

City of Ozark

Financial Statements

For The Year Ended September 30, 2011

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INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

Honorable Mayor and Members
of the City Council
City of Ozark, Alabama

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Ozark, Alabama (the "City"), as of and for the year ended September 30, 2011, 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'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.

The financial statements referred to above include only the primary government of the City which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component units, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the financial position of the reporting entity of the City as of September 30, 2011, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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, each major fund, and the aggregate remaining fund information for the primary government of the City as of September 30, 2011, and the respective changes in financial position, cash flows, where applicable, and the respective budgetary comparison for the General Fund, Special Ad Valorem Fund I and Special Ad Valorem Fund II, 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 January 12, 2012 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to

provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with **Government Auditing Standards** and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedule of funding progress information on pages 3 through 12 and page 50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's primary government financial statements as a whole. The combining and individual nonmajor fund financial statements and the bond amortization requirements are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, **Audits of States, Local Governments, and Non-Profit Organizations**, and is not a required part of the financial statements. The combining and individual nonmajor fund financial statements, bond amortization requirements, and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

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

Certified Public Accountants

January 12, 2012

Management's Discussion and Analysis

The City of Ozark's (the "City") Management's Discussion and Analysis ("MD&A") is a narrative overview of the financial activities of the City for the fiscal year beginning October 1, 2010, and ending September 30, 2011. We encourage readers to consider information presented here along with the City's financial statements, which follow this section.

The intent of the MD&A is to provide a brief, objective, and easily readable analysis of the City's financial performance for the year and its financial position at fiscal year-end September 30, 2011.

Financial Highlights

Key financial highlights for the fiscal year 2011 are as follows:

- The City's governmental and business-type activities net assets at September 30, 2011, were \$27,167,930. This represents an increase of \$703,439 from September 30, 2010.
- Revenues at September 30, 2011 from governmental activities were \$16,253,477 and revenues from business-type activities were \$1,297,566, for a combined total of \$17,551,043. This is an overall increase in revenues from fiscal year 2010 of \$2,605,381. The governmental activities revenues increased \$1,446,222; the majority of the increase came from capital grants and contributions that funded housing revitalization from the CDBG grant, energy efficiency grant for HVAC system at Eastgate Business Park, the downtown streetscape grant for downtown canopies, the technology grant for police vehicles and the sale of the communications tower. The business-type activities revenues increased \$1,159,159; the majority of the increase reflects the first full year of operation of the Emergency Medical Services (EMS) Division of the Fire Department.
- Expenditures reported in the governmental funds were \$15,460,183 at September 30, 2011 and \$15,591,015 at September 30, 2010. The net decrease of \$130,832 in expenditures was due in part to reductions in staff allocations due to departmental reorganizations in September 2010 of approximately \$600,000, increases in bond issue costs due to the refunding of the 2002 general obligation bonds in July, and an increase in capital outlay from law enforcement technology grant, airport improvement grant, downtown streetscape grant, energy efficiency grant, the purchase of five police vehicles, and the street repairs and resurfacings completed in September 2011.
- At September 30, 2011, the City's governmental funds reported a combined ending fund balance of \$2,901,262, a net increase of \$1,127,434 in comparison with prior year. Of this amount, \$1,849,846 remains in the various fund types of the City as unrestricted, up from September 30, 2010 by \$1,112,871. The majority of the increase reflects the City's sale of the communications tower on December 30, 2010 for \$900,000, the sale of surplus equipment and vehicles for \$24,276, and the sale of land for \$24,300.
- The General Fund reported a total fund balance of \$2,458,692 at September 30, 2011. That is 20.1 percent of total general fund expenditures of \$12,244,642 or 21.5 percent of its operating expenditures of \$11,407,481 (expenditures less capital outlay). The total fund balance at September 30, 2010, was \$1,322,866, representing an increase in the total general fund balance of \$1,135,826.
- On June 21, 2011, the City received an A+ rating and a stable long term outlook from Standard & Poor's on the Series 2011 general obligation warrants scheduled for sale in July. On July 1, 2011, the City issued its Series 2011 General Obligation Refunding Warrants in the amount of \$4,425,000. The net present value of the cash flow savings on the refinancing totaled \$314,325. Proceeds of the bond were used to redeem \$3,905,000 of

outstanding Series 2002 bonds and the refunding provided \$323,757 in funds for street resurfacings, improvements to the Flowers Performing Arts Center, tennis court resurfacings, and the local match for reroofing of the Ozark-Dale County Public Library.

Overview of the Financial Statements

The basic financial statements consist of three components:

- Government-wide financial statements.
- Fund financial statements.
- Notes to financial statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. 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 showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g., uncollected taxes and earned but unused vacation and sick 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 recover all or a significant portion of their costs through user fees and charges. The government activities of the City include such functions as general government, education, police, fire, sanitation, street, leisure services, and other items. The business-type activities of the City include the Ozark Square Shopping Center and Mossy Oak Trailer Park, as well as the EMS program.

The government-wide financial statements begin on page 13 of this report.

Fund Financial Statements

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. All of the funds of the City are classified as either governmental funds or proprietary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on near-

term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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 financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 16 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the General Fund, Special Ad Valorem I Fund and Special Ad Valorem II Fund that are considered to be major funds. Data from the other 13 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 other supplementary information section of this report.

The City adopts an annual appropriated budget for all its governmental funds. A budgetary comparison schedule has been provided for each major fund to demonstrate compliance with this budget.

The basic governmental fund financial statements and the budgetary comparison statements presented as required supplementary information can be found beginning on page 16 of this report.

Proprietary Funds. The City maintains two proprietary funds, one for the Ozark Square Shopping Center/Mossy Oak Mobile Home Park and Fire Department's Emergency Medical Services (EMS) Division. Both are enterprise funds. An enterprise fund is used to determine operating income, changes in net assets, financial position, and cash flows. These funds are presented as part of the primary government in the government-wide financial statements in columns labeled a "business-type activity". The City received the Ozark Square Shopping Center in a donation in December 2008 and there are currently three business tenants who rent retail space in the shopping center. In January 2010, the City purchased the Mossy Oak Mobile Home Park which contained four privately owned mobile home tenants and eight City owned mobile home tenants. The City currently has two remaining tenants renting two City owned mobile homes. The City re-notified the residents of the mobile home park in August 2011 that they are required to relocate to other housing accommodations by February 1, 2012. The City plans to use the mobile home park as an extension of the Flowers Performing Arts Center in a multi-use recreational, fitness and aquatic center.

In May 2010, the City approved the Fire Department implementing the Emergency Medical Services (EMS) Division to provide ambulance services to the City's residents and to replace the current ambulance service provider. The financing for the start-up was provided by Branch Banking and Trust (BB&T). The EMS program transported 2,755 patients during the initial year and the average gross charge per trip is \$645, the average net charge per trip is \$413, and the average cash collection per trip is \$255. The average cash collected per trip is 62 percent of the average net charge per trip. The numbers of patients transported by payment type are: Medicare patients 1,598 or 58 percent of total; Medicaid patients 404 or 15 percent of total; insurance patients 400 or 15 percent of total; and direct patient payments (without insurance) 353 or 12 percent of total. During the year the City paid principal payments totaling \$255,000 on the general obligation operating line of credit from BB&T.

Notes to Financial Statements

The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements can be found beginning on page 28 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, governmental activities assets exceed liabilities by \$24,538,100 for fiscal year 2011, as compared to \$23,847,696 in fiscal year 2010.

Net Assets, End of Year

September 30,	Governmental Activities		Business-type Activities		Primary Government Total	
	2011	2010	2011	2010	2011	2010
Assets						
Current and other assets	\$ 5,593,116	\$ 4,439,201	\$ 580,997	\$ 201,208	\$ 6,174,113	\$ 4,640,409
Capital assets	28,702,630	29,071,270	2,966,788	3,082,818	31,669,418	32,154,088
Total assets	\$ 34,295,746	\$ 33,510,471	\$ 3,547,785	\$ 3,284,026	\$ 37,843,531	\$ 36,794,497
Liabilities and Net Assets						
Liabilities						
Long-term liabilities	\$ 7,065,787	\$ 6,997,402	\$ 416,475	\$ 590,843	\$ 7,482,262	\$ 7,588,245
Other liabilities	2,691,859	2,665,373	501,480	76,389	3,193,339	2,741,762
Total liabilities	9,757,646	9,662,775	917,955	667,232	10,675,601	10,330,007
Net Assets:						
Invested in capital assets - net of debt	22,797,762	23,095,947	2,651,679	2,596,132	25,449,441	25,692,079
Restricted	505,188	480,640	-	-	505,188	480,640
Unrestricted	1,235,150	271,109	(21,849)	20,662	1,213,301	291,771
Total net assets	24,538,100	23,847,696	2,629,830	2,616,794	27,167,930	26,464,490
Total liabilities and net assets	\$ 34,295,746	\$ 33,510,471	\$ 3,547,785	\$ 3,284,026	\$ 37,843,531	\$ 36,794,497

By far, the largest portion of the City's net assets reflects its investment in capital assets (e.g., land, buildings, infrastructure, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens. Although the City's investment in 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 liquidate these liabilities.

An additional portion of the City's net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the City's ongoing obligations.

As noted previously, the City's governmental activities net assets increased \$690,404 and the business-type activities increased \$13,035, for a net increase in net assets during fiscal year 2011 of \$703,439.

Years ended September 30,	Operating Results for the Year					
	Governmental Activities		Business-type Activities		Primary Government Total	
	2011	2010	2011	2010	2011	2010
Program Revenues:						
Charges for services	\$ 5,042,964	\$ 5,082,012	\$ 1,282,201	\$ 138,252	\$ 6,325,165	\$ 5,220,264
Operating grants and contributions	274,038	406,220	-	-	274,038	406,220
Capital grants and contributions	1,204,757	587,541	-	-	1,204,757	587,541
General Revenues:						
Property taxes	687,333	728,361	-	-	687,333	728,361
Sales tax	6,225,220	6,075,661	-	-	6,225,220	6,075,661
Gasoline tax	418,642	433,230	-	-	418,642	433,230
Other taxes	836,688	811,786	-	-	836,688	811,786
Other	705,877	682,443	15,365	154	721,242	682,597
Special items:						
Gain on sale of communications tower	857,958	-	-	-	857,958	-
Total revenues	16,253,477	14,807,254	1,297,566	138,406	17,551,043	14,945,660
Functions/Program Expenses:						
General Government	2,681,472	2,572,600	-	-	2,681,472	2,572,600
Police Department	2,837,929	3,265,031	-	-	2,837,929	3,265,031
Fire Department	2,452,458	2,641,526	1,191,557	123,414	3,644,015	2,764,940
Street	929,246	1,131,032	-	-	929,246	1,131,032
Sanitation	1,217,398	1,311,675	-	-	1,217,398	1,311,675
Leisure Services	1,528,586	1,750,733	12,409	14,950	1,540,995	1,765,683
Engineering/Inspections	120,348	124,950	-	-	120,348	124,950
Vehicle Maintenance	170,838	186,305	-	-	170,838	186,305
Airport	21,288	17,460	-	-	21,288	17,460
Judicial	193,812	190,622	-	-	193,812	190,622
Appropriations	129,036	132,442	-	-	129,036	132,442
Education	2,168,415	2,231,291	-	-	2,168,415	2,231,291
Non-departmental	253,794	276,011	-	-	253,794	276,011
Economic Development	246,060	229,663	57,606	76,139	303,666	305,802
Ozark Technology Center	119,237	117,442	-	-	119,237	117,442
Information Technology	185,214	175,706	-	-	185,214	175,706
Interest and fiscal charges	277,703	276,771	22,959	2,725	300,662	279,496
Amortization	30,239	16,238	-	-	30,239	16,238
Total functions/program expenses	15,563,073	16,647,498	1,284,531	217,228	16,847,604	16,864,726
Increase (Decrease) in Net Assets	\$ 690,404	\$ (1,840,244)	\$ 13,035	\$ (78,822)	\$ 703,439	\$ (1,919,066)

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is 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.

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Financial Analysis of the City's Funds

Governmental Funds

As of the end of the current fiscal year, the City's governmental funds report combined ending fund balances of \$2,901,262, an increase of \$1,127,434, in comparison with the prior year. Unassigned fund balances of \$1,842,558 represents 63.5 percent of the ending fund balances and are available to meet the City's short-term spending needs. The remainder of fund balance is nonspendable or restricted to indicate that it is not available for new spending because it is in nonspendable form or is restricted in its use by a grantor. The 2010 fund balances have been restated to reflect the classification changes required by GASBS No. 54.

<i>September 30,</i>	Total Governmental Funds		
	2011	2010	Changes
Assets			
Cash and cash equivalents	\$ 677,164	\$ 720,414	\$ (43,250)
Investments	750,000	-	750,000
Receivables	3,095,784	3,335,208	(239,424)
Due from other budgetary funds	569,414	163,672	405,742
Other assets	11,075	10,147	928
Restricted cash and cash equivalents	578,302	373,432	204,870
Total assets	\$ 5,681,739	\$ 4,602,873	\$ 1,078,866
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 357,967	\$ 341,312	\$ 16,655
Due to other budgetary funds	288,624	169,491	119,133
Accrued compensation	93,379	277,931	(184,552)
Payroll deductions	25,270	12,644	12,626
Other accrued expenses	139,009	112,428	26,581
Deferred revenue	1,876,228	1,915,239	(39,011)
Total liabilities	2,780,477	2,829,045	(48,568)
Fund balances			
Nonspendable	553,516	556,213	(2,697)
Restricted	505,188	480,640	24,548
Unassigned	1,842,558	736,975	1,105,583
Total fund balances	2,901,262	1,773,828	1,127,434
Total liabilities and fund balances	\$ 5,681,739	\$ 4,602,873	\$ 1,078,866

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unrestricted fund balance of the General Fund is \$1,842,558, while the total fund balance was \$2,458,692. The net result of General Fund operations is a decrease in the General Fund's fund balance of \$1,135,826. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total expenditures. Unassigned fund balance represents 15.0 percent of total General Fund expenditures, while total fund balance represents 23.7 percent of that same amount. The recommended best practice target for unassigned fund balance should be no less than two months operating expenditures. Two months operating expenditures would be approximately \$2,039,056, the City is currently at \$1,842,558.

<i>Years ended September 30,</i>	Total Governmental Funds		
	2011	2010	Changes
Revenues			
Taxes	\$ 9,414,275	\$ 9,311,690	\$ 102,585
Licenses and permits	1,797,582	1,707,204	90,378
Intergovernmental	1,539,083	1,092,861	446,222
Charges for services	1,458,049	1,406,990	51,059
Fine and forfeitures	801,980	939,998	(138,018)
Investment earnings	31,843	31,206	637
Miscellaneous	240,599	257,642	(17,043)
Total revenues	15,283,411	14,747,591	535,820
Expenditures			
General government	1,473,728	1,306,617	167,111
Police Department	2,705,061	3,070,793	(365,732)
Fire Department	2,287,908	2,416,646	(128,738)
Street	848,226	1,035,574	(187,348)
Sanitation	1,163,838	1,237,802	(73,964)
Leisure services	1,342,448	1,549,296	(206,846)
Engineering/inspections	116,408	119,200	(2,792)
Vehicle maintenance	164,958	176,787	(11,829)
Airport	18,582	14,753	3,829
Judicial	189,880	184,560	5,320
Appropriations	129,036	132,442	(3,406)
Nondepartmental	253,794	276,011	(22,217)
Economic Development	181,070	166,981	14,089
Ozark Technology Center	93,176	90,836	2,340
Information Technology	169,347	156,387	12,960
Education	2,168,415	2,231,291	(62,876)
Debt service:			
Principal	386,405	353,759	32,646
Interest, dues, and fees	312,706	276,771	35,935
Capitalized capital outlay	1,455,210	794,509	660,701
Total expenditures	15,460,196	15,591,015	(130,819)
Excess (Deficiency) of Revenues over Expenditures	(176,785)	(843,424)	666,639
Other Financing Sources (Uses)			
Proceeds from bond refunding	4,425,000	171,590	4,253,410
Proceeds from the sale of capital assets and loss recoveries	959,220	82,305	876,915
Bond refunding payments	(4,080,001)	-	(4,080,001)
Transfers in	6,062,793	2,655,041	3,407,752
Transfers out	(6,062,793)	(2,655,041)	(3,407,752)
Total other financing sources	1,304,219	253,895	1,050,324
Net change in fund balance	1,127,434	(589,529)	1,716,963
Fund balances – beginning	1,773,828	2,363,357	(589,529)
Fund balances – ending	\$ 2,901,262	\$ 1,773,828	\$ 1,127,434

Revenues for FY 2011 from governmental funds were more than FY 2010 revenues by \$535,820. The majority of the increase came from taxes \$102,585; licenses and permits \$90,378; intergovernmental funding for operating and capital projects \$446,222; and charges for services \$51,059. Decreases in revenue were in fines and forfeitures of approximately \$138,000.

General Fund Budgetary Highlights

Budget to actual statements and schedules are provided in the financial statements for all major funds. Budget columns are provided for both the original budget adopted as well as the final budget. A column for actual expenditures and a column for differences between final budget and actual expenditures follow these columns.

General Fund revenues came in below budgeted amounts by \$474,770. Operating and/or capital reimbursement grant revenues follow expenditures and the revenue collections may extend beyond a single fiscal year.

General Fund operating expenditures were under amended projections by \$819,421. This reflects departments' efforts to reduce spending as a result of monthly budget reviews at staff meetings and when operating and/or capital grants expenditures on the grant extend beyond a single fiscal year and the unspent budget capacity will be re-budgeted in the next fiscal year.

Capital Assets and Long-Term Debt

Capital Assets

The City's investment in capital assets for governmental activities as of September 30, 2011, totaled \$28,702,631 (net of accumulated depreciation). The City's investment in capital assets for business-type activities as of September 30, 2011, totaled \$2,966,788 (net of accumulated depreciation). This investment in capital assets includes land; improvements and infrastructure; buildings; equipment; and construction in progress. The total decrease of \$484,670 in the City's investment in capital assets (net of accumulated depreciation) for the current fiscal year was 1.5 percent less than last year. The majority of the decrease in governmental activities can be attributed to annual depreciation in excess of additions to capital assets.

Capital Assets (net of depreciation)

<i>September 30,</i>	Governmental Activities		Business-type Activities		Primary Government Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 4,874,087	\$ 4,837,535	\$ 573,045	\$ 573,045	\$ 5,447,132	\$ 5,410,580
Construction in progress	10,298	60,481	-	-	10,298	60,481
Improvements and infrastructure	14,830,893	15,202,335	-	-	14,830,893	15,202,335
Buildings	7,525,520	7,520,018	2,109,054	2,158,716	9,634,574	9,678,734
Equipment	1,145,728	1,092,409	60,787	68,785	1,206,515	1,161,194
Property under capital lease	316,104	358,492	223,902	282,272	540,006	640,764
Total	\$ 28,702,630	\$29,071,270	\$ 2,966,788	\$ 3,082,818	\$ 31,669,418	\$ 32,154,088

Additional information on the City's capital assets can be found in Note 6, beginning on page 35 of this report.

Long-Term Debt

On June 21, 2011, the City received an A+ rating and a stable long term outlook from Standard & Poor's on the City's Series 2011 general obligation warrants scheduled for sale in July. On July 1, 2011, the City issued its Series 2011 General Obligation Refunding Warrants in the amount of \$4,425,000. The net present value of the cash flow savings on the refinancing totaled \$314,325.

Proceeds from the bond issue were used to redeem \$3,905,000 of outstanding Series 2002 bonds and the refunding also provided \$323,757 in funds for street resurfacings, improvements to the Flowers Performing Arts Center, tennis court resurfacings, and the local match for reroofing of the Ozark-Dale County Public Library.

Long-Term Debt

September 30,	Governmental Activities		Business-type Activities		Primary Government Total	
	2011	2010	2011	2010	2011	2010
Changes in long-term liabilities						
Capital leases	\$ 233,402	\$ 319,807	\$ 232,811	\$ 287,523	\$ 466,213	\$ 607,330
Notes payable	-	-	151,281	298,780	151,281	298,780
Compensated absences	318,070	369,388	2,468	1,348	320,538	370,736
Bonds payable, net	5,671,466	5,631,233	-	-	5,671,466	5,631,233
Other postemployment benefit obligation	842,849	692,974	29,915	3,192	872,764	696,166
Total Long-Term Liabilities	\$7,065,787	\$ 7,013,402	\$ 416,475	\$590,843	\$7,482,262	\$ 7,604,245

Additional information on the City's long-term debt can be found in Note 8, beginning on page 38 of this report.

Significant Economic Factors

The Mayor and City Council considered many factors when developing the fiscal year 2012 budget. A budget of \$14.3 million was adopted for the General Fund, \$4.9 million in Special Revenue Funds and \$3.9 million in Enterprise Funds on August 16, 2011, for fiscal year 2012.

Major factors considered in preparing the City's budget for the 2012 fiscal year were:

- There was no health insurance increase for fiscal year 2012 since the City met its third year membership in the State Employees Health Insurance program.
- The 2012 budget included a cost of living adjustment of approximately 2.5 percent.
- The City projected growth in sales tax revenues of approximately 2.0 percent. Sales and use tax collections for 2011 were 2.6 percent more than collections for the prior year. This increase was the basis for projecting limited growth.
- Dale County unemployment rate for September 2011 was 8.9 percent and the rate for September 2010 was 7.9 percent.

Requests For Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Financial Officer, City of Ozark, Office of the City Clerk/Treasurer, 275 North Union Street, Ozark, AL 36361.

BASIC FINANCIAL STATEMENTS

City of Ozark
Statement of Net Assets
September 30, 2011

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 677,164	\$ 90,936	\$ 768,100
Investments	750,000	-	750,000
Receivables	3,095,784	280,113	3,375,897
Prepaid expenses	6,625	9,948	16,573
Other assets	485,240	200,000	685,240
Restricted cash and cash equivalents	578,302	-	578,302
Capital assets, net of depreciation	23,818,246	2,393,743	26,211,989
Land and other nondepreciable capital assets	4,884,385	573,045	5,457,430
Total assets	34,295,746	3,547,785	37,843,531
Liabilities			
Accounts payable	355,705	8,887	364,592
Accrued payroll	118,649	11,802	130,451
Other accrued expenses	341,277	480,791	822,068
Deferred revenue	1,876,228	-	1,876,228
Noncurrent liabilities			
Due within one year			
Notes payable	-	54,552	54,552
Amounts due under capital leases	83,117	56,573	139,690
Bonds payable	317,430	-	317,430
Due in more than one year			
Notes payable	-	96,729	96,729
Amounts due under capital leases	150,285	176,238	326,523
Bonds payable, net	5,354,036	-	5,354,036
Compensated absences	318,070	2,468	320,538
Other post-employment benefits obligation	842,849	29,915	872,764
Total liabilities	9,757,646	917,955	10,675,601
Net Assets			
Invested in capital assets, net of related debt	22,797,763	2,651,679	25,449,442
Restricted:			
Special revenue funds	442,570	-	442,570
General fund	62,618	-	62,618
Unrestricted	1,235,149	(21,849)	1,213,300
Total net assets	\$ 24,538,100	\$ 2,629,830	\$ 27,167,930

See accompanying notes to the financial statements.

City of Ozark
Statement of Activities
For the Year Ended September 30, 2011

Functions/Programs	Expenses	Charges for Services	Program Operating Grants and Contributions
Primary Government			
Governmental Activities:			
General government	\$ 2,681,472	\$ 2,088,570	\$ 8,857
Police department	2,837,929	53,607	206,520
Fire department	2,452,458	30,222	-
Street	929,246	-	-
Sanitation	1,217,398	1,293,313	-
Leisure services	1,528,586	198,764	50,161
Engineering/inspections	120,348	-	-
Vehicle maintenance	170,838	-	-
Airport	21,288	3,822	-
Judicial	193,812	-	-
Appropriations	129,036	-	-
Non-departmental	253,794	-	-
Economic development	246,060	-	8,500
Ozark Technology Center	119,237	-	-
Information technology	185,214	-	-
Education	2,168,415	1,374,666	-
Interest	274,537	-	-
Dues and fees on long term debt	3,166	-	-
Amortization	30,239	-	-
Total governmental activities	15,563,073	5,042,964	274,038
Business-type Activities:			
Emergency medical services	1,211,991	1,137,669	-
Ozark square shopping center	72,540	144,532	-
Total business-type activities	1,284,531	1,282,201	-
Total primary government	\$ 16,847,604	\$ 6,325,165	\$ 274,038

See accompanying notes to financial statements.

Revenues Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets		
	Primary Government		
	Governmental Activities	Business-type Activities	Total
\$ 1,029,062	\$ 445,017	\$ -	\$ 445,017
156,590	(2,421,212)	-	(2,421,212)
-	(2,422,236)	-	(2,422,236)
-	(929,246)	-	(929,246)
-	75,915	-	75,915
5,000	(1,274,661)	-	(1,274,661)
-	(120,348)	-	(120,348)
-	(170,838)	-	(170,838)
14,105	(3,361)	-	(3,361)
-	(193,812)	-	(193,812)
-	(129,036)	-	(129,036)
-	(253,794)	-	(253,794)
-	(237,560)	-	(237,560)
-	(119,237)	-	(119,237)
-	(185,214)	-	(185,214)
-	(793,749)	-	(793,749)
-	(274,537)	-	(274,537)
-	(3,166)	-	(3,166)
-	(30,239)	-	(30,239)
1,204,757	(9,041,314)	-	(9,041,314)
-	-	(74,322)	(74,322)
-	-	71,992	71,992
-	-	(2,330)	(2,330)
\$ 1,204,757	\$ (9,041,314)	\$ (2,330)	\$ (9,043,644)

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City of Ozark
Statement of Activities (Continued)
For the Year Ended September 30, 2011

General Revenues	Net (Expense) Revenue and Changes in Net Assets		
	Primary Government		
	Governmental Activities	Business-type Activities	Total
Sales taxes	\$ 6,225,220	\$ -	\$ 6,225,220
Motor fuel taxes	418,642	-	418,642
Property taxes	687,333	-	687,333
Alcoholic beverage taxes	162,596	-	162,596
Lodging taxes	102,470	-	102,470
Tobacco taxes	263,014	-	263,014
Other taxes	308,608	-	308,608
Miscellaneous	170,264	15,336	185,600
Rental income	121,634	-	121,634
Franchise fees	382,136	-	382,136
Investment earnings	31,843	29	31,872
Special item: Gain on sale of communications tower	857,958	-	857,958
Total general revenues	9,731,718	15,365	9,747,083
Change in net assets	690,404	13,035	703,439
Net Assets - beginning	23,847,696	2,616,795	26,464,491
Net Assets - ending	\$ 24,538,100	\$ 2,629,830	\$ 27,167,930

See accompanying notes to financial statements.

**City of Ozark
Balance Sheet
Governmental Funds
September 30, 2011**

	General Fund	Special Ad Valorem I	Special Ad Valorem II
Assets			
Cash and cash equivalents	\$ 677,120	\$ -	\$ -
Investments	750,000	-	-
Receivables	1,828,637	618,284	618,284
Due from other funds	535,313	-	-
Prepays	6,625	-	-
Other assets	4,450	-	-
Restricted cash and cash equivalents	62,618	24	45
Total assets	\$ 3,864,763	\$ 618,308	\$ 618,329
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 298,131	\$ -	\$ -
Due to other funds	231,998	-	-
Accrued payroll	118,649	-	-
Other accrued expenses	139,009	-	-
Deferred revenue	618,284	618,284	618,284
Total liabilities	1,406,071	618,284	618,284
Fund balances			
Nonspendable	553,516	-	-
Restricted	62,618	24	45
Unassigned	1,842,558	-	-
Total fund balances	2,458,692	24	45
Total liabilities and fund balances	\$ 3,864,763	\$ 618,308	\$ 618,329

See accompanying notes to financial statements.

Other Governmental Funds	Total Governmental Funds
\$ 44	\$ 677,164
-	750,000
30,579	3,095,784
34,101	569,414
-	6,625
-	4,450
515,615	578,302
<hr/>	
\$ 580,339	\$ 5,681,739
<hr/>	
\$ 59,836	\$ 357,967
56,626	288,624
-	118,649
-	139,009
21,376	1,876,228
<hr/>	
137,838	2,780,477
<hr/>	
-	553,516
442,501	505,188
-	1,842,558
<hr/>	
442,501	2,901,262
<hr/>	
\$ 580,339	\$ 5,681,739
<hr/>	

City of Ozark

**Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Assets
September 30, 2011**

Differences in amounts reported for governmental activities in the Statement of Net Assets:

Total fund balance - governmental funds	\$ 2,901,262
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Capital assets used in governmental activities are not current financial resources and therefore are not reported in the fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.	28,702,630
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Some liabilities are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets:

Capital leases payable	(233,402)
Bonds and notes payable, net	(5,671,471)
Accrued compensated absences	(318,070)
Accrued other post-employment benefits	(842,849)

Net Assets of Governmental Activities in the Statement of Net Assets	\$ 24,538,100
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City of Ozark

**Statement of Revenues, Expenditures and Changes in Fund
Balances - Governmental Funds
For the Year Ended September 30, 2011**

	General Fund	Special Ad Valorem I	Special Ad Valorem II
Revenues			
Taxes	\$ 7,851,225	\$ 687,333	\$ 687,333
Licenses and permits	1,797,582	-	-
Intergovernmental	762,839	-	-
Charges for services	1,458,049	-	-
Fines and forfeitures	801,980	-	-
Investment earnings	31,297	-	-
Miscellaneous	201,711	-	-
Total revenues	12,904,683	687,333	687,333
Expenditures			
General government	1,100,878	-	-
Ozark Board of Education	793,749	687,333	687,333
Vehicle maintenance	164,958	-	-
Police department	2,559,278	-	-
Information technology	169,347	-	-
Fire department	2,287,908	-	-
Airport	18,582	-	-
Sanitation	1,163,838	-	-
Street	848,226	-	-
Leisure services	1,342,448	-	-
Appropriations	129,036	-	-
Judicial	184,785	-	-
Economic development	181,070	-	-
Engineering/inspections	116,408	-	-
Ozark Technology Center	93,176	-	-
Non-departmental	253,794	-	-
Debt service			
Principal	-	-	-
Interest	-	-	-
Dues, fees and issuance costs	-	-	-
Capital outlay	837,161	-	-
Total expenditures	12,244,642	687,333	687,333
Excess (deficiency) of revenues over expenditures	660,041	-	-

See accompanying notes to financial statements.

Other Governmental Funds	Total Governmental Funds
\$ 188,384	\$ 9,414,275
-	1,797,582
776,244	1,539,083
-	1,458,049
-	801,980
546	31,843
38,888	240,599
<hr/>	
1,004,062	15,283,411
<hr/>	
372,850	1,473,728
-	2,168,415
-	164,958
145,783	2,705,061
-	169,347
-	2,287,908
-	18,582
-	1,163,838
-	848,226
-	1,342,448
-	129,036
5,095	189,880
-	181,070
-	116,408
-	93,176
-	253,794
386,405	386,405
191,720	191,720
120,986	120,986
618,049	1,455,210
<hr/>	
1,840,888	15,460,196
<hr/>	
(836,826)	(176,785)
<hr/>	

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City of Ozark

**Statement of Revenues, Expenditures and Changes in Fund
Balances - Governmental Funds (Continued)**
For the Year Ended September 30, 2011

	General Fund	Special Ad Valorem I	Special Ad Valorem II
Other Financing Sources (Uses)			
Transfers in (out)	(476,503)	-	-
Proceeds from bond refunding	-	-	-
Bond refunding payments	-	-	-
Proceeds from sale of capital assets	60,635	-	-
Loss recoveries	3,695	-	-
Special item: Net proceeds from sale of communications tower	887,958	-	-
Total other financing sources (uses)	475,785	-	-
Excess revenues and other sources over (under) expenditures and other (uses)	1,135,826	-	-
Fund Balances - beginning	1,322,866	24	45
Fund Balances - ending	\$ 2,458,692	\$ 24	\$ 45

See accompanying notes to financial statements.

Other Governmental Funds	Total Governmental Funds
476,503	-
4,425,000	4,425,000
(4,080,001)	(4,080,001)
6,932	67,567
-	3,695
-	887,958
<u>828,434</u>	<u>1,304,219</u>
(8,392)	1,127,434
<u>450,893</u>	<u>1,773,828</u>
<u>\$ 442,501</u>	<u>\$ 2,901,262</u>

City of Ozark

**Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities
For the Year Ended September 30, 2011**

Differences in amounts reported for governmental activities in the Statement of Activities:

Net change in fund balances - total governmental funds: \$ 1,127,434

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. 1,455,210

Depreciation expense on governmental capital assets is included in the governmental activities in the Statement of Net Assets. (1,834,714)

Repayment of debt is reported as an expenditure in governmental funds, but as a reduction in long-term liabilities in the Statement of Net Assets 386,405

The net effect of various transactions involving the refinancing of bonds payable (remove and record unamortized issuance costs and discounts, payments to bond agent, etc.) is to increase net assets (350,981)

The net effect of various miscellaneous transactions involving capital assets (i.e., exchanges, loss recoveries) is to increase net assets 11,188

Additional interest expense due to deferred loss on bond refunding and discount and amortization of bond issue costs 113,055

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Other post employment health benefits liability (165,875)

Compensated absences (51,318)

Change in net assets of governmental activities \$ 690,404

See accompanying notes to financial statements.

City of Ozark

**Statement of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual - General Fund
For the Year Ended September 30, 2011**

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues				
Taxes	\$ 7,721,690	\$ 7,928,972	\$ 7,851,225	\$ (77,747)
Licenses and permits	1,595,117	1,805,036	1,797,582	(7,454)
Intergovernmental	281,510	912,339	762,839	(149,500)
Charges for services	1,536,673	1,545,164	1,458,049	(87,115)
Fines and forfeitures	981,422	878,937	801,980	(76,957)
Investment earnings	29,816	30,121	31,297	1,176
Miscellaneous	234,532	278,884	201,711	(77,173)
Total revenues	12,380,760	13,379,453	12,904,683	(474,770)
Expenditures				
General government	1,074,746	1,163,871	1,100,878	62,993
Vehicle maintenance	191,233	178,656	164,958	13,698
Police department	2,584,360	2,613,339	2,559,278	54,061
Information technology	169,354	171,640	169,347	2,293
Fire department	2,365,473	2,345,311	2,287,908	57,403
Airport	19,813	24,541	18,582	5,959
Sanitation	1,274,723	1,225,010	1,163,838	61,172
Street	791,793	920,519	848,226	72,293
Leisure services	1,485,511	1,397,645	1,342,448	55,197
Appropriations	130,500	130,500	129,036	1,464
Judicial	196,621	197,402	184,785	12,617
Economic development	219,547	218,502	181,070	37,432
Engineering/inspections	126,193	126,329	116,408	9,921
Ozark Technology Center	110,912	111,126	93,176	17,950
Non-departmental	228,591	259,419	253,794	5,625
Education	779,281	796,447	793,749	2,698
Capital outlay	162,400	1,183,806	837,161	346,645
Total expenditures	11,911,051	13,064,063	12,244,642	819,421
Excess (deficiency) of revenues over expenditures	469,709	315,390	660,041	344,651
Other Financing Sources (Uses)				
Loss recoveries	5,000	5,000	3,695	(1,305)
Proceeds from the sale of capital assets	5,000	948,577	948,593	16
Transfers in (out)	(448,590)	(534,688)	(476,503)	58,185
Total other financing sources (uses)	(438,590)	418,889	475,785	56,896
Excess revenue and other sources over expenditures	31,119	734,279	1,135,826	401,547
Fund Balances - beginning	1,223,753	1,223,753	1,322,866	99,113
Fund Balances - ending	\$ 1,254,872	\$ 1,958,032	\$ 2,458,692	\$ 500,660

See accompanying notes to financial statements.

City of Ozark

**Statement of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual - Special Ad Valorem Fund I
For the Year Ended September 30, 2011**

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues				
Taxes	\$ 689,420	\$ 689,420	\$ 687,333	\$ (2,087)
Expenditures				
Education	689,420	689,420	687,333	2,087
Excess revenues over expenditures	-	-	-	-
Fund Balances - beginning	24	24	24	-
Fund Balances - ending	\$ 24	\$ 24	\$ 24	-

See accompanying notes to financial statements.

City of Ozark

**Statement of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual - Special Ad Valorem Fund II
For the Year Ended September 30, 2011**

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues				
Taxes	\$ 689,420	\$ 689,420	\$ 687,333	\$ (2,087)
Expenditures				
Education	689,420	689,420	687,333	2,087
Excess revenues over expenditures	-	-	-	-
Fund Balances - beginning	45	45	45	-
Fund Balances - ending	\$ 45	\$ 45	\$ 45	\$ -

See accompanying notes to financial statements.

City of Ozark
Statement of Net Assets
Proprietary Funds
September 30, 2011

	Business-Type Activities		
	Emergency Medical Services	Ozark Square Shopping Center	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 80,238	\$ 10,698	\$ 90,936
Receivables, net	278,213	1,900	280,113
Prepaid expenses	5,293	4,655	9,948
Due from other funds	-	200,000	200,000
Total current assets	363,744	217,253	580,997
Noncurrent assets			
Land	-	573,045	573,045
Capital assets, net of depreciation	284,689	2,109,054	2,393,743
Total noncurrent assets	284,689	2,682,099	2,966,788
Total assets	648,433	2,899,352	3,547,785
Liabilities			
Current liabilities			
Accounts payable	8,094	793	8,887
Due to other funds	480,791	-	480,791
Accrued payroll	11,802	-	11,802
Noncurrent liabilities			
Due within one year			
Amount due under capital lease	56,573	-	56,573
Note payable	-	54,552	54,552
Due in more than one year			
Amount due under capital lease	176,238	-	176,238
Bond payable	68,984	-	68,984
Note payable	-	27,745	27,745
Compensated absences	2,468	-	2,468
Other post-employment benefits obligation	29,915	-	29,915
Total liabilities	834,865	83,090	917,955
Net Assets			
Invested in capital assets, net of related debt	51,878	2,599,801	2,651,679
Unrestricted (deficit)	(238,310)	216,461	(21,849)
Total net assets (deficit)	\$ (186,432)	\$ 2,816,262	\$ 2,629,830

See accompanying notes to financial statements.

City of Ozark

Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the Year Ended September 30, 2011

	Business-Type Activities		
	Emergency Medical Services	Ozark Square Shopping Center	Total
Operating Revenues			
Charges for services (net of provision for bad debts of \$157,684)	\$ 979,985	\$ -	\$ 979,985
Rental income	-	144,532	144,532
Total operating revenues	979,985	144,532	1,124,517
Operating Expenses			
Salaries and benefits	780,869	-	780,869
Rental expense	12,540	-	12,540
Repairs and maintenance	37,349	1,994	39,343
Utilities	12,811	10,222	23,033
Insurance	8,579	4,195	12,774
Legal	-	590	590
Depreciation	75,288	49,529	124,817
Other operating expenses	106,438	3,484	109,922
Total operating expenses	1,033,874	70,014	1,103,888
Operating (loss) income	(53,889)	74,518	20,629
Non-Operating Revenues (Expenses)			
Miscellaneous revenues	11,271	4,065	15,336
Interest income	29	-	29
Interest expense	(20,433)	(2,526)	(22,959)
Non-operating (loss) income	(9,133)	1,539	(7,594)
Change in net assets	(63,022)	76,057	13,035
Total Net Assets (Deficit) - beginning	(123,410)	2,740,205	2,616,795
Total Net Assets (Deficit) - ending	\$ (186,432)	\$ 2,816,262	\$ 2,629,830

See accompanying notes to financial statements.

City of Ozark
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2011

Business-Type Activities

	Emergency Medical Services	Ozark Square Shopping Center	Total
Cash Flows From Operating Activities			
Receipts from customers and users	\$ 701,771	\$ 141,702	\$ 843,473
Payments to suppliers	(169,623)	(19,637)	(189,260)
Payments to employees	(741,223)	-	(741,223)
Net cash (used for) provided by operating activities	(209,075)	122,065	(87,010)
Cash Flows From Noncapital and Related Financing Activities			
Proceeds from insurance	5,419	-	5,419
Loans from (to) other funds	453,017	(166,407)	286,610
Net cash provided by (used for) noncapital and related financing activities	458,436	(166,407)	292,029
Cash Flows From Capital and Related Financing Activities			
Capital contributions	5,850	-	5,850
Interest payments on long-term debt	(20,433)	(2,526)	(22,959)
Principal payments on long-term debt	(148,878)	(53,332)	(202,210)
Proceeds from disposition of capital assets	-	4,197	4,197
Purchases of capital assets	(8,920)	-	(8,920)
Net cash provided by (used for) capital and related financing activities	(172,381)	(51,661)	(224,042)
Cash Flows From Investing Activities			
Interest received	29	-	29
Net increase (decrease) in cash and cash equivalents	77,009	(96,003)	(18,994)
Cash and Cash Equivalents - beginning	3,229	106,701	109,930
Cash and Cash Equivalents - ending	\$ 80,238	\$ 10,698	\$ 90,936

-Continued-

See accompanying notes to financial statements.

City of Ozark
Statement of Cash Flows
Proprietary Funds (Continued)
For the Year Ended September 30, 2011

Business-Type Activities

	Emergency Medical Services	Ozark Square Shopping Center	Total
Reconciliation of Operating Income to Net			
Cash Provided by Operating Activities			
Operating (loss) income	\$ (53,889)	\$ 74,518	\$ 20,629
Adjustments to reconcile operating (loss) income to net cash provided by operating activities:			
Depreciation	75,288	49,529	124,817
Provision for bad debts	157,684	-	157,684
Changes in operating assets and liabilities:			
(Increase) decrease in receivables	(393,978)	(1,900)	(395,878)
Increase (decrease) in accounts payable	(21,553)	(82)	(21,635)
Increase (decrease) in salaries and benefits payable	27,373	-	27,373
Net cash (used for) provided by operating activities	\$ (209,075)	\$ 122,065	\$ (87,010)

See accompanying notes to financial statements.

Notes to Financial Statements

NOTE

1. Summary of Significant Accounting Policies
2. Stewardship, Compliance, and Accountability
3. Deposits
4. Receivables – Governmental Funds
5. Receivables – Proprietary Funds
6. Capital Assets
7. Deferred Revenue
8. Long-Term Debt
9. Risk Management and Litigation
10. Contingent Liabilities
11. Deferred Compensation Plan
12. Retirement Plan
13. Postemployment Health Care Benefits
14. Interfund Balances and Transfers
15. Related Party Transactions
16. Subsequent Events
17. Special Items

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the primary government of the City of Ozark (the "City") have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following notes to the financial statements are an integral part of the City's basic financial statements.

Reporting Entity

The City is a municipal corporation governed by an elected mayor and City Council. The accompanying financial statements present only the primary government of the City and exclude certain component units, as noted below. The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for agencies that make up its legal entity. It is also financially accountable for a legally separate agency if its officials appoint a voting majority of that agency's governing body and either it is able to impose its will on that agency or there is a potential for the agency to provide specific financial benefits to, or to impose specific financial burdens on, the primary government.

As noted above, these financial statements are for the primary government of the City and do not include any financial information for the following component units: Ozark City Board of Education, the Public Building Authority of the City of Ozark, the Downtown Redevelopment Authority, the City of Ozark Volunteer Fire Department, and the Industrial Development Board.

Government-wide and Fund Financial Statements

The basic financial statements consist of the government-wide financial statements and fund financial statements. Government-wide financial statements are comprised of the statement of net assets and the statement of activities and report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent upon fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues are classified into three categories: charges for services, operating grants and contributions, and capital grants and contributions. Charges for services refer to direct recovery from customers for services rendered. Grants and contributions refer to revenues restricted for specific programs whose use may be restricted further to operational or capital items. The general revenues section displays revenue collected that helps support all functions of government and contribute to the change in the net assets for the fiscal year. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The fund financial statements follow and report additional and detailed information about operations for major funds individually and nonmajor funds in the aggregate for governmental and fiduciary funds. A reconciliation is provided that converts the results of governmental fund accounting to the government-wide presentations.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period, considered to be thirty days for property taxes, sales taxes, and interest. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. 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.

In applying the susceptibility-to-accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended for the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and substantially irrevocable; i.e., revocable only for failure to comply with prescribed compliance requirements, such as with equal employment opportunity. These recourses are reflected as revenues at the time of receipt or earlier if they meet the availability criterion.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Ozark Square Shopping Center are charges to customers for rent. The principal operating revenues of the Emergency Medical Services ("EMS") are charges to patients for emergency transports. Operating expenses for the enterprise funds include the cost of maintaining and operating buildings, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

The following are reported as major governmental funds:

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.

Special Ad Valorem I – This fund accounts for the Special City School Ad Valorem Tax of 7.0 mills which is levied and collected by the City and remitted to the Ozark City Board of Education. The referendum passed on August 5, 1986.

Special Ad Valorem II – This fund accounts for the Special City School Ad Valorem Tax of 7.0 mills which is levied and collected by the City and remitted to the Ozark City Board of Education. The referendum passed on September 8, 1987.

Cash and Cash Equivalents

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of inter-fund loans) or "advances to/from other funds" (i.e., the non-current portion of inter-fund loans). All other outstanding balances between funds are reported as "due to/from other funds."

In Alabama, City property taxes are levied by the County Commission at its first regular meeting in February of each year based on the property on record as of the preceding October 1. The taxes are due the following October 1 and delinquent after December 31st. In accordance with the non-exchange transactions provision of GASB Statement No. 33, taxes levied in fiscal year 2010 for the 2011 budget year have been recorded as receivables and deferred revenue.

Accounts Receivable

The City considered all governmental fund receivables at year end to be collectible and as such, no allowance for uncollectibles is reported. Proprietary fund receivables are due primarily from ambulance service third party payors or transports. A contractual and uncollectible allowance has been recorded based on contractual and historical experience.

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Cash and Cash Equivalents

The assets restricted by bond agreement as shown in the statement of net assets are to be used strictly to retire the long-term debt. The assets were accumulated according to the bond indenture of the various issues. It is the City's policy to use restricted assets before unrestricted assets when both are available to fund specific expenditures.

Inventories

Purchases of inventories are reported as expenditures in the period purchased. Inventories are not deemed material and are not reported on the balance sheet.

Investments

The City's investments are limited to certificates of deposits and money market accounts held at federally insured banks. These investments are reported at fair value.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of \$2,500 with an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The City did not report infrastructure acquired prior to October 1, 2003.

The costs 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:

Buildings	20 – 50 years
Improvements and infrastructure	7 – 40 years
Obligations under capital lease	8 – 10 years
Equipment	5 – 20 years

Compensated Absences

The City allows employees to accumulate vacation and sick leave up 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 for the current portion of compensated absences expected to be paid using expendable available resources.

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)***Long-Term Obligations***

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Assets/Fund Equity

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

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

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

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

Fund equity is reported in the fund financial statements. The City has adopted GASB Statement No. 54 for reporting on its September 30, 2011 fund financial statements. Implementation of GASB Statement No. 54 is required for fiscal years beginning after June 15, 2010. The intention of GASB Statement No. 54 is to provide a more structured classification of fund balances and to improve the usefulness of fund balance reporting to the users of the City's financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources.

GASB Statement No. 54 provides for two major types of fund balances: nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. The City has gas and diesel inventory, prepaid expenditures, and a long term receivable from the Utilities Board that are considered nonspendable.

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In addition to the nonspendable fund balance, GASB Statements No. 54 has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints:

Restricted – Fund balances that are constrained by external parties, constitutional provisions or enabling legislation. The City’s restricted fund balance primarily includes federal, state, and local grant funds that are for a stated purpose per the grant agreements.

Committed – Fund balances that contain self-imposed constraints of the government from its highest level of decision making authority. The City has no fund balances classified as committed.

Assigned – Fund balances that contain self-imposed constraints of the government to be used for a particular purpose. The City has no fund balances classified as assigned.

Unassigned – Fund balances of the general fund that are not constrained for any particular purpose.

The City’s reported governmental fund balance at September 30, 2011 is comprised of the following:

	General Fund	Special Ad Valorem I	Special Ad Valorem II	Nonmajor Funds	Total
Nonspendable	\$ 553,516	\$ -	\$ -	\$ -	\$ 553,516
Restricted	62,618	24	45	442,501	505,188
Unassigned	1,842,558	-	-	-	1,842,558
	\$ 2,458,692	\$ 24	\$ 45	\$ 442,501	\$ 2,901,262

Nonspendable fund balances include inventory of \$4,450, prepaid items of \$6,625, and long-term accounts receivable of \$542,441.

Restricted fund balances include ad valorem taxes due to the Ozark City Board of Education of \$69; funds available for street paving and resurfacing of \$17,891; grant funds available for housing revitalization projects of \$25,253; grant funds available for the purchase of equipment and supplies for the Wiregrass Violent Crime and Drug Task Force of \$16,036; costs and charges fixed by law for municipal court violation of \$12,997; capital improvements for the Flowers Center for Performing Arts, resurfacing tennis courts, and roofing of the Ozark-Dale County Public Library totaling \$123,542; debt service principal, interest, and paying agent fees of \$234,429; grant funds available for the purchase of equipment and supplies for the police department of \$5,501; grant funds available for repairs due to storm damage of \$6,442; grant funds available for softball batting cages and downtown capital improvements of \$9,857; and grant funds available for capital improvement projects related to airport expansion and downtown canopies of \$52,761.

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)***Management Estimates and Assumptions***

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

Reclassifications

Certain 2010 amounts reported in Management's Discussion and Analysis have been reclassified, where appropriate, to conform to the 2011 presentation.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY***Budgetary Information***

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 of 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 generally accepted accounting principles (GAAP).

NOTE 3 – DEPOSITS

The City has elected to place its cash and cash equivalents in demand deposit, savings, and money market accounts. Demand and time deposits are fully insured and collateralized by the Federal Deposit Insurance Corporation (FDIC) and the Security for Alabama Funds Enhancement (SAFE) Program operated by the office of the Treasurer of the State of Alabama as authorized by Section 41-14A of the Code of Alabama 1975, as amended.

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 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.

Notes to Financial Statements

NOTE 3 – DEPOSITS (Continued)

Restricted cash and investments were comprised of the following at September 30, 2011:

	Governmental
Cash	
Restricted for General Fund	\$ 62,618
Restricted for Special Revenue Funds	515,684
Total restricted cash	\$ 578,302

NOTE 4 – RECEIVABLES – GOVERNMENTAL FUNDS

Receivables at September 30, 2011 consist of the following:

	General Fund	Special Ad Valorem I	Special Ad Valorem II	Nonmajor Funds	Total
Accounts receivable	\$ 667,912	\$ -	\$ -	\$ 30,579	\$ 698,491
Property taxes receivable	618,284	618,284	618,284	-	1,854,852
Note receivable—Utilities Board	542,441	-	-	-	542,441
	\$1,828,637	\$ 618,284	\$ 618,284	\$ 30,579	\$ 3,095,784

Included in receivables is a \$542,441 note receivable due from the Utilities Board of the City of Ozark. The note is due in monthly installments through February 2026 with interest ranging from 3.35% to 5%.

NOTE 5 – RECEIVABLES – PROPRIETARY FUNDS

The Emergency Medical Services fund reports patient transport accounts receivable as net of contractual allowances and allowance for doubtful accounts.

Accounts receivable from patients, third parties and/or insurance carriers at September 30, 2011 consists of the following:

Medicare	\$ 558,557
Medicaid	216,500
Insurance providers	105,825
Patients	195,112
	1,075,994
Less contractuals and allowance for doubtful accounts	(797,781)
Net patient transport accounts receivable	\$ 278,213

Notes to Financial Statements

NOTE 6 – CAPITAL ASSETS

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

	Beginning Balance 10/1/10	Increases	Decreases	Ending Balance 9/30/11
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 4,837,535	\$ 41,248	\$ 4,696	\$ 4,874,087
Construction in progress	60,481	324,419	374,602	10,298
Total capital assets, not being depreciated	\$ 4,898,016	\$ 365,667	\$ 379,298	\$ 4,884,385
Capital assets being depreciated				
Buildings	\$ 11,855,272	\$ 323,730	\$ 30,000	\$12,149,002
Improvements and Infrastructure	33,892,433	813,829	-	34,706,262
Equipment	5,200,625	380,805	246,148	5,335,282
Property under capital Leases	413,239	-	-	413,239
Total capital assets being depreciated	51,361,569	1,518,364	276,148	52,603,785
Less accumulated depreciation for:				
Buildings	(4,335,254)	(288,228)	-	(4,623,482)
Improvements and Infrastructure	(18,690,099)	(1,185,271)	-	(19,875,369)
Equipment	(4,108,216)	(318,828)	237,490	(4,189,554)
Property under capital Leases	(54,746)	(42,387)	-	(97,134)
Total accumulated depreciation	(27,188,315)	(1,834,714)	237,490	(28,785,539)
Total capital assets, being depreciated, net	\$ 24,173,254	\$ (316,350)	\$ 38,658	\$ 23,818,246
Governmental activities capital assets, net	\$ 29,071,270	\$ 49,317	\$ 417,956	\$ 28,702,631
Business-Type Activities:				
Capital assets, not being depreciated:				
Land	\$ 573,045	\$ -	\$ -	\$ 573,045

Notes to Financial Statements

NOTE 6 – CAPITAL ASSETS (Continued)

Capital assets being depreciated				
Buildings	\$ 2,257,756	\$ -	\$ 150	\$ 2,257,606
Equipment	70,929	8,920	-	79,849
Property under capital lease	292,000	-	-	292,000
Total capital assets being depreciated	2,620,685	8,920	150	2,629,455
Less accumulated depreciation for:				
Buildings	(99,041)	(49,529)	(17)	(148,553)
Equipment	(2,142)	(16,918)	-	(19,060)
Property under capital lease	(9,729)	(58,370)	-	(68,099)
Total accumulated depreciation	(110,912)	(124,817)	(17)	(235,712)
Total capital assets, being depreciated, net	\$ 2,509,773	\$ (115,897)	\$ 133	\$ 2,393,743
Business-type activities capital assets, net	\$ 3,082,818	\$ (115,897)	\$ 133	\$ 2,966,788

Construction in progress at September 30, 2011 is comprised of amounts relating to ongoing downtown streetscape projects. These projects will be completed in fiscal year 2012 and estimated remaining costs to complete are not anticipated to be significant.

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities

General government	\$ 1,215,073
Vehicle maintenance	5,270
Police department	113,347
Information technology	16,391
Fire department	113,259
Airport	2,706
Sanitation department	46,391
Street department	57,651
Leisure services	170,741
Judicial	2,079
Economic development	63,939
Engineering/inspections	2,972
Ozark Technology Center	24,895

Total depreciation expense – Governmental Activities	\$ 1,834,714
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Notes to Financial Statements

NOTE 6 – CAPITAL ASSETS (Continued)

Business-Type Activities

Emergency Medical Services	\$	75,288
Ozark Square Shopping Center		49,529
<hr/>		
Total depreciation expense – Business-Type Activities	\$	124,817

NOTE 7 – DEFERRED REVENUE

Governmental Activities:	General Fund	Special Ad Valorem I	Special Ad Valorem II
Property Taxes – Property taxes are levied by the County Commission in February of each year based on property on record as of the preceding October 1. The enforceable legal claim exists as of October 1 preceding the February meeting of the County Commission. The actual billing and collection of these taxes will occur subsequent to year-end.	\$ 618,284	\$ 618,284	\$ 618,284
Grant Revenues – Grant revenues received from various agencies to be spent in accordance with the respective grant agreement.	-	-	-
	<hr/>	<hr/>	<hr/>
	\$ 618,284	\$ 618,284	\$ 618,284

(Continued)	Department of Justice	FEMA	CDBG	Total
Property Taxes – Property taxes are levied by the County Commission in February of each year based on property on record as of the preceding October 1. The enforceable legal claim exists as of October 1 preceding the February meeting of the County Commission. The actual billing and collection of these taxes will occur subsequent to year-end.	\$ -	\$ -	\$ -	\$ 1,854,852
Grant Revenues – Grant revenues received from various agencies to be spent in accordance with the respective grant agreement.	1,757	11,564	8,055	21,376
	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 1,757	\$ 11,564	\$ 8,055	\$ 1,876,228

Notes to Financial Statements

NOTE 8 – LONG-TERM DEBT

Changes in long-term debt for the year ended September 30, 2011 was as follows:

	Beginning Balance 10/1/10	Additions	Reductions	Ending Balance 9/30/11	Due Within One Year
Governmental Activities					
Capital leases	\$ 319,807	\$ -	\$ 86,405	\$ 233,402	\$ 83,117
Compensated absences	369,388	-	51,318	318,070	-
Bonds payable	5,810,000	4,425,000	4,205,000	6,030,000	365,000
Unamortized loss on debt refunding	(26,902)	13,026	149,050	(162,926)	(13,026)
Unamortized issue costs	(107,504)	82,313	117,821	(143,012)	(30,239)
Unamortized discount	(44,361)	44,900	53,135	(52,596)	(4,305)
Other postemployment benefits	692,974	282,706	132,831	842,849	-
Governmental activity long-term liabilities	\$7,013,402	\$ 4,847,945	\$ 4,795,560	\$7,065,787	\$ 400,547
Business-Type Activities					
Notes payable—lines of credit	\$ 298,781	\$ 160,833	\$ 308,333	\$ 151,281	\$ 54,552
Compensated absences	1,347	1,121	-	2,468	-
Capital lease	287,523	-	54,712	232,811	56,573
Other postemployment benefits	3,192	26,723	-	29,915	-
Business-type activity long-term liabilities	\$ 590,843	\$ 188,677	\$ 363,045	\$ 416,475	\$ 111,125

Governmental activities, claims, obligations, and compensated absences are generally liquidated by the general fund. Long-term debt payable at September 30, 2011 is comprised of the following issues:

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

	Principal Balance
\$4,425,000 General Obligation Warrants, Series 2011, dated July 1, 2011, payable in annual installments from 2012 through 2026, interest rates range from 2 to 3.75 percent.	\$ 4,425,000
\$2,970,000 General Obligation Warrants, Series 2004, dated December 1, 2004, payable in annual installments from 2005 through 2018, interest rates range from 3 to 4 percent.	1,605,000
	\$ 6,030,000

Notes to Financial Statements

NOTE 8 – LONG-TERM DEBT (Continued)

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. As required by GASB Statement No. 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, 2011 is \$3,710 and is reported as part of interest expense. The balance of deferred refunding cost at September 30, 2011 is \$23,192.

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, 2011 is \$5,544. Remaining issuance costs to be deferred to future periods is \$32,555. Original issue discount in the amount of \$13,840 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, 2011 is \$984. Remaining original issue discount to be deferred to future periods is \$2,782.

On July 1, 2011, the City issued its Series 2011 General Obligation Refunding Warrants in the amount of \$4,425,000. Proceeds of the bond were used to redeem \$3,905,000 of outstanding Series 2002 bonds and to provide \$323,757 in funds for the construction of capital improvements. The net proceeds of \$3,930,287 plus an additional \$96,579 from the 2002 Series sinking fund were used to repay bondholders on August 8, 2011. As a result, the 2002 Series bonds are considered to be defeased and the liability for those bonds has been removed from the City's outstanding general obligations warrants.

The City's refunding of the 2002 Series bonds was to obtain additional proceeds that could be used for construction of capital improvements for street resurfacings, improvements to the Flowers Performing Arts Center, tennis court resurfacings, and provide the local match for re-roofing of the Ozark-Dale County Public Library. The net present value of the cash flow savings totaled \$314,325 and represents the difference between the net present value of the net cash flows of the old and new debt and the additional bond proceeds for construction of capital improvements. The remaining unamortized issuance costs of \$69,405 and unamortized original issue discount of \$40,595 were amortized at September 30, 2011 and reported in the Statement of Activities.

As required by GASB Statement No. 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 costs and amortized over the life of the old debt on the straight line basis. The amount of deferred refunding costs on the 2002 bond refunding was \$149,050. The total amount amortized for the year ended September 30, 2011 was \$9,316. The balance on the deferred refunding cost at September 30, 2011 is \$139,734.

The Series 2011 bonds are reported net of issuance costs and original issue discount. Issuance costs of \$117,821 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 2011 bonds for the year ended September 30, 2011 is \$7,364. Remaining issuance costs to be deferred to future

Notes to Financial Statements

NOTE 8 – LONG-TERM DEBT (Continued)

periods is \$110,457. Original issue discount in the amount of \$53,135 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 2011 bonds for the year ended September 30, 2011 is \$3,321. Remaining original issue discount to be deferred to future periods is \$49,814.

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

Year Ending September 30,	Principal	Interest	Total
2012	\$ 365,000	\$ 189,059	\$ 554,059
2013	375,000	178,296	553,296
2014	385,000	167,021	552,021
2015	395,000	155,219	550,219
2016	410,000	142,928	552,928
Thereafter	4,100,000	727,780	4,827,780
	\$ 6,030,000	\$ 1,560,303	\$ 7,590,303

In 2008 and 2011, the City entered into two separate lease agreements as lessee for financing the acquisition of two automated garbage trucks. In April 2009, the City entered into an agreement as lessee for financing the acquisition of a commercial tractor mower. In August 2010, the City entered into an agreement as lessee for financing the acquisition of ambulances for EMS. These lease agreements qualify as capital leases for accounting purposes (title transfer at the end of the lease term) and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of inception. The equipment has been recorded at in capital assets as follows:

Asset	Amount
Automated garbage truck - 2008	\$ 199,100
Automated garbage truck - 2011	171,590
Commercial tractor mower - 2009	42,539
Ambulances and SUV – EMS	292,000
Total equipment under capital lease	705,229
Accumulated depreciation	165,232
Total equipment under capital lease, net	\$ 539,997

The following is a schedule of the future minimum lease payments under the capital leases and the present value of the net minimum lease payments at September 30, 2011:

Notes to Financial Statements

NOTE 8 – LONG-TERM DEBT (Continued)

Year Ending September 30,	Amount
2012	\$ 153,387
2013	144,193
2014	108,070
2015	89,331
Total minimum lease payments	494,981
Less: amount representing interest	(28,768)
<u>Present value of future minimum lease payments</u>	<u>\$ 466,213</u>

The interest rates range from 3.35 to 6.99 percent.

The EMS Proprietary fund reported a note payable from Branch Banking & Trust as follows:

	Principal Balance at 9/30/11
\$340,000 Note payable general obligation warrant to fund the start up of the EMS division, including the purchase of ambulances. The City Council approved the terms and conditions of the line of credit at a taxable interest rate of 5.5% on August 3, 2010. The City is responsible for monthly interest payments while draws are being made and will convert the line of credit to a 5-year bank loan within eighteen months.	\$ 68,984

The Ozark Square Shopping Center Proprietary fund reported a note payable from the Commercial Bank as follows:

	Principal Balance at 9/30/11
\$200,000 Note payable to repair roof and other ancillary infrastructure at the City owned Ozark Square Shopping Center and to purchase the Mossy Oak Trailer Park. The City Council approved the line of credit to Commercial Bank at an interest rate of 2.24% on June 16, 2009. The City is responsible for monthly interest on the line of credit while draws are being made and began making principal payments during 2010. Upon completion of the renovations, the line of credit will be converted to a 3-year bank loan.	\$ 82,297

NOTE 9 – RISK MANAGEMENT AND LITIGATION

The City of Ozark is exposed to various risks of 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.

Notes to Financial Statements

NOTE 10 – CONTINGENT LIABILITIES

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

The City is a defendant in several pending lawsuits. It is the opinion of management that the City is adequately insured against loss in each of these cases and any potential losses would not be significant. As such, no liability has been reported for any pending litigation.

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 entered into a Supplemental 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 guarantee to the bank will not exceed \$29,150 as stated in the agreement.

NOTE 11 – 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 salary 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 government bankruptcy. The City's deferred compensation plan meets the requirements of this law therefore no statement presentation is required.

NOTE 12 – RETIREMENT PLAN

The City of Ozark, Alabama 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, Alabama. Benefits vest after 10 years of creditable service. Vested employees may retire with full benefits at age 60 or after 25 years of service.

Retirement benefits are calculated by two methods with the retiree receiving payment under the method that yields the highest monthly benefit. 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. Pre-retirement death benefits in the amount of the annual salary for the fiscal year preceding death are provided to plan members.

Notes to Financial Statements

NOTE 12 – RETIREMENT PLAN (Continued)

The Employees' Retirement System 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 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, Section 36-27-120 through 36-27-139, as amended, and Sections 36-27B-1 through 36-27B-6.

Authority to amend the plan rests with the Legislature of Alabama. However, the Legislature has granted the Council authority to accept or reject various Cost-Of-Living-Adjustments (COLAs) granted to retirees.

The Retirement Systems 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, 2010

Summary of Employer Census Data

Number of active members		159
Annual compensation	\$	5,123,773
Number of retired members and beneficiaries		40
Annual retirement allowances	\$	621,736

Employer Contribution Rates

Normal cost	5.07%
Accrued liability	3.73
Pre-retirement death benefit	0.15
Administrative expense	0.18

Total	9.13%
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5% Employer contribution factor	1.8260
6% Employer contribution factor	1.5217

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 and for any future cost of living adjustments granted to retirees.

These contribution rates are determined under the parameters of GASB Statements No. 25 and 27. Any contributions above the required employer contribution rate, such as lump sum payments, will result in a negative Net Pension Obligation.

Notes to Financial Statements

NOTE 12 – RETIREMENT PLAN (Continued)

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)
9/30/08	\$ 10,912,325	\$ 13,068,281	\$ 2,155,956	83.50%	\$ 5,743,087	37.5%
9/30/09	11,037,418	14,347,749	3,310,331	76.93%	5,208,190	63.6%
9/30/10	11,195,919	14,964,546	3,768,627	74.82%	5,123,773	73.6%

Valuation date	9/30/10
Actuarial cost methods	Entry age
Amortization method	Level percent open
Remaining amortization period	30
Asset valuation method	5- year smoothed market
Actuarial assumptions:	
Investment rate of return	8.00%
Projected salary increases	4.61 – 7.75%
Includes inflation at	4.50%
Cost of living adjustments	none

Trend Information

Fiscal Year Ending	Annual Pension Cost (Apc)	Percentage of Apc Contributed	Net Pension Obligation
9/30/08	\$ 330,240	100%	\$ -0-
9/30/09	417,460	100%	-0-
9/30/10	419,064	100%	-0-

NOTE 13 – POSTEMPLOYMENT HEALTH CARE BENEFITS

Effective for the 2009 fiscal year, the City implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for certain postemployment health care benefits provided by the City. The requirements of this Statement are being implemented prospectively, with the actuarially determined liability of \$5,258,930 at the date of transition amortized over 30 years. Accordingly, for financial reporting purposes, no liability is reported for the postemployment health care benefits liability at the date of transition.

Notes to Financial Statements

NOTE 13 – POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

Plan Description The Postemployment Health Care Benefits Plan is a single-employer defined benefit plan administered by the City. Presently retired employees and future retirees that were employed prior to May 16, 2006, that worked for the City for a minimum of fifteen (15) continuous years and have a combination of age at time of retirement plus years of continuous service which equals seventy-five (75) or more, shall be provided health insurance coverage and at the same rate of premium as regular employees to age sixty-five, at which time Medicare Supplemental coverage will be provided at an amount not to exceed the City's then current insurance carrier's premium for Medicare Supplemental coverage.

All employees employed or returning to work after a break in service on or after May 16, 2006, that will work for the City for twenty-five (25) or more continuous years and being a minimum of fifty-five years of age shall be provided the same health insurance coverage as regular employees based on a minimum contribution by the City of fifty percent (50%) for retirement at age fifty-five (55) and ten percent (10%) for each additional year of age upon retirement for a maximum of 100 percent (100%) at age sixty (60) thru age sixty-four (64) until age sixty-five (65) at which time Medicare Supplemental coverage will be provided at an amount not to exceed the City's then current insurance carrier's premium for Medicare Supplemental coverage.

Actuarial Valuation as of September 30, 2010

Summary of Employer Census Data

Number of active members		159
Annual compensation	\$	4,985,489
Number of DROP members		3
Annual compensation	\$	138,284
Number of retired members and beneficiaries		25

Employer Contribution Rates

Normal cost	4.14%
Accrued liability	2.85%

Total	6.99%
--------------	--------------

Funded Status and Funding Progress As of September 30, 2010, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$4,694,895, and the actuarial value of present assets was \$0, resulting in an unfunded actuarial accrued liability of \$4,694,895. The covered payroll (annual payroll of active participating employees) was \$5,123,773 for fiscal year 2010 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 91.63%.

Annual OPEB Cost and Net OPEB Obligation The City's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers of Postemployment Benefits Other Than Pensions*. The ARC, which represents a level of funding that is paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation for postemployment health care benefits.

Notes to Financial Statements

NOTE 13 – POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

Description	Amount
Normal cost (service cost for one year)	\$ 212,348
Amortization of unfunded actuarial accrued liability	145,857
Annual required contribution	358,205
Plus interest on net OPEB obligation	27,200
Less net OPEB obligation amortization	(60,000)
Annual OPEB cost	325,405
Contribution toward the OPEB cost in fiscal year 2011	(132,831)
Increase in Net OPEB obligation	192,574
Net OPEB obligation, beginning of year	680,190
Net OPEB obligation, end of year	\$ 872,764

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of September 30, 2011 is as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Beginning Balance, 10/1/2008	\$ -	-	\$ -
9/30/2009	446,432	20.69%	353,995
9/30/2010	430,342	24.20%	680,190
9/30/2011	325,405	40.82%	872,764

Actuarial Method and Assumptions Projections of benefits for financial reporting purposes are based on the substantive plan provisions, as understood by the employer and participating members, and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and participating members. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The City's OPEB actuarial valuation using information as of September 30, 2010 employed the projected unit credit actuarial cost method to estimate the unfunded actuarial accrued liability as of September 30, 2010, and to estimate the City's 2011 annual required contribution. Although the OPEB liability is currently unfunded, the actuarial assumption included a 4% rate of return on invested assets. The actuarial assumptions also included a medical cost trend of 10.5% for the 2011 fiscal year reduced by 1% per year to 2015 and reduced by 0.5% to an ultimate rate of 5% after seven years. The unfunded actuarial accrued liability is being amortized as a level percent of projected payrolls on an open basis. The remaining amortization period at September 30, 2010, was 30 years.

Notes to Financial Statements

NOTE 14 – INTERFUND BALANCES AND TRANSFERS

Interfund balances at September 30, 2011 consist of the following, all of which expect to be repaid within one year:

	Due From	Due To
General fund	\$ 535,313	\$ 231,998
Nonmajor governmental funds	34,101	56,625
Enterprise funds	200,000	480,791
Total	\$ 769,414	\$ 769,414

Transfers to/from other funds at September 30, 2011 consist of the following:

	Transfers In	Transfers Out	Net
General fund	\$ 1,269,779	\$ (1,746,282)	\$ (476,503)
Nonmajor governmental funds	4,793,014	(4,316,511)	476,503
	\$ 6,062,793	\$ (6,062,793)	\$ -

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

NOTE 15 – RELATED PARTY TRANSACTIONS

The Utilities Board of the City of Ozark, Alabama is a related organization to the City of Ozark, Alabama because the Utilities Board is an organization, for which a primary government is accountable because that government appoints a voting majority of the board, but is not financially accountable. The financial statements of the Utilities Board of the City of Ozark, Alabama are not included in the primary government financial statements of the City of Ozark, Alabama. Transactions that should be disclosed are listed below.

On November 22, 2005, the City and the Utilities Board entered into a formal agreement in which the Utilities Board reimburses the City for use of a portion of the Municipal Complex to be applied to the 2002 Bond Issue. The Utilities Board agreed to be responsible for 18% of the bonded indebtedness created by the City to finance the construction of the Municipal Complex. Each party is designated certain areas of exclusive use, as well as areas of common use. Each party is responsible for the repair and maintenance of those certain areas assigned for exclusive use to each party. Repair and maintenance for the roof or exterior walls is to be divided 82% to the City and 18% to the Utilities, the same as the Bond Issue. Included in receivables described in Note 4 is a note receivable due from the Utilities Board of the City of Ozark. The note is due in monthly installments through February 2026 with interest ranging from 3.35% to 5%. During 2011, the City recorded total payments from the Utilities Board of \$36,614, which includes \$9,985 principal and \$26,629 interest.

The Utilities Board also remits several payments to the City each month. A portion of garbage collections fees, as well as 3% of gross receipts are remitted to the City.

Notes to Financial Statements

NOTE 16 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through January 12, 2012, the date of these financial statements.

The City, on November 8, 2011, closed on one of five parcels of land associated with the airport improvement grant, which outlines land acquisitions in order to clear obstructions at the Blackwell Field Airport. Funding for the \$324,125 land acquisition was provided by the Federal Aviation Authority (FAA), the Alabama Department of Transportation and the City's match.

The City, on November 10, 2011, closed on four parcels of land associated with the airport improvement grant. Fund for the \$67,438 land acquisition was provided by the FAA, the Alabama Department of Transportation and the City's match.

NOTE 17 – SPECIAL ITEMS

The special item reported on the government wide statement of activities and on the governmental funds statement of revenues, expenditures and changes in fund balance was for the sale of the City's communications tower. The City sold the communications tower for \$900,000, less settlement costs of \$12,042, resulting in net proceeds of \$887,958. The carrying value of the tower was \$30,000 at the time of the sale, resulting in a gain of \$857,958.

City of Ozark
Required Supplementary Information
Schedule of Funding Progress for the Retiree Health Plan

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)
9/30/07	\$ -0-	\$ 5,258,930	\$ 5,258,930	0.00%	\$ 4,266,249	123.27%
9/30/10	\$ -0-	\$ 4,694,895	\$ 4,694,895	0.00%	\$ 5,123,773	91.63%

COMBINING AND INDIVIDUAL FUND STATEMENTS

NONMAJOR GOVERNMENTAL FUNDS

Street – Accounts for seven cent gasoline tax which is restricted to expenditures related to construction, improvement, maintenance of highways, bridges and street.

Four Cent Gas Tax Fund – The use of this funding is restricted to expenditures related to construction, improvement, maintenance of highways, bridges and street.

UDAG – Accounts for homeowners' payments on second mortgages for housing revitalization. The use of this funding is restricted to expenditures for housing revitalization and homeowners match for the federal grant.

Bond Fund – Accounts for proceeds from the refinancing of the 2001 General Obligation Bonds. The use of this funding is for capital improvements for the Flowers Performing Arts Center, reroofing of the Ozark-Dale County Public Library and resurfacing City tennis courts.

Debt Service Fund – Accounts for transfers and bond proceeds to pay principal, interest, bond issue costs and paying agent fees. The funds are restricted for principal, interest, bond issuance costs and payment agent fees.

FEMA – Accounts for federal emergency management funding for damage due to natural disasters.

Wiregrass Violent Crime – Accounts for federal grant to fund the Wiregrass Violent Crime and Drug Task Force since the City of Ozark is the fiscal agent. The proceeds pay for staff in the Dale County Sheriff's Office, staff in the City of Daleville Police Department, staff in the Ozark Police and staff in the District Attorney's Office.

Department of Justice – Accounts for federal direct grants to provide technology, law enforcement equipment and supplies for the City of Ozark Police Department. The proceeds are restricted for the specific purpose of the grants.

Drug Forfeiture Fund – Accounts for proceeds from settled drug court cases and reflects seizure resources distributed to the City and restricted for the Wiregrass Violent Crime Drug Task Force use to acquire vehicles, equipment and supplies.

CDBG Economic Development – Accounts for federal grants to assist the City in attracting new industries and the improvement of City infrastructure. The proceeds are restricted for the specific purpose of the grants.

CDBG – Accounts for federal grants funding revitalization efforts to improve major entrance and exit corridors into the City. The proceeds are restricted for the specific purpose of the grants.

Alabama Trust Fund Improvements – Accounts for proceeds received from the State of Alabama Section 11-66-6, Code of Alabama, 1975. The proceeds are restricted to capital improvements and/or financing capital improvements.

Corrections Fund – Accounts for municipal court fees fixed by law and are restricted for the enforcement of municipal court ordinances.

City of Ozark
Combining Balance Sheet
Nonmajor Governmental Funds
September 30, 2011

	Street	Four Cent Gas Tax	UDAG
Assets			
Cash and cash equivalents	\$ -	\$ -	\$ -
Receivables	-	-	-
Due from other funds	-	-	-
Restricted cash and cash equivalents	6,917	10,974	11,200
Total assets	\$ 6,917	\$ 10,974	\$ 11,200
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ -	\$ -	\$ -
Due to other funds	-	-	-
Deferred revenues	-	-	-
Fund balances			
Restricted	6,917	10,974	11,200
Total liabilities and fund balances	\$ 6,917	\$ 10,974	\$ 11,200

Bond Fund	Debt Service	FEMA	Wiregrass Violent Crime
\$ -	\$ -	\$ -	\$ -
-	-	96	28,670
-	-	-	-
123,552	207,449	17,910	15,945
\$ 123,552	\$ 207,449	\$ 18,006	\$ 44,615

\$ -	\$ 2,263	\$ -	\$ 19,458
100	25,000	-	9,212
-	-	11,564	-
123,452	180,186	6,442	15,945
\$ 123,552	\$ 207,449	\$ 18,006	\$ 44,615

-Continued-

City of Ozark
Combining Balance Sheet
Nonmajor Governmental Funds (Continued)
September 30, 2011

	Dept of Justice	Drug Forfeiture	CDBG Economic Development
Assets			
Cash and cash equivalents	\$ -	\$ -	\$ 44
Receivables	-	-	-
Due from other funds	-	-	-
Restricted cash and cash equivalents	7,258	91	-
Total assets	\$ 7,258	\$ 91	\$ 44
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ -	\$ -	\$ -
Due to other funds	-	-	44
Deferred revenues	1,757	-	-
Fund balances			
Restricted	5,501	91	-
Total liabilities and fund balances	\$ 7,258	\$ 91	\$ 44

CDBG	Alabama Trust Fund Improvements	Corrections Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ 44
1,813	-	-	30,579
44	25,000	9,057	34,101
79,146	29,743	5,430	515,615
\$ 81,003	\$ 54,743	\$ 14,487	\$ 580,339
\$ 38,115	\$ -	\$ -	\$ 59,836
20,780	-	1,490	56,626
8,055	-	-	21,376
14,053	54,743	12,997	442,501
\$ 81,003	\$ 54,743	\$ 14,487	\$ 580,339

City of Ozark
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended September 30, 2011

	Street	Four Cent Gas Tax
Revenues		
Taxes	\$ 119,202	\$ 69,182
Intergovernmental	-	-
Investment Earnings	7	13
Miscellaneous	-	-
Total revenues	119,209	69,195
Expenditures		
General government	-	-
Police department	-	-
Judicial	-	-
Debt Service		
Principal	-	-
Interest	-	-
Dues, fees and issuance costs	-	-
Capital outlay	184,403	85,764
Total expenditures	184,403	85,764
Excess (deficiency) of revenues over expenditures	(65,194)	(16,569)
Other Financing Sources (Uses)		
Transfers in (out)	(30,759)	-
Proceeds from sale of capital assets	-	-
Proceeds from bond refunding	-	-
Bond refunding payments	-	-
Total other financing sources (uses)	(30,759)	-
Excess revenues and other sources over (under) expenditures and other (uses)	(95,953)	(16,569)
Fund Balances - beginning	102,870	27,543
Fund Balances - ending	\$ 6,917	\$ 10,974

UDAG	Bond Fund	Debt Service Fund	FEMA	Wiregrass Violent Crime
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	183,288
-	352	3	-	-
1,000	-	-	-	-
1,000	352	3	-	183,288
-	-	-	-	-
-	94	-	-	119,595
-	-	-	-	-
-	-	386,405	-	-
-	-	191,720	-	-
-	-	120,986	-	-
-	200,563	-	-	-
-	200,657	699,111	-	119,595
1,000	(200,305)	(699,108)	-	63,693
-	(4,048,108)	4,695,906	-	(51,662)
-	-	-	-	-
-	4,425,000	-	-	-
-	(53,135)	(4,026,866)	-	-
-	323,757	669,040	-	(51,662)
1,000	123,452	(30,068)	-	12,031
10,200	-	210,254	6,442	3,914
\$ 11,200	\$ 123,452	\$ 180,186	\$ 6,442	\$ 15,945

-Continued-

City of Ozark
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances (Continued)
Nonmajor Governmental Funds
For the Year Ended September 30, 2011

	Dept of Justice	Drug Forfeiture	CDBG Economic Development
Revenues			
Taxes	\$ -	\$ -	\$ -
Intergovernmental	157,583	4,148	-
Investment earnings	-	-	-
Miscellaneous	-	-	-
Total revenues	157,583	4,148	-
Expenditures			
General government	-	-	-
Police department	19,764	6,330	-
Judicial	-	-	-
Debt service			
Principal	-	-	-
Interest	-	-	-
Dues, fees and issuance costs	-	-	-
Capital outlay	137,819	-	-
Total expenditures	157,583	6,330	-
Excess (deficiency) of revenues over expenditures	-	(2,182)	-
Other Financing Sources (Uses)			
Transfers in (out)	-	(20,600)	-
Proceeds from sale of capital assets	-	6,932	-
Proceeds from bond refunding	-	-	-
Bond refunding payments	-	-	-
Total other financing sources (uses)	-	(13,668)	-
Excess revenues and other sources over (under) expenditures and other (uses)	-	(15,850)	-
Fund Balances - beginning	5,501	15,941	-
Fund Balances - ending	\$ 5,501	\$ 91	\$ -

CDBG	Alabama Trust Fund Improvements	Corrections Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ 188,384
334,950	96,275	-	776,244
-	124	47	546
37,888	-	-	38,888
372,838	96,399	47	1,004,062
372,850	-	-	372,850
-	-	-	145,783
-	-	5,095	5,095
-	-	-	386,405
-	-	-	191,720
-	-	-	120,986
-	-	9,500	618,049
372,850	-	14,595	1,840,888
(12)	96,399	(14,548)	(836,826)
12	(85,601)	17,315	476,503
-	-	-	6,932
-	-	-	4,425,000
-	-	-	(4,080,001)
12	(85,601)	17,315	828,434
-	10,798	2,767	(8,392)
14,053	43,945	10,230	450,893
\$ 14,053	\$ 54,743	\$ 12,997	\$ 442,501

SUPPLEMENTAL INFORMATION

City of Ozark
Schedules of Bond Amortization Requirements
September 30, 2011
(Unaudited)

\$4,425,000 General Obligation Warrants, Series 2011, dated July 1, 2011. Interest payable on March 1 and September 1 of each year. Warrants mature on March 1, 2026.

Paying Agent: Bank of New York

Year Ending	Interest Rate	Principal	Interest	Total
9/30/12	2.00%	\$ 130,000	\$ 134,465	\$ 264,465
9/30/13	2.00%	130,000	131,865	261,865
9/30/14	2.00%	140,000	129,165	269,165
9/30/15	1.75%	140,000	126,365	266,365
9/30/16	2.50%	145,000	123,696	268,696
9/30/17	2.50%	150,000	120,553	270,553
9/30/18	2.75%	350,000	114,303	464,303
9/30/19	3.00%	360,000	104,978	464,978
9/30/20	3.20%	375,000	94,403	469,403
9/30/21	3.40%	385,000	82,618	467,618
9/30/22	3.50%	400,000	69,658	469,658
9/30/23	3.60%	405,000	55,770	460,770
9/30/24	3.75%	420,000	41,123	461,123
9/30/25	3.75%	440,000	25,313	465,313
9/30/26	3.75%	455,000	8,531	463,531
Total		\$ 4,425,000	\$ 1,362,806	\$ 5,787,806

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

Paying Agent: Regions Bank

Year Ending	Interest Rate	Principal	Interest	Total
9/30/12	3.35%	\$ 235,000	\$ 54,594	\$ 289,594
9/30/13	3.45%	245,000	46,431	291,431
9/30/14	3.55%	245,000	37,856	282,856
9/30/15	3.65%	255,000	28,854	283,854
9/30/16	3.75%	265,000	19,231	284,231
9/30/17	3.95%	275,000	8,831	283,831
9/30/18	4.00%	85,000	1,700	86,700
Total		\$ 1,605,000	\$ 197,497	\$ 1,802,497

City of Ozark
Schedule of Expenditures of Federal Awards
For The Year Ended September 30, 2011

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA #	Pass-through Grantor's Number	Expenditures
U.S. Department of Agriculture			
Pass-through Alabama Department of Education Summer Food Service Program for Children	10.559	AF5-K001	\$ 34,982
U.S. Department of Energy			
Pass-through Alabama Department of Economic and Community Affairs ARRA – State of Alabama Energy Efficiency and Conservation Block Grant	81.128	DE-EE0000831EECBG	250,000
U.S. Department of Health and Human Services			
Pass-through Southern Alabama Regional Council on Aging Special Programs for the Aging-Title III Part B	93.044	N/A	7,920
Special Programs for the Aging-Title III Part C	93.045	N/A	3,240
Total U.S. Department of Health and Human Services			11,160
U.S. Department of Housing and Urban Development			
Pass-through Alabama Department of Economic and Community Affairs Community Development Block Grant	14.228	LR-CM-CP-09-028	318,638
U.S. Department of Justice			
Public Safety Partnership and Community Policing Grants	16.710	2010CKWX0290	140,000
Edward Byrne Memorial Justice Assistance Grant – Local Solicitation	16.738	2010-DJ-BX-0991	16,590
Bulletproof Vest Partnership Grant	16.607	2009BUBX08042398	993
Pass-through Alabama Department of Economic and Community Affairs ARRA-Edward Byrne Memorial Justice Assistance Grant	16.803	07-DH-03-002	168,148
Total U.S. Department of Justice			325,731

City of Ozark
Schedule of Expenditures of Federal Awards
For The Year Ended September 30, 2011 (Continued)

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA #	Pass-through Grantor's Number	Expenditures
U.S. Department of Transportation			
Pass-through Alabama Department of Transportation			
Airport Improvement Program	20.106	3-01-056-0011-2011	13,744
ARRA - Highway Planning and Construction	20.205	STMTE- TE09(919)S1	309,950
Pass-through Southeast Alabama Highway Safety Office			
Alcohol Impaired Driving			
Countermeasures Incentive Grant	20.601	11-HS-K8-005	2,652
Countermeasures Incentive Grant	20.601	11-HS-K8-006	2,399
Countermeasures Incentive Grant	20.601	11-HS-K8-009	4,845
State and Community Highway Safety Grant			
	20.600	10-SP-PT-009	1,541
State and Community Highway Safety Grant			
	20.600	11-SP-PT-010	5,452
Safety Belt Performance Grants			
	20.609	11-HS-K4-009	1,202
Total U.S. Department of Transportation			341,785
Total Expenditures of Federal Awards			\$ 1,282,296

City of Ozark
Notes to Schedule of Expenditures of Federal Awards
For The Year Ended September 30, 2011

NOTE 1 – BASIS OF PRESENTATION

The City of Ozark, Alabama (the "City") has been awarded a number of federal and state grants. The revenues and expenditures for the grants are accounted for in several different funds on the modified accrual basis.

NOTE 2 – ENTITY DEFINITION

For the purposes of these schedules, the entity is defined as the primary government of the City exclusive of all component units as set forth by GASB Statement No. 14.

NOTE 3 – ALLOCATION OF INDIRECT COSTS

The City has no indirect cost allocation plan for grants.

COMPLIANCE SECTION

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

Honorable Mayor and Members of
the City Council
Ozark, Alabama

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the primary government of the City of Ozark, Alabama (the "City") as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 12, 2012. Our report disclosed that the financial statements include only the financial activities of the primary government and that the financial activities of other component units that form the reporting entity are not included. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in **Government Auditing Standards** issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City'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's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting items 11-01 and 11-02. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

We noted certain other matters that we reported to the management of the City in a separate letter dated January 12, 2012.

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

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

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

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

Certified Public Accountants

January 12, 2012

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

Honorable Mayor and Members of
the City Council
Ozark, Alabama

Compliance

We have audited the primary government of the City of Ozark, Alabama's (the "City") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2011. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit. Our audit report disclosed that the financial statements include only the financial activities of the primary government and that the financial activities of other component units that form the reporting entity are not included.

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 of the City's compliance with those requirements.

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

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB

Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

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

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

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

Certified Public Accountants

January 12, 2012

City of Ozark
Schedule of Findings and Questioned Costs
For The Year Ended September 30, 2011

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified _____ yes X no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? X yes _____ none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ yes X none reported

Type of auditors’ report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? _____ yes X no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
14.228	Community Development Block Grant (USHUD)
16.738	BJA FY 10 Edward Byrne Memorial Justice Assistance – Local Solicitation (USDOJ)
16.803	ARRA-Edward Byrne Memorial Justice Assistance Grant – Local Solicitation (USDOJ)
20.205	ARRA-Highway Planning and Construction (ALDOT)

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

Auditee qualified as low-risk auditee? _____ yes X no

Section II – Financial Statements Findings

11-01 Accounting Policies and Procedures Manual (repeat)

Condition – The City does not have an accounting policies and procedures manual.

Criteria – Policies and procedures should be in place in order to establish a basis for internal controls over financial reporting.

Cause – The absence of formal accounting policies and procedures increases the City’s vulnerability to inconsistent application of accounting principles and ineffective financial reporting.

City of Ozark
Schedule of Findings and Questioned Costs
For The Year Ended September 30, 2011

Effect – The purposes of such an accounting policies and procedures manual are to ensure that proper accounting principles and controls are being applied, that assets are adequately safeguarded, that similar transactions are treated consistently, and that financial reports are produced in the form desired by management. A well-written accounting manual will aid in the training of new employees and assist management in delegating and segregating duties.

Recommendation – The City should establish a firm date for completion and adoption of an accounting and policies procedures manual. In the process of developing the manual, we recommend a comprehensive review of the existing accounting system and controls, offering management the opportunity to eliminate or improve procedures and thereby create a more efficient and effective system. This should include a review of individual responsibilities and duties with the finance and accounting department with the objective of improving efficiency and effectiveness. The manual should include, at a minimum:

- An organizational chart
- Job descriptions, outlining duties and responsibilities
- Descriptions of methods, procedures and accounting principles to be followed, including explanations and examples of principle transactions
- A chart of accounts with detailed explanations of the items to be included therein
- Policies of a fiscal nature applied to all City departments
- Fixed asset procedures
- Accounts receivable allowance and write-off procedures
- Any other documents or forms for which uniformity of use is desired

Views of Responsible Officials and Planned Corrective Actions – The City's finance staff have started developing the City's Accounting Policies and Procedures Manual. Staff will be obtaining copies of other Alabama municipalities' accounting policies and procedures manuals to aid in the development of policy recommendations that could be implemented by the City. The timeline to issue a draft for the Mayor and City Clerk's review and comments is by the end of September 2012.

11-02 Grant Administration (repeat)

Condition – No formal policies or procedures exist for grant accounting relating to application, approval, administration, reporting, and compliance. In addition, the City does not maintain a grant summary schedule for monitoring all awarded grants, the grant administrator and funding source.

Criteria – Policies and procedures should be in place to establish a basis for internal controls over grant administration.

Cause – The absence of formal grant administration policies and procedures increases the City's risk of noncompliance with specific grant requirements.

Effect – Currently, several individuals from various departments initiate grant applications and administer grant revenue and expenditures. As such, grant activity is not effectively communicated to the Accounting Department for proper matching, recording, and reporting.

Recommendation – The City should establish formal procedures relating to grant applications, approval, administration, reporting, and compliance. The City should maintain a summary schedule of all grants, noting specifically whether they require reporting on the Schedule of Expenditures of Federal Awards. Furthermore, the City should centralize the controls over grants.

City of Ozark
Schedule of Findings and Questioned Costs
For The Year Ended September 30, 2011

Views of Responsible Officials and Planned Corrective Actions – The City's finance staff will be developing policies for grant administration that will be incorporated in the Accounting Policies and Procedures Manual. The financial officer developed a master listing of federal grants during FY2010, which was used to determine which federal grants were reported on the Schedule of Expenditures of Federal Awards. This listing will be further maintained and enhanced during FY2012.

Section III – Federal Award Findings and Questioned Costs

No such findings in the current year.

City of Ozark
Schedule of Prior Audit Findings for Federal Awards
For The Year Ended September 30, 2011

10-003 Procurement and Suspension and Debarment
CFDA 20.106 and 20.205
Project Nos. 3-01-056-0010-2009 and STMTE-TE09(919)S1
U.S. Department of Transportation

Condition – The City does not have updated procurement policies and procedures.

Recommendation – We recommend the City establish a firm date for updating and approving its Personnel Handbook, which includes its procurement policies and procedures. In the process of updating the procurement policies, we recommend a comprehensive review of the current applicable grant compliance requirements. This should include a review of individual responsibilities and duties within various departments with the objective of improving efficiency and effectiveness. The procurement policies and procedures should include, at a minimum:

- Job descriptions, outlining duties and responsibilities
- Descriptions of methods, procedures and accounting principles to be followed, including explanations and examples of principle transactions
- Bidding policies and documentation requirements
- Any other documents or forms for which uniformity of use is desired

Current Status – The City will set a firm date for updating the Personnel Handbook, which includes updating existing procurement policies and procedures.

10-004 Equipment and Real Property Management
CFDA 16.803
Grant No. 09-DR-01-023
U.S. Department of Justice

Condition – The City does not perform periodic physical inventories of tangible property, including those purchased with grant funds.

Current Status – During FY2011, the City began performing an annual physical inventory of tangible property; this finding has been fully corrected.