ 104,555	\$ 104,555	\$ (11,990)
82,421	5,475	5,475	-	-	-
2,579,192	(4,796)	2,579,192	2,521,932	2,521,932	(62,056)
1,157,749	-	1,157,749	1,097,897	1,097,897	(59,852)
733,996	12,586	12,586	-	-	-
30,928	-	30,928	30,928	30,928	-
154,992	-	154,992	143,593	143,593	(11,399)
82,295	9,662	9,662	-	-	-
1,810	166	166	-	-	-
176,009	(3,367)	176,009	179,371	179,371	(5)
454	-	454	454	454	-
4,396	-	4,396	4,396	4,396	-
27,762	27,762	27,762	-	-	-
5,148,549	47,488	4,275,916	4,083,126	4,083,126	(145,302)
299,908	-	*	299,908	299,908	-
15,000	-	15,000	15,000	15,000	-
40,552	40,552	40,552	-	-	-
337,864	-	337,864	380,179	380,179	42,315
176,431	176,431	176,431	-	-	-
1,437,074	-	1,437,074	1,643,159	1,643,159	206,085
3,174	-	3,174	3,174	3,174	-
2,310,003	216,983	2,010,095	2,341,420	2,341,420	248,400
17,998	-	17,998	17,998	17,998	-
1,760	-	1,760	1,980	1,980	220
19,758	-	19,758	19,978	19,978	220
7,478,310	264,471	6,305,769	6,444,524	6,444,524	103,318
89,820	-	89,820	89,820	89,820	-
-	-	-	-	-	-
89,820	-	89,820	89,820	89,820	-
38,591	-	38,591	38,591	38,591	-
\$ 7,606,721	\$ 264,471	\$ 6,434,180	\$ 6,572,935	\$ 6,572,935	\$ 103,318

Hoover City Board of Education

Supplementary Schedule of State Government Appropriations

Year ended September 30, 2013

Description	Appropriation Period		Total Appropriation
	From	To	
Foundation Program Fund	10/1/2012	9/30/2013	\$ 57,756,438
Public School Fund	10/1/2012	9/30/2013	2,625,329
NBTS Grants	10/1/2012	9/30/2013	776,825
Alabama Reading Initiative	10/1/2012	9/30/2013	615,870
PSCA Fleet Renewal	10/1/2012	9/30/2013	597,004
School Nurse Program	10/1/2012	9/30/2013	442,202
At Risk Student Program	10/1/2012	9/30/2013	219,475
State-wide Purchasing	10/1/2012	9/30/2013	117,455
Exit Exam Failure	10/1/2012	9/30/2013	82,045
Career Tech	10/1/2012	9/30/2013	51,472
PSCA Interest	10/1/2012	9/30/2013	51,067
English as a Second Language	10/1/2012	9/30/2013	47,549
Children's First - Alabama Tobacco Settlement	10/1/2012	9/30/2013	45,058
Commodity Rebates	10/1/2012	9/30/2013	44,149
Technology Coordinator	10/1/2012	9/30/2013	26,813
Financial Assistance - Preschool	10/1/2012	9/30/2013	26,109
Driver's Education	10/1/2012	9/30/2013	21,160
Gifted Education	10/1/2012	9/30/2013	16,992
Legislative Special Appropriation	10/1/2012	9/30/2013	10,800
Operations and Maintenance	10/1/2012	9/30/2013	750
Teacher of the Year Program	10/1/2012	9/30/2013	200
Total state assistance			\$ 63,574,762

Cash Received				
October 1, 2012-	Revenue			
September 30, 2013	Recognized	Expenditures	Encumbrances	
\$ 57,756,438	\$ 57,756,438	\$ 57,756,438	\$	-
2,625,329	2,625,329	2,625,329		-
776,825	776,825	776,825		-
615,870	615,870	615,870		-
597,004	597,004	597,004		-
442,202	442,202	442,202		-
219,475	219,475	219,475		-
117,455	117,455	117,455		-
82,045	82,045	82,045		-
51,472	51,472	51,472		-
51,067	51,067	51,067		-
47,549	47,549	47,549		-
45,058	45,058	45,058		-
44,149	44,149	44,149		-
26,813	26,813	26,813		-
26,109	26,109	26,109		-
21,160	21,160	21,160		-
16,992	16,992	16,992		-
10,800	10,800	10,800		-
750	750	750		-
200	200	200		-
\$ 63,574,762	\$ 63,574,762	\$ 63,574,762	\$	-

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, 2013.

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 2013 appropriations of state funds on the schedule because subsequent expenditures against the encumbrances are made under the authority of the 2013 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, 2012:

- 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 failing to remit collected funds to school bookkeepers in a timely manner.
 - 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.

Current Status:

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 AUDITOR'S 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**



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

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

**INDEPENDENT AUDITOR'S 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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hoover City Board of Education (the "Board"), as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated March 24, 2014.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Carly Riggs & Ingram, L.L.C.

Birmingham, Alabama
March 24, 2014

HOOVER CITY BOARD OF EDUCATION

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**



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

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

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

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

Report on Compliance for Each Major Federal Program

We have audited the Hoover City Board of Education's (the "Board") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Board's major federal programs for the year ended September 30, 2013. 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.

Management's Responsibility.

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

Auditor's Responsibility

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Case, Riggs & Ingram, L.L.C.

Birmingham, Alabama
March 24, 2014

Hoover City Board of Education
Schedule of Findings and Questioned Costs

Schedule of Findings and Questioned Costs

Year ended September 30, 2013

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? yes x 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:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.553	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