

**Opp City Board
of Education**

Financial Statements

For The Year Ended September 30, 2012

**Opp City Board of Education
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September 30, 2012**

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Carr, Riggs & Ingram, LLC
1117 Boll Weevil Circle
Enterprise, AL 36330

Mailing Address:
P.O. Box 311070
Enterprise, AL 36331

(334) 347-0088
(334) 347-7650 (fax)
www.cricpa.com

INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Opp City Board of Education (the "Board"), a component unit of the City of Opp, Alabama, as of and for the year ended September 30, 2012 which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Board's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Board as of September 30, 2012, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with **Government Auditing Standards**, we have also issued a report dated February 27, 2013 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with **Government Auditing Standards** and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 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 financial statements, and other knowledge we obtained during our audit of the 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board's financial statements as a whole. 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 not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects in relation to the financial statements taken as a whole.

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

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

Certified Public Accountants

February 27, 2013

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, 2012. 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 2011-2012 fiscal year include the following:

- General Fund revenues and other sources exceeded expenditures and other uses by \$393,614 resulting in a fund balance of \$2,261,136 available as of the fiscal year ended September 30, 2012.
- The assets of the Board exceeded its liabilities at the close of the 2012 fiscal year by \$11,611,107 (net assets). Of this amount, \$176,728 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 Assets* 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 Assets* presents information on all of the Board's assets less liabilities, which results in net assets. 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 assets 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 - Most of 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 schedule 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 3 to the financial statements includes 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, all the Board's net assets are reported as Governmental Activities.

Net Assets - Governmental Activities

<i>September 30,</i>	2012	2011
Assets		
Current assets	\$ 4,190,387	\$ 4,389,987
Restricted assets	180,740	157,498
Capital assets, net of depreciation	18,667,044	18,633,843
Other assets, bond issuance costs	420,835	437,668
Total assets	23,459,006	23,618,996
Liabilities		
Current liabilities	910,332	1,274,019
Noncurrent liabilities	10,937,567	11,270,046
Total liabilities	11,847,899	12,544,065
Net Assets		
Invested in capital assets, net of related debt	8,150,312	7,801,465
Restricted	176,728	157,498
Unrestricted	3,284,067	3,115,968
Total net assets	\$ 11,611,107	\$ 11,074,931

The Board's assets exceeded liabilities by \$11,611,107 at the close of the fiscal year. The majority of the Board's net assets are 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 assets is not available for future spending or funding of operations. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by enabling legislation, debt covenants, or other legal requirements – are \$3,284,067 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 assets as of September 30, 2012.

Summary of Changes in Net Assets From Operating Results

<i>Years ended September 30,</i>	2012	2011
Program Revenues		
Charges for services	\$ 1,044,811	\$ 1,068,234
Operating grants and contributions	8,379,335	8,582,084
Capital grants	416,280	429,532
General Revenues		
Local property taxes	653,634	635,290
Sales and use taxes	1,441,325	1,407,141
Miscellaneous taxes	61,510	50,529
Investment earnings	100,697	54,077
Gain on disposition of capital assets	-	27,020
Miscellaneous	453,317	487,768
Total revenues	12,550,909	12,741,675
Expenses		
Instructional	6,451,624	6,570,685
Instructional support	1,786,374	1,732,390
Operation and maintenance	1,131,214	1,232,012
Food service	828,616	809,616
Transportation	433,821	425,338
General administration and central support	588,690	669,199
Other	329,949	315,791
Interest on long-term debt	464,445	493,408
Total expenses	12,014,733	12,248,439
Change in net assets	536,176	493,236
Net Assets – Beginning	11,074,931	10,581,695
Net Assets – Ending	\$ 11,611,107	\$ 11,074,931

Revenue Analysis:

- Program revenues account for 78% 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 \$2,710,483 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 12 and 14.) 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 \$3,460,795.

General Fund – The general fund is the chief operating fund of the Board. The General Fund balance increased by \$393,614 this year. This is primarily due to the following reasons:

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

Public School Fund – The Public School Fund is used to account for financial resources used to acquire, repair or construct major capital facilities. For fiscal year ended September 30, 2012 the ending PSF fund balance was \$535,010.

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, 56% of our students receive free and reduced price meals. The ending fund balance of \$273,074 is in the optimal range as established by Alabama Act No. 2004-456.

Budgetary Highlights of Major Funds

The original 2012 fiscal year budget, adopted on September 14, 2011, was based on a bare bones approach that reflected only guaranteed revenues and necessary expenditures. The original budget was amended two times during the year, February 12 and June 14, 2012. Amendment #1 was necessary to amend the budgeted 2012 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 2012 budget. The amendment included adjustments to reduce the Child Nutrition Program pass through budget, budget utility expense from foundation funds, budget for a career tech extended grant, 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 15. 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, 2012 totaled \$18,667,044, net of accumulated depreciation. The capital asset activity for the year is detailed in note 7 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 \$469,347 during fiscal year 2012. The Board expended available resources to acquire \$502,547 in capital asset additions during the year. There was \$1,023 in assets that were taken out of service during the year.

Long-Term Debt - At year-end, the Board owed \$10,937,567 in warrants and notes payable. Of this amount, \$899,277 was owed on the Opp High School roof project, \$163,290 for school buses, \$9,500,000 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 9 to the financial statements.

Factors Bearing on the Board's Future

Funding – The rolling reserve act takes effect in FY'13. A 15-year average will provide a stable funding base to establish a cap on state Education Trust Fund (ETF) appropriations. The process first builds reserves to allow repayment of the \$437 million debt owed to the state's Alabama Trust Fund by the constitutional deadline and then directs reserves to a stabilization fund. The stabilization fund will enable the state to reliably provide funding when revenue growth fails to meet projections in any given year. The long-term stability will allow school boards, administrators and teachers to serve students consistently.

County and District Sales Tax – A improved local economy helped boost county and district sales tax revenues by 1.8% and 3.3% respectively for FY'12. District sales tax is earmarked for debt payment on the new Opp Elementary School.

Student Enrollment – The latest student enrollment figure, as of the 2011-2012 twenty day (after Labor Day) report was 1,324.7 students. This indicates a decrease in enrollment of 32.75 students over the prior year. The largest decrease in average daily membership is at Opp High School. Continued declining enrollment will impact the systems state 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 2012. Employer contributions to the Teachers Retirement System (TRS) are 10 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 Assets
September 30, 2012

	Governmental Activities
<hr/>	
Assets	
Cash and cash equivalents	\$ 1,998,282
Investments	1,632,242
Receivables	520,583
Inventories	31,317
Prepaid expenses	7,963
Restricted assets:	
Cash and cash equivalents	180,740
Capital assets, not being depreciated	465,097
Capital assets, net of depreciation	18,201,947
Bond issuance costs and unamortized discount	420,835
	<hr/>
Total assets	23,459,006
	<hr/>
Liabilities	
Deferred revenue	416,066
Salaries and benefits payable	490,254
Accrued interest payable	4,012
Long-term liabilities	
Due and payable within one year	308,533
Due and payable after one year	10,629,034
	<hr/>
Total liabilities	11,847,899
	<hr/>
Net Assets	
Invested in capital assets, net of related debt	8,150,312
Restricted for debt service	176,728
Unrestricted	3,284,067
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Total net assets	\$ 11,611,107
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See accompanying notes to financial statements.

Opp City Board of Education
Statement of Activities
For The Year Ended September 30, 2012

Functions / Programs	Expenses
Instructional services	\$ 6,451,624
Instructional support services	1,786,374
Operation and maintenance services	1,131,214
Student transportation services	433,821
Food services	828,616
General administrative services	588,690
Interest and fiscal charges	464,445
Other expenses	329,949
Total	\$ 12,014,733

See accompanying notes to financial statements.

Program Revenues			Net (Expenses) Revenues and Changes In Net Assets Governmental Activities
Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	
\$ 92,319	\$ 5,646,079	\$ 291,294	\$ (421,932)
110,372	1,396,499	-	(279,503)
14,534	666,484	69,364	(380,832)
22,242	350,513	55,622	(5,444)
669,047	37,055	-	(122,514)
2,179	256,387	-	(330,124)
-	-	-	(464,445)
134,118	26,318	-	(169,513)
<u>\$ 1,044,811</u>	<u>\$ 8,379,335</u>	<u>\$ 416,280</u>	<u>(2,174,307)</u>

General Revenues

Taxes:

Property taxes for general purposes	653,634
Local sales tax	1,441,325
Other taxes	61,510
Investment earnings	100,697
Miscellaneous	453,317
<u>Total general revenues</u>	<u>2,710,483</u>
Change in net assets	536,176
<u>Net assets - beginning</u>	<u>11,074,931</u>
<u>Net assets - ending</u>	<u>\$ 11,611,107</u>

Opp City Board of Education
Balance Sheet - Governmental Funds
September 30, 2012

	General Fund	Capital Projects - PSF Fund Capital Outlay
Assets		
Cash and cash equivalents	\$ 1,055,322	\$ 535,010
Investments	1,632,242	-
Receivables	414,358	-
Inventories	-	-
Prepaid expenses	7,963	-
Restricted assets:		
Cash and cash equivalents	-	-
Total assets	\$ 3,109,885	\$ 535,010
Liabilities and Fund Balances		
Liabilities		
Deferred revenue	\$ 414,358	\$ -
Salaries and benefits payable	434,391	-
Accrued interest payable	-	-
Total liabilities	848,749	-
Fund balances		
Non-spendable	7,963	-
Restricted	-	-
Committed	-	-
Assigned	-	535,010
Unassigned	2,253,173	-
Total fund balances	2,261,136	535,010
Total liabilities and fund balances	\$ 3,109,885	\$ 535,010

See accompanying notes to financial statements.

Other Governmental Funds		Total Governmental Funds	
<hr/>			
\$	407,950	\$	1,998,282
	-		1,632,242
	106,225		520,583
	31,317		31,317
	-		7,963
	180,740		180,740
<hr/>			
\$	726,232	\$	4,371,127
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\$	1,708	\$	416,066
	55,863		490,254
	4,012		4,012
<hr/>			
	61,583		910,332
<hr/>			
	31,317		39,280
	176,728		176,728
	-		-
	456,604		991,614
	-		2,253,173
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	664,649		3,460,795
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\$	726,232	\$	4,371,127
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**Opp City Board of Education
Reconciliation of Balance Sheet of Governmental
Funds to Statement of Net Assets
For The Year Ended September 30, 2012**

Amounts reported for governmental activities in the Statement of Net Assets on page 9 are different because:

Total fund balance - governmental funds	\$	3,460,795
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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	\$ 23,868,210	
Accumulated depreciation is	(5,201,166)	18,667,044
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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 issuance costs	232,709	
Unamortized discount on bonds	188,126	420,835
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Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.

Current portion of long-term debt	(308,533)	
Non-current portion of long-term debt	(10,629,034)	(10,937,567)
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Total net assets - governmental activities	\$	11,611,107
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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, 2012

	General Fund	Capital Projects - PSF Fund Capital Outlay
Revenues		
State revenues	\$ 7,298,614	\$ 223,611
Federal revenues	689	-
Local revenues	1,790,445	-
Other revenues	83,443	-
Total revenues	9,173,191	223,611
Expenditures		
Instructional services	5,385,632	-
Instructional support services	1,252,368	-
Operation and maintenance	1,060,471	22,354
Student transportation services	355,204	-
Food services	3,540	-
General administrative services	498,072	-
Capital outlay	121,046	203,055
Debt service:		
Principal	-	-
Interest	-	4,329
Other expenditures	60,193	-
Total expenditures	8,736,526	229,738
Excess (deficiency) of revenues over (under) expenditures	436,665	(6,127)
Other Financing Sources (Uses)		
Indirect cost	62,352	-
Proceeds from issuance of long-term debt	-	-
Premiums on issuance of long-term debt	-	-
Transfers in	-	-
Transfers out	(117,090)	-
Other financing sources	11,687	-
Total other financing sources (uses)	(43,051)	-
Net change in fund balances	393,614	(6,127)
Fund Balances - beginning	1,867,522	541,137
Fund Balances - ending	\$ 2,261,136	\$ 535,010

See accompanying notes to financial statements.

Other Governmental Funds	Total Governmental Funds
\$ 192,669	\$ 7,714,894
1,496,022	1,496,711
1,390,902	3,181,347
40,874	124,317
3,120,467	12,517,269
749,064	6,134,696
515,591	1,767,959
27,902	1,110,727
26,866	382,070
848,327	851,867
74,728	572,800
154,839	478,940
1,231,755	1,231,755
465,246	469,575
269,753	329,946
4,364,071	13,330,335
(1,243,604)	(813,066)
-	62,352
792,318	792,318
112,089	112,089
747,472	747,472
(630,382)	(747,472)
21,950	33,637
1,043,447	1,000,396
(200,157)	187,330
864,806	3,273,465
\$ 664,649	\$ 3,460,795

**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, 2012**

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

Total net change in fund balances - governmental funds	\$	187,330
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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	\$	502,547	
Depreciation expense		(469,347)	33,200

Proceeds from debt are recorded as an other financial sources in the governmental funds and as an increase in liabilities in the Statement of Net Assets.	(792,318)
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Premiums on debt issuance are reported as other financing sources in the governmental funds, but are amortized in the Statement of Activities.	(112,089)
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The amortization of bond discounts, premiums and issuance costs 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.	(11,702)
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Repayment of debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities.

Principal payments on long-term debt	1,231,755
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Change in net assets of governmental activities	\$	536,176
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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, 2012

	Budgeted Amounts	
	Original	Final
Revenues		
State revenues	\$ 7,185,117	\$ 7,286,150
Federal revenues	700	700
Local revenues	1,597,590	1,655,060
Other revenues	10,000	49,543
Total revenue	8,793,407	8,991,453
Expenditures		
Instructional services	5,442,439	5,671,813
Instructional support services	1,151,633	1,292,835
Operation and maintenance	963,399	1,214,880
Student transportation services	345,050	357,787
Food services	-	3,540
General administrative services	469,775	504,778
Capital outlay	82,000	97,000
Other expenditures	94,793	94,793
Total expenditures	8,549,089	9,237,426
Excess revenues over expenditures	244,318	(245,973)
Other Financing Sources (Uses)		
Indirect cost	59,408	62,408
Transfers out	(279,051)	(139,051)
Other financing sources	-	11,686
Total other financing sources (uses)	(219,643)	(64,957)
Excess (Deficiency) Revenues and Other Sources Over	24,675	(310,930)
Fund Balance - beginning	1,867,522	1,867,522
Fund Balance - ending	\$ 1,892,197	\$ 1,556,592

See accompanying notes to financial statements.

Actual (Budgetary Basis)		Variance with Final Budget	
\$	7,298,614	\$	12,464
	689		(11)
	1,790,445		135,385
	83,443		33,900
	9,173,191		181,738
	5,616,615		55,198
	1,292,823		12
	1,060,471		154,409
	359,827		(2,040)
	3,540		-
	506,924		(2,146)
	121,046		(24,046)
	60,744		34,049
	9,021,990		215,436
	151,201		397,174
	62,352		(56)
	(117,090)		21,961
	11,687		1
	(43,051)		21,906
	108,150		419,080
	1,867,522		-
\$	1,975,672	\$	419,080

Opp City Board of Education
Notes To Financial Statements

NOTE

- 1 Summary of Significant Accounting Policies
2. Reconciliation of Financial Statements
- 3 Stewardship, Compliance and Accountability
4. Deposits and Investments
5. Receivables
6. Interfund Transfers
7. Capital Assets
8. Deferred Revenue
9. Long-Term Obligations
10. Commitments and Contingent Liabilities
11. Defined Benefit Pension Plan
12. Other Post-Employment Benefits (OPEB)
13. Risk Management

Notes To Financial Statements

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, 2012 as a special revenue fund.

Basis of Presentation, Basis of Accounting

Basis of Presentation

Government-wide Financial Statements: The statement of net assets and the statement of activities display information about the Board. These statements include the financial activities of the overall government, 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 I Part A School Improvement Reward
6. Title II Part A Teachers Training
7. Title VI Rural & Low Income Program
8. Education Jobs Fund
9. SLC E-Rate Refund
10. Local School Activity Funds
11. 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

Notes To Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

transactions, in which the Board gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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, and Net Assets

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.

Notes To Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2012 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 \$180,740.

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

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

Asset Class	Capitalization Threshold	Estimated Useful Life
Land improvements - 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 assets. 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 debt issuance costs, premiums, and discounts are amortized under accrual accounting and the annual amortization of these accruals is included in the statement of activities. The unamortized portion is reported as an asset on the statement of net assets.

Notes To Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 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.

Notes To Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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, 2012, 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.

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.

Opp City Board of Education

Notes To Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

	General Fund	PSF Fund Capital Outlay	Other Governmental Funds	Total Governmental Funds
Nonspendable:				
Inventories	\$ -	\$ -	\$ 31,317	\$ 31,317
Prepaid expenses	7,963	-	-	7,963
Restricted:				
Debt service	-	-	176,728	176,728
Assigned:				
Capital projects	-	535,010	-	535,010
Subsequent years' budget	-	-	456,604	456,604
Unassigned	2,253,173	-	-	2,253,173
	\$ 2,261,136	\$ 535,010	\$ 664,649	\$ 3,460,795

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 and liabilities 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.

NOTE 2 – RECONCILIATION OF FINANCIAL STATEMENTS

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

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets

Annual budgets are adopted for all governmental funds except the permanent funds. All annual appropriations lapse at fiscal year-end. State law requires Alabama school boards to prepare and submit to the State Superintendent of Education the annual budget adopted by the local board of education. In accordance with the regulations of the State Board of Education, the due date for submission of the budget for the 2012 fiscal year was September 15, 2011. The Board approved and submitted its original 2012 annual budget on September 14, 2011.

Opp City Board of Education

Notes To Financial Statements

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

The 2012 budget was amended in February and June 2012 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	\$ 9,021,990
Non-budgeted accrued salaries and fringe benefits	
Instructional services	(230,983)
Instructional support services	(40,455)
Student transportation services	(4,623)
General and administrative	(8,852)
Other expenditures	(551)
GAAP basis	<u>\$ 8,736,526</u>

NOTE 4 – DEPOSITS 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 4 – DEPOSITS 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 5 - RECEIVABLES

Receivables at September 30, 2012 consist of the following:

	General	PSF Capital Outlay	Other Non-major	Total
State Department of Education				
School Lunch Program	\$ -	\$ -	\$ 73,668	\$ 73,668
Title I Part A	-	-	28,568	28,568
Other	-	-	3,989	3,989
Covington County Revenue Commissioner	414,358	-	-	414,358
Total receivables	\$ 414,358	\$ -	\$ 106,225	\$ 520,583

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

NOTE 6 – INTERFUND TRANSFERS

Interfund transfers consisted of the following for the year ended September 30, 2012:

Transfers Out	Transfers In		Total
	General	Nonmajor Governmental	
General	\$ -	\$ 117,090	\$ 117,090
PSF capital outlay	-	-	-
Nonmajor governmental	-	-	-
	\$ -	\$ 117,090	\$ 117,090

Opp City Board of Education
Notes To Financial Statements

NOTE 7 – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2012 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ 36,697	\$ -	\$ 36,697	\$ -
Land and land improvements	465,097	-	-	465,097
Total capital assets, not being depreciated	501,794	-	36,697	465,097
Other capital assets:				
Buildings	16,320,885	466,737	-	16,787,622
Building improvements	4,802,294	48,900	-	4,851,194
Furniture and equipment	1,741,713	23,607	1,023	1,764,297
Total other capital assets at historical cost	22,864,892	539,244	1,023	23,403,113
Less accumulated depreciation for:				
Buildings	3,144,883	252,214	-	3,397,097
Building improvements	714,573	78,494	-	793,067
Furniture and equipment	873,386	138,639	1,023	1,011,002
Total accumulated depreciation	4,732,842	469,347	1,023	5,201,166
Total other capital assets, net	18,132,050	69,897	-	18,201,947
Total governmental activities capital assets, net	\$18,633,844	\$ 69,897	\$ 36,697	\$18,667,044

Depreciation expense was charged to governmental functions as follows:

Instructional services	\$ 316,928
Instructional support services	18,416
Operation and maintenance services	20,487
Student transportation services	51,751
Food services	59,308
General and administrative	2,457
Total governmental activities depreciation expense	\$ 469,347

Opp City Board of Education

Notes To Financial Statements

NOTE 8 - DEFERRED 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.	\$ 414,358	\$ -
Grants – The Board received funds under grant contracts with various governmental entities which were unearned as of September 30, 2012.	-	1,708
	\$ 414,358	\$ 1,708

NOTE 9 - LONG-TERM OBLIGATIONS

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
2013	\$ 215,000	\$ 407,206
2014	230,000	398,306
2015	240,000	388,906
2016	250,000	379,106
2017	260,000	368,906
2018 – 2022	1,455,000	1,677,237
2023 – 2027	1,795,000	1,338,516
2028 – 2032	2,245,000	894,489
2033 – 2037	2,810,000	328,051
	\$ 9,500,000	\$ 6,180,723

Opp City Board of Education

Notes To Financial Statements

NOTE 9 - LONG-TERM OBLIGATIONS (Continued)

Pledged revenues recognized for the year ended September 30, 2012 were \$929,815 while total debt service was \$625,706.

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 premium on issuance of the 2012-A bonds in the amount of \$112,089. Premium amortization for the year ended September 30, 2012 was \$5,130.

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
2013	\$ 60,717	\$ 35,636
2014	63,264	32,853
2015	65,760	30,272
2016	68,357	27,589
2017	71,303	24,440
2018 – 2022	415,182	63,444
2023 – 2024	47,735	1,681
Total	\$ 792,318	\$ 215,915

Pledged revenues recognized for the year ended September 30, 2012 were \$109,563 while total debt service was \$17,235.

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

Opp City Board of Education

Notes To Financial Statements

NOTE 9 - LONG-TERM OBLIGATIONS (Continued)

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
2013	\$ -	\$ 6,994
2014	-	6,994
2015	-	6,994
2016	-	6,994
2017	-	6,994
2018 – 2022	-	34,967
2023 – 2026	375,000	22,730
Total	\$ 375,000	\$ 92,667

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, 2012:

	Capital Assets
Buses (net of accumulated depreciation of \$320,475)	\$ 142,673

Opp City Board of Education

Notes To Financial Statements

NOTE 9 - LONG-TERM OBLIGATIONS (Continued)

Obligations of governmental activities under capital leases at September 30, 2012, are as follows:

Fiscal Year Ending September 30,	Total
2013	\$ 37,978
2014	59,951
2015	59,951
2016	21,973
Total minimum lease payments	179,853
Less: Amount representing interest costs	16,563
Present value of future minimum lease payments	163,290
Less: Current portion	32,816
Capital lease obligation, net of current portion	\$ 130,474

During the year ended September 30, 2012, the following changes occurred in long-term liabilities reported in the Statement of Net Assets:

	Balance October 1, 2011	Proceeds	Retirements	Balance September 30, 2012	Amounts Due Within One Year
2002-A Warrants	\$ 972,416	-	\$ 972,416	-	-
2007 Board of Education Warrants	9,710,000	-	210,000	9,500,000	215,000
2009-D Warrants	375,000	-	-	375,000	-
2012-A Pool Refunding Bonds	-	792,318	-	792,318	60,717
Unamortized premium on debt refunding	-	112,089	(5,130)	106,959	-
Daimler Chrysler	212,630	-	49,340	163,290	32,816
	\$ 11,270,046	\$ 904,407	\$ 1,226,626	\$ 10,937,567	\$ 308,533

NOTE 10 – COMMITMENTS AND CONTINGENT LIABILITIES

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, 2012.

Notes To Financial Statements

NOTE 10 – COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

The Board has no open construction commitments at September 30, 2012.

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 11 - DEFINED BENEFIT PENSION 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 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 5% of their salary to the Teachers' Retirement System. 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:

Opp City Board of Education

Notes To Financial Statements

NOTE 11 - DEFINED BENEFIT PENSION PLAN (Continued)

<i>Fiscal year ended September 30,</i>	2012	2011	2010
Total percentage of covered payroll	17.25%	17.51%	17.51%
Contributions:			
Percentage contributed by the Board	10.00%	12.51%	12.51%
Percentage contributed by the employees	7.25%	5.00%	5.00%
Contributed by the Board	\$ 616,276	\$ 786,082	\$ 817,341
Contributed by the employees	446,800	314,181	326,676
Total contributions	\$ 1,063,076	\$ 1,100,263	\$ 1,144,017

NOTE 12 – OTHER POST EMPLOYMENT BENEFITS (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 \$146 per month for coverage. The estimated portion of health insurance premiums paid by the Board for retired employees was approximately \$405,270 or 32.05% of total Board allocations paid during fiscal year 2012. 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 13 - 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

NOTE 13 - RISK MANAGEMENT (Continued)

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 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.

COMPLIANCE INFORMATION

**Opp City Board of Education
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2012**

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	\$ 689
U.S. Department of Health and Human Services			
Passed through State Department of Education			
Dependent Care - LEA	93.575	180	5,000
U.S. Department of Education			
Passed through State Department of Education			
Title I	84.010	180	604,500
Title II			
Teacher Training	84.367	180	76,359
Vocational Education – Basic Grant	84.048	180	16,041
Education Jobs Fund	84.410	180	4,066
Title VI - Rural Education & Low Income	84.358	180	30,687
Subtotal			731,653
Special Education Cluster			
Special Education Grants to States	84.027	180	285,240
Special Education Preschool Grants	84.173	180	17,692
Subtotal Special Education Cluster			302,932
Total U.S. Department of Education			1,034,585
U.S. Department of Agriculture			
Passed through State Department of Education			
Child Nutrition Cluster			
USDA Severe Need Breakfast Program	10.553	180	98,797
National School Lunch Program	10.555	180	320,610
Subtotal Child Nutrition Cluster			419,407
Food Distribution Program**	10.569	180	37,029
Total U.S. Department of Agriculture			456,436
Total federal awards			\$ 1,496,710

**USDA Donated Food - No actual cash transactions

**Opp City Board of Education
Notes to Schedules of Expenditures of Federal Awards
For The Year Ended September 30, 2012**

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 “schoolwide program”. Schoolwide 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 are reflected in the accompanying financial statements. The total assigned value of commodities donated was \$37,029 for fiscal year 2012.

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 27, 2013, 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, 2012**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

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: Unqualified

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:

CFDA Number(s)	Name of Federal Program or Cluster
84.010	Title I Part A
Dollar threshold used to distinguish between type A and type B programs?	\$ 300,000
Auditee qualified as low-risk auditee?	<input checked="" type="checkbox"/> yes <input type="checkbox"/> 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.



Carr, Riggs & Ingram, LLC
1117 Boll Weevil Circle
Enterprise, AL 36330

Mailing Address:
P.O. Box 311070
Enterprise, AL 36331

(334) 347-0088
(334) 347-7650 (fax)
www.cricpa.com

**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 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, 2012, which collectively comprise the Board's basic financial statements and have issued our report thereon dated February 27, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in **Government Auditing Standards** issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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**.

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

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

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

Certified Public Accountants

February 27, 2013

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of the Opp City Board of Education (the "Board") with the types of compliance requirements described in the **U.S. Office of Management and Budget (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, 2012. The Board's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Board's management. Our responsibility is to express an opinion on the Board's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States; and OMB Circular A-133, "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. Our audit does not provide a legal determination of the Board's compliance with those requirements.

In our opinion, the Board complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012.

Internal Control Over Compliance

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

opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over compliance.

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

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

This report is intended for the information and use of management, the Opp City Board of Education, federal awarding agencies and pass-through entities and the State Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

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

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

Certified Public Accountants

February 27, 2013