

Hoover City Board of Education

Financial Statements

September 30, 2011

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Independent Auditors' Report

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

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, 2011, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Board's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Board, as of September 30, 2011, and the respective changes in financial position thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2012, on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3.1 through 3.4 and 28 through 29 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board's basic financial statements. The accompanying schedule of bond disclosures, schedule of expenditures of federal awards and schedule of state government appropriations are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local

Governments, and Non-Profit Organizations, and are not a required part of the basic financial statements. These schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Birmingham, Alabama
March 27, 2012

Hoover City Board of Education
Management's Discussion and Analysis (M D & A)
September 30, 2011

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

Overview of the Financial Statements

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

Government-wide Financial Statements

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

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

The *Statement of Activities* illustrates how the Board's net assets changed during fiscal year 2011. The statement uses the accrual basis of accounting, which is similar to the accounting used by private-sector businesses. All of the revenues and expenses are reported regardless of the timing of when cash is received or paid. The statement identifies the extent to which each expenditure function draws from general revenues of the Board or is financed through charges for services and intergovernmental aid such as state and federal appropriations.

Fund Financial Statements

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

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

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

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

Government-wide Financial Analysis

Following is a condensed financial analysis, present in comparative format, of the government-wide net assets of the Board as of September 30, 2011:

	Government Activities		Percent Change
	2010	2011	
Current and other assets	\$133,225,247	\$134,535,373	0.98%
Noncurrent assets	10,829,139	10,141,606	- 6.35%
Capital assets	<u>246,244,864</u>	<u>240,840,766</u>	- 2.19%
Total assets	<u>390,299,250</u>	<u>385,517,745</u>	- 1.23%
Current liabilities	13,510,312	13,108,148	-2.98%
Long-term liabilities	<u>187,570,000</u>	<u>187,570,000</u>	
Total liabilities	<u>201,080,312</u>	<u>200,678,148</u>	-0.20%
Net assets:			
Invested in capital assets, net of related debt	60,853,772	55,449,674	- 8.88%
Unrestricted	<u>128,365,166</u>	<u>129,389,923</u>	0.80%
Total net assets	<u>\$189,218,938</u>	<u>\$184,839,597</u>	- 2.31%

Following is a condensed schedule of revenues and expenditures from governmental activities for the year ended September 30, 2011 presented with comparative data for the previous year:

	<u>Government Activities</u>		Percent Change
	2010	2011	
Revenues			
Program Revenues:			
Charges for services	\$ 11,100,877	\$ 11,191,366	0.82%
Operating grants and contributions	59,297,029	66,548,442	12.23%
Capital grants and contributions	3,320,848	3,263,230	-1.74%
General Revenues:			
Property taxes	65,293,326	64,236,402	-1.62%
Local sales tax	1,482,977	1,477,581	-0.36%
City appropriation	2,000,000	2,000,000	
Other general revenues	<u>8,154,632</u>	<u>6,810,871</u>	- 16.48%
	<u>150,649,689</u>	<u>155,527,892</u>	3.24%
Expenses			
Instructional services	90,130,672	88,601,603	-1.70%
Instructional support services	23,358,450	22,908,451	-1.93%
Operation and maintenance services	16,567,889	16,580,496	0.08%
Auxiliary services	16,298,782	16,097,989	-1.23%
General administrative services	2,430,358	2,377,334	- 2.18%
Interest and fiscal charges	6,363,708	9,161,735	43.97%
Other expenses	<u>4,922,647</u>	<u>4,179,625</u>	-15.09%
	<u>160,072,506</u>	<u>159,907,233</u>	- 0.10%
Decrease in net assets	(9,422,817)	(4,379,341)	-53.52%
Net assets, beginning	<u>198,641,755</u>	<u>189,218,938</u>	-4.74%
Net assets, ending	<u>\$189,218,938</u>	<u>\$184,839,597</u>	-2.31%

As noted in the above shown condensed presentations, the Board's total assets exceeded total liabilities at year-end by \$184.8 million. This represents a decrease of 2.31% over the previous year.

Fund Financial Analysis

The September 30, 2011 financial statements reported a combined fund balance of \$122,480,241 which is an increase of \$1,696,056 from the previous year's fund balance. This net increase was primarily the result of an increase in the Capital Projects funds to provide for the construction of a classroom addition. Results of the Board's major funds are discussed below:

General Fund

The fiscal year 2011 financial statements reflected a net decrease in the fund balance of the General Fund of \$193,836.

24 Mill Tax Fund

The Board receives proceeds from a municipal ad valorem tax levied on all taxable property in the City of Hoover for school purposes at the rate of 24 mills. This fund increased \$8.4 million in 2011 as result of a decrease in funds transferred to the General Fund as an increase in the that fund offset a portion of what would otherwise been provided from the 24 Mill Tax Fund.

Debt Service Fund

The Debt Service Fund decreased \$8.3 million in 2011 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.

The actual excess of revenues and other financing sources less than expenditures and other fund uses was less than the final budget amount by \$461,355. The difference was primarily the result of cost containment strategies implemented throughout the year.

Capital Assets and Debt Administration

Capital Assets

Net capital assets decreased by \$5.4 million in 2011, which is net of \$8.3 million in depreciation expense. Additions to capital assets were primarily related to construction in progress on a high school classroom addition and various maintenance and technology equipment.

Debt Administration

During the 2011 fiscal year, there was no change in the Board's outstanding warrant liability as debt service payments for the Series 2005 and Series 2010 were interest only.

Next Year's Budget

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

Requests for Additional Information

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

Hoover City Board of Education

Statement of Net Assets

<i>September 30, 2011</i>	Governmental Activities
<hr/>	
Assets	
Current assets	
Cash and cash equivalents	\$ 119,393,163
Investments	12,414,220
Due from other governments	2,225,376
Prepaid items	108,881
Inventories	393,733
Total current assets	134,535,373
Noncurrent assets	
Bond discount, issuance cost and deferred charges, net	10,141,606
<hr/>	
Capital assets:	
Land	18,584,170
Buildings and improvements	277,433,896
Equipment, furniture and vehicles	19,882,097
Textbooks and library books	8,703,262
Construction in progress	565,204
Accumulated depreciation	(84,327,863)
Total capital assets, net of depreciation	240,840,766
Total noncurrent assets	250,982,372
Total assets	385,517,745

See notes to financial statements.

	Governmental Activities
<hr/>	
Liabilities	
Current liabilities	
Accounts payable	\$ 2,736,591
Deferred revenue	497,714
Salaries and benefits payable	8,820,827
Accrued interest payable	1,053,016
<hr/>	
Total current liabilities	13,108,148
Noncurrent liabilities	
Warrants payable	187,570,000
<hr/>	
Total liabilities	200,678,148
<hr/>	
Net assets	
Invested in capital assets, net of related debt	55,449,674
Unrestricted	129,389,923
<hr/>	
Total net assets	\$ 184,839,597
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Hoover City Board of Education

Statement of Activities

September 30, 2011

Functions/Programs	Expenses
Governmental activities	
Instructional services	\$ 88,601,603
Instructional support	22,908,451
Operation and maintenance	16,580,496
Auxiliary services	16,097,989
General administration and central support	2,377,334
Other	4,179,625
Interest and fiscal charges	9,161,735
Total governmental activities	\$ 159,907,233

Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Assets Total Governmental Activities
\$ 4,258,068	\$ 42,468,750	\$ 819,702	\$ (41,055,083)
-	7,988,109	-	(14,920,342)
-	10,347,364	-	(6,233,132)
6,933,298	5,744,219	-	(3,420,472)
-	-	-	(2,377,334)
-	-	-	(4,179,625)
-	-	2,443,528	(6,718,207)
<u>\$ 11,191,366</u>	<u>\$ 66,548,442</u>	<u>\$ 3,263,230</u>	<u>(78,904,195)</u>

General revenues

Taxes:

Property taxes for general purposes	64,236,402
Local sales tax	1,477,581
Miscellaneous taxes	4,104
City appropriations	2,000,000
Interest	806,625
General contributions to the Board	671,470
Insurance loss recoveries	18,573
Other	5,310,099
Total general revenues	<u>74,524,854</u>
Change in net assets	(4,379,341)
Net assets - beginning of year	<u>189,218,938</u>
Net assets - end of year	<u><u>\$ 184,839,597</u></u>

Hoover City Board of Education
Balance Sheet - Governmental Funds

September 30, 2011

	General	24 Mill Tax
Assets		
Current assets		
Cash	\$ 20,630,679	\$ 44,461,520
Prepaid items	108,881	-
Interfund receivables	46,275	-
Due from government entities	990,844	840,372
Investments	-	-
Inventory	195,880	-
Total assets	\$ 21,972,559	\$ 45,301,892
Liabilities and fund balances		
Current liabilities		
Accounts payable	\$ 2,049,767	\$ -
Accrued liabilities	8,417,313	-
Deferred revenues	-	-
Interfund payables	1,067,833	-
Total current liabilities	11,534,913	-
Fund balances		
Non-spendable: inventory and prepaid items	304,761	-
Restricted for debt service	-	-
Committed for encumbrances	37,050	-
Committed for construction projects	-	10,463,674
Committed for special school purposes	-	34,838,218
Unassigned	10,095,835	-
Total fund balances	10,437,646	45,301,892
Total liabilities and fund balances	\$ 21,972,559	\$ 45,301,892

See notes to financial statements.

Debt Service	Other Governmental Funds	Totals Governmental Funds
\$ 39,365,643	\$ 14,935,321	\$ 119,393,163
-	-	108,881
-	1,270,133	1,316,408
-	394,160	2,225,376
12,403,318	10,902	12,414,220
-	197,853	393,733
\$ 51,768,961	\$ 16,808,369	\$ 135,851,781

\$ -	\$ 686,824	\$ 2,736,591
-	403,514	8,820,827
-	497,714	497,714
-	248,575	1,316,408
-	1,836,627	13,371,540

-	197,853	502,614
51,768,961	-	51,768,961
-	3,355	40,405
-	4,364,258	14,827,932
-	10,406,276	45,244,494
-	-	10,095,835
51,768,961	14,971,742	122,480,241

\$ 51,768,961	\$ 16,808,369	\$ 135,851,781
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Hoover City Board of Education

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

Year ended September 30, 2011

Total fund balances - Governmental funds \$ 122,480,241

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

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

Land	\$ 18,584,170	
Buildings and improvements	277,433,896	
Equipment, furniture and vehicles	19,882,097	
Textbooks and library books	8,703,262	
Construction in progress	565,204	
Accumulated depreciation	<u>(84,327,863)</u>	
Total capital assets, net of depreciation		240,840,766

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

Unamortized discounts and issuance costs 10,141,606

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	\$ -	\$ 187,570,000	
Accrued interest payable	1,053,016	-	
Total liabilities	<u>\$ 1,053,016</u>	<u>\$ 187,570,000</u>	<u>(188,623,016)</u>

Total net assets - governmental activities \$ 184,839,597

Hoover City Board of Education

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

Year ended September 30, 2011

	General	24 Mill Tax
Fund balances beginning of year	\$ 10,631,482	\$ 36,905,480
Revenues		
State of Alabama	54,868,666	-
Federal government	5,532,348	-
Local	31,570,807	36,808,177
Other	1,817,077	-
Total revenues	93,788,898	36,808,177
Other financing sources		
Operating transfers in	30,002,601	1,007,664
Total other financing sources	30,002,601	1,007,664
Total revenues and other financing sources	123,791,499	37,815,841
Expenditures		
Instructional services	73,628,074	-
Instructional support	20,090,285	-
Operation and maintenance	15,871,326	-
Auxiliary services	6,772,596	-
General administration and central support	2,290,497	-
Capital outlay	-	-
Debt service	-	-
Other	662,717	330
Total expenditures	119,315,495	330
Other fund uses		
Operating transfers out	4,669,840	29,419,099
Total other fund uses	4,669,840	29,419,099
Total expenditures and other fund uses	123,985,335	29,419,429
Excess of revenues and other sources over (under) expenditures and other fund uses	(193,836)	8,396,412
Fund balances, end of year	\$ 10,437,646	\$ 45,301,892

See notes to financial statements.

Debt Service	Other Governmental Funds	Total Governmental Funds
\$ 60,047,149	\$ 13,200,074	\$ 120,784,185
-	3,430,960	58,299,626
-	7,463,736	12,996,084
212,248	14,402,499	82,993,731
-	68,070	1,885,147
212,248	25,365,265	156,174,588
-	7,896,673	38,906,938
-	7,896,673	38,906,938
212,248	33,261,938	195,081,526
-	8,436,981	82,065,055
-	2,755,738	22,846,023
-	237,185	16,108,511
-	9,707,099	16,479,695
-	34,052	2,324,549
-	1,356,359	1,356,359
8,490,436	-	8,490,436
-	4,144,857	4,807,904
8,490,436	26,672,271	154,478,532
-	4,817,999	38,906,938
-	4,817,999	38,906,938
8,490,436	31,490,270	193,385,470
(8,278,188)	1,771,668	1,696,056
\$ 51,768,961	\$ 14,971,742	\$ 122,480,241

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, 2011

Net changes in fund balances - total governmental funds	\$ 1,696,056
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay \$(2,941,864) was exceeded by depreciation \$(8,326,879) in the current period.	(5,385,015)
The net effect of transactions involving the disposition of capital assets is to decrease net assets.	(19,083)
Debt issuance costs and discounts on debt are reported in the governmental funds as expenditures. However, these items are deferred on the Statement of Net Assets and are amortized over the life of the debt. Amortization expense	(687,533)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and are not reported as expenditures in the funds: Decrease in accrued interest payable	<u>16,234</u>
Change in net assets of governmental activities	<u><u>\$ (4,379,341)</u></u>

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Hoover City Board of Education (the “Board”) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Board's accounting policies are described below.

A. Reporting Entity

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

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

B. Basis of Presentation, Basis of Accounting

Government-wide Financial Statements

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

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

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Board's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements

The fund financial statements provide information about the Board's funds. Separate statements for each fund category - governmental and fiduciary - are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as other governmental funds.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Fund Financial Statements (continued)

The Board reports the following major governmental funds:

- (1) General Fund -- This is the Board's primary operating fund. It accounts for all financial resources, except those required to be accounted for in another fund. The Board's General Fund primarily received revenues from the Education Trust Fund (ETF), appropriated by the Alabama Legislature, and from local taxes. The State Department of Education allocated amounts appropriated from the ETF to the school board on a formula basis.
- (2) 24 Mill Tax Fund -- This is a special revenue fund used to account for resources provided by the special municipal ad valorem tax levied on all taxable property in the city for school purposes. The Board is authorized to apply the proceeds of the special tax to payment of the principal of and interest on any of its warrant anticipation notes, its capital outlay warrants or payment of the costs of operating public schools in the city.
- (3) Debt Service Funds -- Debt Service Funds are used to account for the accumulation of resources for the payment of the Board's general long-term debt principal and interest.

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

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

C. Measurement Focus, Basis of Accounting

Government-wide Financial Statements: The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Board gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

D. *Cash and Investments*

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

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

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

E. *Receivables*

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

F. *Property Tax Calendar*

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Inventories and Prepaid Items

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

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

H. Capital Assets

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

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

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

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

I. Long-term Obligations

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Long-term Obligations (continued)

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

J. Compensated Absences

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

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

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

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

Twelve-month employees are allowed at least two weeks of vacation per year with pay. Vacation is awarded each July 1st, each January 1st employees' unused vacation is capped at the maximum amount of vacation to which they are entitled. Board policy allows up to 10 days of vacation to be carried over to be used within the first three months of the succeeding year. Accordingly, at September 30, 2011 the Board has accrued a liability in the amount of \$601,032.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Net Assets / Fund Equity

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

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

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

L. Implementation of New Accounting Policies

For the year ending September 30, 2011, the Board implemented the following statement of financial accounting standards issued by the Governmental Accounting Standards Board:

GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions

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.

Additional information about the implementation of GASB Statement No. 54 can be found in section K. of this note.

NOTE 2 – RECONCILIATION OF FINANCIAL STATEMENTS

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

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

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

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

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

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets

Annual budgets are adopted for all governmental funds except the permanent funds. All annual appropriations lapse at fiscal year end. State law requires Alabama school boards to prepare and submit to the State Superintendent of Education the annual budget adopted by the local board of education. In accordance with the regulations of the State Board of Education, the due date for submission of the budget for the 2010-2011 fiscal year was September 15, 2011. The Board approved its original 2010-2011 annual budget on September 7, 2010 and amended May 9, 2011, primarily to allow for adjustments in amounts resulting from state proration and changes in other funding.

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

NOTE 4 – DEPOSITS AND INVESTMENTS

Deposits

As of September 30, 2011, 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, 2011:

Certificates of Deposit	\$ 12,414,220
Total	\$ 12,414,220

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.

Hoover City Board of Education

Notes to Financial Statements

NOTE 4 – DEPOSITS AND INVESTMENTS (CONTINUED)

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 \$806,625 are included in revenues for 2011.

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2011, was as follows:

	Balance October 1, 2010	Additions	Retirements and Reclassifications	Balance September 30, 2011
Capital assets not being depreciated:				
Land and improvements	\$ 18,386,732	\$ 197,438	\$ -	\$ 18,584,170
Construction progress	370,911	1,079,974	(885,681)	565,204
Total capital assets not being depreciated	18,757,643	1,277,412	(885,681)	19,149,374
Capital assets being depreciated:				
Exhaustible land improvements	3,129,757	-	-	3,129,757
Building and improvements	273,339,511	78,947	885,681	274,304,139
Equipment	18,729,892	1,290,298	(138,093)	19,882,097
Textbooks and library books	8,408,055	295,207	-	8,703,262
Total capital assets being depreciated	303,607,215	1,664,452	747,588	306,019,255
Less accumulated depreciation for:				
Exhaustible land improvements	949,873	156,488	-	1,106,361
Building and improvements	56,782,139	5,742,502	-	62,524,641
Equipment	12,507,114	1,573,402	(119,010)	13,961,506
Textbooks and library books	5,880,868	854,487	-	6,735,355
Total accumulated depreciation	76,119,994	8,326,879	(119,010)	84,327,863
Total capital assets being depreciated, net	227,487,221	(6,662,427)	866,598	221,691,392
Total governmental activities capital assets, net	\$ 246,244,864	\$ (5,385,015)	\$ (19,083)	\$ 240,840,766

Depreciation expense was charged to governmental functions as follows:

Instructional services	\$ 6,900,795
Instructional support	75,822
Operation and maintenance	496,179
Auxiliary services	801,964
General administrative and central support	52,119
Total governmental activities depreciation expense	\$ 8,326,879

NOTE 5 – CAPITAL ASSETS (CONTINUED)

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

	Project Authorization	Expended to Date	Commitment
Hoover High School Expansion	\$ 15,150,000	\$ 550,797	\$ 14,599,203
Simmons and Berry Middle School Reroofing	243,136	14,407	228,729
Total	\$ 15,393,136	\$ 565,204	\$ 14,827,932

NOTE 6 – DEFINED BENEFIT PENSION PLAN

A. Plan Description

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

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

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

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.

A. Funding Policy

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

NOTE 6 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

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:

	2011	2010	2009
Fiscal year ended September 30,			
Total percentage of covered payroll	17.51%	17.51%	17.07%
Contributions:			
Percentage contributed by the Board	12.51%	12.51%	12.07%
Percentage contributed by the employees	5.00%	5.00%	5.00%
Contributed by the Board	\$ 9,975,235	\$ 10,112,428	\$ 9,904,459
Contributed by employees	3,986,904	4,042,775	4,102,924
Total contributions	\$ 13,962,139	\$ 14,155,203	\$ 14,007,383

NOTE 7 – LONG-TERM DEBT

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

As a result of the refunding of the Series 2001, Series 2002 and Series 2002-A Warrants the Board has recorded deferred charges of \$6,810,722 in the Government-Wide Statement of Net Assets. These charges represent the difference between the reacquisition price and the net carrying amounts of the refunded warrants. These costs are being amortized over the average remaining life of the refunded warrants. The unamortized portion of these costs as of September 30, 2011 was \$6,199,503

Hoover City Board of Education

Notes to Financial Statements

NOTE 7 – LONG-TERM DEBT (CONTINUED)

As of September 30, 2011, the Board's long-term debt consisted of the following:

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

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

	Warrants and Notes	
	Principal	Interest
2012	\$ -	\$ 8,424,125
2013	-	8,424,125
2014	2,815,000	8,353,750
2015	2,945,000	8,209,750
2016	3,070,000	8,059,375
2017-2021	26,765,000	37,053,250
2022-2026	40,300,000	28,658,088
2027-2031	32,235,000	21,093,926
2032-2036	40,250,000	13,019,126
2036-2040	39,190,000	3,419,339
Total	\$ 187,570,000	\$ 144,714,854

Interest paid on long-term debt was \$8,482,651 for the year ended September 30, 2011.

The Series 2005 and Series 2010 Warrants were issued in December 2005 and August 2010 respectively. The principal and interest payments are payable out of proceeds of a special 24 mill ad valorem tax levied in the City of Hoover. Total receipts from the special 24 mill ad valorem tax for the year ended September 30, 2011 were \$36,218,396.

The following changes occurred in the liabilities for warrants for the year ended September 30, 2011:

	Balance September 30, 2010	Additions	Deletions	Balance September 30, 2011
Capital outlay warrants	\$ 187,570,000	\$ -	\$ -	\$ 187,570,000

Hoover City Board of Education

Notes to Financial Statements

NOTE 7 – LONG-TERM DEBT (CONTINUED)

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

	Issuance Costs	Discount	Deferred Charges	Total
Series 2005, Capital Outlay Warrants	\$ 360,073	\$ 1,041,621	\$ -	\$ 1,401,694
Amount amortized in prior years	77,836	215,655	-	293,491
Series 2010, Capital Outlay Warrants	823,198	2,191,080	6,810,722	9,825,000
Amount amortized in prior years	4,573	12,173	87,318	104,064
Unamortized amount – beginning	1,100,862	3,004,873	6,723,404	10,829,139
Current year amortization	43,654	119,977	523,902	687,533
Unamortized amount – ending	\$ 1,057,208	\$ 2,884,896	\$ 6,199,502	\$ 10,141,606

NOTE 8 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund balances at September 30, 2011 consist of the following:

Due to General fund from:	
Child Nutrition Fund	\$ 46,275
Due to Capital Projects from:	
Other Governmental Funds	202,300
Due to Other Governmental Funds from:	
General Fund	1,067,833
Total	\$ 1,316,408

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, 2011 consist of the following:

General fund to:	
Other governmental funds	\$ 3,662,176
Special revenue fund	1,007,664
Special revenue fund to:	
General fund	29,419,099
Other governmental funds to:	
General fund	583,502
Other governmental funds	4,234,497
	\$ 38,906,938

NOTE 9 – RISK MANAGEMENT

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

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

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

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

NOTE 10 – CONTINGENT LIABILITIES

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

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

NOTE 11 – DONATED FOOD PROGRAM

The commodities received from the Federal government in connection with the donated food program are reflected in the accompanying financial statements. The total assigned value of commodities donated was \$299,170 for 2011. Commodities consumed were approximately \$274,001 for 2011.

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, 2011 amounted to \$2,000,000.

NOTE 13 – OTHER POST-EMPLOYMENT BENEFITS (OPEB)

The Board contributes to the Alabama Retired Education Employees' Health Care Trust (the "Trust"), a cost-sharing multiple-employer defined benefit postemployment healthcare plan. The Trust provides health care benefits to state and local school system retirees and was established in 2007 under the provisions of Act Number 2007-16 as an irrevocable trust fund. Responsibility for general administration and operations of the Trust is vested with the Public Education Employees' Health Insurance Board (PEEHIB) members. The *Code of Alabama 1975*, Section 16-25A-4, provides the PEEHIB with the authority to amend the benefit provisions in order to provide reasonable assurance of stability in future years. The Trust issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at the Public Education Employees' Health Insurance Plan website, <http://www.rsa-al.gov/PEEHIP/peehip.html> under the Trust Fund Financials tab.

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

	Fiscal Year Ending 09/30/2011
Individual Coverage - Non-Medicare Eligible	\$ 146.00
Individual Coverage - Medicare Eligible	10.00
Family Coverage - Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)	381.00
Family Coverage - Non-Medicare Eligible Retired Member and Dependent Medicare Eligible	245.00
Family Coverage - Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)	245.00

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

**Fiscal Year
Ending
09/30/2011**

(continued)

Family Coverage - Medicare Eligible Retired Member and Dependent	
Medicare Eligible	\$ 109.00
Surviving Spouse - Non-Medicare Eligible	701.00
Surviving Spouse - Non-Medicare Eligible and Dependent Non-Medicare Eligible	890.00
Surviving Spouse - Non-Medicare Eligible and Dependent Medicare Eligible	859.00
Surviving Spouse - Medicare Eligible	369.00
Surviving Spouse - Medicare Eligible and Dependent Non-Medicare Eligible	558.00
Surviving Spouse - Medicare Eligible and Dependent Medicare Eligible	527.00

For employees that retire other than for disability, for each year under 25 years of service, the retiree pays two percent of the employer premium and for each year over 25 years of service, the retiree premium is reduced by two percent of the employer premium.

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
2010	\$ 752	\$ 241	32.08%	\$ 5,384,284	100%
2011	752	199	26.45%	4,313,901	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 2011 financial statements for RDS is \$525,171.

NOTE 14 – SUBSEQUENT EVENT

On November 30, 2011 the Board entered into a construction contract in the amount of \$13,586,000 for additions to be made to Hoover High School. This contract represents the lowest bid that was received. The Board plans to fund the project from current resources.

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, 2011

	Budgeted Amounts		Actual on the Budgetary Basis*	Variance Favorable (Unfavorable)
	Original	Final Budget		
Fund balances, beginning of year	\$ 10,900,000	\$ 10,631,482	\$ 10,631,482	\$ -
Revenues				
State of Alabama	55,140,820	54,804,918	54,868,666	63,748
Federal government	5,531,106	5,531,106	5,532,348	1,242
Local and other	30,713,454	30,717,954	32,741,188	2,023,234
Total revenues	91,385,380	91,053,978	93,142,202	2,088,224
Other financing sources				
Operating transfers in	34,219,661	37,681,632	30,649,297	(7,032,335)
Total other financing sources	34,219,661	37,681,632	30,649,297	(7,032,335)
Total revenues and other financing sources	125,605,041	128,735,610	123,791,499	(4,944,111)
Expenditures				
Instructional services	74,767,781	75,904,638	73,628,074	2,276,564
Instructional support	19,963,223	20,240,670	20,090,285	150,385
Operation and maintenance	16,633,507	16,633,507	15,871,326	762,181
Auxiliary services	7,334,507	7,337,507	6,772,596	564,911
General administration and central support	2,552,244	2,563,536	2,290,497	273,039
Other	595,885	600,617	662,717	(62,100)
Total expenditures	121,847,147	123,280,475	119,315,495	3,964,980
Other fund uses				
Operating transfers out	3,757,894	5,187,616	4,669,840	517,776
Total other fund uses	3,757,894	5,187,616	4,669,840	517,776
Total expenditures and other fund uses	125,605,041	128,468,091	123,985,335	4,482,756
Excess of revenues and other sources over (under) expenditures and other fund uses	-	267,519	(193,836)	(461,355)
Fund balances, end of year	\$ 10,900,000	\$ 10,899,001	\$ 10,437,646	\$ (461,355)

* 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 cost has been adjusted to reflect the budgetary grouping for the purposes of this budget to actual comparison.

See notes to financial statements.

Hoover City Board of Education

Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual - 24 Mill Fund

Year ended September 30, 2011

	Budgeted Amounts		Variance Favorable (Unfavorable)
	Original & Final Budget	Actual	
Fund balances, beginning of year	\$ 36,905,480	\$ 36,905,480	\$ -
Revenues			
Local	36,238,882	36,808,177	569,295
Other financing sources			
Operating transfers in	-	1,007,664	1,007,664
Total revenues and other financing sources	36,238,882	37,815,841	1,576,959
Expenditures			
Other	-	330	(330)
Other fund uses			
Operating transfers out	33,090,922	29,419,099	3,671,823
Total expenditures and other fund uses	33,090,922	29,419,429	3,671,493
Excess of revenues and other sources over expenditures and other fund uses	3,147,960	8,396,412	5,248,452
Fund balances, end of year	\$ 40,053,440	\$ 45,301,892	\$ 5,248,452

See notes to financial statements.

Supplementary Information

Hoover City Board of Education

Supplementary Schedule of Bond Disclosures Continuing Disclosure Information

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

1. The net proceeds of the Special Tax (that is, the ad valorem tax levied by the City of Hoover at the rate of 24 mills per annum) were \$36,218,396 for the fiscal year that ended September 30, 2011.
2. Attached hereto is a summary of revenue, expenditures and changes in fund balances for all governmental funds for the current and the five most recent fiscal years.
3. The following issues are payable solely out of the proceeds of the Special Tax:
 - (a) \$69,685,000 aggregate principal amount of the Board's Capital Outlay Warrants, Series 2005, dated December 15, 2005, and (as of September 30, 2011) outstanding in the aggregate principal amount of \$69,685,000.
 - (b) \$117,885,000 aggregate principal amount of the Board's Capital Outlay Warrants, Series 2010, dated August 1, 2010, and (as of September 30, 2011) outstanding in the aggregate principal amount of \$117,885,000.
4. The average annual debt service on the warrants listed above is \$11,363,794.
5. The maximum annual debt service on the warrants listed above is \$13,936,875.

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

Year ended September 30,	2006	2007	2008	2009	2010	2011
Revenues						
State of Alabama	\$ 49,364,874	\$ 57,365,398	\$ 65,097,385	\$ 63,395,490	\$ 54,787,560	\$ 58,299,626
Federal government	4,404,548	3,908,415	4,121,720	5,062,930	9,490,289	12,996,084
Local	80,978,263	174,451,467	99,100,595	85,388,694	85,049,609	82,993,731
Other	1,574,223	1,740,232	1,702,286	1,895,213	1,997,138	1,885,147
Total revenues	136,321,908	237,465,512	170,021,986	155,742,327	151,324,596	156,174,588
Other financing sources						
Proceeds from borrowings	69,685,000	-	-	-	117,885,000	-
Operating transfers in	61,814,072	56,005,543	50,986,536	52,483,405	46,468,694	38,906,938
Total other financing sources	131,499,072	56,005,543	50,986,536	52,483,405	164,353,694	38,906,938
Total revenues and other financing sources	267,820,980	293,471,055	221,008,522	208,225,732	315,678,290	195,081,526
Expenditures						
Instructional services	61,249,992	77,059,339	88,431,180	82,816,176	83,437,172	82,065,055
Instructional support	19,297,866	22,841,411	25,526,662	23,986,475	23,281,110	22,846,023
Operation and maintenance	13,347,246	15,966,775	18,333,502	17,530,106	16,074,690	16,108,511
Auxiliary services	13,191,750	15,318,777	16,534,236	15,324,563	15,501,587	16,479,695
General administrative and central support	2,501,224	2,533,526	2,922,538	2,466,097	2,377,197	2,324,549
Capital outlay	23,395,838	15,836,624	3,479,553	5,679,095	768,762	1,356,359
Debt service	15,273,529	15,977,729	15,955,453	15,924,879	16,350,161	8,490,436
Other	3,612,660	4,216,430	5,446,360	6,083,308	5,087,655	4,807,904
Total expenditures	151,870,105	169,750,611	176,629,484	169,810,699	162,878,334	154,478,532
Other fund uses						
Operating transfers out	61,814,072	56,005,543	50,986,536	52,483,405	46,468,694	38,906,938
Other uses	1,041,621	-	-	-	114,870,722	-
Total other fund uses	62,855,693	56,005,543	50,986,536	52,483,405	161,339,416	38,906,938
Total expenditures and other fund uses	214,725,798	225,756,154	227,616,020	222,294,104	324,217,750	193,385,470
Excess of revenues and other sources over (under) expenditures and other fund uses	53,095,182	67,714,901	(6,607,498)	(14,068,372)	(8,539,460)	1,696,056
Fund balances, beginning of year (as restated - see note below)	29,814,433	82,909,615	149,999,515	143,392,017	129,323,645	120,784,185
Fund balances, end of year	\$ 82,909,615	\$ 150,624,516	\$ 143,392,017	\$ 129,323,645	\$ 120,784,185	\$ 122,480,241

Note: The Board's fund balance as of September 30, 2007 was 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, 2011

Description	Federal CFDA Number	Project Period	
		From	To
Federal Funds Passed Through State Dept. of Ed.			
ED-Vocational Education Basic Grant	84.048	10/1/2010	9/30/2011
ED-Vocational Education Basic Grant	84.048	10/1/2009	9/30/2010
ED-Tech Prep Education	84.243	10/1/2010	9/30/2011
ED-Safe and Drug Free Schools	84.186	10/1/2010	9/30/2011
ED-Safe and Drug Free Schools	84.186	10/1/2009	9/30/2010
Safe and Drug Free Community	84.186	10/1/2010	9/30/2011
ED-Education of the Handicapped (IDEA-B)	84.027	10/1/2010	9/30/2011
ED-Education of the Handicapped (IDEA-B)	84.027	10/1/2009	9/30/2010
ED-Title I	84.01	10/1/2010	9/30/2011
ED-Title I	84.01	10/1/2009	9/30/2010
ED-Handicapped Preschool Grants	84.173	10/1/2010	9/30/2011
ED-Handicapped Preschool Grants	84.173	10/1/2009	9/30/2010
ED-English Language Acquisition	84.365	10/1/2010	9/30/2011
ED-English Language Acquisition	84.365	10/1/2009	9/30/2010
Enhance ED/TECH	84.318	10/1/2010	9/30/2011
Enhance ED/TECH	84.318	10/1/2009	9/30/2010
Improving Teacher Quality	84.367	10/1/2010	9/30/2011
Improving Teacher Quality	84.367	10/1/2009	9/30/2010
Advanced Placement Fee Program	84.33	10/1/2010	9/30/2011
Education Technology, Recovery Act	84.386	10/1/2010	9/30/2011
Education Technology, Recovery Act	84.386	10/1/2009	9/30/2010
Title I Grants to Local Educational Agencies, Recovery Act	84.389	10/1/2010	9/30/2011
Title I Grants to Local Educational Agencies, Recovery Act	84.389	10/1/2009	9/30/2010
Special Ed. Grants to States (IDEA, Part B) Recovery Act	84.391	10/1/2010	9/30/2011
Special Ed. Grants to States (IDEA, Part B) Recovery Act	84.391	10/1/2009	9/30/2010
Special Ed. Grants to States, Preschool (IDEA, Part B) Recovery Act	84.392	10/1/2010	9/30/2011
Special Ed. Grants to States, Preschool (IDEA, Part B) Recovery Act	84.392	10/1/2009	9/30/2010
Education Stabilization, Recovery Act	84.394	10/1/2010	9/30/2011
Education Jobs Fund	84.41	10/1/2010	9/30/2011
Hurricane Education Recovery	84.938	10/1/2010	9/30/2011
Total U.S. Department of Education			
USDA-Commodities	10.550	10/1/2010	9/30/2011
USDA-School Breakfast	10.553	10/1/2010	9/30/2011
USDA-School Breakfast	10.553	10/1/2009	9/30/2010
USDA-National School Lunch Program	10.555	10/1/2010	9/30/2011
USDA-National School Lunch Program	10.555	10/1/2009	9/30/2010
USDA-National School Lunch Program	10.555	10/1/2010	9/30/2011
Total U.S. Department of Agriculture			
HHS-Disability Determination	96.001	10/1/2010	9/30/2011
HHS-Disability Determination	96.001	10/1/2009	9/30/2010
HHS-Drug-Free Communities Support Program Grants	93.276	10/1/2010	9/30/2011
Total U.S. Department of Health and Human Services			
Total Federal Funds Passed through State Department of Education			
Direct Funding			
DOL- EBSA COBRA Premium Assistance	17.151	10/1/2010	9/30/2011
Federal Funds Passed Through City of Hoover			
HUD- Community Development Block Grant	14.218	10/1/2010	9/30/2011

Total Federal Awards

* Commodities only were received

See notes to supplementary schedules.

Total Grant Award	Accrued (Deferred) Grant Revenue	Cash Received	Revenue Recognized	Expenditures	Accrued (Deferred) Grant Revenue
	September 30, 2010				September 30, 2011
\$ 84,315	\$ -	\$ 73,601	\$ 76,848	\$ 76,848	\$ 3,247
17,874	17,874	17,874	-	-	-
8,098	-	8,098	8,098	8,098	-
11,347	-	11,347	11,347	11,347	-
7,599	7,599	7,599	-	-	-
217,130	-	217,130	217,130	217,130	-
2,193,274	-	2,089,098	1,954,944	1,954,944	(134,154)
265,725	265,725	265,725	-	-	-
658,298	-	599,661	606,436	606,436	6,775
112,480	112,480	112,480	-	-	-
31,807	-	31,807	31,290	31,290	(517)
4,926	4,926	4,926	-	-	-
112,152	-	112,152	112,152	112,152	-
38,307	38,307	38,307	-	-	-
3,920	-	3,920	1,120	1,120	(2,800)
912	912	912	-	-	-
288,908	-	222,198	274,492	274,492	52,294
40,041	40,041	40,041	-	-	-
2,052	-	2,052	2,052	2,052	-
2,841	-	2,841	2,841	2,841	-
10,080	10,080	10,080	-	-	-
207,879	-	188,587	188,587	188,587	-
26,633	26,633	26,633	-	-	-
1,673,098	-	1,615,710	1,615,710	1,615,710	-
75,567	75,567	75,567	-	-	-
71,139	-	71,139	71,139	71,139	-
2,512	2,512	2,512	-	-	-
3,016,867	-	3,016,867	3,016,867	3,016,867	-
2,514,239	-	2,514,239	2,514,239	2,514,239	-
116,637	-	116,637	116,637	116,637	-
11,816,657	602,656	11,499,740	10,821,929	10,821,929	(75,155)
299,170	-	*	299,170	299,170	-
270,496	-	270,496	308,931	308,931	38,435
35,493	35,493	35,493	-	-	-
1,227,273	-	1,227,273	1,408,263	1,408,263	180,990
167,996	167,996	167,996	-	-	-
2,878	-	2,878	2,878	2,878	-
2,003,306	203,489	1,704,136	2,019,242	2,019,242	219,425
306	-	306	306	306	-
936	-	936	936	936	-
61,170	-	61,170	61,170	61,170	-
62,412	-	62,412	62,412	62,412	-
13,882,375	806,145	13,266,288	12,903,583	12,903,583	144,270
52,283	-	52,283	52,283	52,283	-
40,218	-	40,218	40,218	40,218	-
\$ 13,974,876	\$ 806,145	\$ 13,358,789	\$ 12,996,084	\$ 12,996,084	\$ 144,270

Hoover City Board of Education

Supplementary Schedule of State Government Appropriations

Year ended September 30, 2011

Description	Appropriation Period		Total Appropriation
	From	To	
Foundation Program Fund	10/1/2010	9/30/2011	\$ 52,373,811
Public School Fund	10/1/2010	9/30/2011	2,452,947
Financial Assistance - Preschool	10/1/2010	9/30/2011	24,462
At Risk Student Program	10/1/2010	9/30/2011	218,317
School Nurse Program	10/1/2010	9/30/2011	443,437
Exit Exam Failure	10/1/2010	9/30/2011	200,311
Alabama Reading Initiative	10/1/2010	9/30/2011	616,290
Teacher of the Year Program	10/1/2010	9/30/2011	333
Legislative Special Appropriation	10/1/2010	9/30/2011	30,290
NBTS Grants	10/1/2010	9/30/2011	694,200
Children's First - Alabama Tobacco Settlement	10/1/2010	9/30/2011	146,163
English as a Second Language	10/1/2010	9/30/2011	56,100
Technology Coordinator	10/1/2010	9/30/2011	27,219
Tenure Arbitration	10/1/2010	9/30/2011	11,634
Teacher Mentoring Program	10/1/2010	9/30/2011	4,900
Operations and Maintenance	10/1/2010	9/30/2011	500
Driver's Education	10/1/2010	9/30/2011	10,960
State-wide Purchasing	10/1/2010	9/30/2011	85,213
Teacher Testing	10/1/2010	9/30/2011	320
Commodity Rebates	10/1/2010	9/30/2011	45,108
State Paid on Behalf	10/1/2010	9/30/2011	857,111
Total state assistance			\$ 58,299,626

Cash Received				
October 1, 2010-	Revenue			
September 30, 2011	Recognized	Expenditures	Encumbrances	
\$ 52,373,811	\$ 52,373,811	\$ 52,373,811	\$	-
2,452,947	2,452,947	2,452,947		-
24,462	24,462	24,462		-
218,317	218,317	218,317		-
443,437	443,437	443,437		-
200,311	200,311	200,311		-
616,290	616,290	616,290		-
333	333	333		-
30,290	30,290	30,290		-
694,200	694,200	694,200		-
146,163	146,163	146,163		-
56,100	56,100	56,100		-
27,219	27,219	27,219		-
11,634	11,634	11,634		-
4,900	4,900	4,900		-
500	500	500		-
10,960	10,960	10,960		-
85,213	85,213	85,213		-
320	320	320		-
45,108	45,108	45,108		-
857,111	857,111	857,111		-
\$ 58,299,626	\$ 58,299,626	\$ 58,299,626	\$	-

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, 2011.

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 2011 appropriations of state funds on the schedule because subsequent expenditures against the encumbrances are made under the authority of the 2011 appropriations. Costs incurred in programs partially funded by Federal grants are applied against grant funds to the extent of revenue available when they properly apply to the grant, except as described below.

B. *Accrued and Deferred Reimbursement*

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

Summary Schedule of Prior Year Audit Report Findings

The following significant deficiencies were disclosed in the audit of the Hoover Board of Education for the year ended September 30, 2010:

- 10-1 Audit procedures were performed at each of the Board's local schools by the Board's internal auditor. Several deficiencies in internal controls were noted in the reports to each school including:
- a) Items purchased without purchase orders or purchased prior to the preparation of purchase orders.
 - b) Teachers failing to remit collected funds to school bookkeepers in a timely manner.
 - c) Payment of invoices without proof of receipt of the goods or services.
 - d) Checks not supported by invoice or adequate support.
 - e) Deposits not made timely.
 - f) Checks not properly voided.
 - g) Various other documentation/procedural deficiencies.

Current Status:

Similar deficiencies are still being noted by the internal auditor (see current finding 11-1). Management is continuing with efforts to provide ongoing training for school personnel, as well as timely monitoring and follow-up on internal control findings.

- 10-2 An audit adjustment was required related to the accounting for construction costs.

Management's response:

This is considered to be an isolated incident. However, the Board will strive to make every effort to ensure that all costs related to construction projects are properly recorded when they are incurred.

Hoover City Board of Education

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



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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hoover City Board of Education (the "Board"), as of and for the year ended September 30, 2011, which collectively comprise the Board's basic financial statements and have issued our report thereon dated March 27, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting (11-1). A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

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

We noted certain other matters that we reported to management of the Board in a separate letter dated March 27, 2012.

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

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

Carr, Riggs & Ingram, L.L.C.

Birmingham, Alabama
March 27, 2012

Hoover City Board of Education

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

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

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

Compliance

We have audited the compliance of the Hoover City Board of Education (the "Board") with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Board's major federal programs for the year ended September 30, 2011. The Board's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Board's management. Our responsibility is to express an opinion on the Board's compliance based on our audit.

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

In our opinion, the Board complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2011.

Internal Control Over Compliance

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

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

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

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

Carr, Riggs & Ingram, L.L.C.

Birmingham, Alabama
March 27, 2012

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, 2011

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:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.027	Special Education-Grants to States (IDEA, Part B)
84.173	Special Education-Grants to States (IDEA, Part B Preschool)
84.391	Special Education-Grants to States (IDEA, Part B), Recovery Act
84.392	Special Education-Grants to States (IDEA, Part B Preschool), Recovery Act
84.010	Title I Grants to Local Educational Agencies
84.389	Title I Grants to Local Educational Agencies, Recovery Act
84.394	State Fiscal Stabilization Fund, Recovery Act
84.410	Education Job Fund, Recovery Act

Dollar threshold used to distinguish between Type A and Type B program: \$ 300,000

Auditee qualified as low-risk auditee? x yes no

Schedule of Findings and Questioned Costs (Continued)

Year ended September 30, 2011

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:

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

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