

Hoover City Board of Education

Financial Statements

September 30, 2014



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Hoover City Board of Education
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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

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 the Hoover City Board of Education (the "Board"), as of and for the year ended September 30, 2014, 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, 2014, 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 33 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 expenditures of federal awards and schedule of state government appropriations are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and lending institutions 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 16, 2015, 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.

Carly Riggs & Ingram, L.L.C.

Birmingham, Alabama
March 16, 2015

Hoover City Board of Education
Management's Discussion and Analysis (M D & A)
September 30, 2014

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 2014. 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 accrual 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 position of the Board as of September 30, 2014:

	Government Activities		Percent Change
	2013	2014	
Current and other assets	\$115,391,903	\$110,510,450	-4.23%
Noncurrent assets	2,106,605	2,026,598	-3.80%
Capital assets	245,088,744	241,825,909	-1.33%
Deferred charges on refunding	<u>11,572,500</u>	<u>10,513,531</u>	-9.15%
Total assets	<u>\$374,159,752</u>	<u>\$364,876,488</u>	-2.48%
Current liabilities	13,700,080	19,783,699	44.41%
Long-term liabilities	<u>193,917,451</u>	<u>187,381,741</u>	-3.37%
Total liabilities	<u>207,617,531</u>	<u>207,165,440</u>	-0.22%
Deferred revenues	<u>503,235</u>	<u>359,328</u>	-28.6%
Total liabilities and deferred revenues	<u>208,120,766</u>	<u>207,524,768</u>	-0.29%
Net position			
Net investment in capital assets	64,850,398	64,039,297	- 1.25%
Unrestricted	<u>101,188,588</u>	<u>93,312,423</u>	- 7.78%
Total net position	<u>\$166,038,986</u>	<u>\$157,351,720</u>	- 5.23%

Following is a condensed schedule of revenues and expenditures from governmental activities for the year ended September 30, 2014 presented with comparative data for the previous year:

	<u>Government Activities</u>		Percent Change
	2013	2014	
Revenues			
Program Revenues:			
Charges for services	\$ 12,143,580	\$ 12,560,990	3.44%
Operating grants and contributions	65,086,254	70,868,238	8.88%
Capital grants and contributions	3,273,400	4,081,108	24.67%
General Revenues:			
Property taxes	63,489,079	66,095,490	4.11%
Local sales tax	1,522,356	1,597,888	4.96%
City appropriation	2,000,000	2,000,000	
Other general revenues	<u>6,722,231</u>	<u>6,410,933</u>	-4.63%
	<u>154,236,900</u>	<u>163,614,647</u>	6.08%
Expenses			
Instructional services	94,301,790	98,360,841	4.30%
Instructional support services	23,090,615	25,159,392	8.96%
Operation and maintenance services	15,936,005	16,519,445	3.66%
Auxiliary services	16,183,466	16,587,700	2.50%
General administrative services	2,506,477	2,861,502	14.16%
Interest and fiscal charges	8,296,683	8,380,862	1.01%
Other expenses	<u>4,265,864</u>	<u>4,432,171</u>	3.90%
	<u>164,580,900</u>	<u>172,301,913</u>	4.69%
Decrease in net position	(10,344,000)	(8,687,266)	-16.02%
Net position, beginning	<u>176,382,986</u>	<u>\$166,038,986</u>	-5.86%
Net position, ending ¹	<u>\$166,038,986</u>	<u>\$157,351,720</u>	-5.23%

As noted in the above shown condensed presentations, the Board's total assets exceeded total liabilities at year-end by \$157.4 million. This represents a decrease of 5.2% 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, 2014 financial statements reported a combined fund balance of \$94,298,029 which is a decrease of \$7,894,165 from the previous year's fund balance. This net decrease was primarily the result of debt service expenditures. Results of the Board's major funds are discussed below:

General Fund

The fiscal year 2014 financial statements reflected a net increase in the balance of the General Fund of \$576,934 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 \$8.1 million in 2014 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 1.77% more than budget. Actual expenditures were \$2.72 million or 2.08% more than budgeted expenditures. The variance in revenues and other financing sources is primarily attributable to a 1.6% positive variance in property tax receipts, greater than anticipated revenues from other funding sources, including, but not limited to an increase in sales tax revenue, device repair fees, and other local sources. The variance in expenditures was primarily related to personnel costs, technology device repair, and timing of various technology, building maintenance projects, and fleet renewal.

Capital Assets and Debt Administration

Capital Assets

Net capital assets decreased by \$3.3 million in 2014, which is attributable to \$8.0 million in depreciation expense offset by \$4.7 million of capital asset additions. The additions were primarily related to construction on a high school classroom wing, textbooks and maintenance equipment.

Debt Administration

The Board's outstanding warrant liability decreased by \$2.8 million to \$181.6 million during 2014 as a result of regularly scheduled principal payments.

Next Year's Budget

As a result of an increase in 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, 2014</i>	Governmental Activities
Assets	
Current assets	
Cash and cash equivalents	\$ 82,465,397
Investments	24,834,242
Due from other governments	2,872,635
Inventories	338,176
Total current assets	110,510,450
Noncurrent assets	
Bond discount, net	2,026,598
Capital assets:	
Land	18,771,456
Buildings and improvements	295,743,764
Equipment, furniture and vehicles	20,379,176
Textbooks and library books	11,827,822
Construction in progress	1,296,049
Accumulated depreciation	(106,192,358)
Total capital assets, net of depreciation	241,825,909
Total noncurrent assets	243,852,507
Total assets	354,362,957
Deferred outflows of resources	
Deferred charges on refunding	10,513,531
Total assets and deferred outflows of resources	\$ 364,876,488

See Notes to Financial Statements

	Governmental Activities
Liabilities	
Current liabilities	
Accounts payable	\$ 3,117,778
Salaries and benefits payable	12,735,315
Warrants payable	2,945,000
Accrued interest payable	985,606
Total current liabilities	19,783,699
Noncurrent liabilities	
Warrants payable	178,655,000
Bond premium	8,726,741
Total noncurrent liabilities	187,381,741
Total liabilities	207,165,440
Deferred inflows of resources	
Deferred revenue	359,328
Net position	
Net investment in capital assets	64,039,297
Unrestricted	93,312,423
Total net position	\$ 157,351,720



Hoover City Board of Education
Statement of Activities

September 30, 2014

Functions/Programs	Expenses
Governmental activities	
Instructional services	\$ 98,360,841
Instructional support	25,159,392
Operation and maintenance	16,519,445
Auxiliary services	16,587,700
General administration and central support	2,861,502
Other	4,432,171
Interest and fiscal charges	8,380,862
	<hr/>
Total governmental activities	\$ 172,301,913

See Notes to Financial Statements

Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Assets Total Governmental Activities
\$ 4,324,343	\$ 43,394,977	\$ 782,718	\$ (49,858,803)
-	9,564,893	-	(15,594,499)
-	11,203,869	600,000	(4,715,576)
8,236,647	6,704,499	-	(1,646,554)
-	-	-	(2,861,502)
-	-	-	(4,432,171)
-	-	2,698,390	(5,682,472)
\$ 12,560,990	\$ 70,868,238	\$ 4,081,108	(84,791,577)

General revenues

Taxes:

Property taxes	66,095,490
Local sales tax	1,597,888
Miscellaneous taxes	4,420
City appropriations	2,000,000
Interest	169,135
General contributions to the Board	529,587
Other	5,707,791

Total general revenues	<u>76,104,311</u>
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Change in net position	(8,687,266)
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Net position - beginning of year	<u>166,038,986</u>
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Net position - end of year	<u><u>\$ 157,351,720</u></u>
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**Hoover City Board of Education
Balance Sheets—Governmental Funds**

September 30, 2014

	General
Assets	
Current assets	
Cash	\$ 64,504,555
Interfund receivables	76,232
Due from government entities	1,699,667
Investments	10,050,195
Inventory	41,788
Total assets	\$ 76,372,437
Liabilities	
Current liabilities	
Accounts payable	\$ 2,312,286
Accrued liabilities	12,351,589
Interfund payables	1,070,242
Total current liabilities	15,734,117
Deferred inflows of resources	
Deferred revenues	42,508
Fund balances	
Non-spendable: inventory	41,788
Restricted for debt service	-
Committed for encumbrances	114,275
Committed for construction projects	-
Committed for special school purposes	49,314,770
Unassigned	11,124,979
Total fund balances	60,595,812
Total liabilities, deferred inflows of resources and fund balances	\$ 76,372,437

See Notes to Financial Statements

Debt Service	Other Governmental Funds	Totals Governmental Funds
\$ 3,449,858	\$ 14,510,984	\$ 82,465,397
-	1,477,542	1,553,774
34,927	1,138,041	2,872,635
14,773,129	10,918	24,834,242
-	296,388	338,176
<hr/>		
\$ 18,257,914	\$ 17,433,873	\$ 112,064,224

\$ -	\$ 805,492	\$ 3,117,778
-	383,726	12,735,315
-	483,532	1,553,774
-	1,672,750	17,406,867

316,820	359,328
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-	296,388	338,176
18,257,914	-	18,257,914
-	102,363	216,638
-	770,678	770,678
-	11,168,241	60,483,011
-	3,106,633	14,231,612
18,257,914	15,444,303	94,298,029

\$ 18,257,914	\$ 17,433,873	\$ 112,064,224
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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, 2014

Total fund balances - Governmental funds \$ 94,298,029

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

Capital assets used in governmental activities are not current financial resources and
therefore, are not reported as assets in governmental funds. These assets consist of:

Land	\$	18,771,456	
Buildings and improvements		295,743,764	
Equipment, furniture and vehicles		20,379,176	
Textbooks and library books		11,827,822	
Construction in progress		1,296,049	
Accumulated depreciation		(106,192,358)	
Total capital assets, net of depreciation		241,825,909	241,825,909

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 Position.

Unamortized discounts		2,026,598	
Deferred charges from refunding		10,513,531	

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	\$ 2,945,000	\$ 187,381,741	
Accrued interest payable	985,606	-	
Total liabilities	\$ 3,930,606	\$ 187,381,741	(191,312,347)

Total net position - governmental activities \$ 157,351,720

**Hoover City Board of Education
Combined Statement of Revenues, Expenditures and Changes in
Fund Balances—Governmental Funds**

Year ended September 30, 2014

	General
Fund balances beginning of year	\$ 60,018,878
Revenues	
State of Alabama	64,595,521
Federal government	2,200
Local	69,905,659
Other	2,666,641
Total revenues	137,170,021
Other financing sources	
Operating transfers in	606,527
Total other financing sources	606,527
Total revenues and other financing sources	137,776,548
Expenditures	
Instructional services	85,015,250
Instructional support	22,389,784
Operation and maintenance	15,834,673
Auxiliary services	6,646,066
General administration and central support	2,789,918
Capital outlay	-
Debt service	-
Other	794,440
Total expenditures	133,470,131
Other fund uses	
Operating transfers out	3,729,483
Total other fund uses	3,729,483
Total expenditures and other fund uses	137,199,614
Excess of revenues and other sources over (under) expenditures and other fund uses	576,934
Fund balances, end of year	\$ 60,595,812

See Notes to Financial Statements

Debt Service	Other Governmental Funds	Total Governmental Funds
\$ 26,344,609	\$ 15,828,707	\$ 102,192,194
2,688,406	1,698,372	68,982,299
-	6,319,301	6,321,501
75,495	16,227,266	86,208,420
-	40,849	2,707,490
<u>2,763,901</u>	<u>24,285,788</u>	<u>164,219,710</u>
-	8,372,347	8,978,874
<u>-</u>	<u>8,372,347</u>	<u>8,978,874</u>
<u>2,763,901</u>	<u>32,658,135</u>	<u>173,198,584</u>
-	8,115,870	93,131,120
-	2,694,722	25,084,506
-	264,352	16,099,025
-	9,256,330	15,902,396
-	21,932	2,811,850
-	3,226,720	3,226,720
10,850,596	-	10,850,596
-	4,213,222	5,007,662
<u>10,850,596</u>	<u>27,793,148</u>	<u>172,113,875</u>
-	5,249,391	8,978,874
<u>-</u>	<u>5,249,391</u>	<u>8,978,874</u>
<u>10,850,596</u>	<u>33,042,539</u>	<u>181,092,749</u>
<u>(8,086,695)</u>	<u>(384,404)</u>	<u>(7,894,165)</u>
<u>\$ 18,257,914</u>	<u>\$ 15,444,303</u>	<u>\$ 94,298,029</u>

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, 2014

Net changes in fund balances - total governmental funds	\$ (7,894,165)
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>	
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.</p>	
This is the amount by which depreciation (\$7,932,836) exceeded capital outlay (\$4,699,580) in the current period.	(3,233,256)
<p>Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. This is the amount by which debt issued exceeded repayments.</p>	
Principal payments on long term debt	2,815,000
<p>The net effect of transactions involving the disposition of capital assets is to decrease net assets.</p>	
	(29,579)
<p>Discounts on debt are reported in the governmental funds as expenditures. However, these items are deferred on the Statement of Net Position and are amortized over the life of the debt.</p>	
Net amortization expense (included in interest expense)	(363,266)
<p>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:</p>	
Decrease in accrued interest payable	18,000
Change in net position of governmental activities	<u><u>\$ (8,687,266)</u></u>



Hoover City Board of Education Index to Financial Statement Notes

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Hoover City Board of Education Notes to Financial Statements

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

The Board has the direct responsibility for the operation, control and supervision of Hoover City Schools and is considered a primary government for financial reporting. The Board is a legally separate agency of the state of Alabama.

Criteria for determining if other entities are potential component units which should be reported within the Board's basic financial statements are identified and described in the Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. The application of these criteria provides for identification of any entities for which the Board is financially accountable and other organizations for which the nature and significance of their relationships with the Board are such that exclusion would cause the Board's basic financial statements to be misleading or incomplete. Based on these criteria, there are no material component units which should be included in the financial reporting entity of the Board.

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. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate

Hoover City Board of Education Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Fund Financial Statements (continued)

column. All remaining governmental funds are aggregated and reported as other governmental funds.

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.

Hoover City Board of Education Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting (continued)

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.

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

**Hoover City Board of Education
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Property Tax Calendar (continued)

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.

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

Hoover City Board of Education Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Long-term Obligations (continued)

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.

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 fund 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

Hoover City Board of Education Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. *Compensated Absences (continued)*

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, 2014 the Board has accrued a liability in the amount of \$841,980.

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.

Hoover City Board of Education Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Net Position / Fund Equity (continued)

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.

Committed fund balance. These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions 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.

Hoover City Board of Education Notes to Financial Statements

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 position 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. 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 2013-2014 fiscal year was September 16, 2013. The Board approved its original 2013-2014 annual budget on September 10, 2013 and amended June 9, 2014, 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, adjustment to projected local revenue and a reduction in projected capital outlay.

The 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.

Hoover City Board of Education Notes to Financial Statements

NOTE 4 – DEPOSITS AND INVESTMENTS

Deposits

As of September 30, 2014, 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, 2014:

Certificates of Deposit	\$ 14,784,047
US Treasury Strips	10,050,195
Total	\$ 24,834,242

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 \$169,135 are included in revenues for 2014.

**Hoover City Board of Education
Notes to Financial Statements**

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2014, was as follows:

	Balance October 1, 2013	Additions	Retirements and Reclassifications	Balance September 30, 2014
Capital assets not being depreciated:				
Land and improvements	\$ 18,771,456	\$ -	\$ -	\$ 18,771,456
Construction progress	521,906	3,226,720	(2,452,577)	1,296,049
Total capital assets not being depreciated	19,293,362	3,226,720	(2,452,577)	20,067,505
Capital assets being depreciated:				
Exhaustible land improvements	3,744,708	-	1,064,975	4,809,683
Building and improvements	289,546,478	-	1,387,603	290,934,081
Equipment	21,586,727	597,637	(1,805,188)	20,379,176
Textbooks and library books	10,952,599	875,223	-	11,827,822
Total capital assets being depreciated	325,830,512	1,472,860	647,390	327,950,762
Less accumulated depreciation for:				
Exhaustible land improvements	1,494,140	184,516	-	1,678,656
Building and improvements	72,177,943	5,962,591	-	78,140,534
Equipment	17,685,546	1,223,482	(1,775,608)	17,133,420
Textbooks and library books	8,677,501	562,247	-	9,239,748
Total accumulated depreciation	100,035,130	7,932,836	(1,775,608)	106,192,358
Total capital assets being depreciated, net	225,795,382	(6,459,976)	2,422,998	221,758,404
Total governmental activities capital assets, net	\$ 245,088,744	\$ (3,233,256)	\$ (29,579)	\$ 241,825,909

**Hoover City Board of Education
Notes to Financial Statements**

NOTE 5 – CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to governmental functions as follows:

Instructional services	\$	6,574,237
Instructional support		72,234
Operation and maintenance		472,699
Auxiliary services		764,014
General administrative and central support		49,652
Total governmental activities depreciation expense	\$	7,932,836

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

	Project Authorization	Expended to Date	Commitment
Bumpus Middle School Upgrades	\$ 749,000	\$ 39,322	\$ 709,678
Various Mechanical Upgrades	1,317,726	1,256,726	61,000
Total	\$ 2,066,726	\$ 1,296,048	\$ 770,678

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

Hoover City Board of Education Notes to Financial Statements

NOTE 6 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

A. *Plan Description (continued)*

institutions. The responsibility for general administration and operation of the Teachers' Retirement System is vested in the Board of Control (currently 14 members). Benefit provisions are established by the Code of Alabama 1975, Sections 16-25-1 through 16-25-113, as amended, and Sections 36-27B-1 through 36-27B-6, as amended.

The Retirement Systems of Alabama issues a publicly available financial report that includes financial statements and required supplementary information for the Teachers' Retirement System of Alabama. That report may be obtained by writing to The Retirement Systems of Alabama, 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:

	2014	2013	2012
Fiscal year ended September 30,			
Total percentage of covered payroll	19.21%	17.58%	17.25%
Contributions:			
Percentage contributed by the Board	11.71%*	10.08%*	10.00%
Percentage contributed by the employees	7.50%*	7.50%*	7.25%
Contributed by the Board	\$ 9,844,668	\$ 8,272,393	\$ 8,022,899
Contributed by employees	6,305,296	6,155,054	5,816,602
Total contributions	\$ 16,149,964	\$ 14,427,447	\$ 13,839,501

*These are the rates applicable for tier 1 employees

Hoover City Board of Education Notes to Financial Statements

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. Those warrants were fully paid off in 2012.

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, 2014 was \$4,627,798.

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. As of September 30, 2014, 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, 2014 was \$5,885,733.

**Hoover City Board of Education
Notes to Financial Statements**

NOTE 7 – LONG-TERM DEBT (CONTINUED)

As of September 30, 2014, 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%.	115,070,000
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	\$ 181,600,000

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

	Warrants and Notes	
	Principal	Interest
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	4,705,000	7,197,950
2020-2024	34,785,000	31,882,950
2025-2029	35,175,000	23,853,401
2030-2034	36,785,000	16,484,013
2035-2039	45,955,000	7,311,289
2040	10,430,000	221,638
Total	\$ 181,600,000	\$ 117,554,191

Interest paid on long-term debt was \$8,028,850 for the year ended September 30, 2014.

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, 2014 were \$36,864,047.

**Hoover City Board of Education
Notes to Financial Statements**

NOTE 7 – LONG-TERM DEBT (CONTINUED)

The following changes occurred in the liabilities for warrants for the year ended September 30, 2014:

	Balance September 30, 2013	Additions	Principal Payments	Balance September 30, 2014
Warrants Payable	\$ 184,415,000	\$ -	\$ (2,815,000)	\$ 181,600,000

The following changes occurred in premium and discounts on long term debt for the year ended September 30, 2014:

	Premium	Discount	Total
Series 2005, Capital Outlay Warrants	\$ -	\$ 1,041,621	\$ 1,041,621
Amount amortized in prior years	-	(888,251)	(888,251)
Series 2010, Capital Outlay Warrants	-	2,191,080	2,191,080
Amount amortized in prior years	-	(237,845)	(237,845)
Series 2012, Special School Tax Warrants	(10,084,234)	-	(10,084,234)
Amount amortized in prior years	581,783	-	581,783
Unamortized amount – beginning	(9,502,451)	2,106,605	(7,395,846)
Current year amortization	775,710	(80,007)	695,703
Unamortized amount – ending	\$ (8,726,741)	\$ 2,026,598	\$ (6,700,143)

NOTE 8 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund balances at September 30, 2014 consist of the following:

Due to the General Fund from Other Governmental Funds	\$ 76,232
Due to Other Governmental Funds from:	
Other Governmental Funds	407,300
General Fund	1,070,242
Total	\$ 1,553,774

**Hoover City Board of Education
Notes to Financial Statements**

NOTE 8 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (CONTINUED)

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, 2014 consist of the following:

General fund to Other Governmental Funds	\$	3,729,483
Other Governmental Funds to:		
General Fund		606,527
Other Governmental Funds to Other Governmental Funds		4,642,864
	\$	<u>8,978,874</u>

NOTE 9 – RISK MANAGEMENT

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

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

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



Hoover City Board of Education Notes to Financial Statements

NOTE 9 – RISK MANAGEMENT (CONTINUED)

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 \$384,705 for 2014. Commodities consumed were approximately \$339,393 for 2014.

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, 2014 amounted to \$2,000,000.

Hoover City Board of Education Notes to Financial Statements

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 09/30/14
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	679.00
Surviving Spouse - Non-Medicare Eligible and Dependent Non-Medicare Eligible	870.00
Surviving Spouse - Non-Medicare Eligible and Dependent Medicare Eligible	839.00
Surviving Spouse - Medicare Eligible	318.00
Surviving Spouse - Medicare Eligible and Dependent Non-Medicare Eligible	516.00
Surviving Spouse - Medicare Eligible and Dependent Medicare Eligible	485.00

Hoover City Board of Education Notes to Financial Statements

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
2013	714	216.90	30.38%	4,765,801	100%
2014	714	220.09	30.83%	4,702,694	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 2014 financial statements for RDS is \$578,936.



Hoover City Board of Education Notes to Financial Statements

NOTE 14 – 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, 2014

	Budgeted Amounts		Actual on the Budgetary Basis*	Variance
	Original	Final Budget		
Fund balances, beginning of year	\$ 64,000,000	\$ 63,800,000	\$ 60,018,878	\$ (3,781,122)
Revenues				
State of Alabama	63,211,434	64,283,892	64,595,521	311,629
Federal government	-	-	2,200	2,200
Local and other	64,929,404	68,895,047	71,967,229	3,072,182
Total revenues	128,140,838	133,178,939	136,564,950	3,386,011
Other financing sources				
Operating transfers in	40,257,615	38,394,388	38,045,772	(348,616)
Total revenues and other financing sources	168,398,453	171,573,327	174,610,722	3,037,395
Expenditures				
Instructional services	81,782,595	82,750,728	85,015,250	(2,264,522)
Instructional support	21,811,635	21,938,924	22,389,784	(450,860)
Operation and maintenance	15,369,661	15,369,661	15,834,673	(465,012)
Auxiliary services	7,278,654	7,278,654	6,646,066	632,588
General administration and central support	2,751,576	2,746,476	2,789,918	(43,442)
Other	668,351	668,351	794,440	(126,089)
Total expenditures	129,662,472	130,752,794	133,470,131	(2,717,337)
Other fund uses				
Operating transfers out	43,031,042	43,032,280	40,563,657	2,468,623
Total expenditures and other fund uses	172,693,514	173,785,074	174,033,788	(248,714)
Excess of revenues and other sources over expenditures and other fund uses	(4,295,061)	(2,211,747)	576,934	2,788,681
Fund balances, end of year	\$ 59,704,939	\$ 61,588,253	\$ 60,595,812	\$ (992,441)

* 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

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 \$36,864,047 for the fiscal year that ended September 30, 2014.
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, 2014) 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, 2014) outstanding in the aggregate principal amount of \$115,070,000.
 - (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, 2014) outstanding in the aggregate principal amount of \$51,915,000.
4. The average annual debt service on the warrants listed above is \$11,505,930.
5. The maximum annual debt service on the warrants listed above is \$13,420,925.

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

<i>Year ended September 30,</i>	2009	2010	2011	2012	2013	2014
Revenues						
State of Alabama	\$ 63,395,490	\$ 54,787,560	\$ 58,299,626	\$ 62,114,981	\$ 63,574,762	\$ 68,982,299
Federal government	5,062,930	9,490,289	12,996,084	5,763,953	6,572,935	6,321,501
Local	85,388,694	85,049,609	82,993,731	82,441,355	82,678,620	86,208,420
Other	1,895,213	1,997,138	1,885,147	1,980,714	2,002,212	2,707,490
Total revenues	155,742,327	151,324,596	156,174,588	152,301,003	154,828,529	164,219,710
Other financing sources						
Proceeds from borrowings	-	117,885,000	-	-	61,999,234	-
Operating transfers in	52,483,405	46,468,694	38,906,938	18,858,947	8,234,689	8,978,874
Total other financing sources	52,483,405	164,353,694	38,906,938	18,858,947	70,233,923	8,978,874
Total revenues and other financing sources	208,225,732	315,678,290	195,081,526	171,159,950	225,062,452	173,198,584
Expenditures						
Instructional services	82,816,176	83,437,172	82,065,055	82,981,742	89,117,455	93,131,120
Instructional support	23,986,475	23,281,110	22,846,023	22,905,195	23,018,117	25,084,506
Operation and maintenance	17,530,106	16,074,690	16,108,511	15,838,377	15,496,430	16,099,025
Auxiliary services	15,324,563	15,501,587	16,479,695	15,153,453	16,955,543	15,902,396
General administrative and central support	2,466,097	2,377,197	2,324,549	2,180,416	2,502,294	2,811,850
Capital outlay	5,679,095	768,762	1,356,359	9,964,053	6,076,147	3,226,720
Debt service	15,924,879	16,350,161	8,490,436	8,430,548	7,788,900	10,850,596
Other	6,083,308	5,087,655	4,807,904	4,424,115	4,665,796	5,007,662
Total expenditures	169,810,699	162,878,334	154,478,532	161,877,899	165,620,682	172,113,875
Other fund uses						
Operating transfers out	52,483,405	46,468,694	38,906,938	18,858,947	8,234,689	8,978,874
Other uses	-	114,870,722	-	-	61,447,966	-
Total other fund uses	52,483,405	161,339,416	38,906,938	18,858,947	69,682,655	8,978,874
Total expenditures and other fund uses	222,294,104	324,217,750	193,385,470	180,736,846	235,303,337	181,092,749
Excess of revenues and other sources over (under) expenditures and other fund uses	(14,068,372)	(8,539,460)	1,696,056	(9,576,896)	(10,240,885)	(7,894,165)
Fund balances, beginning of year (as restated - see note below)	143,392,017	129,323,645	120,784,185	122,009,975	112,433,079	102,192,194
Fund balances, end of year	\$ 129,323,645	\$ 120,784,185	\$ 122,480,241	\$ 112,433,079	\$ 102,192,194	\$ 94,298,029

Note: The Board's fund balances as of September 30, 2011 were restated due to a correction 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, 2014

Description	Federal CFDA Number	Project Period	
		From	To
Federal Funds Passed Through State Dept. of Ed.			
ED-Vocational Education Basic Grant	84.048	10/1/2013	9/30/2014
ED-Education of the Handicapped (IDEA-B)	84.027	10/1/2013	9/30/2014
ED-Title I	84.010	10/1/2013	9/30/2014
ED-Handicapped Preschool Grants	84.173	10/1/2013	9/30/2014
ED-English Language Acquisition	84.365	10/1/2013	9/30/2014
Improving Teacher Quality	84.367	10/1/2013	9/30/2014
Improving Teacher Quality	84.367	10/1/2012	9/30/2013
Advanced Placement Fee Program	84.330	10/1/2013	9/30/2014
Total U.S. Department of Education			
USDA-Commodities	10.550	10/1/2013	9/30/2014
USDA-School Breakfast	10.553	10/1/2012	9/30/2013
USDA-School Breakfast	10.553	10/1/2013	9/30/2014
USDA-National School Lunch Program	10.555	10/1/2012	9/30/2013
USDA-National School Lunch Program	10.555	10/1/2013	9/30/2014
Total U.S. Department of Agriculture			
HHS-Disability Determination	96.001	10/1/2012	9/30/2013
HHS-Disability Determination	96.001	10/1/2013	9/30/2014
Total U.S. Department of Health and Human Services			
Total Federal Funds Passed through State Department of Education			
Total Federal Awards			

* Commodities only were received

Total Grant Award	Accrued (Deferred) Grant Revenue September 30, 2013	Cash Received	Revenue Recognized	Expenditures	Accrued (Deferred) Grant Revenue September 30, 2014
\$ 115,672		\$ 66,358	\$ 84,030	\$ 84,030	\$ 17,672
2,281,116	(62,056)	1,923,130	2,281,116	2,281,116	295,930
2,343,599	(59,852)	907,101	1,146,045	1,146,045	179,092
29,734	-	24,895	29,734	29,734	4,839
248,554	(11,399)	70,440	92,172	92,172	10,333
152,387	-	89,855	95,079	95,079	5,224
177,259	2,500	2,500	-	-	-
5,116	-	5,116	5,116	5,116	-
5,353,437	(130,807)	3,089,395	3,733,292	3,733,292	513,090
		*	384,705	384,705	-
380,177	42,313	42,313		-	-
326,992		326,992	430,836	430,836	103,844
1,643,159	206,085	206,085	-	-	-
1,389,048	-	1,389,048	1,770,467	1,770,467	381,419
3,739,376	248,398	1,964,438	2,586,008	2,586,008	485,263
2,040	220	561	341	-	-
1,860	-	1,860	1,860	1,860	-
3,900	220	2,421	2,201	1,860	-
9,096,713	117,811	5,056,254	6,321,501	6,321,160	998,353
\$ 9,096,713	\$ 117,811	\$ 5,056,254	\$ 6,321,501	\$ 6,321,160	\$ 998,353

Hoover City Board of Education
Supplementary Schedule of State Government Appropriations

Year ended September 30, 2014

Description	Appropriation Period		Total Appropriation
	From	To	
Foundation Program Fund	10/1/2013	9/30/2014	\$ 62,488,344
Public School Fund	10/1/2013	9/30/2014	2,698,390
NBTS Grants	10/1/2013	9/30/2014	760,511
Alabama Reading Initiative	10/1/2013	9/30/2014	573,250
PSCA	10/1/2013	9/30/2014	543,380
School Nurse Program	10/1/2013	9/30/2014	459,073
Legislative Special Appropriation	10/1/2013	9/30/2014	233,858
At Risk Student Program	10/1/2013	9/30/2014	224,516
21st Century Workforce Grant	10/1/2013	9/30/2014	210,733
State-wide Purchasing	10/1/2013	9/30/2014	205,202
Governor High Hopes	10/1/2013	9/30/2014	150,000
Commodity Rebates	10/1/2013	9/30/2014	110,452
Advanced Placement	10/1/2013	9/30/2014	76,032
Career Tech	10/1/2013	9/30/2014	56,121
English as a Second Language	10/1/2013	9/30/2014	53,581
Children's First - Alabama Tobacco Settlement	10/1/2013	9/30/2014	47,031
Financial Assistance - Preschool	10/1/2013	9/30/2014	32,018
Technology Coordinator	10/1/2013	9/30/2014	27,147
Gifted Education	10/1/2013	9/30/2014	18,189
Operations and Maintenance	10/1/2013	9/30/2014	14,071
Teacher of the Year Program	10/1/2013	9/30/2014	400
Total state assistance			\$ 68,982,299

Cash Received				
October 1, 2013-	Revenue			
September 30, 2014	Recognized	Expenditures	Encumbrances	
\$ 62,488,344	\$ 62,488,344	\$ 62,488,344	\$	-
2,698,390	2,698,390	2,698,390		-
760,511	760,511	760,511		-
573,250	573,250	573,250		-
543,380	543,380	543,380		-
459,073	459,073	459,073		-
233,858	233,858	233,858		-
224,516	224,516	224,516		-
210,733	210,733	210,733		-
205,202	205,202	205,202		-
150,000	150,000	150,000		-
110,452	110,452	110,452		-
76,032	76,032	76,032		-
56,121	56,121	56,121		-
53,581	53,581	53,581		-
47,031	47,031	47,031		-
32,018	32,018	32,018		-
27,147	27,147	27,147		-
18,189	18,189	18,189		-
14,071	14,071	14,071		-
400	400	400		-
\$ 68,982,299	\$ 68,982,299	\$ 68,982,299	\$	-

Hoover City Board of Education Notes to Supplementary Schedules

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, 2014.

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 2014 appropriations of state funds on the schedule because subsequent expenditures against the encumbrances are made under the authority of the 2014 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.

Other Reports

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, 2014, 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 16, 2015.

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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies designated as finding 2014.001.

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 16, 2015

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, 2014. 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, 2014.

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.

Carly Riggs & Ingram, L.L.C.

Birmingham, Alabama
March 16, 2015

Hoover City Board of Education

Schedule of Findings and Questioned Costs

**Hoover City Board of Education
Schedule of Findings and Questioned Costs**

Year ended September 30, 2014

Section I - Summary of Auditors' Results

Financial statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

 yes x no

Significant deficiency(ies) identified?

 x yes none reported

Noncompliance material to financial statements noted?

 yes x no

Federal awards

Internal control over major programs:

Material weakness(es) identified?

 yes x no

Significant deficiency(ies) identified?

 yes x none reported

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

Unqualified

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

 yes x no

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

84.010

Title 1 Grants to Local Education Agencies

84.027

Special Education - Grants to States

84.173

Special Education - Preschool Grants

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

\$ 300,000

Auditee qualified as low-risk auditee?

 x yes no

Hoover City Board of Education Schedule of Findings and Questioned Costs

Year ended September 30, 2014

Section II - Financial statement findings

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

2014.001 Audit procedures were performed at a selection of the Board's local schools. Several deficiencies in internal controls were noted:

- a) Evidence of receipt of goods was not indicated on the invoice prior to the payment being made.
- b) No approval for payment was indicated on the invoice.
- c) Collected funds were not deposited in a timely manner.

Management's response:

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

Section III - Federal Award Findings and Questioned Costs

Findings: None

Questioned costs: None