

**Opp City Board
of Education**

Financial Statements

For The Year Ended September 30, 2013

**Opp City Board of Education
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September 30, 2013**

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INDEPENDENT AUDITORS' REPORT

Members of the Board
Opp City Board of Education
Opp, 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 Opp Board of Education (the "Board"), a component unit of the City of Opp, Alabama, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 – 9 and page 16 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 schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2014, on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our

testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control over financial reporting and compliance.

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

CARR, RIGGS & INGRAM, L.L.C.

Certified Public Accountants

February 17, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Introduction

The Management's Discussion and Analysis (MD&A) of the Opp City Board of Education's (the "Board") financial performance provides an overall review of the Board's financial activities for the fiscal year ended September 30, 2013. 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 Board's financial performance.

The MD&A is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. 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 analysis.

Financial Highlights

Key financial highlights of the 2012-2013 fiscal year include the following:

- General Fund revenues and other sources exceeded expenditures and other uses by \$238,968 resulting in a fund balance of \$2,500,104 available as of the fiscal year ended September 30, 2013.
- The assets of the Board exceeded its liabilities at the close of the 2013 fiscal year by \$11,753,927 (net position). Of this amount, \$165,331 is restricted for debt service.

Overview of the Financial Statements

This discussion and analysis serves as an introduction to the Board's basic financial statements, which are the government-wide financial statements, fund financial statements, and the notes to the financial statements. This report also includes supplementary information in addition to the basic financial statements themselves.

The first two statements are government-wide financial statements - the *Statement of Net Position* and the *Statement of Activities*. These provide both long-term and short-term information about the Board's overall financial status. Although other governments may report governmental activities and business-type activities, the Board has no business-type activities.

The *Statement of Net Position* presents information on all of the Board's assets less liabilities, which results in net position. The statement is designed to display the financial position of the Board. Over time, increases and decreases in net assets help determine whether the Board's financial position is improving or deteriorating.

The *Statement of Activities* provides information which shows how the Board's net position changed as a result of the year's activities. 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 (primarily local taxes) or is financed through charges for services (such as lunchrooms) and intergovernmental aid (primarily federal programs and state appropriations).

The fund financial statements provide more detailed information about the Board's most significant funds - not the Board as a whole. A fund is a grouping of related accounts that is used to keep track of specific sources of funding and spending for particular purposes. The Board uses fund accounting to ensure and demonstrate fiscal accountability. Two kinds of funds - governmental funds and fiduciary funds - are presented in the fund financial statements.

Governmental funds - The Board's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. The governmental funds statements - the *Balance Sheet* and the *Statement of Revenues, Expenditures and Changes in Fund Balances* - are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The budgetary comparison statement for the general fund is prepared on a budgetary basis of accounting that differs from accounting principles generally accepted in the United States of America (GAAP). Note 2 to the financial statements include a schedule explaining the differences between actual amounts as reported on the basis of budgeting and the GAAP basis of reporting. The governmental fund statements provide a detailed short-term view that helps readers determine whether there are more or fewer financial resources that can be spent in the near future to finance the Board's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information that explains the relationship (or differences) between them.

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.

Financial Analysis of the Board as a Whole

As noted earlier, the Board has no business-type activities. Consequently, the Board's net position is reported as Governmental Activities.

Net Position - Governmental Activities

<i>September 30,</i>	2013	2012 (Restated)
Assets		
Current assets	\$ 4,576,083	\$ 4,190,387
Restricted assets	168,800	180,740
Capital assets, net of depreciation	18,314,073	18,667,044
Other assets, unamortized bond issuance	81,856	85,266
Total assets	23,140,812	23,123,437
Liabilities		
Current liabilities	881,980	804,507
Noncurrent liabilities	10,002,296	10,333,949
Total liabilities	10,884,276	11,138,456
Deferred Inflows of Resources		
Deferred gain on refunding	97,597	106,959
Unavailable revenue - property taxes	405,012	414,358
Total deferred inflows of resources	502,609	521,317

Net Position

Net investment in capital assets	7,975,845	8,002,869
Restricted	165,331	176,728
Unrestricted	3,612,751	3,284,067
Total net position	\$ 11,753,927	\$ 11,463,664

The Board's assets exceeded liabilities by \$11,753,927 at the close of the fiscal year. The majority of the Board's net position is invested in capital assets (land, buildings, and equipment) owned by the Board. Since these capital assets are used in governmental activities, this portion of net position is not available for future spending or funding of operations. 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 – are \$3,612,751 at the end of the year.

The following table of the Board's total revenues and expenditures condenses the results of operations for the fiscal year into a format where the reader can easily see total revenues of the Board for the year. It also shows the impact operations had on changes in net position as of September 30, 2013.

Summary of Changes in Net Position From Operating Results

<i>Years ended September 30,</i>	2013	2012 (Restated)
Program Revenues		
Charges for services	\$ 1,089,972	\$ 1,044,811
Operating grants and contributions	8,354,585	8,379,335
Capital grants	427,780	416,280
General Revenues		
Local property taxes	682,493	653,634
Sales and use taxes	1,481,697	1,441,325
Miscellaneous taxes	53,408	61,510
Investment earnings	195,122	100,697
Miscellaneous	481,995	453,317
Total revenues	12,767,052	12,550,909
Expenses		
Instructional	6,545,030	6,451,624
Instructional support	1,866,003	1,786,374
Operation and maintenance	1,195,866	1,131,214
Food service	890,735	828,616
Transportation	455,187	433,821
General administration and central support	688,007	582,793
Other	387,883	329,949
Interest on long-term debt	448,078	464,445
Total expenses	12,476,789	12,008,836
Change in net position	290,263	542,073

Net Position – Beginning, as originally stated	11,463,664	11,074,931
Restatement of net position due to the implementation of GASB 63 and 65	-	(153,340)
Net Position – Beginning, as restated	11,463,664	10,921,591
Net Position – Ending	\$ 11,753,927	\$ 11,463,664

Revenue Analysis:

- Program revenues account for 77% of total revenues including capital grant revenue.
- Operating grants and contributions make up 85% of program revenues. The major sources of revenues in this category are state foundation program funds, state transportation operating funds, and state and federal funds restricted for specific programs.
- Capital grants and contributions include state capital outlay funds and state funds to replace buses.
- Charges for services include federal reimbursement for meals, student meal purchases, and local school revenues.
- General revenues, primarily property taxes and sales taxes, were used to provide \$2,894,715 for expenses not covered by program revenues.

Expense Analysis:

- Instructional services expenses, primarily salaries and benefits for classroom teachers, are the largest expense function of the Board. In addition to teacher salaries and benefits, instructional services include teacher aides, substitute teachers, textbooks, depreciation of instructional buildings, professional development, and classroom instructional materials, supplies, and equipment.
- Instructional support services include salaries and benefits for school principals, assistant principals, librarians, counselors, school secretaries, school bookkeepers, speech therapists, school nurses, and professional development expenses.
- Operation and maintenance services include utilities, security services, janitorial services, maintenance services, and depreciation of maintenance-related assets.
- In addition to bus driver salaries and benefits, student transportation services include mechanics, bus aides, vehicle maintenance and repair expenses, vehicle fuel, depreciation of buses and the bus shop, and fleet insurance.
- Food services includes salaries and benefits for cooks, servers, lunchroom managers, and cashiers, as well as donated and purchased food, food preparation and service supplies, kitchen and lunchroom equipment, and depreciation of equipment and facilities.
- General administrative services include salaries and benefits for the superintendent, assistants, clerical and financial staff, and other personnel that provide system-wide support for the schools. Also included are legal expenses, liability insurance, training for board members and general administrative staff, printing costs, and depreciation of central office equipment and facilities.
- Other expenses include the salaries and benefits for adult and continuing education teachers, preschool teachers and aides, extended day personnel, and the community education instructor. Also included are the materials, supplies, equipment, related depreciation, and other expenses for operating programs outside of those for educating students in the K through 12 instructional programs.

- Debt service includes interest, but not principal payments, on long-term debt issues and other expenses related to the issuance and continuance of debt issues.

Performance of School Board Funds

Governmental Funds – As noted earlier, the Board uses fund accounting to control and manage resources in order to ensure compliance with finance-related legal requirements. Using funds to account for resources for particular purposes helps the reader to determine whether the Board is being accountable for the resources provided by taxpayers and other entities, and it may also help to provide more insight into the Board’s overall financial health.

The focus of the Board’s governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Board’s financial requirements. (Note that the relationship between the *fund financial statements* and the *government-wide financial statements* are reconciled on pages 13 and 15.) The financial performance of the Board as a whole is reflected in its governmental funds as well. At the end of the fiscal year, the Board’s governmental funds reported combined ending fund balance of \$3,778,082.

General Fund – The general fund is the chief operating fund of the Board. The general fund balance increased by \$238,968 this year. This is primarily due to the following reasons:

- Reduction in the amount of required pass-through funds to the Child Nutrition Program.
- Increase in state funding.
- Conservative spending practices.

Public School Fund – The Public School Fund (“PSF”) is used to account for financial resources used to acquire, repair or construct major capital facilities. For fiscal year ended September 30, 2013 the ending PSF fund balance was \$628,076.

Child Nutrition Program Fund – The City of Opp’s Child Nutrition Program is funded primarily by a USDA grant. Funds are received based on the number of free and reduced meals served. On average, 57% of our students receive free and reduced price meals. The ending fund balance of \$180K (2.5 months of operating balance) is in the optimal range as established by Alabama Act No. 2004-456.

Budgetary Highlights of Major Funds

The original 2013 fiscal year budget, adopted on September 13, 2012, was based on a bare bones approach that reflected guaranteed state and federal revenues, estimated local revenues and necessary expenditures. The original budget was amended two times during the year, December 18, 2012 and June 18, 2013. Amendment #1 was necessary to amend the budgeted 2013 federal allocations, budget carryover funds, and add revenue and expenditures for fund sources not reflected in the original budget. Amendment #2 was the final amendment to the 2013 budget. The amendment included adjustments to reduce the Child Nutrition Program pass-through budget, budget utility expense from foundation funds, and budget for additional expenses not reflected in the original or amended budget. In summary, the final budget is reasonable based on the financial activity of the Board.

General Fund – The comparison of the general fund original budget to the final amended budget is on page 16. Because actual revenues exceeded actual expenses there was an overall increase in the general fund.

Capital Asset and Debt Administration

Capital Assets - The Board's investment in capital assets for its governmental activities at September 30, 2013 totaled \$18,314,073, net of accumulated depreciation. The capital asset activity for the year is detailed in note 6 to the financial statements. Increases during the year represent additions to those categories, while decreases represent retirements of assets during the year and depreciation of depreciable assets for the year. Capital assets were decreased (depreciated) by \$471,705 during fiscal year 2013. The Board expended available resources to acquire \$118,734 in capital asset additions during the year. There was \$6,895 in assets that were taken out of service during the year.

Long-Term Debt - At year-end, the Board owed \$10,322,487 in warrants and notes payable. Of this amount, \$731,601(face amount excluding discount, see note 8) was owed on the Opp High School roof project, \$111,487 for school buses, \$9,285,000 for the new Opp Elementary School and \$375,000 for a QSCB loan. More information with regard to the Board's long-term debt is presented in note 8 to the financial statements.

Factors Bearing on the Board's Future

Funding – The rolling reserve established for FY13, continues to provide stable funding through the Education Trust Fund (ETF). Locally, Opp City Schools collects 12 mills of ad valorem tax through district and county levees. By law, 10 mills are required to be levied and collected on all taxable property excluding motor vehicles for educational purposes. The county 4 mill and district 3 mill both are due to expire (last levy) in October of 2015. Efforts to secure renewals will begin in the fall of 2014.

Opp City School's closed FY13 with 3.86 months of operating balance or \$2.9 million.

County and District Sales Tax – An improved local economy helped boost county sales tax revenues by 6% but the district sales tax revenues dipped by 2% as compared to FY13. District sales tax is earmarked for debt payment on the new Opp Elementary School. As a result, other local sources are used to supplement the district sales tax to meet our debt obligation.

Student Enrollment – The latest student enrollment figure, as of the 2012-2013 twenty day (after Labor Day) report was 1,262.50 students. This is a decrease in enrollment of over 62 students from the prior year. Declining student enrollment continues to be a concern as it directly impacts funding.

Medical and Retirement Costs – Employee health insurance is provided through the Public Education Employees' Health Insurance Program (PEEHIP). PEEHIP employer cost is \$714 per employee per month for fiscal year 2013. Employer contributions to the Teachers Retirement System (TRS) are 10.08 percent. The Board must use local funds to pay the salary-related benefit costs not paid by state and federal funds.

Contacting the School Board's Financial Management

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of the Board's finances and to show the Board's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Linda Banks, Chief School Financial Officer, P.O. Box 840, Opp, AL 36467, or by calling (334) 493-3173 during regular office hours, Monday through Friday, from 8:00 A.M. to 4:00 P.M.

Opp City Board of Education
Statement of Net Position
September 30, 2013

	Governmental Activities
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Assets	
Cash and cash equivalents	\$ 2,417,274
Investments	1,644,525
Receivables	484,459
Inventories	29,825
Restricted assets:	
Cash and cash equivalents	168,800
Capital assets, not being depreciated	465,097
Capital assets, net of depreciation	17,848,976
Unamortized bond insurance	81,856
Total assets	23,140,812
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Liabilities	
Salaries and benefits payable	539,045
Accrued interest payable	3,469
Unearned grant revenue	19,275
Long-term liabilities	
Due and payable within one year	320,191
Due and payable after one year	10,002,296
Total liabilities	10,884,276
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Deferred Inflows of Resources	
Deferred gain on refunding	97,597
Unavailable revenue - property taxes	405,012
Total deferred inflows of resources	502,609
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Net Position	
Net investment in capital assets	7,975,845
Restricted for debt service	165,331
Unrestricted	3,612,751
Total net position	\$ 11,753,927
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See accompanying notes to financial statements.

**Opp City Board of Education
Statement of Activities
For The Year Ended September 30, 2013**

Functions / Programs	Expenses
Instructional services	\$ 6,545,030
Instructional support services	1,866,003
Operation and maintenance services	1,195,866
Student transportation services	455,187
Food services	890,735
General administrative services	688,007
Interest and fiscal charges	448,078
Other expenses	387,883
Total	\$ 12,476,789

See accompanying notes to financial statements.

Program Revenues			Net (Expenses)
Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenues and Changes In Net Position Governmental Activities
\$ 87,435	\$ 5,569,896	\$ 203,036	\$ (684,663)
99,168	1,453,152	-	(313,683)
38,813	536,583	174,529	(445,941)
28,964	373,070	50,215	(2,938)
678,655	40,044	-	(172,036)
2,409	324,912	-	(360,686)
-	-	-	(448,078)
154,528	56,928	-	(176,427)
<u>\$ 1,089,972</u>	<u>\$ 8,354,585</u>	<u>\$ 427,780</u>	<u>(2,604,452)</u>

General Revenues

Taxes:

Property taxes for general purposes	682,493
Local sales tax	1,481,697
Other taxes	53,408
Investment earnings	195,122
Miscellaneous	481,995
<u>Total general revenues</u>	<u>2,894,715</u>
<u>Change in net position</u>	<u>290,263</u>
Net position - beginning, as previously stated	11,611,107
Restatement of net position due to the implementation of GASB 63 and 65	(147,443)
<u>Net position - beginning, as restated</u>	<u>11,463,664</u>
<u>Net position - ending</u>	<u>\$ 11,753,927</u>

Opp City Board of Education
Balance Sheet - Governmental Funds
September 30, 2013

	General Fund	Capital Projects - PSF Fund Capital Outlay
Assets		
Cash and cash equivalents	\$ 1,343,516	\$ 622,018
Investments	1,644,525	-
Receivables	405,012	6,058
Inventories	-	-
Restricted assets:		
Cash and cash equivalents	-	-
Total assets	\$ 3,393,053	\$ 628,076
Liabilities		
Liabilities		
Salaries and benefits payable	\$ 487,937	\$ -
Accrued interest payable	-	-
Unearned grant revenue	-	-
Total liabilities	487,937	-
Deferred Inflows of Resources		
Unavailable revenue - property taxes	405,012	-
Fund balances		
Non-spendable	-	-
Restricted	-	-
Assigned	-	628,076
Unassigned	2,500,104	-
Total fund balances	2,500,104	628,076
Total liabilities, deferred inflows of resources, and fund balances	\$ 3,393,053	\$ 628,076

See accompanying notes to financial statements.

Other Governmental Funds		Total Governmental Funds	
\$	451,740	\$	2,417,274
	-		1,644,525
	73,389		484,459
	29,825		29,825
	168,800		168,800
<hr/>		<hr/>	
\$	723,754	\$	4,744,883
<hr/>		<hr/>	

\$	51,108	\$	539,045
	3,469		3,469
	19,275		19,275
<hr/>		<hr/>	
	73,852		561,789
<hr/>		<hr/>	
	-		405,012
<hr/>		<hr/>	

	29,825		29,825
	165,331		165,331
	454,746		1,082,822
	-		2,500,104
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	649,902		3,778,082
<hr/>		<hr/>	
\$	723,754	\$	4,744,883
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**Opp City Board of Education
Reconciliation of Balance Sheet of Governmental
Funds to Statement of Net Position
For The Year Ended September 30, 2013**

Amounts reported for governmental activities in the Statement of Net Position on page 10 are different because:

Total fund balance - governmental funds	\$	3,778,082
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.

The cost of capital assets is	\$ 23,980,049	
Accumulated depreciation is	(5,665,976)	18,314,073
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Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.

Unamortized bond insurance	81,856	81,856
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Long-term liabilities, including bonds payable, bond discounts and deferred gain on refunding, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.

Deferred gain on refunding	(97,597)	
Current portion of long-term debt	(320,191)	
Non-current portion of long-term debt	(10,002,296)	(10,420,084)
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Total net position - governmental activities	\$	11,753,927
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See accompanying notes to financial statements.

Opp City Board of Education
Statement of Revenues, Expenditures and Changes
in Fund Balances - Governmental Funds
For The Year Ended September 30, 2013

	General Fund	Capital Projects - PSF Fund Capital Outlay
Revenues		
State revenues	\$ 7,495,662	\$ 253,749
Federal revenues	1,320	-
Local revenues	1,975,584	-
Other revenues	40,920	-
Total revenues	9,513,486	253,749
Expenditures		
Instructional services	5,627,450	40,426
Instructional support services	1,382,309	-
Operation and maintenance	1,159,120	28,350
Student transportation services	381,084	-
Food services	-	-
General administrative services	575,638	-
Capital outlay	-	82,172
Debt service:		
Principal	-	9,735
Interest	-	-
Other expenditures	90,593	-
Total expenditures	9,216,194	160,683
Excess (deficiency) of revenues over (under) expenditures	297,292	93,066
Other Financing Sources (Uses)		
Indirect cost	33,958	-
Transfers in	-	-
Transfers out	(119,067)	-
Other financing sources	26,785	-
Total other financing sources (uses)	(58,324)	-
Net change in fund balances	238,968	93,066
Fund Balances - beginning	2,261,136	535,010
Fund Balances - ending	\$ 2,500,104	\$ 628,076

See accompanying notes to financial statements.

Other Governmental Funds	Total Governmental Funds
\$ 174,031	\$ 7,923,442
1,277,185	1,278,505
1,445,056	3,420,640
25,555	66,475
2,921,827	12,689,062
559,598	6,227,474
465,895	1,848,204
23,292	1,210,762
22,352	403,436
864,217	864,217
98,976	674,614
-	82,172
317,785	327,520
457,440	457,440
297,291	387,884
3,106,846	12,483,723
(185,019)	205,339
-	33,958
745,861	745,861
(626,794)	(745,861)
51,205	77,990
170,272	111,948
(14,747)	317,287
664,649	3,460,795
\$ 649,902	\$ 3,778,082

**Opp City Board of Education
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds To
Statement of Activities
For The Year Ended September 30, 2013**

Amounts reported for governmental activities in the Statement of Activities on page 11 are different because:

Total net change in fund balances - governmental funds	\$	317,287
--	----	---------

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their useful lives as depreciation expense. This is the amount by which capital outlays exceeds depreciation expense in the period.

Capital outlays	\$	118,734	
Depreciation expense		(471,705)	(352,971)

The amortization of bond discounts and deferred gain on refunding of debt are reported as expenses in the Statement of Activities. However, these expenses do not require the use of current financial resources, and therefore, are not reported as expenditures in the governmental funds.

(1,573)

Repayment of debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities.

Principal payments on long-term debt		327,520
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Change in net assets of governmental activities	\$	290,263
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Opp City Board of Education
Statement of Revenues, Expenditures and Changes in Fund
Budget and Actual - General Fund
For The Year Ended September 30, 2013

	<u>Budgeted Amounts</u>	
	<u>Original</u>	<u>Final</u>
Revenues		
State revenues	\$ 7,372,548	\$ 7,472,548
Federal revenues	700	1,000
Local revenues	1,666,190	1,838,405
Other revenues	10,000	16,500
Total revenue	9,049,438	9,328,453
Expenditures		
Instructional services	5,419,194	5,558,123
Instructional support services	1,215,280	1,386,099
Operation and maintenance	1,098,958	1,179,999
Student transportation services	387,738	393,038
General administrative services	529,429	566,974
Principal retirement	19,515	-
Other expenditures	83,944	83,884
Total expenditures	8,754,058	9,168,117
Excess revenues over expenditures	295,380	160,336
Other Financing Sources (Uses)		
Indirect cost	31,779	31,779
Transfers out	(174,168)	(109,168)
Other financing sources	-	17,000
Total other financing sources (uses)	(142,389)	(60,389)
Excess Revenues and Other Sources Over Expenditures and Other Uses	152,991	99,947
Fund Balance - beginning	2,261,136	2,261,136
Fund Balance - ending	\$ 2,414,127	\$ 2,361,083

See accompanying notes to financial statements.

Actual (Budgetary Basis)		Variance with Final Budget	
<hr/>		<hr/>	
\$	7,495,662	\$	23,114
	1,320		320
	1,975,584		137,179
	40,920		24,420
<hr/>		<hr/>	
	9,513,486		185,033
<hr/>		<hr/>	
	5,592,647		(34,524)
	1,373,219		12,880
	1,159,120		20,879
	379,672		13,366
	575,747		(8,773)
	-		-
	82,242		1,642
<hr/>		<hr/>	
	9,162,647		5,470
<hr/>		<hr/>	
	350,839		190,503
<hr/>		<hr/>	
	33,958		2,179
	(119,067)		(9,899)
	26,785		9,785
<hr/>		<hr/>	
	(58,324)		2,065
<hr/>		<hr/>	
	292,515		192,568
	2,261,136		-
<hr/>		<hr/>	
\$	2,553,651	\$	192,568
<hr/>		<hr/>	

Opp City Board of Education
Notes To Financial Statements

NOTE

1. Summary of Significant Accounting Policies
2. Stewardship, Compliance and Accountability
3. Cash, Cash Equivalents and Investments
4. Receivables
5. Interfund Activity
6. Capital Assets
7. Unearned Revenue
8. Long-Term Debt
9. Employee Retirement Plan
10. Postemployment Benefits Other than Pension (OPEB)
11. Commitments and Contingencies
12. Risk Management
13. Prior Period Adjustment
14. Subsequent Events

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Opp City Board of Education (the "Board") have been prepared in conformity with accounting principles generally accepted in the United States of America (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.

Reporting Entity

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

The Board is a legally separate agency of the State of Alabama. However, for financial reporting, the Board is considered a component unit of the City of Opp, Alabama (the "City") because the City issued bonds for the construction of facilities for the Board and the City is obligated for the debt. The financial statements of the Board include local school activity funds and other funds under the control of school principals. These funds are reported on a reporting period ended September 30, 2013 as a special revenue fund.

Basis of Presentation, Basis of Accounting

Basis of Presentation

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, except for fiduciary activities.

Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange 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. The Board does not allocate indirect expenses to the various functions. Program revenues include (a) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and (b) charges to recipients of goods or services offered by the programs. Revenues that are not classified as program revenues, including all local taxes, are presented as general revenues.

Notes To Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The Board reports the following major governmental funds:

General Fund – This is the Board's primary operating fund. It accounts for all financial resources, except those required to be accounted for in another fund. The Board's general fund primarily received revenues from the Education Trust Fund (ETF), appropriated by the Alabama Legislature, and from local taxes. The State Department of Education allocated amounts appropriated from the ETF to the Board on a formula basis.

Public School Fund Capital Outlay – This fund accounts for the funds received from the State Department of Education which are to be used for capital improvements.

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

Special Revenue Funds account for the proceeds of specific revenue sources requiring separate accounting because of legal or regulatory provisions or administrative action. Special revenue funds consist of the following:

1. IDEA – Part B
2. Preschool Ages 3 – 5 Part B
3. Vocational Education – Basic Grant
4. Title I Part A
5. Title II Part A Teachers Training
6. Title VI Rural & Low Income Program
7. SLC E-Rate Refund
8. Local School Activity Funds
9. Food and Nutrition Fund

Debt Service Funds account for the accumulation of resources for, and the payment of, the Board's principal and interest payments on long-term debt.

Capital Projects Funds account for financial resources to be used for the acquisition or construction of major capital facilities.

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

Notes To Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 generally are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.

When both restricted and unrestricted resources are available for use, it is the Board's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position

Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity date within three months of the date acquired by the Board. Investments are stated at fair value.

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.

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

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

Inventories and Prepaid Items - Inventories are valued at cost using the first-in/first-out (FIFO) method. GAAP requires only material balances of inventories accounted for using the purchases method to be reported as an asset in the appropriate governmental fund. Prepaid items, such as insurance premiums and rent, are recorded as expenditures in governmental funds when paid.

Notes To Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Restricted Assets – Restricted assets at September 30, 2013 consist of cash and cash equivalents which are restricted by debt agreements for debt service payments. Cash and cash equivalents restricted for debt service payments totaled \$168,800.

Capital Assets - Purchased or constructed capital assets are reported at cost or estimated historical costs in the statement of net position. 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 - exhaustible	\$ 25,000	40 years
Buildings	25,000	40 years
Building improvements	25,000	7 - 40 years
Equipment	5,000	7 years
Equipment under lease	5,000	7 years
Vehicles	5,000	5 - 7 years

The capitalization threshold for land, construction in progress, and inexhaustible land improvements is \$1 or more. However, these capital assets are not depreciated.

Long-Term Obligations - In the government-wide financial statements, the unmatured principal of long-term debt, capital leases, 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. For warrants (bonds) and other long-term debt issued after October 1, 2003, the related premiums and discounts are amortized under accrual accounting and the annual amortization of these accruals is included in the statement of activities. The unamortized portion is reported as an addition or deduction from the related debt on 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 other financing sources. Debt issuance costs are not deducted from the amount reported as other financial sources but are reported as debt service expenditures. Any discount resulting from a disparity between the market rate and the stated rate of interest is reported as an other financing use. Expenditures for debt principal,

Notes To Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

interest and related costs are reported in the fiscal year payments are made. At the inception of a capital lease, an amount equal to the present value of the net minimum lease payments is reported as an other financing source and as an expenditure. The balance sheet does not reflect a liability for long-term debt.

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 employees' 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.

An accrual for earned sick leave should be 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.

Professional and support employees earn nonvesting sick leave at the rate of one day per month worked. Employees may accumulate an unlimited number of sick leave days. Employees may use their accrued sick leave as membership service in determining the total years of creditable service in the Teachers' Retirement System of Alabama, 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.

Professional and support personnel are provided two days of personal leave per year with pay. The State provides funding, at the substitute rate, for up to two days of personal leave per employee per year. Professional employees are paid, at the Board's substitute rate, for up to two days of unused personal leave. Because unused personal leave cannot be carried over to succeeding years, no liability for unpaid leave is accrued in the financial statements.

Certain employees are allowed two weeks of vacation per year with pay. Personnel considered full time support personnel and instructional personnel contracted for the fiscal year are eligible for vacation leave. Because unused vacation leave cannot be carried over to succeeding years, no liability for unpaid leave is accrued in the financial statements.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Board does not currently have any items that qualify for reporting in this category.

Notes To Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Board has two items that qualify for reporting in this category, deferred gain on refunding and unavailable revenue - property taxes.

Unamortized Bond Insurance

Unamortized debt expense related to bond insurance is amortized by using the outstanding principal method over the life of the related debt and is reported as unamortized bond insurance on the statement of net position. Other bond issuance costs are expensed as incurred.

Net Position and Fund Balances - Net position are reported on the government wide financial statements and are required to be classified for accounting and reporting purposes into the following net position 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.

Fund balances are reported in the fund financial statements in accordance with GASB 54. The intent of GASB 54 is to provide a more structured classification of fund balances and to improve the usefulness of fund balance reporting to the users of the Board's financial statements. The reporting standard established a hierarchy for fund balance classifications and the constraints imposed on the users of those resources. In governmental funds, the Board's policy is to first apply the expenditure toward restricted fund balance and then to other, less-restrictive classifications—committed and then assigned fund balances before using unassigned fund balances.

As of September 30, 2013, fund balances of the governmental funds are classified as follows:

Nonspendable – Amounts that cannot be spent either because they are not in spendable form or because they are legally or contractually required to be maintained intact.

Restricted – Amounts that can be spent only for specific purposes because of constitutional provisions, charter requirements or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Opp City Board of Education

Notes To Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Committed – Amounts that can be used only for specific purposes determined by a formal action of the Board, the highest level of decision making authority. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board.

Assigned – Amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the Board's policy, only the Superintendent may assign amounts for specific purposes.

Unassigned – All other spendable amounts.

	General Fund	PSF Fund Capital Outlay	Other Governmental Funds	Total Governmental Funds
Nonspendable:				
Inventories	\$ -	\$ -	\$ 29,825	\$ 29,825
Restricted:				
Debt service	-	-	165,331	165,331
Assigned:				
Capital projects	-	628,076	-	628,076
Subsequent years' budget	-	-	454,746	454,746
Unassigned	2,500,104	-	-	2,500,104
	\$ 2,500,104	\$ 628,076	\$ 649,902	\$ 3,778,082

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

Management Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Notes To Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Pronouncements

The GASB has issued the following statements:

Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement improves financial reporting by codifying all sources of GAAP for state and local governments so that they derive from a single source. The Board has elected to include all pre-November 30, 1989 FASB pronouncements which are now codified in GASB Statement No. 62, as mentioned in the *Basis of Accounting* section above. As such, disclosures of FASB or AICPA pronouncements applied to these and future financial statements are no longer required.

Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement provides guidance for certain items formerly classified as assets and liabilities. GASB Concepts Statement 4 redefines these as “deferred outflows of resources” (formerly assets) and “deferred inflows of resources” (formerly liabilities). Each new category must have its own section on the statement of net position. This statement also requires that the last line of the statements formerly titled “net assets” now be titled “net position” to reflect the new classifications. In addition, “capital assets, net of related debt” should now be titled “net investment in capital assets” in order to properly present the total of the items.

Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement provides more guidance for the items in GASB Statement No. 63. It requires the avoidance of the word “deferred” throughout financial statements, except as it relates to items that are designated as deferred outflows or deferred inflows. It addresses the calculation of a deferred outflow or inflow for refunding of debt. For nonexchange transactions such as grants, amounts received before the time period of eligibility are treated as deferred inflows. This statement also addresses taxes received prior to the period to which they relate. It requires issuance costs related to debt to be expenses in the period that the debt was issued versus amortizing over the life of the debt, as previously allowed. The effects of implementation of this statement are to be disclosed on the financial statements in the period of adoption. The Board chose to early implement GASB Statement No. 65 for the year ended September 30, 2013. It required debt issuance costs to be recognized as an expense in the period incurred. Further, to retroactively apply the provisions, it required a restatement of beginning net position to expense bond issuance costs previously capitalized by the Board.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets

Annual budgets are adopted for all governmental funds except the permanent funds. All annual appropriations lapse at fiscal year-end. State law requires Alabama school boards to prepare and submit to the State Superintendent of Education the annual budget adopted by the local board of education. In accordance with the regulations of the State Board of Education, the due date for submission of the budget for the 2013 fiscal year was September 15, 2012. The Board approved and submitted its original 2013 annual budget on September 13, 2012.

Opp City Board of Education

Notes To Financial Statements

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

The 2013 budget was amended in December 2012 and June 2013 primarily to budget carryover federal funds, adjust federal allocations, reduce Child Nutrition Program pass-through revenue, and budget additional state and other grant funds that became available after submission of the original budget.

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

The budget is prepared under a budgetary basis of accounting that differs from generally accepted accounting principles (GAAP). Salaries of teachers and other personnel with contracts of less than twelve months are paid over a twelve month period. Expenditures for salaries (and related fringe benefits) and interest expense are budgeted based on the amount that will be paid from budgeted revenues. However, salaries (and related benefits) earned but not paid are reported as expenditures on the financial statements. Similarly, interest expense incurred but not paid as of year-end is reported as an expenditure on the financial statements.

Adjustments to convert the results of operations of the general fund at the end of the year from the budgetary basis of accounting to the GAAP basis of accounting are as follows:

	Total Expenditures
Budget basis	\$ 9,162,647
Non-budgeted accrued salaries and fringe benefits	
Instructional services	34,804
Instructional support services	9,091
Student transportation services	1,410
General and administrative	(109)
Other expenditures	8,351
GAAP basis	<u>\$ 9,216,194</u>

NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the Board will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Board's deposits at year-end were entirely covered by federal deposit insurance or by the Security for Alabama Funds Enhancement Program (SAFE Program). The SAFE Program was established by the Alabama Legislature and is governed by the provisions contained in the **Code of Alabama 1975**, Sections 41-14A-1 through 41-14A-14.

Opp City Board of Education

Notes To Financial Statements

NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Under the SAFE Program all public funds are protected through a collateral pool administered by the Alabama State Treasurer's Office. Under this program, financial institutions holding deposits of public funds must pledge securities as collateral against those deposits with original maturities of greater than three months. In the event of failure of a financial institution, securities pledged by that financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC). If the securities pledged fail to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance.

All of the Board's investments and restricted investments were in certificates of deposit. These certificates of deposit are classified as "Deposits" in order to determine insurance and collateralization. However, they are classified as "Investments" on the financial statements.

NOTE 4 - RECEIVABLES

Receivables at September 30, 2013 consist of the following:

	General	PSF Capital Outlay	Other Non-major	Total
State Department of Education				
School Lunch Program	\$ -	\$ -	\$ 51,525	\$ 51,525
Special Education	-	-	16,907	16,907
Vocation Education	-	-	4,957	4,957
Capital Projects	-	6,058	-	6,058
Covington County Revenue				
Commissioner	405,012	-	-	405,012
Total receivables	\$ 405,012	\$ 6,058	\$ 73,389	\$ 484,459

All receivables are considered fully collectible and, accordingly, no allowance for uncollectible accounts has been recorded.

NOTE 5 - INTERFUND ACTIVITY

Interfund transfers consisted of the following for the year ended September 30, 2013:

Transfers Out	Transfers In Nonmajor Governmental
General	\$ 119,067
Nonmajor governmental	626,794
	\$ 745,861

Opp City Board of Education
Notes To Financial Statements

NOTE 6 - CAPITAL ASSETS

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

	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land and land improvements	\$ 465,097	\$ -	\$ -	\$ 465,097
Other capital assets:				
Buildings	16,787,622	54,172	-	16,841,794
Building improvements	4,851,194	28,000	-	4,879,194
Furniture and equipment	1,764,297	36,562	6,895	1,793,964
Total other capital assets at historical cost	23,403,113	118,734	6,895	23,514,952
Less accumulated depreciation for:				
Buildings	3,397,097	256,382	-	3,653,479
Building improvements	793,067	79,109	-	872,176
Furniture and equipment	1,011,002	136,214	6,895	1,140,321
Total accumulated depreciation	5,201,166	471,705	6,895	5,665,976
Total other capital assets, net	18,201,947	(352,971)	-	17,848,976
Total governmental activities capital assets, net	\$18,667,044	\$ (352,973)	\$ -	\$18,314,073

Depreciation expense was charged to governmental functions as follows:

Instructional services	\$ 317,556
Instructional support services	17,799
Operation and maintenance services	21,666
Student transportation services	51,751
Food services	60,477
General and administrative	2,456
Total governmental activities depreciation expense	\$ 471,705

Opp City Board of Education

Notes To Financial Statements

NOTE 7 - UNEARNED REVENUE

	General Fund	Other Governmental
Property Taxes – Property taxes are levied by the County Commission in February of each year based on property on record as of the preceding October 1. The enforceable legal claim exists as of October 1 preceding the February meeting of the County Commission. The actual billing and collection of these taxes will occur subsequent to year-end.	\$ 405,012	\$ -
Grants – The Board received funds under grant contracts with various governmental entities which were unearned as of September 30, 2013.	-	19,275
	\$ 405,012	\$ 19,275

As discussed in Note 1, unearned revenue related to property taxes is classified as a deferred inflow of resources on the statement of net position. Grant revenue that has not yet been earned is classified in liabilities as unearned grant revenue on the statement of net position.

NOTE 8 - LONG-TERM DEBT

2007 Board of Education Warrants

On September 1, 2007, the City of Opp issued \$25,160,000 of Series 2007 General Obligation Warrants. The City issued the warrants for the benefit of the City, the Utilities Board of the City of Opp, and the Opp City Board of Education. The Board received \$10,505,000 of the warrants referred to as the “Board of Education Warrants” to fund the cost of a new elementary school. The Board entered into a funding agreement with the City for repayment of the Board of Education Warrants from tax revenues pledged by the Board to the City. Those pledged tax revenues consist of the Special One Cent City Sales Tax and the Four Mil Ad Valorem tax. The revenue pledge will remain in effect until the outstanding warrants are paid in full.

Annual debt service requirements to maturity for the Board of Education Warrants are as follows:

Fiscal Year Ending September 30,	Principal	Interest
2014	\$ 230,000	\$ 398,306
2015	240,000	388,906
2016	250,000	379,106
2017	260,000	368,906
2018	270,000	358,306
2019 – 2023	1,515,000	1,616,637
2024 – 2028	1,875,000	1,259,060
2029 – 2033	2,345,000	791,214
2034 – 2037	2,300,000	213,076
	\$ 9,285,000	\$ 5,773,517

Opp City Board of Education

Notes To Financial Statements

NOTE 8 - LONG-TERM DEBT (Continued)

Pledged revenues recognized for the year ended September 30, 2013 were \$925,227 while total debt service was \$622,206.

Series 2012-A Pool Refunding Bonds

Pursuant to Act 98-373 enacted by the Alabama Legislature, the Alabama Public School and College Authority (PSCA) issued the Series 2002-A Capital Improvement Pool Bonds to loan funds to participating local school boards for the purpose of acquiring capital improvements to eliminate portable and sub-standard classrooms in the State of Alabama. Participating local school boards receiving loans from the Pool Bond proceeds were required to execute a warrant payable to the PSCA in the principal amount of the loan. The Board received a loan of \$1,462,753 in 2002.

In March 2012, the PSCA issued the Series 2012-A Pool Refunding Bonds to refund, on a current basis, the outstanding Capital Improvement Pool Bonds. The principal and interest payments are payable by an irrevocable pledge of revenues from utility gross receipts taxes, utility service use taxes, sales taxes and use taxes (pledged revenues).

The bonds bear interest rates from 3% to 5%. The Board recognized a deferred gain on refunding on issuance of the 2012-A bonds in the amount of \$112,089. This amount represents the difference between the acquisition price of the 2012-A bonds and the net carrying amount of the 2001-A bonds at the time of issuance. Amortization of the deferred gain on refunding for the year ended September 30, 2013 was \$9,362.

Annual debt service requirements to maturity for the Series 2012-A Pool Refunding Bonds payable are as follows:

Fiscal Year Ending September 30,	Principal	Interest
2014	\$ 63,264	\$ 32,853
2015	65,760	30,272
2016	68,357	27,589
2017	71,303	24,440
2018	74,997	20,783
2019 – 2023	363,503	43,976
2024	24,417	366
Total	\$ 731,601	\$ 180,279

Pledged revenues recognized for the year ended September 30, 2012 were \$96,353 while total debt service was \$96,353.

Opp City Board of Education

Notes To Financial Statements

NOTE 8 - LONG-TERM DEBT (Continued)

Series 2009-QSCB Capital Outlay Pool Warrant

Pursuant to Act 2009-813 enacted by the Alabama Legislature, the Alabama Public School and College Authority (PSCA) issued the Series 2009-D Capital Improvement Pool Qualified School Construction Bonds (QSCB) to loan funds to participating local school boards for the purpose of funding capital improvements. The Board received a loan of \$375,000 from the QSCB funds in 2009. The Board is required to make annual payments of \$19,515 into a sinking fund for fifteen years beginning December 15, 2011. Principal payments on the warrant may be made with PSF Capital Purchase funds that are allocated and distributed to the Board by the PSCA pursuant to Section 16-13-234 of the Code of Alabama (1975), as amended.

The warrant bears interest at 1.865% of the original amount borrowed and is due quarterly. The Board has elected to have the quarterly interest payments withheld from annual PSF Capital Purchase allocations in the amount of \$6,994 per year through the maturity of the warrant on December 15, 2025.

Annual debt service requirements to maturity for the Series 2009-D Capital Outlay Pool Warrant are payable as follows:

Fiscal Year Ending September 30,	Principal	Interest
2014	\$ -	\$ 6,994
2015	-	6,994
2016	-	6,994
2017	-	6,994
2018	-	6,994
2019 – 2023	-	34,969
2024 – 2026	375,000	15,736
Total	\$ 375,000	\$ 85,675

Capital Leases

The Board has entered into a lease agreement as lessee for financing the acquisition of buses. This lease agreement qualifies as a capital lease for accounting purposes (title transfers at the end of the lease terms) and, therefore, has been recorded at the present value of the future minimum lease payments as of the date of inception. The following is an analysis of equipment leased under a capital lease as of September 30, 2013:

	Capital Assets
Buses (net of accumulated depreciation of \$365,401)	\$ 97,747

Opp City Board of Education

Notes To Financial Statements

NOTE 8 - LONG-TERM DEBT (Continued)

Obligations of governmental activities under capital leases at September 30, 2013, are as follows:

Fiscal Year Ending September 30,	Total
2014	\$ 37,978
2015	59,951
2016	21,973
Total minimum lease payments	119,902
Less: Amount representing interest costs	8,415
Present value of future minimum lease payments	111,487
Less: Current portion	34,452
Capital lease obligation, net of current portion	\$ 77,035

During the year ended September 30, 2013, the following changes occurred in long-term liabilities reported in the statement of net position:

	Balance October 1, 2012	Proceeds	Retirements	Balance September 30, 2013	Amounts Due Within One Year
2007 Board of Education Warrants	\$ 9,500,000	\$ -	\$ (215,000)	\$ 9,285,000	\$ 230,000
2009-D Warrants	375,000	-	-	375,000	-
2012-A Pool Refunding Bonds	792,318	-	(60,717)	731,601	63,264
Unamortized bond discounts	(188,126)	-	7,525	(180,601)	(7,525)
Daimler Chrysler	163,290	-	(51,803)	111,487	34,452
	\$ 10,642,482	\$ -	\$ (319,995)	\$ 10,322,487	\$ 320,191

NOTE 9 - EMPLOYEE RETIREMENT PLAN

Plan Description

The Board contributes to the Teachers' Retirement System of Alabama, a cost-sharing multiple-employer public employee retirement system for the various state-supported educational agencies and institutions. This plan is administered by the Retirement Systems of Alabama. Substantially all employees are members of the Teachers' Retirement System. Membership is mandatory for covered or eligible employees of the Board. Benefits vest after 10 years of

Opp City Board of Education

Notes To Financial Statements

NOTE 9 - EMPLOYEE RETIREMENT PLAN (Continued)

creditable service. Vested employees may retire with full benefits at age 60 or after 25 years of service. Retirement benefits are calculated by two methods with the retiree receiving payment under the method that yields the highest monthly benefit. Disability retirement benefits are calculated in the same manner. Pre-retirement death benefits in the amount of the annual salary for the fiscal year preceding death are provided to plan members.

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

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

Funding Policy

Employees of the Board are required by statute to contribute a percentage of their salary to the Teachers' Retirement System (7.5% for Tier 1 employees and 6.0% for Tier 2 employees). The Board is required to contribute the remaining amounts necessary to fund the actuarial determined contributions to ensure sufficient assets will be available to pay benefits when due. Each year the Teachers' Retirement System recommends to the Legislature the contribution rate for the following fiscal year, with the Legislature setting this rate in the annual appropriation bill. The percentages of the contributions and the amount of contributions made by the Board and the Board's employees equal the required contributions for each year as follows:

<i>Fiscal year ended September 30,</i>	2013	2012	2011
Total percentage of covered payroll	17.58%	17.25%	17.51%
Contributions:			
Percentage contributed by the Board	10.08%	10.00%	12.51%
Percentage contributed by the employees	7.50%	7.25%	5.00%
Contributed by the Board	\$ 624,374	\$ 616,276	\$ 786,082
Contributed by the employees	464,239	446,800	314,181
Total contributions	\$ 1,088,613	\$ 1,063,076	\$ 1,100,263

Opp City Board of Education

Notes To Financial Statements

NOTE 10 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (OPEB)

The Board contributes to the Alabama Retired Education Employee's Health Care Trust (Trust), a multiple employer cost sharing defined benefit health care plan established in 2007 under the provisions of Act 2007-16 as an irrevocable trust fund. The Trust is administered by members of the Public Education Employees' Health Insurance Board (the PEEHIB). The Trust provides health care benefits to state and local school system retirees. *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 for the plan. The Teachers' Retirement System of Alabama issues a publicly available financial report that includes financial statements and required supplementary information for the Trust. The report may be obtained by writing to The Retirement Systems of Alabama, 135 South Union Street, Montgomery, Alabama 36130-2150.

Code of Alabama 1975, Section 16-25A-8 provides the PEEHIB explicit authority to set the contribution requirements for plan members and employers. The employer's share of premiums for retired Board employee's health insurance is included as part of the premium for active employees and is funded on a pay-as-you-go basis. Retirees eligible for Medicare benefits must pay \$10 per month for coverage while those not eligible for Medicare must pay \$151 per month for coverage. The estimated portion of health insurance premiums paid by the Board for retired employees was approximately \$381,333 or 30.38% of total Board allocations paid during fiscal year 2013. 100% of the required contributions were paid by the Board. The Board has no responsibility for the payment of health care benefits, beyond the payment of the premium, for retired employees.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

The Board has an approved agreement with Covington County Bank for a line of credit with a maximum amount available of \$350,000. No formal account has been opened under this agreement and no amounts have been borrowed as of September 30, 2013.

The Board has no open construction commitments at September 30, 2013.

The Board is involved in various claims and litigation arising in the ordinary course of operations. In the opinion of legal counsel, the range of potential recoveries or liabilities in excess of insurance coverage, if any, is not determinable.

NOTE 12 - RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; and natural disasters. The Board has insurance for its buildings and contents through the State Insurance Fund (SIF), Alabama Department of Finance, Division of Risk Management, 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 SIF purchases commercial insurance for claims, which in the aggregate exceed \$3.5 million. Errors and omissions insurance is purchased from Alabama Risk Management for Schools (ARMS), a

Notes To Financial Statements

NOTE 12 - RISK MANAGEMENT (Continued)

public entity risk pool. ARMS collects the premiums and purchases commercial insurance for the amount of coverage requested by pool participants. The Board purchases commercial insurance for vehicle liability and 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. The fund was established to provide a uniform plan of health insurance for current and retired employees of state educational institutions and is self-sustaining. Monthly premiums for employee and dependent coverage are set annually based on the amounts necessary to fund coverage. The Board contributes the specified amount monthly to the PEEHIF for each employee.

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

NOTE 13 - PRIOR PERIOD ADJUSTMENT

As discussed in Note 1, the implementation of GASB Statement No. 65 required that debt issuance costs, with the exception of prepaid insurance costs, be recognized as an expense in the period incurred. The cumulative effect of applying this statement retroactively was a decrease in net position in the amount of \$147,443.

NOTE 14 - SUBSEQUENT EVENTS

The Board has evaluated subsequent events between September 30, 2013 and February 17, 2014, the date the financials were available to be issued, and there were none to disclose.

COMPLIANCE INFORMATION

**Opp City Board of Education
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2013**

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA No.	Pass Through Grantor's Number	Expenditures
Social Security Administration			
Disability Determination	96.001	N/A	\$ 1,320
U.S. Department of Education			
Passed through State Department of Education			
Title I	84.010	180	343,539
Title II - Teacher Training	84.367	180	74,866
Vocational Education – Basic Grant	84.048	180	16,119
Title VI - Rural Education & Low Income	84.358	180	26,713
Subtotal			461,237
Special Education Cluster			
Special Education Grants to States	84.027	180	309,980
Special Education Preschool Grants	84.173	180	17,734
Subtotal Special Education Cluster			327,714
Total U.S. Department of Education			788,951
U.S. Department of Agriculture			
Passed through State Department of Education			
Child Nutrition Cluster			
USDA Severe Need Breakfast Program	10.553	180	105,623
National School Lunch Program	10.555	180	342,770
Subtotal Child Nutrition Cluster			448,393
Food Distribution Program**	10.569	180	39,841
Total U.S. Department of Agriculture			488,234
Total federal awards			\$ 1,278,505

**USDA Donated Food - No actual cash transactions

**Opp City Board of Education
Notes to Schedule of Expenditures of Federal Awards
For The Year Ended September 30, 2013**

NOTE 1 – BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The modified accrual basis of accounting is followed in the schedule of expenditures of federal awards. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related liability is incurred. In applying the susceptible-to-accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of such revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the Board; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and substantially irrevocable; i.e., revocable only for failure to comply with prescribed compliance requirements, such as with equal employment opportunity. These resources are reflected as revenues at the time of receipt or earlier if they meet the availability criteria.

NOTE 2 – SCHOOLWIDE PROGRAM

The Board utilizes its funding under the Title I cluster to operate a “school wide program”. School-wide programs are designed to upgrade an entire educational program within a school for all students, rather than limit services to a targeted group of students.

NOTE 3 - DONATED FOOD PROGRAM

The value of non-cash commodities received from the federal government in connection with the donated food program is reflected in the accompanying financial statements. The total assigned value of commodities donated was \$39,841 for fiscal year 2013.

NOTE 4 – CONTINGENCIES

Grant monies received and disbursed by the Board are for specific purposes and are subject to review by the grantor agencies. Such audits may result in requests for reimbursement due to disallowed expenditures. Based upon prior experience, the Board does not believe that such disallowance, if any, would have a material effect on the financial position of the Board. As of February 17, 2014, there were no known material questioned or disallowed costs as a result of grant audits in process or completed.

**Opp City Board of Education
Schedule of Findings and Questioned Costs
For The Year Ended September 30, 2013**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified ☐ yes ☒ no
- Significant deficiencies identified that are not considered to be material weaknesses? ☐ yes ☒ none reported

Noncompliance material to financial statements noted? ☐ yes ☒ no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiencies identified that are not considered to be material weakness(es)? ☐ yes ☒ none reported

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

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

☐ yes ☒ no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.027	Special Education Cluster
84.173	Special Education Grants to States
	Special Education Preschool Grants

Dollar threshold used to distinguish between type A and type B programs? \$ 300,000

Auditee qualified as low-risk auditee? ☒ yes ☐ no

Section II – Financial Statements Findings

No such findings in the current year.

Section III – Federal Award Findings and Questioned Costs

No such findings or questioned costs in the current year.

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

Members of the Board
Opp City Board of Education
Opp, Alabama

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Opp City Board of Education (the "Board") as of and for the year ended September 30, 2013, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated February 17, 2014.

Internal Control Over Financial Reporting

Management of the Board is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit of the financial statements, 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 of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 Board'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 Board's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

CARR, RIGGS & INGRAM, L.L.C.

Certified Public Accountants

February 17, 2014

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

Members of the Board
Opp City Board of Education
Opp, Alabama

Report on Compliance for Each Major Federal Program

We have audited Opp City Board of Education's (the "Board's") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Board's major federal programs for the year ended September 30, 2013. The Board's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Board's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Board's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the 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, 2013.

Report on Internal Control Over Compliance

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

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

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

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

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

CARR, RIGGS & INGRAM, L.L.C.

Certified Public Accountants

February 17, 2014