

Hoover City Board of Education
Financial Statements
September 30, 2016



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Hoover City Board of Education
Table of Contents
September 30, 2016

TAB: REPORT

Independent Auditor’s Report	1
------------------------------	---

MANAGEMENT’S DISCUSSION AND ANALYSIS

4.1

TAB: FINANCIAL STATEMENTS

Government-wide Financial Statements:

Statement of Net Position	5
---------------------------	---

Statement of Activities	6
-------------------------	---

Fund Financial Statements:

Balance Sheet—Governmental Funds	7
----------------------------------	---

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	8
---	---

Combined Statement of Revenues, Expenditures and Changes in Fund Balances—Governmental Funds	9
---	---

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances—Governmental Funds to the Statement of Activities	10
---	----

Index to Financial Statement Notes	11
------------------------------------	----

Notes to Financial Statements	12
-------------------------------	----

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual—General Fund	37
---	----

Schedule of Proportionate Share of the Collective Net Pension Liability	38
---	----

Schedule of Board Contributions	39
---------------------------------	----

OTHER INFORMATION

Supplementary Schedule of Bond Disclosures	41
--	----

Supplementary Schedule of Expenditures of Federal Awards	43
--	----

Supplementary Schedule of State Government Appropriations	44
---	----

Notes to Supplementary Schedules	45
----------------------------------	----

OTHER REPORTS

Independent Auditor’s Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	48
---	----

Independent Auditor’s Report on Compliance For Each Major Program and On Internal Control Over Compliance Required by Uniform Guidance	51
---	----

Schedule of Findings and Questioned Costs	54
---	----

TAB: THOUGHT LEADERSHIP



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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hoover City Board of Education (the "Board"), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Hoover City Board of Education, as of September 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, the Schedule of the Board's Proportionate Share of the Collective Net Pension Liability and the Schedule of Board Contributions on pages 4.1 through 4.6 and 37-39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board's basic financial statements. The accompanying schedule of bond disclosures, schedule of expenditures of federal awards and schedule of state government appropriations as required by lending institutions; *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*; and other organizations are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying schedule of bond disclosures, schedule of expenditures of federal awards and schedule of state government appropriations are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including

comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying schedule of bond disclosures, schedule of expenditures of federal awards and schedule of state government appropriations are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 4, 2017, on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control over financial reporting and compliance.

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

Birmingham, Alabama
April 4, 2017

Hoover City Board of Education
Management's Discussion and Analysis (M D & A)
September 30, 2016

Introduction

The Management's Discussion and Analysis (MD&A) of the Hoover City Board of Education's financial performance provides an overall review of the Board's financial activities for the fiscal year ended September 30, 2016. The intent of this discussion and analysis is to look at the Board's financial performance as a whole. Readers should also review the notes to the financial statements and the financial statements to enhance their understanding of the Hoover City Board of Education's financial performance.

The MD&A is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, issued in June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A and is included in this report.

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

Overview of the Financial Statements

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

Government-wide Financial Statements

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

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

The *Statement of Activities* illustrates how the Board's net position changed during fiscal year 2016. The statement uses the accrual basis of accounting, which is similar to the accounting used by private-sector businesses. All of the revenues and expenses are reported regardless of the timing of when cash is received or paid. The statement identifies the extent to which each expenditure function draws from general revenues of the Board or is financed through charges for services and intergovernmental aid such as state and federal appropriations.

Fund Financial Statements

The fund financial statements have been prepared under the modified accrual basis of accounting and their presentation is largely consistent with historical presentations. The fund financial statements provide more detailed information about the Board's most significant funds-not the Board as a whole. The Board uses fund accounting to ensure and demonstrate fiscal accountability.

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

Governmental funds essentially measure and report the same activities and transactions as the governmental activities in the government-wide financial statements. However, unlike the accrual basis government-wide statements, the governmental funds focus on current, spendable resources and balances of such spendable resources available at the end of the year. The governmental fund statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Board's programs.

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. Activities from fiduciary funds are not included in the government-wide financial statements because the Board cannot use these assets for its operations. However, balances of these funds are not considered material to the financial statements and therefore have been included in the governmental funds.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements follow the basic financial statements.

Government-wide Financial Analysis

Following is a condensed financial analysis, presented in comparative format, of the government-wide net assets of the Board as of September 30, 2016:

	<u>Government Activities</u>		Percent Change
	2015	2016	
Current and other assets	105,818,190	108,468,155	2.50%
Noncurrent assets	1,946,591	2,078,244	6.76%
Capital assets	235,138,759	231,165,989	-1.69%
Deferred outflows attributable to pension plan	10,875,748	19,863,825	82.64%
Deferred charges on refunding	<u>9,454,562</u>	<u>8,395,593</u>	<u>-11.20%</u>
Total assets and deferred outflows of resources	<u>363,233,850</u>	<u>369,971,806</u>	<u>1.85%</u>
Current liabilities	16,534,719	18,104,764	9.50%
Long-term liabilities	<u>304,263,031</u>	<u>318,720,523</u>	4.75%
Total liabilities	320,797,750	336,825,287	5.00%
Deferred inflows – pension plan investments	9,052,000	1,143,000	-87.37%
Deferred revenues	<u>412,323</u>	<u>660,961</u>	60.30%
Total liabilities and deferred inflows	<u>330,262,073</u>	<u>338,629,248</u>	<u>5.00%</u>
Net position			
Net investment in capital assets	59,933,882	58,806,973	-1.88%
Unrestricted	(26,962,105)	(27,464,415)	1.86%
Total net position	<u>32,971,777</u>	<u>31,342,558</u>	-4.94%

The Board's total net position was \$31,342,558 at the end of the fiscal year 2016; a decrease of \$1,629,219 from the previous year. The majority of the Board's net position is invested in capital assets (land, buildings, and equipment) owned by the Board. These assets are not available for future expenditures since they will not be sold. Unrestricted net position—the part of net position that can be used to finance day-to-day operations without constraints established by enabling legislation, debt covenants, or other legal requirements, is \$(27,464,415). The Board's total net position amount is indicative of the Board's ability to operate and pay bills for the next year.

Following is a condensed schedule of revenues and expenditures from governmental activities for the year ended September 30, 2016 presented with comparative data for the previous year:

Revenues	<u>Government Activities</u>		Percent Change
	2015	2016	
Program Revenues:			
Charges for services	11,991,874	12,500,597	4.24%
Operating grants and contributions	70,900,773	70,466,154	-0.61%
Capital grants and contributions	3,614,818	3,392,490	-6.15%
General Revenues:			
Property taxes	66,760,042	71,078,613	6.47%
Local sales tax	1,644,852	1,867,266	13.52%
City appropriation	2,345,881	2,546,000	8.53%
Other general revenues	<u>6,910,395</u>	<u>7,383,192</u>	6.84%
	<u>164,168,635</u>	<u>169,234,312</u>	3.09%
Expenses			
Instructional services	97,234,950	98,371,334	1.17%
Instructional support services	24,362,538	24,659,888	1.22%
Operation and maintenance services	16,422,427	15,433,150	-6.02%
Auxiliary services	16,494,009	16,796,230	1.83%
General administrative services	2,779,611	3,251,451	16.98%
Interest and fiscal charges	8,236,317	8,083,548	-1.85%
Other expenses	<u>4,097,726</u>	<u>4,267,930</u>	4.15%
	<u>169,627,578</u>	<u>170,863,531</u>	0.73%
Decrease in net assets	(5,458,943)	(1,629,219)	-70.16%
Net position, beginning	<u>38,430,720</u>	<u>32,971,777</u>	-14.20%
Net position, ending [1]	<u>32,971,777</u>	<u>31,342,558</u>	-4.94%

As noted in the above shown condensed presentations, the Board's total net position reflects a decrease of \$1.6 million. The decrease is primarily a result of the deferred payments to the pension fund as required by GASB Statement No. 68.¹

Fund Financial Analysis

The September 30, 2016 financial statements reported a combined fund balance of \$93,864,599 which is an increase of \$956,642 from the previous year's fund balance. This net increase was primarily the result of a reduction in personnel costs and recurring expenditures, an increase in tax revenues as well as a prior period adjustment to remove a long term liability and receivable from the general fund. Results of the Board's major funds are discussed below:

General Fund

The fiscal year 2016 financial statements reflected a net increase in the balance of the General Fund of \$10,180,012 as revenues received exceeded the amount of expenditures and transfers out of the General Fund to other funds. The net difference in revenues and expenditures is primarily attributable to increase in local revenue and a reduction in personnel costs and recurring expenditures.

Other Governmental Funds

The Other Governmental Funds decreased \$9.6 million in 2016 primarily as a result of an increase in capital outlay expenditures, and the purchase of buses.

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, reduction in salary accruals and expenditures.

Actual general fund revenues and other financing sources were \$7.04 million or 5.08% more than budget. Actual expenditures were \$3.29 million or 2.36% less than budgeted expenditures. The variance in revenues and other financing sources is primarily attributable to greater than anticipated revenues in local sources. The variance in expenditures was primarily related to a reduction in personnel costs, recurring expenditures, and renegotiation of service contracts.

Capital Assets and Debt Administration

Capital Assets

Net capital assets decreased by \$3.9 million in 2016, which is attributable to \$8.0 million in depreciation expense offset by \$4.1 million of capital asset additions. The additions were primarily related to bus purchases and building improvements.

Debt Administration

The Board's outstanding warrant liability decreased by \$3 million to \$175.6 million during 2016 as a result of regularly scheduled principal payments.

Next Year's Budget

An increase in funding from the City of Hoover, state revenues, tax revenues and a stable student enrollment are expected to yield an overall increase in revenues next year for Hoover City Schools. Expenditures will continue to be monitored to find the best return on investment.

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 Tina Hancock, Hoover City Board of Education, 2810 Metropolitan Way, Hoover, Alabama 35243.

**Hoover City Board of Education
Statement of Net Position**

<i>September 30, 2016</i>	Governmental Activities
Assets	
Current assets	
Cash and cash equivalents	\$ 91,106,084
Certificates of deposit	15,001,011
Due from other governments	2,124,593
Prepaid items	1,910
Inventories	234,557
Total current assets	108,468,155
Noncurrent assets	
Other receivables	211,660
Bond discount, net	1,866,584
	2,078,244
Capital assets:	
Land	18,771,456
Buildings and improvements	298,175,052
Equipment, furniture and vehicles	17,662,694
Textbooks and library books	13,625,065
Construction in progress	1,270,364
Accumulated depreciation	(118,338,642)
Total capital assets, net of depreciation	231,165,989
Total noncurrent assets	233,244,233
Total assets	341,712,388
Deferred outflows of resources	
Deferred charges on refunding	8,395,593
Attributable to pension plan - see note 12	19,863,825
Total assets and deferred outflows of resources	\$ 369,971,806

See Notes to Financial Statements

	Governmental Activities
Liabilities	
Current liabilities	
Accounts payable	\$ 2,356,297
Salaries and benefits payable	11,022,326
Bank overdraft	563,972
Warrants payable	3,215,000
Accrued interest payable	947,169
Total current liabilities	18,104,764
Noncurrent liabilities	
Warrants payable	172,370,000
Bond premium	7,175,321
Compensated absences	617,202
Net pension liability	138,558,000
Total noncurrent liabilities	318,720,523
Total liabilities	336,825,287
Deferred inflows of resources	
Deferred revenue	660,961
Net difference between projected and actual earnings on pension plan investments	1,143,000
Total deferred inflows of resources	1,803,961
Net position	
Net investment in capital assets	58,806,973
Unrestricted (deficit)	(27,464,415)
Total net position	\$ 31,342,558



Hoover City Board of Education
Statement of Activities

September 30, 2016

Functions/Programs	Expenses
Governmental activities	
Instructional services	\$ 98,371,334
Instructional support	24,659,888
Operation and maintenance	15,433,150
Auxiliary services	16,796,230
General administration and central support	3,251,451
Other	4,267,930
Interest and fiscal charges	8,083,548
Total governmental activities	\$ 170,863,531

See Notes to Financial Statements

Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Assets Total Governmental Activities
\$ 4,309,403	\$ 42,912,902	\$ -	\$ (51,149,029)
-	9,815,868	-	(14,844,020)
-	10,743,563	-	(4,689,587)
8,191,194	6,993,821	555,267	(1,055,948)
-	-	-	(3,251,451)
-	-	827,189	(3,440,741)
-	-	2,010,034	(6,073,514)
<u>\$ 12,500,597</u>	<u>\$ 70,466,154</u>	<u>\$ 3,392,490</u>	<u>(84,504,290)</u>

General revenues

Taxes:

Property taxes 71,078,613

Local sales tax 1,867,266

Miscellaneous taxes 5,624

City appropriations 2,546,000

Interest 152,287

General contributions to the Board 586,595

Gain on disposal of fixed assets 204,936

Fund raising and sales 3,717,451

Other 2,716,299

Total general revenues 82,875,071

Change in net position (1,629,219)

Net position - beginning of year 32,971,777

Net position - end of year \$ 31,342,558

**Hoover City Board of Education
Balance Sheet—Governmental Funds**

September 30, 2016

	General
Assets	
Current assets	
Cash	\$ 91,106,084
Interfund receivables	-
Due from government entities	1,820,260
Prepaid expenses	1,910
Certificates of deposit	-
Inventory	31,486
Total assets	\$ 92,959,740
Liabilities	
Current liabilities	
Accounts payable	\$ 2,041,704
Accrued liabilities	10,733,820
Bank overdraft	-
Interfund payables	982,059
Total current liabilities	13,757,583
Deferred inflows of resources	
Deferred revenues	21,173
Fund balances	
Non-spendable: inventory	31,486
Committed for encumbrances	6,680
Committed for construction projects	-
Committed for special school purposes	-
Assigned for debt service	-
Unassigned	79,142,818
Total fund balances	79,180,984
Total liabilities, deferred inflows of resources and fund balances	\$ 92,959,740

See Notes to Financial Statements

Other Governmental Funds	Totals Governmental Funds
\$ -	\$ 91,106,084
1,389,359	1,389,359
304,333	2,124,593
-	1,910
15,001,011	15,001,011
203,071	234,557
<hr/>	
<u>\$ 16,897,774</u>	<u>\$ 109,857,514</u>

\$ 314,593	\$ 2,356,297
288,506	11,022,326
563,972	563,972
407,300	1,389,359
<u>1,574,371</u>	<u>15,331,954</u>

<u>639,788</u>	<u>660,961</u>
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203,071	234,557
758,925	765,605
828,958	828,958
9,180,890	9,180,890
689,568	689,568
3,022,203	82,165,021
<u>14,683,615</u>	<u>93,864,599</u>

<u>\$ 16,897,774</u>	<u>\$ 109,857,514</u>
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Hoover City Board of Education Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position

Year ended September 30, 2016

Total fund balances - Governmental funds \$ 93,864,599

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

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

Land	\$	18,771,456	
Buildings and improvements		298,175,052	
Equipment, furniture and vehicles		17,662,694	
Textbooks and library books		13,625,065	
Construction in progress		1,270,364	
Accumulated depreciation		<u>(118,338,642)</u>	
Total capital assets, net of depreciation			231,165,989

Debt discounts and deferred charges from refunding are reported as current
expenditures in the governmental funds. However, in the Statement of Activities,
these items are deferred and amortized over the life of the debt and are included
as deferred charges in the Statement of Net Position.

Unamortized discounts		1,866,584	
Deferred charges from refunding		8,395,593	

Accounts receivable that represent amounts that the Board does not expect to receive
within 30 days of year end are not considered "available" and thus are not recorded in the
governmental funds.

211,660

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

Deferred outflows of resources - pension		19,863,825	
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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	\$ 3,215,000	\$ 179,545,321	
Net pension liability	-	138,558,000	
Compensated absences		617,202	
Accrued interest payable	947,169	-	
Total liabilities	<u>\$ 4,162,169</u>	<u>\$ 318,720,523</u>	(322,882,692)

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

(1,143,000)

Total net position - governmental activities \$ 31,342,558

See Notes to Financial Statements

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

Year ended September 30, 2016

	General
Fund balances beginning of year - as previously stated	\$ 68,564,188
Prior period adjustment - see note 15	436,784
Fund balances beginning of year - as restated	69,000,972
Revenues	
State of Alabama	65,814,675
Federal government	30,797
Local	75,817,667
Other	3,307,482
Total revenues	144,970,621
Other financing sources	
Operating transfers in	693,887
Total other financing sources	693,887
Total revenues and other financing sources	145,664,508
Expenditures	
Instructional services	84,061,954
Instructional support	21,808,783
Operation and maintenance	14,574,605
Auxiliary services	6,407,978
General administration and central support	3,176,552
Capital outlay	778,243
Debt service	-
Other	779,507
Total expenditures	131,587,622
Other fund uses	
Operating transfers out	3,896,874
Total other fund uses	3,896,874
Total expenditures and other fund uses	135,484,496
Excess of revenues and other sources	
over (under) expenditures and other fund uses	10,180,012
Fund balances, end of year	\$ 79,180,984

See Notes to Financial Statements

Other Governmental Funds	Total Governmental Funds
\$ 24,343,769	\$ 92,907,957
-	436,784
24,343,769	93,344,741
3,619,155	69,433,830
6,439,765	6,470,562
14,897,738	90,715,405
119,073	3,426,555
25,075,731	170,046,352
8,327,463	9,021,350
8,327,463	9,021,350
33,403,194	179,067,702
8,251,223	92,313,177
2,564,340	24,373,123
483,942	15,058,547
10,217,758	16,625,736
42,877	3,219,429
1,435,927	2,214,170
10,809,922	10,809,922
4,132,883	4,912,390
37,938,872	169,526,494
-	-
5,124,476	9,021,350
5,124,476	9,021,350
43,063,348	178,547,844
(9,660,154)	519,858
\$ 14,683,615	\$ 93,864,599

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, 2016

Net changes in fund balances - total governmental funds	\$	519,858
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.</p>		
This is the amount by which depreciation (\$8,036,153) exceeded capital outlay (\$4,196,988) in the current period.		(3,839,165)
<p>Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. This is the amount by which debt issued exceeded repayments.</p>		
Principal payments on long term debt		3,070,000
<p>The net effect of transactions involving the disposition of capital assets is to decrease net assets.</p>		
		(133,605)
<p>Discounts on debt are reported in the governmental funds as expenditures. However, these items are deferred on the Statement of Net Position and are amortized over the life of the debt.</p>		
Net amortization expense (included in interest expense)		(363,266)
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and are not reported as expenditures in the funds:</p>		
Difference in pension expense related to deferred outflows and inflows of resources		(933,923)
Decrease in compensated absences		31,241
Decrease in accrued interest payable		19,641
		(1,629,219)
Change in net position of governmental activities	\$	(1,629,219)

See Notes to Financial Statements



Hoover City Board of Education Index to Financial Statement Notes

<u>NOTE #</u>		<u>PAGE #</u>
1	Summary of Significant Accounting Policies	12
2	Reconciliation of Financial Statements	20
3	Stewardship, Compliance and Accountability	20
4	Deposits and Investments	21
5	Capital Assets	22
6	Long-Term Debt	23
7	Interfund Receivables, Payables and Transfers	25
8	Risk Management	26
9	Contingent Liabilities	27
10	Donated Food Program	27
11	Related Party Transactions	27
12	Pension Plan	27
13	Other Post-Employment Benefits (OPEB)	32
14	Future Accounting Pronouncements	34
15	Prior Period Adjustment	35
16	Subsequent Events	35

Hoover City Board of Education

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

B. Basis of Presentation, Basis of Accounting

Government-wide Financial Statements

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

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

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

Fund Financial Statements

The fund financial statements provide information about the Board's funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate

Hoover City Board of Education Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Fund Financial Statements (continued)

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

The Board reports the following major governmental fund:

- (1) General Fund – This is the Board's primary operating fund. It accounts for all financial resources, except those required to be accounted for in another fund. The Board's General Fund primarily received revenues from the Education Trust Fund (ETF), appropriated by the Alabama Legislature, and from local taxes including the special municipal ad valorem tax levied on all taxable property in the city for school purposes. The State Department of Education allocated amounts appropriated from the ETF to the school board on a formula basis.

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) 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.
- (3) Special Revenue Funds -- Special Revenue Funds account for the proceeds of specific revenue sources (other than those dedicated for major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action. Special revenue funds consist of the following: Other State Revenues, Federal Vocational, Title I, Title VI, IDEA Part B, Title III, Title IV, Title II, Federal Preschool, Child Nutrition, Local School Activity Funds, and Local School Extended Day Programs.

C. Measurement Focus, Basis of Accounting

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

Hoover City Board of Education Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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

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

D. *Cash and Certificates of Deposit*

Cash includes cash on hand and demand deposits.

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.

Certificates of deposit are stated at cost plus accrued interest.

E. *Receivables*

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

F. *Property Tax Calendar*

The Jefferson County Commission and the Shelby County Commission levy property taxes for all jurisdictions including the school boards and municipalities within the county. Millage rates for property taxes are levied at the first regular meeting of the County Commission in February of each year. Property taxes are assessed for property as of October 1 of the preceding year based

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Property Tax Calendar (continued)

on the millage rates established by the County Commission. Property taxes are due and payable the following October 1 and are delinquent after December 31.

G. Inventories and Prepaid Items

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

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

H. Capital Assets

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

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

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

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

Hoover City Board of Education Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Long-term Obligations

In the government-wide financial statements, the unmatured principal of long-term debt and compensated absences are reported in the Statement of Net Position. Interest expense for long-term debt, including accrued interest payable, is reported in the Statement of Activities. Debt issuance costs include all costs incurred to issue the debt including insurance, financing and other related costs. Debt issuance costs (except for prepaid insurance costs) are recognized as an expense in the period incurred. Premiums and discounts on debt are capitalized and amortized under accrual accounting and the annual amortization of these accruals is included in the Statement of Activities. The unamortized portion is reported in the Statement of Net Position.

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

J. Compensated Absences

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

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

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

Certified and non-certified personnel are provided two days of personal leave per year with pay. For certified personnel, the principal and Superintendent may approve up to three additional days for which the employee is charged the rate of a substitute teacher's pay. Certified positions are paid at the Board's substitute rate for up to two days of unused personal leave, or

Hoover City Board of Education Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. *Compensated Absences (continued)*

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, 2016 the Board has accrued a liability in the amount of \$617,202.

K. *Net Position / Fund Equity*

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

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

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

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

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

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

Hoover City Board of Education Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Net Position / Fund Equity (continued)

are either (a) not in spendable form – prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

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

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

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

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

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. Pensions

The Teachers’ Retirement System of Alabama (the Plan) financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to plan requirements. Benefits and refunds are recognized as revenues when due and payable in accordance with the terms of the plan.

Hoover City Board of Education Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Pensions (continued)

Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. Investments are reported at fair value. Financial statements are prepared in accordance with requirements of the Governmental Accounting Standards Board (GASB). Under these requirements, the Plan is considered a component unit of the State of Alabama and is included in the State's Comprehensive Annual Financial Report.

M. Recently Issued Accounting Pronouncements

The accounting policies of the Board are based upon accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). Effective October 1, 2015 the City adopted the following GASB Statements:

- GASB Statement No. 72, *Fair Value Measurement and Application*
- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*
- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* ("GASB 76"), supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*

GASB Statement No. 72, *Fair Value Measurement and Application* ("GASB 72"), addresses accounting and financial reporting issues related to fair value measurements. GASB 72 is effective for the Board beginning with its year ending September 30, 2016. This Statement provides guidance for determining a fair value measurement for financial reporting purposes and the related disclosures. This Statement requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. This Statement establishes a hierarchy of inputs to valuation techniques used to measure fair value. This Statement also requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* ("GASB 73"), extends the approach to accounting and financial reporting established in Statement 68 to all pensions. It establishes requirements for defined contribution pensions that are not within the scope of Statement 68. Requirements of this Statement for pension plans that are within the scopes of Statement No. 67 or Statement 68, are effective for fiscal years beginning after June 15, 2015. Thus, these requirements of GASB 73 is effective for the Board beginning with its year ending September 30, 2016. GASB 73 clarifies the application of certain provisions of Statements 67 and 68 with regard to: (1) Information that is required to be presented as notes, (2) Accounting and financial reporting for separately financed specific liabilities, and (3) Timing of employer recognition of revenue.

Hoover City Board of Education Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Recently Issued Accounting Pronouncements (continued)

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (“GASB 76”), supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. GASB 76 is effective for the Board beginning with its year ending September 30, 2016.

NOTE 2 – RECONCILIATION OF FINANCIAL STATEMENTS

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

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

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

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

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

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets

Annual budgets are adopted for all governmental funds. All annual appropriations lapse at fiscal year-end. State law requires Alabama school boards to prepare and submit to the State Superintendent of Education the annual budget adopted by the local board of education. In accordance with the regulations of the State Board of Education, the due date for submission of the budget for the 2015-2016 fiscal year was September 15, 2015. The Board approved its original 2015-2016 annual budget on September 14, 2015 and amended March 14, 2016, primarily to allow for federal program carryover and additional allocations.

The Superintendent of Education or Board cannot approve any budget for operations of the school system for any fiscal year that shows expenditures in excess of income estimated to be available plus any balances on hand. The Superintendent with the approval of the Board has the authority to

Hoover City Board of Education Notes to Financial Statements

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

Budgets (continued)

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, 2016, 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.

The Board has elected to invest excess funds in a number of certificates of deposit at multiple financial institutions. In accordance with GASB 72, these investments are stated at amortized cost.

The following investments were held by the Board at September 30, 2016:

Certificates of Deposit	\$ 15,001,011
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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.

Interest revenues of \$152,287 are included in revenues for 2016.

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.

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2016, was as follows:

	Balance October 1, 2015	Additions	Retirements and Reclassifications	Balance September 30, 2016
Capital assets not being depreciated:				
Land	\$ 18,771,456	\$ -	\$ -	\$ 18,771,456
Construction in progress	39,323	1,231,041	-	1,270,364
Total capital assets not being depreciated	18,810,779	1,231,041	-	20,041,820
Capital assets being depreciated:				
Exhaustible land improvements	4,830,389	244,691	-	5,075,080
Building and improvements	292,321,729	778,243	-	293,099,972
Equipment, furniture and vehicles	20,059,610	918,419	(3,315,335)	17,662,694
Textbooks and library books	12,600,471	1,024,594	-	13,625,065
Total capital assets being depreciated	329,812,199	2,965,947	(3,315,335)	329,462,811
Less accumulated depreciation for:				
Exhaustible land improvements	1,926,268	243,049		2,169,317
Building and improvements	84,322,540	6,265,809		90,588,349
Equipment, furniture and vehicles	17,266,841	691,272	(3,181,730)	14,776,383
Textbooks and library books	9,968,570	836,023		10,804,593
Total accumulated depreciation	113,484,219	8,036,153	(3,181,730)	118,338,642
Total capital assets being depreciated, net	216,327,980	(5,070,206)	(133,605)	211,124,169
Total governmental activities capital assets, net	\$ 235,138,759	\$ (3,839,165)	\$ (133,605)	\$ 231,165,989

Hoover City Board of Education Notes to Financial Statements

NOTE 5 – CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to governmental functions as follows:

Instructional services	\$	6,659,860
Instructional support		73,175
Operation and maintenance		478,855
Auxiliary services		773,965
General administrative and central support		50,298
Total governmental activities depreciation expense	\$	8,036,153

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

	Project Authorization	Expended to Date	Commitment
Bumpus Middle School Upgrades	\$ 749,000	\$ 39,323	\$ 709,677
Reroofing for Bluff Park and Shades Mtn Elementary	1,350,322	1,231,041	119,281
Total	\$ 2,099,322	\$ 1,270,364	\$ 828,958

NOTE 6 – LONG-TERM DEBT

On December 15, 2005, the Board issued \$69,685,000 in Capital Outlay Warrants with interest rates ranging between 3.00% and 5.00%. The Board issued the warrants for the purpose of providing funds to construct and acquire various improvements within the school district and for the payment of issuance expenses. On December 27, 2012, a portion of these warrants was refunded by the Board's Series 2012 Special School Tax Warrants.

On August 1, 2010 the Board issued \$117,885,000 in Capital Outlay Warrants with interest rates ranging between 4.25% and 5.00%. The Board issued the warrants 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.

On December 27, 2012 the Board issued \$51,915,000 in Special Tax School Warrants with interest rates of 4% or 5% depending upon the maturity date. The Board issued the warrants to provide a portion of the funds needed to refund, on an advance basis, those of the Board's Capital Outlay Warrants, Series 2005 that have stated maturities in 2018 through 2025 and for the payment of issuance expenses.

Hoover City Board of Education Notes to Financial Statements

NOTE 6 – LONG-TERM DEBT (CONTINUED)

As a result of refunding debt issuances in prior years, the Board has recorded deferred charges in the government-wide Statement of Net Position. 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 at the time of refunding. The unamortized portion of these costs as of September 30, 2016 was \$8,395,593.

As of September 30, 2016, the Board's long-term debt consisted of the following:

Series 2012 Special School Tax Warrants with a final maturity date of February 15, 2025, interest payable semi-annually at rates ranging from 4% to 5%.	\$ 51,915,000
Series 2010 Capital Outlay Warrants with a final maturity date of February 15, 2040, interest payable semi-annually at rates ranging from 4.25% to 5%.	109,055,000
Series 2005 Capital Outlay Warrants with a maturity date of February 15, 2027, interest payable semi-annually at rates ranging from 3% to 5%.	14,615,000
Total warrants	\$ 175,585,000

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

	Warrants and Notes	
	Principal	Interest
2017	\$ 3,215,000	\$ 7,577,350
2018	4,535,000	7,406,275
2019	4,705,000	7,197,950
2020	6,470,000	6,950,925
2021	6,680,000	6,687,925
2022-2026	38,305,000	28,582,050
2027-2031	32,235,000	21,093,926
2032-2036	40,250,000	13,019,126
2037-2040	39,190,000	3,419,339
Total	\$ 175,585,000	\$ 101,934,866

Interest paid on long-term debt was \$7,734,475 for the year ended September 30, 2016.

The Series 2005, Series 2010 and Series 2012 Warrants were issued in December 2005, August 2010 and December 2012, respectively. The principal and interest payments are payable out of proceeds of a special 24 mill ad valorem tax levied in the City of Hoover. Total receipts from the special 24 mill ad valorem tax for the year ended September 30, 2016 were \$39,619,177.

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

NOTE 6 – LONG-TERM DEBT (CONTINUED)

The following changes occurred in the liabilities for warrants for the year ended September 30, 2016:

	Balance September 30, 2015	Additions	Principal Payments	Balance September 30, 2016
Warrants Payable	\$ 178,655,000	\$ -	\$ (3,070,000)	\$ 175,585,000

The following changes occurred in premium and discounts on long term debt for the year ended September 30, 2016:

	Premium	Discount	Total
Series 2005, Capital Outlay Warrants	\$ -	\$ 1,041,621	\$ 1,041,621
Amount amortized in prior years	-	(909,165)	(909,165)
Series 2010, Capital Outlay Warrants	-	2,191,080	2,191,080
Amount amortized in prior years	-	(376,945)	(376,945)
Series 2012, Special School Tax Warrants	(10,084,234)	-	(10,084,234)
Amount amortized in prior years	2,133,203	-	2,133,203
Unamortized amount – beginning	(7,951,031)	1,946,591	(6,004,440)
Current year amortization	775,710	(80,007)	695,703
Unamortized amount – ending	\$ (7,175,321)	\$ 1,866,584	\$ (5,308,737)

NOTE 7 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund balances at September 30, 2016 consist of the following:

Due to Other Governmental Funds from:

Other Governmental Funds	\$ 407,300
General Fund	982,059
Total	\$ 1,389,359

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.

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

NOTE 7 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (CONTINUED)

Interfund transfers for the fiscal year ended September 30, 2016 consist of the following:

General fund to Other Governmental Funds	\$	3,896,874
Other Governmental Funds to:		
General Fund		693,887
Other Governmental Funds to Other Governmental Funds		4,430,589
Total	\$	9,021,350

NOTE 8 – 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.

Hoover City Board of Education Notes to Financial Statements

NOTE 8 – RISK MANAGEMENT (CONTINUED)

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

NOTE 9 – 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 10 – 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 \$355,840 for 2016. Commodities consumed were approximately \$328,981 for 2016.

NOTE 11 – 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, 2016 amounted to \$2,546,000.

NOTE 12 – PENSION PLAN

Plan description

The Teachers' Retirement System of Alabama, a cost-sharing multiple-employer public employee retirement plan, was established as of September 15, 1939, under the provisions of Act 419 of the Legislature of 1939 for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by State-supported educational institutions. The responsibility for the general administration and operation of the TRS is vested in its Board of Control. The TRS Board of Control consists of 15 trustees. The plan is administered by the Retirement Systems of Alabama

Hoover City Board of Education Notes to Financial Statements

NOTE 12 – PENSION PLAN (CONTINUED)

Plan description (continued)

(RSA). Title 16-Chapter 25 of the Code of Alabama grants the authority to establish and amend the benefit terms to the TRS Board of Control. The Plan issues a publicly available financial report that can be obtained at www.rsa-al.gov.

Benefits provided

State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the TRS. Benefits for TRS members vest after 10 years of creditable service. TRS members who retire after age 60 with 10 years or more of creditable service or with 25 years of service (regardless of age) are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, members of the TRS are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service.

Act 377 of the Legislature of 2012 established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 TRS members are eligible for retirement after age 62 with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the TRS are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service. Members are eligible for disability retirement if they have 10 years of credible service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits are calculated and paid to the beneficiary based on the member's age, service credit, employment status and eligibility for retirement.

Contributions

Covered members of the TRS contributed 5% of earnable compensation to the TRS as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, covered members of the TRS were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered members of the TRS are required by statute to contribute 7.50% of earnable compensation. Certified law enforcement, correctional officers, and firefighters of the TRS contributed 6% of earnable compensation as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, certified law enforcement, correctional officers, and firefighters of the TRS were required by statute to contribute 8.25% of earnable compensation. Effective October 1, 2012, certified law enforcement, correctional officers, and firefighters of the TRS are required by statute to contribute 8.50% of earnable compensation.

Tier 2 covered members of the TRS contribute 6% of earnable compensation to the TRS as required by statute. Tier 2 certified law enforcement, correctional officers, and firefighters of the TRS are required by statute to contribute 7% of earnable compensation.

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

NOTE 12 – PENSION PLAN (CONTINUED)

Contributions (continued)

Participating employers' contractually required contribution rate for the year ended September 30, 2016 was 11.94% of annual pay for Tier 1 members and 10.84% of annual pay for Tier 2 members. These required contribution rates are a percent of annual payroll, actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions, including those allocable to administrative costs, to the pension plan from the System were \$10,160,472 for the year ended September 30, 2016.

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

At September 30, 2016 the System reported a liability of \$138,558,000 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2014. The System's proportion of the collective net pension liability was based on the employers' shares of contributions to the pension plan relative to the total employer contributions of all participating TRS employers. At September 30, 2015 the System's proportion was 1.323923%, which was an decrease of .005000% from its proportion measured as of September 30, 2014.

For the year ended September 30, 2016, the System recognized pension expense of \$11,094,395. At September 30, 2016 the System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 751,000
Net difference between projected and actual earnings on plan investments	9,072,000	-
Changes in proportion and differences between Employer contributions and proportionate share of contributions	1,075,000	392,000
Employer contributions subsequent to the measurement date	9,716,825	-
Total	\$ 19,863,825	\$ 1,143,000

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

NOTE 12 – PENSION PLAN (CONTINUED)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (continued)

Deferred outflows of resources includes \$9,716,825 related to pensions resulting from System contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended September 30:	
2017	\$ 1,758,000
2018	1,758,000
2019	1,758,000
2020	3,787,000
2021	(57,000)
	\$ 9,004,000

Actuarial assumptions

The total pension liability was determined by an actuarial valuation as of September 30, 2014 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Investment rate of return*	8.00%
Projected salary increases	3.5% - 8.25%

*Net of pension plan investment expense

The actuarial assumptions used in the actuarial valuation as of September 30, 2014, were based on the results of an investigation of the economic and demographic experience for the TRS based upon participant data as of September 30, 2010. The Board of Control accepted and approved these changes on January 27, 2012, which became effective at the beginning of fiscal year 2012.

Mortality rates for TRS were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA projected to 2015 and set back one year for females.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by

Hoover City Board of Education Notes to Financial Statements

NOTE 12 – PENSION PLAN (CONTINUED)

Actuarial assumptions (continued)

weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of geometric real rates of return for each major asset class are as follows:

	Target Allocation	Long-Term Expected Rate of Return*
Fixed Income	25.00%	5.00%
U.S. Large Stocks	34.00%	9.00%
U.S. Mid Stocks	8.00%	12.00%
U.S. Small Stocks	3.00%	15.00%
International Developed Market Stocks	15.00%	11.00%
International Emerging Market Stocks	3.00%	16.00%
Real Estate	10.00%	7.50%
Cash	2.00%	1.50%
Total	100.00%	

*Includes assumed rate of inflation of 2.50%

Discount rate

The discount rate used to measure the total pension liability was 8%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current pan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the System's proportionate share of the net pension liability to changes in the discount rate

The following table presents the System's proportionate share of the net pension liability calculated using the discount rate of 8%, as well as what the System's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (7%) or 1-percentage-point higher (9%) than the current rate:

	1% Decrease 7.00%	Current Discount Rate 8.00%	1% Increase 9.00%
Plan's Net Pension Liability (Asset)	\$183,302,000	\$138,558,000	\$100,608,000

NOTE 12 – PENSION PLAN (CONTINUED)

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2015. The supporting actuarial information is included in the GASB Statement No. 67 Report for the TRS prepared as of September 30, 2015. The auditor's report dated October 17, 2016 on the total pension liability, total deferred outflows of resources, total deferred inflows of resources, total pension expense for the sum of all participating entities as of September 30, 2015 along with supporting schedules is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

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:

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

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

	Fiscal Year Ending 09/30/16
Individual Coverage - Non-Medicare Eligible	\$ 151.00
Individual Coverage - Medicare Eligible	10.00
Family Coverage - Non-Medicare Eligible Retired Member and Non-Medicare Eligible Non-spousal Dependent(s)	391.00
Family Coverage - Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) with Non-Medicare Eligible Spouse	416.00
Family Coverage - Non-Medicare Eligible Retired Member and Non-spousal Dependent Medicare Eligible	250.00
Family Coverage - Non-Medicare Eligible Retired Member and Spouse Dependent Medicare Eligible	260.00
Family Coverage - Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) - No Spouse	250.00
Family Coverage - Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) - with Medicare Eligible Spouse	275.00
Family Coverage - Medicare Eligible Retired Member and Non-spousal Dependent Medicare Eligible	109.00
Family Coverage - Medicare Eligible Retired Member and Spousal Dependent Medicare Eligible	119.00
Tobacco surcharge	\$50 per month
Optional Plans (Hospital Indemnity, Cancer, Dental, Vision)	*
Surviving Spouse - Non-Medicare Eligible	740.00
Surviving Spouse - Non-Medicare Eligible and Dependent Non-Medicare Eligible	987.00
Surviving Spouse - Non-Medicare Eligible and Dependent Medicare Eligible	1,033.00
Surviving Spouse - Medicare Eligible	425.00
Surviving Spouse - Medicare Eligible and Dependent Non-Medicare Eligible	679.00
Surviving Spouse - Medicare Eligible and Dependent Medicare Eligible	725.00

* Up to two optional plans can be taken by retirees at no cost if the retirees are not also enrolled in one of the Hospital Medical Plans. Otherwise, retirees can purchase the Optional Plans at the normal monthly rate of \$38 or \$50 for family dental.

Members who retired on or after October 1, 2005, and before January 1, 2012, pay two percent of the employer premium for each year under 25 years of service, and for each year over 25 years of service, the retiree premium is reduced by two percent. Employees who retire on or after January 1, 2012, with less than 25 years of service, are required to pay 4% for each year under 25 years of service. Additionally, non-Medicare eligible employees who retire on or after January 1, 2012 are required to pay 1% more for each year less than age 65 (age premium) and to pay the net difference between the active employee subsidy and the non-Medicare eligible retiree subsidy

Hoover City Board of Education Notes to Financial Statements

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

(subsidy premium). When the retiree becomes Medicare eligible, the age and subsidy premium will no longer apply. However, the years of service premium (if applicable to the retiree) will continue to be applied throughout retirement. These changes are being phased in over a five year period.

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

Fiscal Year Ended September 30,	Active Health Insurance Premiums Paid by Board	Amount of Premium Attributable to Retirees	Percentage of Active Employee Premiums Attributable to Retirees	Total Amount Paid Attributable to Retirees	Percentage of Required Amount Contributed
2015	\$ 780	\$ 180.76	23.17%	\$ 3,876,715	100%
2016	780	211.21	27.08%	4,599,901	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 2016 financial statements for RDS is \$1,019,180.

NOTE 14 – FUTURE ACCOUNTING PRONOUNCEMENTS

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

- Amendments to accounting and financial reporting for pensions;
- GAAP hierarchy;
- Tax abatement disclosures;
- Financial reporting and accounting related to other post-employment benefits; and
- Certain asset retirement obligations.

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



Hoover City Board of Education Notes to Financial Statements

NOTE 15 – PRIOR PERIOD ADJUSTMENT

During the fiscal year ended September 30, 2016, management elected to record a prior period adjustment to remove from the General Fund both the liability for accrued compensated absences as well as a receivable that does not meet the Board's definition of "available" for fund financial statement reporting (see note 1). As a result, beginning fund balance of the General Fund for the year ended September 30, 2016 was restated which increased by \$436,784.

NOTE 16 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date of report issuance. On October 5, 2016 the Board sold its Berry School property to the Vestavia City Board of Education for \$11,000,000. On November 17, 2016, the Board used excess funds on hand to purchase \$50,000,000 in United States Treasury Notes.

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, 2016

	Budgeted Amounts		Actual on the Budgetary Basis*	Variance
	Original	Final Budget		
Fund balances beginning of year - as previously stated	\$ 50,594,163	\$ 68,564,188	\$ 68,564,188	\$ -
Prior period adjustment	-	-	436,784	436,784
Fund balances beginning of year - as restated	\$ 50,594,163	\$ 68,564,188	\$ 69,000,972	\$ 436,784
Revenues				
State of Alabama	65,083,864	66,061,018	65,814,675	(246,343)
Federal government	-	-	30,797	30,797
Local and other	70,673,451	70,917,951	78,446,713	7,528,762
Total revenues	135,757,315	136,978,969	144,292,185	7,313,216
Other financing sources				
Operating transfers in	1,157,072	1,642,812	1,372,323	(270,489)
Total revenues and other financing sources	136,914,387	138,621,781	145,664,508	7,042,727
Expenditures				
Instructional services	85,704,121	86,666,933	84,061,954	2,604,979
Instructional support	21,343,961	21,361,777	21,808,783	(447,006)
Operation and maintenance	16,568,324	16,568,324	14,574,605	1,993,719
Auxiliary services	6,614,319	6,614,419	6,407,978	206,441
General administration and central support	3,198,466	3,198,316	3,176,552	21,764
Other	555,978	555,978	1,557,750	(1,001,772)
Total expenditures	133,985,168	134,965,747	131,587,622	3,378,125
Other fund uses				
Operating transfers out	3,799,116	3,804,116	3,896,874	(92,758)
Total expenditures and other fund uses	137,784,285	138,769,863	135,484,496	3,285,367
Excess of revenues and other sources over expenditures and other fund uses	(869,898)	(148,082)	10,180,012	10,328,094
Fund balances, end of year	\$ 49,724,265	\$ 68,416,106	\$ 79,180,984	\$ 10,764,878

* For budgetary purposes, the Board includes its indirect cost allocation along with operating transfers in. However, in the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds, this is included in other revenues. Actual other revenue and operating transfers in have been adjusted by \$678,436 to reflect the budgetary grouping for the purposes of this budget to actual comparison.

Hoover City Board of Education
Schedule of Proportionate Share of the Collective Net Pension Liability
Teachers' Retirement System of Alabama
As of Measurement Date

	2016	2015
Board's proportion of the collective net pension liability	1.323923%	1.328923%
Board's proportionate share of the collective net pension liability	\$ 138,558,000	\$ 120,727,000
Board's covered-employee payroll during the measurement period *	\$ 83,796,068	\$ 84,269,726
Board's proportionate share of the collective net pension liability as a percentage of its covered-employee payroll	165.35%	143.26%
Plan fiduciary net position as a percentage of the total pension liability	67.51%	71.01%

* Board's covered-employee payroll during the measurement period is the total of those employees who are participating in the pension plan. For FY 2016, the measurement period is October 1, 2014 through September 30, 2015.

**Hoover City Board of Education
Schedule of Board Contributions
Teachers' Retirement System of Alabama
As of Fiscal Year End**

	2016	2015
Contractually required contribution	\$ 9,716,825	\$ 9,475,748
Contributions in relation to the contractually required contribution	9,716,825	9,475,748
Contribution deficiency (excess)	\$ -	\$ -
Board's covered-employee payroll *	\$ 84,868,863	\$ 83,796,068
Contributions as a percentage of covered-employee payroll	11.45%	11.31%

* Board's covered-employee payroll is the total payroll of those employees who are participating in the pension plan.

Other Information

Hoover City Board of Education Supplementary Schedule of Bond Disclosures

This supplementary information to the financial statements is intended to constitute, along with the independent auditor's 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 \$39,619,177 for the fiscal year that ended September 30, 2016.
2. Attached hereto is a combined schedule of revenues, expenditures and changes in fund balances for all governmental funds for the current and the five most recent fiscal years.
3. The following issues are payable solely out of the proceeds of the Special Tax:
 - (a) \$14,615,000 aggregate principal amount of the Board's Capital Outlay Warrants, Series 2005, dated December 15, 2005, and (as of September 30, 2016) outstanding in the aggregate principal amount of \$14,615,000.
 - (b) \$115,070,000 aggregate principal amount of the Board's Capital Outlay Warrants, Series 2010, dated August 1, 2010, and (as of September 30, 2016) outstanding in the aggregate principal amount of \$109,055,000.
 - (c) \$51,915,000 aggregate principal amount of the Board's Special School Tax Warrants, Series 2012, dated December 27, 2012, and (as of September 30, 2016) outstanding in the aggregate principal amount of \$51,915,000.
4. The average annual debt service on the warrants listed above is \$11,563,328.
5. The maximum annual debt service on the warrants listed above is \$13,773,525.

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

<i>Year ended September 30,</i>	2011	2012	2013	2014	2015	2016
Revenues						
State of Alabama	\$ 58,299,626	\$ 62,114,981	\$ 63,574,762	\$ 68,982,299	\$ 70,042,438	\$ 69,433,830
Federal government	12,996,084	5,763,953	6,572,935	6,321,501	6,527,790	6,470,562
Local	82,993,731	82,441,355	82,678,620	86,208,420	85,506,500	90,715,405
Other	1,885,147	1,980,714	2,002,212	2,707,490	2,782,277	3,426,555
Total revenues	156,174,588	152,301,003	154,828,529	164,219,710	164,859,005	170,046,352
Other financing sources						
Proceeds from borrowings	-	-	61,999,234	-	-	-
Operating transfers in	38,906,938	18,858,947	8,234,689	8,978,874	7,948,376	9,021,350
Total other financing sources	38,906,938	18,858,947	70,233,923	8,978,874	7,948,376	9,021,350
Total revenues and other financing sources	195,081,526	171,159,950	225,062,452	173,198,584	172,807,381	179,067,702
Expenditures						
Instructional services	82,065,055	82,981,742	89,117,455	93,131,120	91,622,703	92,313,177
Instructional support	22,846,023	22,905,195	23,018,117	25,084,506	24,292,693	24,373,123
Operation and maintenance	16,108,511	15,838,377	15,496,430	16,099,025	16,028,955	15,058,547
Auxiliary services	16,479,695	15,153,453	16,955,543	15,902,396	15,853,583	16,625,736
General administrative and central support	2,324,549	2,180,416	2,502,294	2,811,850	2,729,633	3,219,429
Capital outlay	1,356,359	9,964,053	6,076,147	3,226,720	112,789	2,214,170
Debt service	8,490,436	8,430,548	7,788,900	10,850,596	10,836,848	10,809,922
Other	4,807,904	4,424,115	4,665,796	5,007,662	4,771,873	4,912,390
Total expenditures	154,478,532	161,877,899	165,620,682	172,113,875	166,249,077	169,526,494
Other fund uses						
Operating transfers out	38,906,938	18,858,947	8,234,689	8,978,874	7,948,376	9,021,350
Other uses	-	-	61,447,966	-	-	-
Total other fund uses	38,906,938	18,858,947	69,682,655	8,978,874	7,948,376	9,021,350
Total expenditures and other fund uses	193,385,470	180,736,846	235,303,337	181,092,749	174,197,453	178,547,844
Excess of revenues and other sources over (under) expenditures and other fund uses	1,696,056	(9,576,896)	(10,240,885)	(7,894,165)	(1,390,072)	519,858
Fund balances, beginning of year (see note below)	120,784,185	122,009,975	112,433,079	102,192,194	94,298,029	93,344,741
Fund balances, end of year	\$ 122,480,241	\$ 112,433,079	\$ 102,192,194	\$ 94,298,029	\$ 92,907,957	\$ 93,864,599

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

Furthermore, the Board's beginning fund balances as of September 30, 2016 were restated due to an adjustment related to compensated absences as well as a receivable that does not meet the Board's definition of "available" for fund financial reporting.

Hoover City Board of Education Supplementary Schedule of Expenditures of Federal Awards

Year ended September 30, 2016

Description	Federal CFDA Number	Pass-Through Entity Identifying Number	Project Period	
			From	To
Passed Through State Dept. of Education:				
ED-Vocational Education Basic Grant	84.048	393084-16	10/1/2015	9/30/2016
<i>Special Education Cluster (IDEA)</i>				
ED-Education of the Handicapped (IDEA-B)	84.027	390684-16	10/1/2015	9/30/2016
ED-Education of the Handicapped (IDEA-B)	84.027	390684-15	10/1/2014	9/30/2015
ED-Handicapped Preschool Grants	84.173	290300-16 and 390784-16	10/1/2015	9/30/2016
<i>Total Special Education Cluster (IDEA)</i>				
ED-Title I	84.010	395384-16	10/1/2015	9/30/2016
ED-Title I	84.010	395384-15	10/1/2014	9/30/2015
Improving Teacher Quality	84.367	395984-16	10/1/2015	9/30/2016
Improving Teacher Quality	84.367	395984-15	10/1/2014	9/30/2015
ED-English Language Acquisition	84.365	396184-16	10/1/2015	9/30/2016
Children and Youth (EHCY) Program	84.196	unknown	10/1/2015	9/30/2016
Total U.S. Department of Education				
USDA-Commodities	10.550		10/1/2015	9/30/2016
Passed Through State Dept. of Education:				
USDA - State Administrative Expenses for Child Nutrition	10.560	344884-15	10/1/2014	9/30/2015
<i>Child Nutrition Cluster</i>				
USDA-School Breakfast	10.553	344284-16	10/1/2015	9/30/2016
USDA-School Breakfast	10.553	344284-15	10/1/2014	9/30/2015
USDA-National School Lunch Program	10.555	346684-16	10/1/2015	9/30/2016
USDA-National School Lunch Program	10.555	346684-15	10/1/2014	9/30/2015
<i>Total Child Nutrition Cluster</i>				
Total U.S. Department of Agriculture				
Passed Through State Dept. of Education:				
HHS-Disability Determination	96.001	320184-15	10/1/2014	9/30/2015
Total U.S. Department of Health and Human Services				
Total Federal Funds Passed through State Department of Education				
Total Federal Awards				

* Commodities only were received

See Notes to Supplementary Schedules

Total Grant Award	Accrued (Deferred) Grant Revenue September 30, 2015	Cash Received	Revenue Recognized	Expenditures	Accrued (Deferred) Grant Revenue September 30, 2016
\$ 120,487	\$ -	\$ 120,487	\$ 120,487	\$ 120,487	\$ -
2,313,666	-	2,313,666	2,160,935	2,160,935	(152,731)
7,236	7,236	7,236	-	-	-
57,351	-	57,351	57,351	57,351	-
2,378,253	7,236	2,378,253	2,218,286	2,218,286	(152,731)
1,213,628	-	1,213,628	1,051,841	1,051,841	(161,787)
51,677	(51,677)	-	51,677	51,677	-
145,662	-	145,662	145,662	145,662	-
56,636	56,636	56,636	-	-	-
134,306	-	134,306	133,902	133,902	(404)
10,000	-	10,000	10,000	10,000	-
4,110,649	12,195	4,058,972	3,731,855	3,731,855	(314,922)
-	-	*	355,840	355,840	-
14,183	-	14,183	14,183	14,183	-
588,316	-	521,160	588,316	588,316	67,156
105,727	105,727	105,727	-	-	-
1,780,168	-	1,566,808	1,780,168	1,780,168	213,360
336,908	336,908	336,908	-	-	-
2,811,119	442,635	2,530,603	2,368,484	2,368,484	280,516
2,825,302	442,635	2,544,786	2,738,507	2,738,507	280,516
200	-	200	200	200	-
200	-	200	200	200	-
6,936,151	454,830	6,603,958	6,114,722	6,114,722	(34,406)
\$ 6,936,151	\$ 454,830	\$ 6,603,958	\$ 6,470,562	\$ 6,470,562	\$ (34,406)

Hoover City Board of Education
Supplementary Schedule of State Government Appropriations

Year ended September 30, 2016

Description	Appropriation Period		Total Appropriation
	From	To	
Foundation Program Fund	10/1/2015	9/30/2016	\$ 64,321,304
Public School Fund	10/1/2015	9/30/2016	2,819,244
NBTS Grants	10/1/2015	9/30/2016	699,150
Alabama Reading Initiative	10/1/2015	9/30/2016	508,500
School Nurse Program	10/1/2015	9/30/2016	464,856
State-wide Purchasing	10/1/2015	9/30/2016	254,678
At Risk Student Program	10/1/2015	9/30/2016	169,311
English as a Second Language	10/1/2015	9/30/2016	47,724
Career Tech	10/1/2015	9/30/2016	47,489
Technology Coordinator	10/1/2015	9/30/2016	34,300
Arts Education	10/1/2015	9/30/2016	25,000
Gifted Education	10/1/2015	9/30/2016	22,133
Legislative Special Appropriation	10/1/2015	9/30/2016	17,275
State Contracts	10/1/2015	9/30/2016	2,866
Total state assistance			\$ 69,433,830

Cash Received				
October 1, 2015-	Revenue			
September 30, 2016	Recognized	Expenditures	Encumbrances	
\$ 64,321,304	\$ 64,321,304	\$ 64,321,304	\$	-
2,819,244	2,819,244	2,819,244		-
699,150	699,150	699,150		-
508,500	508,500	508,500		-
464,856	464,856	464,856		-
254,678	254,678	254,678		-
169,311	169,311	169,311		-
47,724	47,724	47,724		-
47,489	47,489	47,489		-
34,300	34,300	34,300		-
25,000	25,000	25,000		-
22,133	22,133	22,133		-
17,275	17,275	17,275		-
2,866	2,866	2,866		-
\$ 69,433,830	\$ 69,433,830	\$ 69,433,830	\$	-

Hoover City Board of Education Notes to Supplementary Schedules

NOTE 1 – SCOPE OF AUDIT PURSUANT TO THE UNIFORM GUIDANCE

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 Uniform Guidance.

The U. S. Department of Education has been designated as the Board's oversight 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, 2016.

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 2016 appropriations of state funds on the schedule because subsequent expenditures against the encumbrances are made under the authority of the 2016 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.

C. Indirect Cost

The Board has elected not to use the 10% de minimis indirect cost rate during the fiscal year ended September 30, 2016.

Other Reports

HOOVER CITY BOARD OF EDUCATION

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hoover City Board of Education (the "Board"), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated April 4, 2017.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Board's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

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

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

Compliance and Other Matters

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

We communicated certain other matters regarding local schools to management of the Board in a separate letter dated April 4, 2017.

Purpose of this Report

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

Carly Riggs & Ingram, L.L.C.

Birmingham, Alabama
April 4, 2017

HOOVER CITY BOARD OF EDUCATION

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY UNIFORM GUIDANCE**



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OVER COMPLIANCE REQUIRED BY UNIFORM GUIDANCE**

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

Report on Compliance for Each Major Federal Program

We have audited the Hoover City Board of Education's (the "Board") compliance with the types of compliance requirements described in the *OMB 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, 2016. The Board's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility.

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Board's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Board's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Board's compliance.

Opinion on Each Major Federal Program

In our opinion, the Board, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2016.

Report on Internal Control Over Compliance

Management of the Board is responsible for establishing and maintaining effective internal control over compliance with the types of requirements referred to above. In planning and performing our audit of compliance, we considered the Board's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over compliance.

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

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

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

Carly Riggs & Ingram, L.L.C.

Birmingham, Alabama
April 4, 2017

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, 2016

Section I - Summary of Auditor's Results

Financial statements

Type of auditor's report issued:	<u>Unmodified</u>	
Internal control over financial reporting:		
Material weakness(es) identified?	<u> </u> yes	<u> x </u> no
Significant deficiency(ies) identified?	<u> </u> yes	<u> x </u> none reported
Noncompliance material to financial statements noted?	<u> </u> yes	<u> x </u> no

Federal awards

Internal control over major programs:		
Material weakness(es) identified?	<u> </u> yes	<u> x </u> no
Significant deficiency(ies) identified?	<u> </u> yes	<u> x </u> none reported

Type of auditor's report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

 yes x no

Identification of major programs:

CFDA Number(s)
84.027 and 84.173

Name of Federal Program or Cluster
Special Education Cluster (IDEA)

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

\$ 750,000

Auditee qualified as low-risk auditee?

 x yes no



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

Year ended September 30, 2016

Section II - Financial statement findings

There were no matters to be reported.

Section III - Federal Award Findings and Questioned Costs

Findings: None

Questioned costs: None