CITY OF OZARK

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

September 30, 2008

CITY OF OZARK

TABLE OF CONTENTS

Page No.

INDEPENDENT AUDITORS' REPORT 1

MANAGEMENT'S DISCUSSION AND ANALYSIS 3

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Statement of Net Assets 11
Statement of Activities 12

GOVERNMENTAL FUND FINANCIAL STATEMENTS

Balance Sheet 13
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets 14
Statement of Revenues, Expenditures, and Changes in Fund Balances 15
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities 16
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
General Fund 17
Seven Cent Highway Fund 18
Four Cent Highway Fund 19
CDBG Economic Development Fund 20

COMBINING AND INDIVIDUAL FUND STATEMENTS

Combining Balance Sheet – Nonmajor Governmental Funds 21
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds 22

NOTES TO FINANCIAL STATEMENTS 23

SUPPLEMENTARY INFORMATION

Schedule of Bond Amortization Requirements 38
Independent Auditors' Report on the Schedule of Expenditures of Federal Awards 40
Schedule of Expenditures of Federal Awards 41
Notes to the Schedule of Expenditures of Federal Awards 43

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* 44

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* 46

SCHEDULE OF FINDINGS AND QUESTIONED COSTS 48

MANAGEMENT LETTER 50

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INDEPENDENT AUDITOR'S REPORT

To the Mayor and Council of the
City of Ozark, Alabama

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of City of Ozark, Alabama, as of and for the year ended September 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Ozark, Alabama'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 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the City of Ozark, Alabama, as of September 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 1, 2009, on our consideration of the City of Ozark, Alabama'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 important for assessing the results of our audit.

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The management's discussion and analysis (as listed in the table of contents), are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The accompanying 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 of the City of Ozark.

As discussed in Note O to the financial statements, the 2008 financial statements have been restated to correct a misstatement.

Ferguson, Sizemore & Associates

Ferguson, Sizemore & Associates
Dothan, Alabama
May 1, 2009
(except for Note O, as to which the date is February 24, 2010)

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Ozark's (the "City") discussion and analysis is a narrative overview designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the City's financial activity, (c) identify changes in the City's financial position (revealing the ability to address future challenges), (d) identify any material deviations from the financial plan (the approved budget), and (e) identify individual fund issues or concerns.

The Management's Discussion and Analysis (MD&A) focuses on the activities of the City for the fiscal year ended September 30, 2008. Please consider the information in this MD&A in conjunction with the transmittal letter at the front of this report and the City's financial statements.

Financial Highlights

The City's government-wide net assets at September 30, 2008, were $28,562,113. This represents an increase of $1,469,109 from September 30, 2007.

Revenues from government-wide activities for the year ended September 30, 2008, were $16,540,594. This is $2,138,306 less than revenues from government-wide activities for the year ended September 30, 2007. Expenditures related to government-wide activities were $15,071,485 for the year ended September 30, 2008 and $13,317,000 at September 30, 2007 with an increase of $1,754,485.

The General Fund reported a fund balance of $2,375,178 at September 30, 2008. This is 18 percent of total general fund expenditures or 21 percent of its operating expenditures of $11,232,458 (expenditures less capital outlay). The correlating fund balance at September 30, 2007, was $2,099,172 representing an increase in the general fund balance of $276,006.

The City's total long-term liabilities decreased $403,141 from the previous year. Total principal payments on capital leases, note payable and bond payable were $441,286.

The City's net capital assets for governmental activities increased $840,121. Ongoing capital projects (such as the airport expansion project, the Parker Drive expansion, the Police Memorial Ball Fields, and the Civic Center sidewalks) accounted for the majority of the increase. All fixed assets with a value of $2,500 or more are reported. The departments maintain individual inventories for items under $2,500 with a significant useful life.

General Fund revenues exceeded general fund expenditures $276,006.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with an overview of the City's finances, in a manner to resemble private-sector business. In these statements, all governmental and business-type activities are consolidated into columns, which are added to a total for the City or primary government.

The statement of net assets (the "Unrestricted Net Assets") presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. This statement combines and consolidates governmental fund's current financial resources (short-term spendable resources) with capital assets and long term debt. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information focused on both gross and net costs and shows how the City's net assets changed during the most recent fiscal year. This is intended to summarize and simplify the user's analysis of cost of various governmental services and/or subsidy to various business-type activities. Revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to typically recover all or a significant portion of the cost of operation, including depreciation, through user fees and charges. The governmental activities of the City include general government, public safety, streets and highways, economic development, and culture and recreation.

Fund Financial Statements

Traditional users of governmental financial statements will find the fund financial statements presentation more familiar. This focus is on major funds, rather than (the previous model's statements prior to implementation of GASB 34 in fiscal year 2003) fund types. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Governmental, proprietary, and fiduciary are the three categories of fund types.

The fund financial statement allows the demonstration of sources and uses and/or budgeting compliance associated therewith. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The governmental major fund is presented on a sources and uses of liquid resources basis. This is the manner in which the financial plan (the budget) is typically developed. The flow and availability of liquid resources is a clear and appropriate focus of any analysis of a government. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows, outflows and balances of spendable resources.

The City maintains 16 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Seven Cent Highway Fund, Four Cent Highway Fund, CDBG Economic Development, and Bond Fund which are considered to be a major funds. Data from the other 11 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds are combined into a single aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements in the supplementary information section of this report.

The notes provided in this report convey additional essential information that will magnify the understanding of data in the government-wide and fund financial statements.

Government-wide Financial Analysis

The City's net assets increased by $1,469,109. Management will continue to monitor net assets because the variance is a useful indicator of the City's financial position.

The following table reflects the condensed Statement of Net Assets compared to prior year.

	Governmental Activities		
	2008	2007 Restated	Changes
Assets			
Current assets	$ 5,662,614	$ 5,783,199	$ (120,585)
Capital assets	30,308,904	29,468,783	840,121
Total assets	35,971,518	35,251,982	719,536
Liabilities			
Current liabilities	690,766	1,037,198	(346,432)
Long-term liabiliites	6,718,639	7,121,780	(403,141)
Total liabilities	7,409,405	8,158,978	(749,573)
Net asests			
Invested in capital assets, net of debt	23,974,939	22,709,770	1,265,169
Restricted	337,730	169,347	168,383
Unrestricted	4,249,444	4,213,887	35,557
Total net assets	$ 28,562,113	$ 27,093,004	$ 1,469,109

By far the largest portion of the City's net assets (84%) reflects the total investment in capital assets (e.g. land, building, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these assets to provide services to citizens. These assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to pay for or liquidate these liabilities. The remaining balance of *unrestricted net assets* $4,249,444 may be used to meet the government's ongoing obligations to citizens and creditors.

Normal Impacts Affecting the Statement of Net Assets

There are six basic (normal) transactions that will affect the comparability of the Statement of Net Assets summary presentation.

Net Results of Activities – which will impact (increase/decrease) current assets and unrestricted net assets.

Borrowing for Capital – which will increase current assets and long-term debt.

Spending Borrowed Proceeds on New Capital – which will reduce current assets and increase capital assets. There is a second impact, an increase in invested in capital assets and an increase in related net debt which will not change the invested in capital assets, net of debt.

Spending of Non-borrowed Current Assets on New Capital – which will (a) reduce current assets and increase capital assets and (b) reduce unrestricted net assets and increase invested in capital assets, net of debt.

Principal Payment on Debt – which will (a) reduce current assets and reduce long-term debt and (b) reduce unrestricted net assets and increase invested in capital assets, net of debt.

Reduction of Capital Assets through Depreciation – which will reduce capital assets and invested in capital assets, net of debt.

At the end of the current fiscal year, the City was able to report positive balances in all three categories of net assets. The same situation held true for the prior fiscal year.

The government's net assets increased by $1,469,109 during the current fiscal year. This increase resulted primarily from the increase in capital assets and a reduction in long-term debt.

While the results of operations is a significant measure of the City's activities, the explanation of changes in unrestricted net assets provides a clear measure of change in the City's financial position.

Statement of Activities

The following schedule compares the revenues and expenses for the current and previous year.

	Governmental Activities		
	2008	2007	Changes
Revenues:			
Program revenues			
Charges for services	$ 4,830,708	$ 4,460,143	$ 370,565
Operating grants/contributions	777,368	1,296,976	(519,608)
Capital grants/contributions	2,199,689	5,139,942	(2,940,253)
General revenues			
Property taxes	650,742	796,796	(146,054)
Gross receipts taxes	6,368,404	5,153,269	1,215,135
Gasoline taxes	487,985	301,401	186,584
Other taxes	714,644	851,813	(137,169)
Other	511,054	678,560	(167,506)
Total revenues	16,540,594	18,678,900	(2,138,306)
Expenses			
General government	2,205,057	1,552,590	652,467
Ozark Board of Education	1,968,222	1,136,838	831,384
Vehicle maintenance	164,946	158,473	6,473
Police department	2,874,601	2,411,696	462,905
Information technology	169,002	137,988	31,014
Fire department	2,397,564	2,079,384	318,180
Airport	191,012	19,610	171,402
Sanitation	1,230,628	1,106,193	124,435
Street	865,258	1,773,496	(908,238)
Leisure services	1,630,833	1,639,920	(9,087)
Appropiations	129,609	95,844	33,765
Judicial	183,772	168,515	15,257
Economic development	256,003	259,122	(3,119)
Engineering/inspections	136,524	111,114	25,410
Ozark Technology Center	120,173	144,427	(24,254)
Non-departmental	246,900	205,279	41,621
Interest	285,143	307,181	(22,038)
Amortization	16,238	9,330	6,908
Total expenses	15,071,485	13,317,000	1,754,485
Increase in net assets	$ 1,469,109	$ 5,361,900	$ (3,892,791)

At the end of the current fiscal year, the City's government-wide net assets were equal to $28,562,113. Of this total, $4,249,444 constitutes the unrestricted portion of net assets which is available for spending at the governments' discretion.

Governmental Funds

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was $1,812,690 while total fund balance was $2,375,178. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. This is very useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Unreserved fund balance represents 14% of total general fund expenditures, while total fund balance represents (18%) of the total general fund expenditures.

The unreserved fund balance of the City's general fund increased by $376,160 during the current fiscal year primarily because expenditures exceeded revenues and dur to a prior period adjustment. Revenues exceeded expenditures in the prior fiscal year in the amount of $171,183.

The total governmental fund balance is $3,142,995. The unreserved portion of governmental fund balance is $2,242,777. In the prior year, the total governmental fund balance was $2,814,780 and the unreserved portion of governmental fund balance was $2,082,945.

Capital Asset and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business-type activities as of September 30, 2008, amounts to $30,308,904 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements and infrastructure, construction in progress, and machinery and equipment. The total increase in the City's investment in capital assets for the current fiscal year was $840,121, which is primarily comprised of an increase in improvements and infrastructure.

	Governmental Activities		
	2008	2007 Restated	Changes
Land	$ 4,863,299	$ 4,893,341	$ (30,042)
Construction in progress	5,467,922	7,096,585	(1,628,663)
Buildings and equipment	16,001,287	15,712,250	289,037
Improvements and infrastructure	27,941,320	24,133,282	3,808,038
Less: accumulated depreciation	(23,964,924)	(22,366,675)	(1,598,249)
	$ 30,308,904	$ 29,468,783	$ 840,121

Debt Outstanding

As of the fiscal year end, the City had $6,718,639 in outstanding debt compared to $7,121,780 last fiscal year end. The total debt decreased by $403,141 during the current fiscal year.

	Governmental Activities		
	2008	2007	Changes
Capital leases	$ 81,888	$ 111,114	$ (29,226)
Compensated absences	384,674	362,767	21,907
Notes payable	140,280	280,280	(140,000)
Bonds payable, net	6,111,797	6,367,619	(255,822)
	$ 6,718,639	$ 7,121,780	$ (403,141)

Economic Factors

The City relies on taxes (sales, property, gasoline, franchise, etc.) and fees (licenses, permits, etc.) for its governmental activities. The primary source of revenue is sales tax. There are a limited number of state-shared revenues and recurring and non-recurring (one-time) grants from both state and federal governments.

The level of taxes, fees, and charges for services have a direct bearing on the City's ability to (a) annex additional land into its corporate limits and (b) encourage development to choose to be located in the City's jurisdiction. The City places significant emphasis on encouraging both annexation and economic development.

Financial Information Contact

The City's financial statements are designed to present users (citizens, taxpayers, customers, investors, and creditors) with a general overview of the City's finances and to demonstrate the City's accountability. If you have questions about the report or need additional financial information, contact the City's Financial Officer at:

Office of the City Clerk/Treasurer
275 North Union Avenue
P O Box 1987
Ozark, Alabama 36361
Telephone: (334) 774-5393
E-mail: cfo@ozarkalabama.us

CITY OF OZARK
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2008

	Governmental Activities
ASSETS	
Cash	$ 2,273,702
Accounts receivable	3,387,858
Other assets	1,054
Capital assets	
Land	4,863,299
Construction-in-progress	5,467,922
Buildings	10,735,058
Machinery and equipment	5,266,229
Improvements and infrastructure	27,941,320
Accumulated depreciation	(23,964,924)
Total capital assets	30,308,904
Total assets	35,971,518
LIABILITIES	
Accounts payable	504,252
Accrued payroll	186,514
Long-term liabilities	
Portion due or payable within one year	
Leases payable	30,265
Notes payable	140,000
Bonds payable	268,040
Portion due or payable after one year	
Compensated absences	384,674
Leases payable	51,623
Notes payable	280
Bonds payable	5,843,757
Total liabilities	7,409,405
NET ASSETS	
Investment in capital assets, net of related debt	23,974,939
Restricted for:	
Capital projects	30,850
Debt service	194,886
Road projects	111,994
Unrestricted	4,249,444
Total net assets	$ 28,562,113

See accompanying notes and independent auditors' report.

CITY OF OZARK
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2008

Activities	Expenses	Program Revenues: Fees, Fines, and Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities
Governmental:					
General government	$ 2,205,057	$ 1,370,593	$ 592,132	$ 857,735	$ 615,403
Ozark Board of Education	1,968,222	1,301,484	-	-	(666,738)
Vehicle maintenance	164,946	-	-	-	(164,946)
Police department	2,874,601	599,904	185,236	-	(2,089,461)
Information technology	169,002	-	-	-	(169,002)
Fire department	2,397,564	-	-	-	(2,397,564)
Airport	191,012	3,653	-	1,186,441	999,082
Sanitation	1,230,628	1,131,309	-	-	(99,319)
Street	865,258	-	-	76,798	(788,460)
Leisure services	1,630,833	348,288	-	-	(1,282,545)
Appropriations	129,609	-	-	-	(129,609)
Judicial	183,772	-	-	-	(183,772)
Economic development	256,003	-	-	78,715	(177,288)
Engineering/inspections	136,524	-	-	-	(136,524)
Ozark Technology Center	120,173	75,477	-	-	(44,696)
Non-departmental	246,900	-	-	-	(246,900)
Interest and fiscal charges	285,143	-	-	-	(285,143)
Amortization	16,238	-	-	-	(16,238)
Total governmental activities	$15,071,485	$ 4,830,708	$ 777,368	$ 2,199,689	(7,263,720)
General revenues:					
Taxes:					
Gross receipts					6,368,404
Motor fuel					487,985
Property					650,742
Alcoholic beverage					155,758
Lodging					96,886
Tobacco					260,843
Other					201,157
Miscellaneous					93,333
Earnings on investments					70,865
Franchise fees					215,218
Rental income					131,638
Total general revenues					8,732,829
Change in net assets					1,469,109
Net assets - beginning (as previously reported)					26,448,796
Prior period adjustment					644,208
Net assets - ending					$ 28,562,113

See accompanying notes and independent auditors' report.

CITY OF OZARK
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2008

	General Fund	Seven Cent Highway Fund	Four Cent Highway Fund	CDBG Eco. Dev. Fund	Other Governmental Funds	Total
ASSETS						
Cash	$ 1,495,708	$ 138,427	$ 81,021	$ 130,211	$ 428,335	$ 2,273,702
Accounts receivable	2,067,640	10,463	6,083	29,839	1,273,833	3,387,858
Other assets	1,054	-	-	-	-	1,054
Due from other funds	249,047	16,000	-	-	139,166	404,213
						-
Total assets	3,813,449	164,890	87,104	160,050	1,841,334	6,066,827
LIABILITIES						
Accounts payable	461,644	-	-	14,920	27,688	504,252
Accrued payroll	186,514	-	-	-	-	186,514
Due to other funds	180,496	70,000	70,000	14,919	68,798	404,213
Deferred revenue	609,617	-	-	-	1,219,236	1,828,853
						-
Total liabilities	1,438,271	70,000	70,000	29,839	1,315,722	2,923,832
FUND BALANCES						
Reserved for:						
Capital projects	-	-	-	-	30,850	30,850
Long-term receivable	562,488	-	-	-	-	562,488
Debt service	-	-	-	-	194,886	194,886
Road projects	-	94,890	17,104	-	-	111,994
Unrestricted	1,812,690	-	-	130,211	299,876	2,242,777
						-
Total fund balances	2,375,178	94,890	17,104	130,211	525,612	3,142,995
Total liabilities and fund balances	$ 3,813,449	$ 164,890	$ 87,104	$ 160,050	$ 1,841,334	$ 6,066,827

See accompanying notes and independent auditors' report.

CITY OF OZARK
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2008

Total fund balances for governmental funds		$ 3,142,995
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:		
Land	$ 4,863,299	
Construction-in-progress	5,467,922	
Buildings	10,735,058	
Machinery and equipment	5,266,229	
Improvements and infrastructure	27,941,320	
Accumulated depreciation	(23,964,924)	30,308,904
Deferred revenues - property tax assessments are not available to pay current period expenditures and are deferred on the fund financial statements.		1,828,853
Long-term liabilities applicable to City of Ozark's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Balances as of year end are:		
Bond discount and costs, net	(211,243)	
Compensated absences	384,674	
Lease payable	81,888	
Notes payable	140,280	
Bonds payable	6,323,040	(6,718,639)
Total net assets of governmental activities		$ 28,562,113

See accompanying notes and independent auditors' report.

CITY OF OZARK
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	General Fund	Seven Cent Highway Fund	Four Cent Highway Fund	CDBG Eco. Dev. Fund	Other Governmental Funds	Total
REVENUES						
Taxes	$ 8,033,353	$ 118,519	$ 69,225	$ -	$ 1,301,484	$ 9,522,581
Licenses and permits	1,401,366	-	-	-	-	1,401,366
Intergovernmental	1,998,885	-	-	495,336	478,585	2,972,806
Charges for services	1,490,637	-	-	-	-	1,490,637
Fines and forfeitures	472,915	-	-	-	126,989	599,904
Investment earnings	58,035	429	554	-	11,847	70,865
Miscellaneous income	338,950	-	6	-	95,600	434,556
	13,794,141	118,948	69,785	495,336	2,014,505	16,492,715
EXPENDITURES						
General government	824,002	-	-	-	365,913	1,189,915
Ozark Board of Education	666,738	-	-	-	1,301,484	1,968,222
Vehicle maintenance	161,286	-	-	-	-	161,286
Police department	2,719,794	-	-	-	9,043	2,728,837
Information technology	148,162	-	-	-	-	148,162
Fire department	2,257,862	-	-	-	-	2,257,862
Airport	15,871	-	-	-	-	15,871
Sanitation	1,196,765	-	-	-	-	1,196,765
Street	776,996	36,255	-	-	-	813,251
Leisure services	1,474,167	-	-	-	-	1,474,167
Appropriations	129,609	-	-	-	-	129,609
Judicial	181,160	-	-	-	-	181,160
Economic development	199,105	-	-	-	-	199,105
Engineering/inspections	139,588	-	-	-	-	139,588
Ozark Technology Center	94,453	-	-	-	-	94,453
Non-departmental	246,900	-	-	-	-	246,900
Debt service:						
Principal	-	70,000	70,000	-	301,286	441,286
Interest	-	-	-	-	285,143	285,143
Capital outlay	1,697,235	-	-	417,338	488,400	2,602,973
	12,929,693	106,255	70,000	417,338	2,751,269	16,274,555
Excess (deficiency) of revenues over (under) expenditures	864,448	12,693	(215)	77,998	(736,764)	218,160
OTHER FINANCING SOURCES (USES)						
Capital leases	-	-	-	-	-	-
Transfers in	1,436,975	-	-	228,097	1,223,054	2,888,126
Transfers out	(2,025,417)	-	-	(182,579)	(680,130)	(2,888,126)
Total other financing sources (uses)	(588,442)	-	-	45,518	542,924	-
Net change in fund balances	276,006	12,693	(215)	123,516	(193,840)	218,160
Fund balances - beginning	2,099,172	82,197	17,319	6,695	719,452	2,924,835
Fund balances - ending	$ 2,375,178	$ 94,890	$ 17,104	$ 130,211	$ 525,612	$ 3,142,995

See accompanying notes and independent auditors' report.

CITY OF OZARK
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2008

Net changes in fund balances - total governmental funds	$ 218,160
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. These differences are reflected as follows:	
Capital outlay	2,602,973
Depreciation expense	(1,729,135)
Additional airport-related costs	(34,536)
Gain on sale of assets	81,111
Proceeds from the sale of assets	(95,938)
Donation of land to State of Alabama	23,333
Some expenses reported in the statement of activities do not require the us of current financial resources and therefore are not recorded as expenditures in governmental funds:	
Compensated absences	(21,907)
Repayment of long-term debt principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets, reflected as follows:	441,286
Amortization of bond issue costs, discounts, and loss on refunding	(16,238)
Change in net assets	$ 1,469,109

See accompanying notes and independent auditors' report.

CITY OF OZARK
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Budget	Actual	Variance
REVENUES			
Taxes	$ 7,946,500	$ 8,033,353	$ 86,853
Licenses and permits	1,195,000	1,401,366	206,366
Intergovernmental	1,271,129	1,998,885	727,756
Charges for services	1,469,000	1,490,637	21,637
Fines and forfeitures	604,600	472,915	(131,685)
Investment earnings	35,000	58,035	23,035
Miscellaneous income	122,405	338,950	216,545
	12,643,634	13,794,141	1,150,507
EXPENDITURES			
General government	837,607	824,002	(13,605)
Ozark Board of Education	666,000	666,738	738
Vehicle maintenance	186,364	161,286	(25,078)
Police department	2,769,170	2,719,794	(49,376)
Information technology	148,162	148,162	-
Fire department	2,355,500	2,257,862	(97,638)
Airport	29,750	15,871	(13,879)
Sanitation	1,230,937	1,196,765	(34,172)
Street	790,425	776,996	(13,429)
Leisure services	1,586,669	1,474,167	(112,502)
Appropriations	134,500	129,609	(4,891)
Judicial	177,271	181,160	3,889
Economic development	232,387	199,105	(33,282)
Engineering/inspections	138,294	139,588	1,294
Ozark Technology Center	126,687	94,453	(32,234)
Non-departmental	314,500	246,900	(67,600)
Debt service:			
Principal	-	-	-
Interest	-	-	-
Capital outlay	1,664,499	1,697,235	32,736
	13,388,722	12,929,693	(459,029)
Excess (deficiency) of revenues over (under) expenditures	(745,088)	864,448	1,609,536
OTHER FINANCING SOURCES (USES)			
Capital leases	-	-	-
Transfers in	3,639,165	1,436,975	(2,202,190)
Transfers out	(2,720,526)	(2,025,417)	695,109
Total other financing sources (uses)	918,639	(588,442)	(1,507,081)
Net change in fund balances	173,551	276,006	102,455
Fund balances - beginning	1,999,018	2,099,172	100,154
Fund balances - ending	$ 2,172,569	$ 2,375,178	$ 202,609

See accompanying notes and independent auditors' report.

CITY OF OZARK
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - SEVEN CENT HIGHWAY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Budget	Actual	Variance
REVENUES			
Taxes	$ 120,000	$ 118,519	$ (1,481)
Licenses and permits	-	-	-
Intergovernmental	-	-	-
Charges for services	-	-	-
Fines and forfeitures	-	-	-
Investment earnings	120	429	309
Miscellaneous income	-	-	-
	120,120	118,948	(1,172)
EXPENDITURES			
General government	-	-	-
Ozark Board of Education	-	-	-
Vehicle maintenance	-	-	-
Police department	-	-	-
Information technology	-	-	-
Fire department	-	-	-
Airport	-	-	-
Sanitation	-	-	-
Street	70,000	36,255	(33,745)
Leisure services	-	-	-
Appropriations	-	-	-
Judicial	-	-	-
Economic development	-	-	-
Engineering/inspections	-	-	-
Ozark Technology Center	-	-	-
Non-departmental	-	-	-
Debt service:			
Principal	70,000	70,000	-
Interest	-	-	-
Capital outlay	-	-	-
	140,000	106,255	(33,745)
Excess (deficiency) of revenues over (under) expenditures	(19,880)	12,693	32,573
OTHER FINANCING SOURCES (USES)			
Capital leases	-	-	-
Transfers in	30,000	-	(30,000)
Transfers out	-	-	-
Total other financing sources (uses)	30,000	-	(30,000)
Net change in fund balances	10,120	12,693	2,573
Fund balances - beginning	82,197	82,197	-
Fund balances - ending	$ 92,317	$ 94,890	$ 2,573

See accompanying notes and independent auditors' report.

CITY OF OZARK
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - FOUR CENT HIGHWAY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Budget	Actual	Variance
REVENUES			
Taxes	$ 70,000	$ 69,225	$ (775)
Licenses and permits	-	-	-
Intergovernmental	-	-	-
Charges for services	-	-	-
Fines and forfeitures	-	-	-
Investment earnings	500	554	54
Miscellaneous income	-	6	6
	70,500	69,785	(715)
EXPENDITURES			
General government	-	-	-
Ozark Board of Education	-	-	-
Vehicle maintenance	-	-	-
Police department	-	-	-
Information technology	-	-	-
Fire department	-	-	-
Airport	-	-	-
Sanitation	-	-	-
Street	-	-	-
Leisure services	-	-	-
Appropriations	-	-	-
Judicial	-	-	-
Economic development	-	-	-
Engineering/inspections	-	-	-
Ozark Technology Center	-	-	-
Non-departmental	-	-	-
Debt service:			
Principal	-	-	-
Interest	-	-	-
Capital outlay	70,000	70,000	-
	70,000	70,000	-
Excess (deficiency) of revenues over (under) expenditures	500	(215)	(715)
OTHER FINANCING SOURCES (USES)			
Capital leases	-	-	-
Transfers in	-	-	-
Transfers out	-	-	-
Total other financing sources (uses)	-	-	-
Net change in fund balances	500	(215)	(715)
Fund balances - beginning	17,319	17,319	-
Fund balances - ending	$ 17,819	$ 17,104	$ (715)

See accompanying notes and independent auditors' report.

CITY OF OZARK
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - CDBG ECONOMIC DEVELOPMENT FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Budget	Actual	Variance
REVENUES			
Taxes	$ -	$ -	$ -
Licenses and permits	-	-	-
Intergovernmental	242,787	272,106	29,319
Charges for services	-	-	-
Fines and forfeitures	-	-	-
Investment earnings	-	-	-
Miscellaneous income	-	-	-
	242,787	272,106	29,319
EXPENDITURES			
General government	-	-	-
Ozark Board of Education	-	-	-
Vehicle maintenance	-	-	-
Police department	-	-	-
Information technology	-	-	-
Fire department	-	-	-
Airport	-	-	-
Sanitation	-	-	-
Street	-	-	-
Leisure services	-	-	-
Appropriations	-	-	-
Judicial	-	-	-
Economic development	-	-	-
Engineering/inspections	-	-	-
Ozark Technology Center	-	-	-
Non-departmental	-	-	-
Debt service:			
Principal	-	-	-
Interest	-	-	-
Capital outlay	385,492	209,027	(176,465)
	385,492	209,027	(176,465)
Excess (deficiency) of revenues over (under) expenditures	(142,705)	63,079	205,784
OTHER FINANCING SOURCES (USES)			
Capital leases	-	-	-
Transfers in	142,705	228,097	85,392
Transfers out	-	(167,660)	(167,660)
Total other financing sources (uses)	142,705	60,437	(82,268)
Net change in fund balances	-	123,516	123,516
Fund balances - beginning	6,695	6,695	-
Fund balances - ending	$ 6,695	$ 130,211	$ 123,516

See accompanying notes and independent auditors' report.

COMBINING AND INDIVIDUAL FUND STATEMENTS

CITY OF OZARK
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2008

	UDAG Fund	Debt Service Fund	Corrections Fund	Special Ad Valorem I Fund	Special Ad Valorem II Fund	Bond Fund	CDBG Fund	Drug Forfeiture Fund	FEMA Fund	Violent Crime Fund	Dept of Justice Fund	Capital Improvement Fund	Total
ASSETS													
Cash	$ 1,972	$ 194,886	$ 143,024	$ 24	$ 45	$ 2,671	$ 1,683	$ 21,623	$ 6,442	$ 19,614	$ 5,501	$ 30,850	$ 428,335
Accounts receivable	-	-	-	609,618	609,618	-	36,843	-	-	17,754	-	-	1,273,833
Other assets	-	-	-	-	-	-	-	-	-	-	-	-	-
Due from other funds	-	-	-	3,903	80	60,360	74,823	-	-	-	-	-	139,166
Total assets	1,972	194,886	143,024	613,545	609,743	63,031	113,349	21,623	6,442	37,368	5,501	30,850	1,841,334
LIABILITIES													
Accounts payable	-	-	-	-	-	-	-	-	-	27,688	-	-	27,688
Accrued payroll	-	-	-	-	-	-	-	-	-	-	-	-	-
Due to other funds	-	-	-	-	-	63,031	-	-	-	5,767	-	-	68,798
Deferred revenue	-	-	-	609,618	609,618	-	-	-	-	-	-	-	1,219,236
Total liabilities	-	-	-	609,618	609,618	63,031	-	-	-	33,455	-	-	1,315,722
FUND BALANCES													
Reserved for:													
Capital projects	-	-	-	-	-	-	-	-	-	-	-	30,850	30,850
Long-term receivable	-	-	-	-	-	-	-	-	-	-	-	-	-
Debt service	-	194,886	-	-	-	-	-	-	-	-	-	-	194,886
Road projects	-	-	-	-	-	-	-	-	-	-	-	-	-
Unrestricted	1,972	-	143,024	3,927	125	-	113,349	21,623	6,442	3,913	5,501	-	299,876
Total fund balances	1,972	194,886	143,024	3,927	125	-	113,349	21,623	6,442	3,913	5,501	30,850	525,612
Total liabilities and fund balances	$ 1,972	$ 194,886	$ 143,024	$ 613,545	$ 609,743	$ 63,031	$ 113,349	$ 21,623	$ 6,442	$ 37,368	$ 5,501	$ 30,850	$ 1,841,334

CITY OF OZARK
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	UDAG Fund	Debt Service Fund	Corrections Fund	Special Ad Valorem I Fund	Special Ad Valorem II Fund	Bond Fund	CDBG Fund	Drug Forfeiture Fund	FEMA Fund	Violent Crime Fund	Dept. of Justice Fund	Capital Improvement Fund	Total
REVENUES													
Taxes	$ -	$ -	$ -	$ 650,742	$ 650,742	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,301,484
Licenses and permits	-	-	-	-	-	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	211,357	-	2,355	140,702	14,800	109,371	478,585
Charges for services	-	-	-	-	-	-	-	-	-	-	-	-	-
Fines and forfeitures	-	-	126,989	-	-	-	-	-	-	-	-	-	126,989
Investment earnings	47	4,373	3,445	-	-	3,057	-	-	-	-	-	925	11,847
Miscellaneous income	1,680	4	-	-	-	76,798	-	17,118	-	-	-	-	95,600
	1,727	4,377	130,434	650,742	650,742	79,855	211,357	17,118	2,355	140,702	14,800	110,296	2,014,505
EXPENDITURES													
General government	-	132	-	-	-	183,868	41,212	-	-	140,701	-	-	365,913
Ozark Board of Education	-	-	-	650,742	650,742	-	-	-	-	-	-	-	1,301,484
Vehicle maintenance	-	-	-	-	-	-	-	-	-	-	-	-	-
Police department	-	-	840	-	-	-	-	1,734	-	-	6,469	-	9,043
Information technology	-	-	-	-	-	-	-	-	-	-	-	-	
Fire department	-	-	-	-	-	-	-	-	-	-	-	-	
Airport	-	-	-	-	-	-	-	-	-	-	-	-	
Sanitation	-	-	-	-	-	-	-	-	-	-	-	-	
Street	-	-	-	-	-	-	-	-	-	-	-	-	
Leisure services	-	-	-	-	-	-	-	-	-	-	-	-	
Appropriations	-	-	-	-	-	-	-	-	-	-	-	-	
Judical	-	-	-	-	-	-	-	-	-	-	-	-	
Economic development	-	-	-	-	-	-	-	-	-	-	-	-	
Engineering/inspections	-	-	-	-	-	-	-	-	-	-	-	-	
Ozark Technology Center	-	-	-	-	-	-	-	-	-	-	-	-	
Non-departmental	-	-	-	-	-	-	-	-	-	-	-	-	
Debt service:													
Principal	-	301,286	-	-	-	-	-	-	-	-	-	-	301,286
Interest	-	285,143	-	-	-	-	-	-	-	-	-	-	285,143
Capital outlay	-	-	-	-	-	-	478,320	3,600	-	-	6,480	-	488,400
	-	586,561	840	650,742	650,742	183,868	519,532	5,334	-	140,701	12,949	-	2,751,269
Excess (deficiency) of revenues over (under) expenditures	1,727	(582,184)	129,594	-	-	(104,013)	(308,175)	11,784	2,355	1	1,851	110,296	(736,764)
OTHER FINANCING SOURCES (USES)													
Capital leases	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers in	-	607,723	-	-	-	228,020	387,311	-	-	-	-	-	1,223,054
Transfers out	(20,000)	-	(97,000)	-	-	(147,430)	(131,700)	-	(174,000)	-	-	(110,000)	(680,130)
Total other financing sources (uses)	(20,000)	607,723	(97,000)	-	-	80,590	255,611	-	(174,000)	-	-	(110,000)	542,924
Net change in fund balances	(18,273)	25,539	32,594	-	-	(23,423)	(52,564)	11,784	(171,645)	1	1,851	296	(193,840)
Fund balances - beginning	20,245	169,347	110,430	3,927	125	23,423	165,913	9,839	178,087	3,912	3,650	30,554	719,452
Fund balances - ending	$ 1,972	$ 194,886	$ 143,024	$ 3,927	$ 125	$ -	$ 113,349	$ 21,623	$ 6,442	$ 3,913	$ 5,501	$ 30,850	$ 525,612

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Ozark (the "City") was incorporated in 1847 under the provisions of the State of Alabama. The City operates under a Mayor-Council form of government and provides the following services as authorized by its charter: public safety, street maintenance, public improvements, and general administrative services.

The accounting policies of the City conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant policies:

FINANCIAL REPORTING ENTITY – BASIS OF PRESENTATION

The accompanying financial statements present the activities of the City.

Government-wide and Fund Financial Statements

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the primary government (the City). These statements include the financial activities of the overall government. Eliminations have been to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City'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. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements

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

The following are considered to be component units of the City of Ozark, Alabama: Ozark City Board of Education, the Public Building Authority of the City of Ozark, the Downtown

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Redevelopment Authority, the City of Ozark Volunteer Fire Department, and the Industrial Development Board.

The City reports the following major governmental fund:

General Fund: This is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Seven Cent Highway Excise Tax Fund: This fund accounts for those excise axes collected by the City in order to provide for highway maintenance and construction.

Four Cent Highway Excise Tax Fund: This fund accounts for those excise axes collected by the City in order to provide for highway maintenance and construction.

CDBG Economic Development: This fund accounts for financial resources associated with the Bell Aero project.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING & FINANCIAL STATEMENT PRESENTATION

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using 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, if the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, sales taxes, excise taxes, grants, 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 and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Property taxes, sales taxes, franchise taxes, licenses, and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

All governmental and business-type activities and enterprise funds of the City follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

ASSETS, LIABILITIES AND NET ASSETS OR EQUITY

Cash and Cash Equivalents

The City considers cash and cash equivalents to be cash on hand, certificates of deposit, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables

Management considers all receivables to be fully collectible. Therefore, management does not believe an allowance for uncollectible accounts is necessary.

Capital Assets and Depreciation

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives
Buildings	20-50
Improvements and infrastructure	7-40
Equipment	5-20

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Compensated Absences

The City allows employees to accumulate vacation and sick leave to certain limits for use in subsequent periods. Upon termination of employment, an employee receives payment of accumulated vacation hours up to certain limits at current wage rates. All leave is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Cash Deposits

The City maintains deposits only with "Qualified Public Depositories" as defined by Section 41-14A-2 Code of Alabama 1975. In the event of default by a "Qualified Public Depository" public deposits in excess of FDIC insurance limits will be repaid by liquidating collateral pledged to the Security for Alabama Funds Enhancement (SAFE) Program by the bank in default. The liability for any remaining public deposits will be shared by all other "Qualified Public Depositories" participating in the SAFE Program.

NOTE B – CAPITAL ASSETS

Governmental Activities:	Restated Balance Beg. Of Year	Additions	Deletions	Balance End of Year
Capital assets not depreciated:				
Land	$ 4,893,341	$ -	$ 30,042	$ 4,863,299
Construction in progress	7,096,585	1,952,565	3,581,228	5,467,922
	11,989,926	1,952,565	3,611,270	10,331,221
Capital assets depreciated:				
Buildings	10,713,680	37,278	15,900	10,735,058
Machinery and equipment	4,998,570	386,320	118,661	5,266,229
Improvements and infrastructure	24,133,282	3,808,038	-	27,941,320
	39,845,532	4,231,636	134,561	43,942,607
Accumulated depreciation:				
Buildings	3,525,457	270,671	12,225	3,783,903
Machinery and equipment	3,483,662	392,538	118,661	3,757,539
Improvements and infrastructure	15,357,556	1,065,926	-	16,423,482
	22,366,675	1,729,135	130,886	23,964,924
Net depreciated assets	17,478,857	2,502,501	3,675	19,977,683
Governmental capital assets, net	$ 29,468,783	$ 4,455,066	$ 3,614,945	$ 30,308,904

Depreciation expense was charged to functions as follows:

General government	$ 1,024,395
Vehicle maintenance	3,185
Police department	130,184
Information technology	20,767
Fire department	121,541
Airport	95,044
Sanitation	42,484
Street	57,178
Leisure services	147,950
Judicial	1,769
Economic development	56,898
Engineering/inspections	3,465
Ozark Technology Center	24,275
	$ 1,729,135

NOTE C-CASH RESTRICTIONS

Cash may be classified as either restricted or unrestricted. The following summarizes these classifications:

Fund	Restricted For	Amount
Governmental	Capital improvements	$ 30,850
Governmental	Road construction/repair/ street lights	111,994
Governmental	Debt service	194,886
Total Restricted Cash		337,730
Nonrestricted Cash		1,935,972
Total Cash (including certificate of deposit)		$2,273,702

NOTE D – USE OF ESTIMATES

In preparing financial statements in conformity with accounting principles generally accepted in the United States, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingencies at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE E – BUDGETS AND BUDGETARY ACCOUNTING

Each year formal budgets are legally adopted and amended as required by the City Council for the General Fund and Special Revenue Funds. Management can approve transfers within government function categories only. Transfers or appropriations or revisions between government function categories require the approval of the Council. The level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the government function category level.

Budgets for the governmental funds are adopted on a basis consistent with accounting principals generally accepted in the United States.

NOTE F – LONG-TERM OBLIGATIONS

Governmental activities, claims, obligations, and compensated absences are generally liquidated by the general fund. Long-term debt payable at September 30, 2008 is composed of the following issues:

A description and terms of the City's bonds payable are as follows:

	Principal Balance
$336,480 General Obligation Industrial Development Warrants, Series 2000, dated May 16, 2000. Principal payments monthly from June 2002 until May 2009. No interest is charged.	$ 28,040
$4,150,000 General Obligation Warrants, Series 2002, dated February 1, 2002, payable in annual installments from 2009 through 2026, interest rates range from 4.15 to 5.00 percent.	4,025,000
$2,970,000 General Obligation Warrants, Series 2004, dated December 1, 2004, payable in annual installments from 2009 through 2018, interest rates range from 2.8 to 4 percent.	2,270,000
	$ 6,323,040

On May 16, 2000, the City entered into an agreement with the Pea River Electric Cooperative, Inc. whereby the City borrowed $336,480 from the revolving loan fund to finance the acquisition and development of 86.61 acres in Dale County.

On February 1, 2002, the City issued its Series 2002 General Obligation Warrants in the amount of $4,150,000. Proceeds of the bond were used to finance the acquisition and construction of a municipal government complex and a public recreational complex.

The Series 2002 bonds are reported net of issuance costs and original issue discount. Issuance costs of $94,661 are being amortized over the life of the bonds and are included in amortization expense on the Statement of Activities. Amortization expense related to the Series 2002 bonds for the year ended September 30, 2008 is $3,786. Remaining issuance costs to be deferred to future periods is $76,977. Original issue discount in the amount of $55,339 is also being amortized over the life of the bonds and is reported as part of interest expense. The total amount expensed related to the Series 2002 bonds for the year ended September 30, 2008 is $2,214. Remaining original issue discount to be deferred to future periods is $45,023.

On December 1, 2004, the City issued its Series 2004 General Obligation Warrants in the amount of $2,970,000. Proceeds of the bonds were used to redeem the Series 1997 bond issue and to provide funds for the construction of capital improvements.

NOTE F – LONG-TERM OBLIGATIONS (cont'd)

As required by Governmental Accounting Standards Board Statement Number 23, the difference between the reacquisition price (funds required to refund the old debt) and the net carrying amount of the old debt is carried as deferred refunding cost and amortized over the remaining life of the old bond on the straight line basis. The amount deferred on the 1997 bond reacquisition was $48,235. The total amount amortized for the year ended September 30, 2008 was $3,710 and is reported as part of interest expense. The balance of deferred refunding cost at September 30, 2008 was $34,322.

The Series 2004 bonds are reported net of issuance costs and original issue discount. Issuance costs of $77,561 are being amortized over the life of the bonds and are included in amortization expense on the Statement of Activities. Amortization expense related to the Series 2004 bonds for the year ended September 30, 2008 was $5,544. Remaining issuance costs to be deferred to future periods is $49,187. Original issue discount in the amount of $10,770 is also being amortized over the life of the bonds and is reported as part of interest expense. The total amount expensed related to the Series 2004 bonds for the year ended September 30, 2008 was $984. Remaining original issue discount to be deferred to future periods is $5,734.

Principal maturities of the governmental activities' bonds payable and related interest payments are as follows:

Year Ending September 30,	Principal	Interest	Total
2009	$ 268,040	$ 272,194	$ 540,234
2010	245,000	264,846	509,846
2011	300,000	255,953	555,953
2012	310,000	245,385	555,385
2013	320,000	233,904	553,904
Thereafter	4,880,000	1,622,548	6,502,548
	$ 6,323,040	$ 2,894,830	$ 9,217,870

The City has entered into an exchange transaction with the Alabama Department of Transportation in which the City received a parcel of land in exchange for a parcel of land and a note payable. The value of the land received was recorded at $270,000. The value of the land given up was valued at $39,717, and the amount of the note payable was $420,280. A loss of $189,997 was recognized on the transaction. The note was due in three annual installments of $140,000, $140,000 and $140,280 due on or before March 1 of 2007, 2008, and 2009.

The City has entered into a lease agreement as lessee for financing the acquisition of a garbage truck. The lease agreement qualifies as a capital lease for accounting purposes (title transfer at the end of the lease term) and, therefore, has been recorded at the present value of the future minimum lease payments as of the date of inception. The equipment has been recorded at $238,336 in capital assets.

NOTE F – LONG-TERM OBLIGATIONS (cont'd)

The following is a schedule of the future minimum lease payments under the capital lease and the present value of the net minimum lease payments at September 30, 2008:

Year Ending September 30,	Amount
2009	$ 30,265
2010	51,623
Total minimum lease payments	81,888
Less: amount representing interest	(3,624)
Present value of future minimum lease payments	$ 78,264

Changes in long-term obligations for the year are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Balance
Capital leases	$ 111,114	$ -	$ 29,226	$ 81,888	$ 30,265
Comp. absences	362,767	21,907	-	384,674	-
Notes payable	280,280	-	140,000	140,280	140,000
Bonds payable	6,595,100	-	272,060	6,323,040	268,040
Unamortized discount	(53,955)	3,198	-	(50,757)	-
Unamort. issue costs	(135,494)	9,330	-	(126,164)	-
Unamort. refunding loss	(38,032)	3,710	-	(34,322)	-
	$ 7,121,780	$ 38,145	$ 441,286	$ 6,718,639	$ 438,305

NOTE G – INTERFUND BALANCES AND TRANSFERS

Interfund balances at September 30, 2008 consist of the following, all of which expect to be repaid within one year:

	Due From	Due To
General Fund	$ 249,047	$ 180,496
Seven Cent Highway Fund	16,000	70,000
Four Cent Highway Fund	-	70,000
Bond Fund	60,360	68,798
Special Ad Valorem I Fund	3,903	-
Special Ad Valorem II Fund	80	-
CDBG Fund	74,823	14,919
Total	$ 404,213	$ 404,213

Transfers to/from other funds at September 30, 2008 consist of the following:

	Transfers In	Transfers Out	Net
General Fund	$ 1,436,975	$ 2,025,417	$ (588,442)
Bond Fund	228,020	147,430	80,590
UDAG Fund	-	20,000	(20,000)
Debt Service Fund	607,723	-	607,723
Corrections Fund	-	97,000	(97,000)
FEMA Fund	-	174,000	(174,000)
CDBG Fund	387,311	131,700	255,611
CDBG Economic Development	228,097	182,579	45,518
Capital Improvement Fund	-	110,000	(110,000)
	$ 2,888,126	$ 2,888,126	$ -

The interfund transfers are generally made for normal operations of the funds.

NOTE H – ADVERTISING

The City of Ozark expenses all advertising costs during the period in which they are incurred.

NOTE I – DEFERRED REVENUE

In Alabama. city property taxes are levied by the county commissions at their first regular meeting in February of each year based on the property on record as of the preceeding October 1. The taxes are due the following October 1 and are delinquent after December 31st. In accordance with the non-exchange transactions provision of GASB Statement No. 33, taxes levied in fiscal year 2007 for the 2008 budget year have been recorded as receivables and deferred revenue.

NOTE J – RISK MANAGEMENT AND LITIGATION

The City of Ozark is exposed to various risks or losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has obtained coverage from commercial insurance companies, effectively transferring any risk of loss.

NOTE K – CONTINGENT LIABILITIES

The City is a defendant in several pending lawsuits. It is the opinion of the City's attorney that the City is insured against loss in each of these cases and in no case would the City suffer a monetary loss in excess of $5,000.

The City is a determining subdivision of the Southeast Alabama Solid Waste Disposal Authority ("SEASWDA") (as that term is defined in Section 11-50A-1(6), Code of Alabama 1975). As such, the City has entered into a Supplental Guaranty Agreement dated October 27, 1992 pursuant to which the City guaranteed payment of a portion of certain indebtedness of the SEASWDA to the bank for the Solid Waste Facilities Revenue Bonds, Series 1993. The maximum amount of quarantee to the bank will not exceed $29,150 as stated in the agreement.

NOTE L – DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The deferred compensation plan is administered by Nationwide through the U.S. Conference of Mayors. The Plan, available to all City employees participating in the Retirement System of Alabama, permits them to defer a portion of their alary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. GASB Statement No. 32 was issued in response to a change in federal law that removes the assets in deferred compensation plans from the general creditors in the event of a governmental bankruptcy. The City's deferred compensation plan meets the requirements of this law; therefore, no statement presentation is required.

NOTE M – DEFINED BENEFIT PLAN

The City contributes to the Employees' Retirement System of Alabama, an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for the various state agencies and departments.

Substantially all employees are members of the Employees' Retirement System of Alabama. Membership is mandatory for covered or eligible employees of the City of Ozark. Benefits vest after ten years of credible service. Vested employees may retire with full benefits at age sixty or after twenty-five years of service.

Retirement benefits are calculated by two methods with the retiree receiving payment under the method that yields the highest monthly benefit. The methods are (1) Minimum Guaranteed, and (2) Formula, of which the Formula method usually produces the highest monthly benefit. Under this method, retirees are allowed 2.0125% of their average final salary (best three of the last ten years) for each year of service. Disability retirement benefits are calculated in the same manner. A pre-retirement death benefit in the amount of the annual salary for the fiscal year preceding death is provided to plan members.

The Employees' Retirement System of Alabama was established as of October 1, 1945, under the provisions of Act 515, Acts of Alabama 1945, for the purpose of providing retirement allowances and other specified benefits for State employees, State police, and on an elective basis to all cities, counties, towns, and quasi-public organizations. The responsibility for general administration and operation of the Employees' Retirement System of Alabama is vested in the Board of Control. Benefit provisions are established by the Code of Alabama 1975, Sections 36-27-1 through 36-27-103, as amended, Sections 36-27-120 through 36-27-139, as amended, and Section 36-27B-1 through 36-27B-6. Authority to amend the plan rests with the Legislature of Alabama. However, the Legislature has granted the Commission authority to accept or reject various Cost-of-Living-Adjustments (COLAs) granted to retirees.

NOTE M – DEFINED BENEFIT PLAN, (cont'd)

The Retirement System of Alabama issues a publicly-available financial report that includes financial statements and required supplementary information for the Employees' 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.

Actuarial Valuation as of September 30, 2007

Summary of Employer Cencus Data		
Number of active members		158
Annual compensation	$	4,455,577
Number of retired members ansd beeficiaries		33
Annual retirement allowances	$	470,115
Employer Contribution Rates (percent)		
Normal costs		4.97
Accrued liability		2.71
Pre-retirement death benefit		0.15
Administrative expesne		0.18
		8.01
5% employer contribution factor		1.602
6% employer conmtribution factor		1.335

Comments on Employer Contribution Rates

The rates include contributions that are made for cost-of-living benefit increases granted on or after October 1, 1978. Employer contributions may increase due to the granting of pay raises in excess of the expected amounts and for any future cost-of-living adjustments granted to retirees.

These contribution rates determined under the parameters of GASB Statement Nos. 25 and 27. Any contributions above the required employer contribution rate, such as lump-sum payments, will result in a negative "Net Pension Obligation".

NOTE M – DEFINED BENEFIT PLAN, (cont'd)

Accounting Information

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (%) (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
09/30/97	$ 5,261,963	$ 4,413,110	$ (848,853)	119.23	$ 3,009,487	(28.21)
09/30/98	5,754,989	5,040,497	(714,492)	114.18	3,448,381	(20.72)
09/30/99	6,303,008	5,270,797	(1,032,211)	119.58	3,674,408	(28.09)
09/30/00	6,871,760	5,963,379	(908,381)	115.23	3,793,018	(23.95)
09/30/01	7,295,141	6,846,577	(448,564)	106.55	3,508,186	(12.79)
09/30/02	7,562,372	7,742,115	179,743	97.68	3,733,317	4.81
09/30/03	8,031,043	8,521,506	490,463	94.24	3,865,316	12.69
09/30/04	8,544,419	9,070,928	526,509	94.20	4,092,428	12.87
09/30/05	9,092,559	9,957,488	864,929	91.31	4,138,881	20.90
09/30/06	9,832,436	11,431,416	1,598,980	86.01	4,208,021	38.00
09/30/07	10,600,677	12,268,892	1,668,215	86.40	4,455,577	37.44

Valuation date	09/30/07
Actuarial cost methods	Entry age
Amortization method	Level percent open
Remaining amortization period	20
Asset valuation method	5-year smooted market
Actuarial assumptions:	
Investment rate of return	8.00%
Projected salasry increases	4.61-7.75%
Includes inflation at	4.50%
Cost-of-living adjustments	None

NOTE M – DEFINED BENEFIT PLAN, (cont'd)

Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
09/30/98	$ 159,128	100%	$ -
09/30/99	151,444	100%	-
09/30/00	154,628	100%	-
09/30/01	155,270	100%	-
09/30/02	161,456	100%	-
09/30/03	155,321	100%	-
09/30/04	199,363	100%	-
09/30/05	246,183	100%	-
09/30/06	255,924	100%	-
09/30/07	65,553	100%	-

NOTE N – PRIOR PERIOD ADJUSTMENTS

A prior period adjustment was made at the government-wide level which increased beginning net assets by $534,153. This adjustment was made so that the financial statements would reflect the value of non-depreciable land and construction-in-progress in the amount of $507,887 and net depreciable net assets of $26,266 that were acquired in prior years.

NOTE O – PRIOR PERIOD ADJUSTMENTS – CORRECTION OF AN ERROR

A prior period adjustment was made in the governmental funds financial statements for $110,055.

The General Fund's adjustments totaled $100,154 in accounts receivable from federal grants for the Police Memorial Walking Trail and the Airport Improvement Project that should have matched expenditures reported in 2006-07 fiscal year and an interfund receivable from the Wiregrass Violent Crime and Drug Task Force Grant Fund that also should have matched expenditures reported in 2006-07 fiscal year.

The Wiregrass Violent Crime and Drug Task Force Grant's recorded an $18,648 interfund payable to the General Fund for expenditures that should have been reported in the 2006-07 fiscal year.

The CDBG Fund recorded $28,549 in accounts receivable from federal grants for the Downtown Planning grant and the Willa Street sewer improvement grant, that also should have been reported in the 2006-07 fiscal year.

SUPPLEMENTARY INFORMATION

CITY OF OZARK
SCHEDULES OF BOND AMORTIZATION REQUIREMENTS
SEPTEMBER 30, 2008

$336,480 General Obligation Industrial Development Warrants Series 2000, dated May 16, 2000. Principal payments began June 1, 2002, and continue until May 1, 2010. This debt is non-interest bearing.

Year Ending	Principal	Interest	Total
9/30/09	$ 28,040	$ -	$ 28,040
	$ 28,040	$ -	$ 28,040

$4,150,000 General Obligation Warrants, Series 2002, dated February 1, 2002. Interest payable on March 1 and September 1 in each year. Warrants mature on March 1, 2026.

Paying agent: Bank of New York

Year Ending	Interest Rate	Principal	Interest	Total
9/30/09	4.15%	$ 25,000	$ 196,809	$ 221,809
9/30/10	4.15%	25,000	195,771	220,771
9/30/11	4.15%	70,000	193,800	263,800
9/30/12	4.15%	75,000	190,791	265,791
9/30/13	4.70%	75,000	187,472	262,472
9/30/14	4.70%	85,000	183,712	268,712
9/30/15	4.70%	90,000	179,600	269,600
9/30/16	4.70%	95,000	175,252	270,252
9/30/17	4.70%	100,000	170,670	270,670
9/30/18	4.80%	305,000	161,000	466,000
9/30/19	4.90%	320,000	145,840	465,840
9/30/20	5.00%	340,000	129,500	469,500
9/30/21	5.00%	355,000	112,125	467,125
9/30/22	5.00%	375,000	93,875	468,875
9/30/23	5.00%	390,000	74,750	464,750
9/30/24	5.00%	410,000	54,750	464,750
9/30/25	5.00%	435,000	33,625	468,625
9/30/26	5.00%	455,000	11,375	466,375
		4,025,000	2,490,717	6,515,717
Unamortized issuance and discount costs		(122,000)	-	(122,000)
Total		$ 3,903,000	$ 2,490,717	$ 6,393,717

CITY OF OZARK
SCHEDULES OF BOND AMORTIZATION REQUIREMENTS
SEPTEMBER 30, 2008

$2,970,000 General Obligation Warrants, Series 2004, dated December 1, 2004 with interest payable on March 1 and September 1 each year. Warrants mature on March 1, 2018.

Paying agent: Regions Bank

Year Ending	Interest Rate	Principal	Interest	Total
9/30/09	2.80%	$ 215,000	$ 78,395	$ 293,395
9/30/10	3.00%	220,000	72,375	292,375
9/30/11	3.15%	230,000	65,775	295,775
9/30/12	3.35%	235,000	58,530	293,530
9/30/13	3.45%	245,000	50,658	295,658
9/30/14	3.55%	245,000	42,205	287,205
9/30/15	3.65%	255,000	33,506	288,506
9/30/16	3.75%	265,000	24,200	289,200
9/30/17	3.95%	275,000	14,262	289,262
9/30/18	4.00%	85,000	3,400	88,400
		2,270,000	443,306	2,713,306
Unamortized issuance and discount costs		(89,243)	443,306	(89,243)
Total		$ 2,180,757	$ 443,306	$ 2,624,063

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INDEPENDENT AUDITORS' REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

To the Mayor and Council of the
City of Ozark, Alabama

We have audited the accompanying financial statements of the governmental activities, business-type activities, and major funds of the City of Ozark as of and for the year ended September 30, 2008, which collectively comprise the City's basic financial statements, and have issued our unqualified report thereon dated May 1, 2009. These financial statements are the responsibility of the City'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; 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*, as they may be applicable. Those standards and OMB Circular A-133 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 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 opinion.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the City taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis and is not a required part of the financial statements. The information in this schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

As discussed in Note O to the financial statements, the 2008 financial statements have been restated to correct a misstatement.

Ferguson, Sizemore & Associates
Dothan, Alabama
May 1, 2009
(except for Note O, as to which the date is February 24, 2010)

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CITY OF OZARK
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2008

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE	CFDA Number	Pass-Through/ Grantor's Number	Federal Expenditures
U.S. Dept. of Agriculture			
Pass-through Alabama Department of Education			
Summer Food Service Program for Children	10.559	N/A	$ 17,332
Total U.S. Dept. of Agriculture			17,332
U.S. Dept. of Commerce			
Grants for Public Works and Economic Development Facilities	11.300	04-01-05681	$ 386,782
Total U.S. Dept. of Commerce			386,782
U.S. Dept. of Housing and Urban Development			
Pass-through Alabama Department of Economic and Community Affairs			
Community Development Block Grant	14.228	LR-ED-PF-05-008	$ 108,554
Community Development Block Grant	14.228	LR-CM-PF-05-018	197
Community Development Block Grant	14.22/8	LR-CE-PF-04-010	211,160
Total U.S. Dept. of Housing and Urban Development			319,911
U.S. Dept. of Justice			
2007 Justice Assistance Grant	16.738	2007-DJ-BX-0671	12,949
Pass-through Alabama Department of Economic and Community Affairs			
Edward Byrne Memorial Justice Assistance Grant	16.738	07-DJ-01-008	122,948
Edward Byrne Memorial Justice Assistance Grant	16.738	07-DH-05-073	22,171
Edward Byrne Memorial Justice Assistance Grant	16.738	07-DJ-01-029	17,754

CITY OF OZARK
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2008

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE	CFDA Number	Pass-Through/ Grantor's Number	Federal Expenditures
Total U.S. Dept. of Justice			175,822
U.S. Dept. of Transportation			
Pass-through Alabama Department of Transportation			
Airport Improvement Program (major program)	20.106	3-01-056-009-2008	$ 266,726
Airport Improvement Program (major program)	20.106	3-01-056-008-2007	$ 79,543
Airport Improvement Program (major program)	20.106	3-01-056-007-2006	$ 398,383
College Street Sidewalks	20.205	STPTE TE02(938)	12,753
Total U.S. Dept. of Transportation			757,405
TOTAL FEDERAL AWARDS			$ 1,657,252

See accompanying independent auditors' report on the supplementary schedule.

CITY OF OZARK
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
SEPTEMBER 30, 2008

NOTE A – SCOPE OF AUDIT PURSUANT TO OMB CIRCULAR A-133 AND THE SINGLE AUDIT ACT OF 1984

The City of Ozark (the "City") is an agency of the State of Alabama. All significant operations of the Council are included in the scope of the Single Audit Act of 1984 and amendment of 1996, and OMB Circular A-133.

NOTE B – FISCAL PERIOD AUDITED

Single audit testing procedures were performed for program transactions occurring during the fiscal year ended September 30, 2008. Grant and appropriation terms are indicated in the Schedule of Expenditures of Federal Awards.

NOTE C – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Schedule of Expenditures of Federal Awards has been prepared on the modified accrual basis of accounting. Federal grant revenues are recorded for financial reporting purposes when the Council has met the qualifications for the respective grants. Several programs are funded jointly by state or local appropriations and federal funds. Costs incurred in programs partially funded by federal grants are applied against grant funds to the extent of revenue available when they properly apply to the grant, except as described below.

Accrued and Deferred Reimbursement

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

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

To the Mayor and Council of the
City of Ozark, Alabama

We have audited the financial statements of the governmental activities, the business-type activities and each major fund of City of Ozark, Alabama, as of and for the year ended September 30, 2008, which collectively comprise the City of Ozark, Alabama's basic financial statements and have issued our report thereon dated May 1, 2009. 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

ROBERT D. FERGUSON, CPA/ABV
MICHAEL R. SIZEMORE, CPA
MARK L. SMITH, CPA

E. PAUL FRYER, CPA/CITP

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Ozark, Alabama'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 City of Ozark's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Ozark, Alabama's ability to initiate, authorize, record process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Ozark, Alabama's financial statements that is more than inconsequential will not be prevented or detected by the City of Ozark, Alabama's, internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Ozark, Alabama's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily

identify all deficiencies in internal control that might be 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 City of Ozark, Alabama'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 the audit committee, management, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

As discussed in Note O to the financial statements, the 2008 financial statements have been restated to correct a misstatement.

Ferguson, Sizemore & Associates
Dothan, Alabama
May 1, 2009
(except for Note O, as to which the date is February 24, 2010)

Ferguson, Sizemore & Associates
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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Mayor and Council of the
City of Ozark, Alabama

ROBERT D. FERGUSON, CPA/ABV
MICHAEL R. SIZEMORE, CPA
MARK L. SMITH, CPA

E. PAUL FRYER, CPA/CITP

Compliance

We have audited the compliance of the City of Ozark, Alabama (the "City") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2008. The City's major federal programs are identified in the summary of auditors' results section in 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 City's management. Our responsibility is to express an opinion on the City'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 City'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 on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2008.

Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we

considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

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

As discussed in Note O to the financial statements, the 2008 financial statements have been restated to correct a misstatement.

Ferguson, Sizemore & Associates
Dothan, Alabama
May 1, 2009
(except for Note O, as to which the date is February 24, 2010)

CITY OF OZARK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2008

SECTION 1 – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	Unqualified	
Internal control over financial reporting:		
Material weakness (es) identified?	____ yes	__X__ no
Reportable condition(s) identified not considered to be material weaknesses?	____ yes	__X__ none reported
Noncompliance material to financial statements noted?	____ yes	__X__ no

Federal Awards

Internal control over major programs:		
Material weakness (es) identified?	____ yes	__X__ no
Reportable condition(s) identified not considered to be material weaknesses?	____ yes	__X__ none reported
Type of auditors' report issued on compliance for major programs?	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510 (a)?	____ yes	__X__ no

Identification of major programs:

CFDA Number	Name of Federal Program/Cluster
20.106	Airport Improvement Program

Dollar threshold used to distinguish between Type A and Type B programs:	$300,000	
Auditee qualified as low-risk auditee?	__X__ yes	____ no

SECTION II – FINANCIAL STATEMENT FINDINGS

2008-01 Lack of Controls Over Civic Center Account

Finding: The City did not maintain an adequate accounting for all Civic Center revenues and expenses. The City's general ledger reflects a Civic Center checking account. Past practice has been for the City to adjust this account to a bank reconciliation and netting all Civic Center revenue and expenses into one line item on the

general ledger. Furthermore, it was discovered that the Civic Center accounts were not held to the same standards of internal control as other City accounts.

Criteria: Management is responsible for establishing adequate internal controls in order to safeguard assets.

Effect: Lack of internal controls could cause a material misstatement of the financial statements, as well as limit the City's ability to safeguard assets.

Recommendation: All accounting and financial reporting activity of the Civic Center should be subject to the general internal controls of the City. This would include, at a minimum, an adequate separation of duties relative to the receipting and disbursement of funds as well as the reconciling of all bank accounts of the Civic Center. In addition, a timely and accurate financial accounting of Civic Center activity should be maintained by the City.

SECTON III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None

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To the Mayor and Council of the
City of Ozark, Alabama

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Ozark as of and for the year ended September 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) 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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the deficiency noted in the accompanying Schedule of Findings and Questioned Costs (see item 2008-01) constitutes a material weakness.

In addition, we noted the following matters we consider to be control deficiencies that are of a lesser magnitude than a significant deficiency:

2008-02 Interfund Transfers

Interfund transfers were not reconciled as of year end. Failure to reconcile such accounts can cause material misstatement of revenues and expenditures.

2008-03 Interfund Receivables and Payables

Interfund receivables and payables were not reconciled as of year end. Failure to reconcile such accounts can cause material misstatement of assets and liabilities

2008-04 Fund Balances

It was noted that one of the city's funds was "out of balance" for the past few years. This condition ensures that at least one account in that particular fund would be misstated. This issue has now been corrected, but an emphasis on performing an "internal audit" is recommended as an attempt to discover such issues in a more timely fashion.

2008-05 Monthly Financial Statements

It is recommended that the Mayor and Council receive an internally-prepared revenue and expenditure report for the operating fund on a monthly basis.

This communication is intended solely for the information and use of management, the City Council, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Ferguson, Sizemore & Associates

Ferguson Sizemore & Associates
Dothan, Alabama
May 1, 2009