City of Ozark

Financial Statements

For The Year Ended September 30, 2009

City of Ozark
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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, 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, 2009, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion 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, 2009, 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, each major fund, and the aggregate remaining fund information for the primary government of the City as of September 30, 2009, and the respective changes in financial position and 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 28, 2010 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.

The management's discussion and analysis information on pages 3 through 11 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. The bond amortization requirements are presented for purposes of additional analysis and are not a required part of the primary government financial statements. We have applied certain limited procedures to management's discussion and analysis and to the bond amortization requirements, which consisted principally of inquiries of management regarding the methods of measurement and presentation of required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of City's primary government. 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 also not a required part of the primary government financial statements of the City. The combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the primary government financial statements and, in our opinion, are fairly stated in all material respects in relation to the primary government financial statements taken as a whole.

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

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

Certified Public Accountants

January 28, 2010

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, 2008, and ending September 30, 2009. 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, 2009.

Financial Highlights

Key financial highlights for the fiscal year 2009 are as follows:

- The City's governmental and business-type activities net assets at September 30, 2009 were $28,432,269. This represents an increase of $1,169,522 from September 30, 2008. The City added the enterprise fund in fiscal year 2009 to account for the activities of the Ozark Square Shopping Center, a retail shopping center. This activity is separately reported in the two government-wide statements as a "business-type activity".

- Revenues for the year ended September 30, 2009 from governmental activities were $14,568,869 and revenues from business-type activities were $2,770,991, for a combined total of $17,339,860. This is an overall increase of $799,266 more in revenues than September 30, 2008. The governmental activities revenues decreased $1,971,723, the majority of the decrease came from a $1,862,281 decrease in program revenues from capital grants and contributions that funded the airport improvement projects, the Bell Aero project, and the police memorial park since these projects were substantially completed in the prior year. The majority of the increase in revenue from business-type activities of $2,770,991 was from the donation of land and building for the Ozark Square Shopping Center, appraised at $2,675,000.

- Expenditures reported in the governmental funds were $15,197,469 for fiscal year 2009 and $16,274,555 for fiscal year 2008. The majority of the $1,007,086 decrease in expenditures was due to a reduction in capitalized capital outlay as airport improvement projects, the Bell Aero project, and the police memorial park project that were substantially completed in the prior year.

- At September 30, 2009, the City's governmental funds reported a combined ending fund balance of $2,363,357, a net decrease of $779,638 in comparison with the prior year. Of this amount, $1,617,174 remains in the various fund types of the City as unreserved, down from September, 30, 2008 by $625,603.

- The General Fund reported a total fund balance of $1,834,622 at September 30, 2009, which represents 14.4 percent of total general fund expenditures or 15.1 percent of its operating expenditures of $12,123,656 (expenditures less capital outlay). The total restated fund balance at September 30, 2008, was $2,375,178 representing a decrease in the total general fund balance of $540,556.

- General Fund expenditures exceeded General Fund revenue by $690,017. This reflects a reduction in sales tax revenues due to the economic downturn and intergovernmental revenue and an increase in expenditures for education due to funding a full year's payment of the half cent sales tax pledge and education's share of ad valorem taxes.

- The City's total long-term liabilities increased $225,572 from the previous year. The net increase reflects the following: an increase in capital leases of $241,649, a net increase in other postemployment health benefits of $353,995, a net decrease in compensated absences of $8,349, a note payable of $93,415, and net payments on capital leases, note payable and bonds payable of $455,138.

- The City's total net capital assets increased $2,055,888; the majority of the increase was attributable to the donation to the City of the Ozark Square Shopping Center on December 30, 2008. All fixed assets with a value of $2,500 or more are reported. The departments maintain individual inventories for items under $2,500 with a significant useful life.

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 District 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.

The government-wide financial statements can be found in subsequent pages 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 can be classified under two categories: governmental funds and a proprietary fund.

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 in subsequent pages of this report.

Proprietary Fund. The City maintains one proprietary fund for the Ozark Square Shopping Center that is an enterprise fund. An enterprise fund is used to determine operating income, changes in net assets, financial position, and cash flows. This fund is 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 on December 30, 2008 and there are currently three business tenants who rent retail space in the shopping center.

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 in subsequent pages 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, assets exceed liabilities by $25,736,653 for fiscal year 2009, as compared to $27,262,747 in fiscal year 2008.

Net Assets, End of Year

	Governmental Activities		Business-type Activities		Primary Government Total	
September 30,	**2009**	2008 Restated	**2009**	2008	**2009**	2008 Restated
Assets						
Current and other assets	$ **4,963,419**	$ 5,662,611	$ **117,224**	$ -	$ **5,080,643**	$ 5,662,611
Capital assets	**30,171,872**	30,834,889	**2,718,906**	-	**32,890,778**	30,834,889
Total assets	$ **35,135,291**	$ 36,497,500	$ **2,836,131**	$ -	$ **37,971,422**	$ 36,497,500
Liabilities and Net Assets						
Liabilities						
Long-term liabilities	$ **6,847,291**	$ 6,715,134	$ **93,415**	$ -	$ **6,940,706**	$ 6,715,134
Other liabilities	**2,551,347**	2,519,619	**47,100**	-	**2,598,447**	2,519,619
Total liabilities	**9,398,638**	9,234,753	**140,515**	-	**9,539,153**	9,234,753
Net Assets:						
Invested in capital assets - net of debt	**24,054,883**	24,504,429	**2,625,491**	-	**26,680,374**	24,504,429
Restricted	**186,894**	337,730	-	-	**186,894**	337,730
Unrestricted	**1,494,876**	2,420,588	**70,125**	-	**1,565,001**	2,420,588
Total net assets	**25,736,653**	27,262,747	**2,695,616**	-	**28,432,269**	27,262,747
Total liabilities and net assets	$ **35,135,291**	$ 36,497,500	$ **2,836,131**	$ -	$ **37,971,422**	$ 36,497,500

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 accumulated depreciation and 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. The City, at September 30, 2009, reported positive balances in the governmental net assets.

As noted previously, the City's governmental activities net assets decreased $1,526,094 and the business-type activities increased $2,695,616, for a net increase in net assets during fiscal year 2009 of $1,169,522.

Operating Results for the Year

Years ended September 30,	Governmental Activities 2009	Governmental Activities 2008 Restated	Business-type Activities 2009	Business-type Activities 2008	Primary Government Total 2009	Primary Government Total 2008 Restated
Program Revenues:						
Charges for services	$ 5,069,782	$ 4,830,708	$ 95,991	$ -	$ 5,165,773	$ 4,830,708
Operating grants and contributions	290,509	777,368	-	-	290,509	777,368
Capital grants and contributions	337,408	2,199,689	-	-	337,408	2,199,689
General Revenues:						
Property taxes	750,538	650,742	-	-	750,538	650,742
Sales tax	5,984,254	6,368,404	-	-	5,984,254	6,368,404
Gasoline tax	473,210	487,985	-	-	473,210	487,985
Other taxes	841,255	714,644	-	-	841,255	714,644
Other	493,677	511,054	-	-	493,677	511,054
Special items:						
Donation Flowers Performing Arts Center	328,236	-	-	-	328,236	-
Donation Ozark Square Shopping Center	-	-	2,675,000	-	2,675,000	-
Total revenues	14,568,869	16,540,594	2,770,991	-	17,339,860	16,540,594
Functions/Program Expenses:						
General Government	2,161,592	2,205,060	-	-	2,161,592	2,205,060
Police Department	3,078,634	2,874,601	-	-	3,078,634	2,874,601
Fire Department	2,669,421	2,397,564	-	-	2,669,421	2,397,564
Street	1,006,099	865,258	-	-	1,006,099	865,258
Sanitation	1,350,177	1,230,628	-	-	1,350,177	1,230,628
Leisure Services	1,756,415	1,630,833	-	-	1,756,415	1,630,833
Engineering/Inspections	124,765	136,524	-	-	124,765	136,524
Vehicle Maintenace	189,873	164,946	-	-	189,873	164,946
Airport	110,547	182,680	-	-	110,547	182,680
Judicial	210,993	192,104	-	-	210,993	192,104
Appropriations	138,582	129,609	-	-	138,582	129,609
Education	2,236,828	1,968,222	-	-	2,236,828	1,968,222
Non-departmental	239,375	246,900	49	-	239,424	246,900
Economic Development	218,862	256,003	75,326	-	294,188	256,003
Ozark Technology Center	125,032	120,173	-	-	125,032	120,173
Information Techology	177,981	169,002	-	-	177,981	169,002
Interest and fiscal charges	283,549	285,143	-	-	283,549	285,143
Amortization	16,238	16,238	-	-	16,238	16,238
Total functions/program expenses	16,094,963	15,071,488	75,375	-	16,170,338	15,071,488
Increase (Decrease) in Net Assets	$ (1,526,094)	$ 1,469,106	$ 2,695,616	$ -	$ 1,169,522	$ 1,469,106

Financial Analysis of the City's Funds

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

Governmental Funds

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 of the end of the current fiscal year, the City's governmental funds report combined ending fund balances of $2,363,357, a decrease of $779,638, in comparison with the prior year. Unreserved fund balances of $1,617,174 represents 68.4 percent of the ending fund balances and are available to meet the City's short-term spending needs. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to: 1) pay debt service of $186,894; and 2) a long-term receivable of $559,289 from the Ozark Utilities Board.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the General Fund is $1,275,333, while the total fund balance was $1,834,622. The net result of General Fund operations is a decrease in the General Fund's fund balance of $540,556. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total expenditures. Unreserved fund balance represents 10.0 percent of total General Fund expenditures, while total fund balance represents 14.4 percent of that same amount.

	Total Governmental Funds		
September 30,	**2009**	**2008 Restated**	**Changes**
Assets			
Cash and cash equivalents	$ **1,682,634**	$ 2,078,816	$ (396,182)
Receivables, net	**3,087,510**	3,387,858	(300,348)
Due from other budgetary funds	**154,795**	404,213	(249,418)
Other assets	**6,381**	1,054	5,327
Restricted cash and cash equivalents	**186,894**	194,886	(7,992)
Total assets	$ **5,118,214**	$ 6,066,827	$ (948,613)
Liabilities and Fund Balances			
Liabilities			
Accounts payable	$ **309,530**	$ 504,252	$ (194,722)
Due to other budgetary funds	**154,796**	404,213	(249,417)
Accrued compensation	**263,247**	186,514	76,733
Payroll deductions	**12,297**	-	12,297
Other accrued expenses	**63,834**	-	63,834
Deferred revenue	**1,951,153**	1,828,853	122,300
Total liabilities	**2,754,857**	2,923,832	(168,975)
Fund balances			
Reserved for debt services	**186,894**	194,886	(7,992)
Reserved for capital projects	**-**	30,850	(30,850)
Reserved for road projects	**-**	111,994	(111,994)
Reserved for long-term receivable	**559,289**	562,488	(3,199)
Unreserved	**1,617,174**	2,242,777	(625,603)
Total fund balances	**2,363,357**	3,142,995	(779,638)
Total liabilities and fund balances	$ **5,118,214**	$ 6,066,827	$ (948,613)

Years ended September 30,	Total Governmental Funds 2009	2008 Restated	Changes
Revenues			
Taxes	$ **9,320,803**	$ 9,522,581	$ (201,778)
Licenses and permits	**1,436,035**	1,401,366	34,669
Intergovernmental	**636,934**	2,972,806	(2,335,872)
Charges for services	**1,427,229**	1,490,637	(63,408)
Fine and forfeitures	**938,817**	599,904	338,913
Investment earnings	**43,211**	70,865	(27,654)
Miscellaneous	**325,890**	434,556	(108,666)
Total revenues	**14,128,919**	16,492,715	(2,363,796)
Expenditures			
General government	**1,135,987**	1,189,915	(53,928)
Police Department	**2,904,255**	2,862,239	42,016
Fire Department	**2,437,896**	2,257,862	180,034
Street	**868,633**	813,251	55,382
Sanitation	**1,253,015**	1,196,765	56,250
Leisure services	**1,549,317**	1,474,167	75,150
Engineering/inspections	**119,274**	139,588	(20,314)
Vehicle maintenance	**180,789**	161,286	19,503
Airport	**16,256**	15,871	385
Judicial	**208,087**	181,160	26,927
Appropriations	**138,582**	129,609	8,973
Nondepartmental	**239,375**	246,900	(7,525)
Economic Development	**156,043**	199,105	(43,062)
Ozark Technology Center	**98,404**	94,453	3,951
Information Technology	**149,353**	148,162	1,191
Education	**2,236,828**	1,834,820	402,008
Debt service:			
Principal	**471,376**	441,286	30,090
Interest, dues, and fees	**283,549**	285,143	(1,594)
Capitalized capital outlay	**750,450**	2,602,973	(1,852,523)
Total expenditures	**15,197,469**	16,274,555	(1,077,086)
Excess (Deficiency) of Revenues over Expenditures	**(1,068,550)**	218,160	(1,286,710)
Other Financing Sources (Uses)			
Loans incurred – New capital leases	**241,649**	-	241,649
Loss recoveries	**47,263**	-	47,263
Transfers in	**2,626,784**	2,888,126	(261,342)
Transfers out	**(2,626,784)**	(2,888,126)	261,342
Total other financing sources	**288,912**	-	288,912
Net change in fund balance	**(779,638)**	218,160	(997,798)
Fund balances – beginning	**3,142,995**	2,814,780	328,215
Adjustments to fund balance	**-**	110,055	(110,055)
Fund balances – ending	$ **2,363,357**	$ 3,142,995	$ (779,638)

Revenues and other financing sources for FY 2009 from governmental funds were less than FY 2008 revenues and other financing sources by $2,074,884. The majority of the decrease is from a reduction in intergovernmental funding for capital projects and reductions in sales taxes due to the continued economic downturn.

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 $1,939,910. The original and amended budget for miscellaneous revenues included an estimate of the ending cash balance for the General Fund from the 2008 fiscal year of $1,263,000. The original and amended budget for intergovernmental revenues included estimated revenue of $273,745 from ALDOT-Aviation Improvement Project and the Federal Aviation Association project number 009-2009. This project was funded and completed in the 2007-08 fiscal year

General Fund operating expenditures were under amended projections by $1,029,246 or 7.5 percent less than budget. This reflects departments' adjustment to departmental spending as a result of lower sales tax collections than anticipated in 2008-09.

Capital Assets and Long-Term Debt

Capital Assets

The City's investment in capital assets for governmental activities as of September 30, 2009, totals $30,171,872 (net of accumulated depreciation). The City's investment in capital assets for business-type activities as of September 30, 2009, totals $2,718,906 (net of accumulated depreciation). This investment in capital assets includes land; improvements and infrastructure; buildings; equipment; and construction in progress. The total increase of $2,055,888 in the City's investment in capital assets (net of accumulated depreciation) for the current fiscal year was 6.7 percent more than last year.

Capital Assets (net of depreciation)

	Governmental Activities		Business-type Activities		Primary Government Total	
September 30,	**2009**	2008 Restated	**2009**	2008	**2009**	2008 Restated
Land	**$ 4,837,535**	$ 4,863,299	**$ 510,959**	$ -	**$ 5,348,494**	$ 4,863,299
Construction in progress	**5,552,416**	5,467,923	**-**	-	**5,552,416**	5,467,923
Improvements and infrastructure	**7,593,179**	11,517,838	**-**	-	**7,593,179**	11,517,838
Buildings	**10,643,018**	7,468,777	**2,207,947**	-	**12,850,965**	7,468,777
Equipment	**1,254,419**	1,414,430	**-**	-	**1,254,419**	1,414,430
Property under capital lease	**291,305**	102,623	**-**	-	**291,305**	102,623
Total	**$ 30,171,872**	$30,834,890	**$ 2,718,906**	$ -	**$32,890,778**	$ 30,834,890

Additional information on the District's capital assets can be found in Note 5 of this report.

Long-Term Debt

At the end of the current fiscal year, the City has total long-term debt outstanding of $6,940,706. This amount is comprised of a note payable of $93,415, obligations under capital lease agreements of $256,976, compensated absences of $376,325, other postemployment benefit obligations of $353,995, and $5,859,995 in bonded debt. This is an increase from fiscal year 2008 of $225,572.

Long-Term Debt

	Governmental Activities		Business-type Activities		Primary Government Total	
September 30,	**2009**	2008 Restated	**2009**	2008	**2009**	2008 Restated
Changes in long-term liabilities						
Capital leases	**$ 256,976**	$ 81,888	**$ -**	$ -	**$ 256,976**	$ 81,888
Notes payable	**-**	140,280	**93,415**	-	**93,415**	140,280
Compensated absences	**376,325**	384,674	**-**	-	**376,325**	384,674
Bonds payable, net	**5,859,995**	6,108,292	**-**	-	**5,859,995**	6,108,292
Other postemployment benefit obligation	**353,995**	-	**-**	-	**353,995**	-
Total Long-Term Liabilities	**$6,847,291**	$ 6,715,134	**$ 93,415**	$ -	**$6,940,706**	$6,715,134

Additional information on the District's long-term debt can be found in Notes 7 of this report.

Significant Economic Factors

The Mayor and City Council considered many factors when developing the fiscal year 2010 budget. A budget of $14.1 million was adopted for the General Fund and $5.1 million in Special Revenue Funds on September 15, 2009, for fiscal year 2010.

- Health insurance is expected to increase 10 percent for the 2010 fiscal year over the 2009 fiscal year.
- The 2010 budget reflects a salary increase equal to "step" which is approximately 2.5 percent.
- Dale County unemployment rate for September 2009 is 9.3 percent and at September 2008 the unemployment rate was 5.2 percent. The State's unemployment rate for September 2009 was 10.7 percent and the unemployment rate at September 2008 was 5.4 percent.

These factors were considered in preparing the City's budget for the 2009-10 fiscal year.

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, 2009

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	$ 1,682,634	$ 66,757	$ 1,749,391
Receivables	3,087,510	50,468	3,137,978
Prepaid expenses	3,563	-	3,563
Other assets	2,818	-	2,818
Restricted cash and cash equivalents	186,894	-	186,894
Capital assets, net of depreciation	19,781,921	2,207,947	21,989,868
Land and other nondepreciable capital assets	10,389,951	510,959	10,900,910
Total assets	35,135,291	2,836,131	37,971,422
Liabilities			
Accounts payable	309,531	47,100	356,631
Accrued payroll	275,544	-	275,544
Other accrued expenses	63,834	-	63,834
Deferred revenue	1,902,438	-	1,902,438
Noncurrent liabilities			
Due within one year			
Amounts due under capital leases	103,494	-	103,494
Bonds payable	245,000	-	245,000
Due in more than one year			
Notes payable	-	93,415	93,415
Amounts due under capital leases	153,482	-	153,482
Bonds payable, net	5,614,995	-	5,614,995
Compensated absences	376,325	-	376,325
Other post-employment benefits obligation	353,995	-	353,995
Total liabilities	9,398,638	140,515	9,539,153
Net Assets			
Invested in capital assets, net of related debt	24,054,883	2,625,491	26,680,374
Restricted for debt service	186,894	-	186,894
Unrestricted	1,494,876	70,125	1,565,001
Total net assets	$ 25,736,653	$ 2,695,616	$ 28,432,269

See accompanying notes to the financial statements.

City of Ozark
Statement of Activities
For the Year Ended September 30, 2009

Functions/Programs	Expenses	Program Charges for Services	Program Operating Grants and Contributions
Primary Government			
Governmental Activities:			
General government	$ 2,161,592	$ 2,126,340	$ -
Police department	3,078,634	72,779	229,279
Fire department	2,669,421	3,900	-
Street	1,006,099	-	-
Sanitation	1,350,177	1,184,913	-
Leisure services	1,756,415	261,137	22,930
Engineering/inspections	124,765	-	1,800
Vehicle maintenance	189,873	-	-
Airport	110,547	6,659	-
Judicial	210,993	-	-
Appropriations	138,582	-	-
Non-departmental	239,375	-	-
Economic development	218,862	-	36,500
Ozark Technology Center	125,032	-	-
Information technology	177,981	-	-
Education	2,236,828	1,414,054	-
Interest	280,972	-	-
Dues and fees on long term debt	2,577	-	-
Amortization	16,238	-	-
Total governmental activities	16,094,963	5,069,782	290,509
Business-type Activities:			
Ozark square shopping center	75,375	95,991	-
Total primary government	$ 16,170,338	$ 5,165,773	$ 290,509

See accompanying notes to financial statements.

Revenues	Net (Expense) Revenue and Changes in Net Assets		
	Primary Government		
Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
$ 185,126	$ 149,874	$ -	$ 149,874
-	(2,776,576)	-	(2,776,576)
-	(2,665,521)	-	(2,665,521)
103,381	(902,718)	-	(902,718)
-	(165,264)	-	(165,264)
1,151	(1,471,197)	-	(1,471,197)
-	(122,965)	-	(122,965)
-	(189,873)	-	(189,873)
47,750	(56,138)	-	(56,138)
-	(210,993)	-	(210,993)
-	(138,582)	-	(138,582)
-	(239,375)	-	(239,375)
-	(182,362)	-	(182,362)
-	(125,032)	-	(125,032)
-	(177,981)	-	(177,981)
-	(822,774)	-	(822,774)
-	(280,972)	-	(280,972)
-	(2,577)	-	(2,577)
-	(16,238)	-	(16,238)
337,408	(10,397,264)	-	(10,397,264)
-	-	20,616	20,616
$ 337,408	(10,397,264)	20,616	(10,376,648)

-Continued-

City of Ozark
Statement of Activities (Continued)
For the Year Ended September 30, 2009

General Revenues	Net (Expense) Revenue and Changes in Net Assets Primary Government Governmental Activities	Business-type Activities	Total
Sales taxes	$ 5,984,254	$ -	$ 5,984,254
Motor fuel taxes	473,210	-	473,210
Property taxes	750,538	-	750,538
Alcoholic beverage taxes	141,881	-	141,881
Lodging taxes	92,538	-	92,538
Tobacco taxes	270,880	-	270,880
Other taxes	335,956	-	335,956
Miscellaneous	122,907	-	122,907
Rental income	210,196	-	210,196
Franchise fees	117,363	-	117,363
Investment earnings	43,211	-	43,211
Special items: Donations			
Ozark Square Shopping Center	-	2,675,000	2,675,000
Flowers Performing Arts Center	328,236	-	328,236
Total general revenues and special items	8,871,170	2,675,000	11,546,170
Change in net assets	(1,526,094)	2,695,616	1,169,522
Net Assets - beginning	28,562,110	-	28,562,110
Prior Period Adjustment	(1,299,363)	-	(1,299,363)
Net Assets - ending	$ 25,736,653	$ 2,695,616	$ 28,432,269

See accompanying notes to financial statements.

City of Ozark
Balance Sheet
Governmental Funds
September 30, 2009

	General Fund	Special Ad Valorem I	Special Ad Valorem II
Assets			
Cash and cash equivalents	$ 1,249,886	$ 24	$ 45
Receivables	1,783,842	634,146	634,146
Due from other funds	93,746	-	-
Prepaids	3,563	-	-
Other assets	2,818	-	-
Restricted cash and cash equivalents	-	-	-
Total assets	$ 3,133,855	$ 634,170	$ 634,191
Liabilities and Fund Balances			
Liabilities			
Accounts payable	$ 248,064	$ -	$ -
Due to other funds	77,645	-	-
Accrued payroll	275,544	-	-
Other accrued expenses	63,834	-	-
Deferred revenue	634,146	634,146	634,146
Total liabilities	1,299,233	634,146	634,146
Fund balances			
Reserved for debt service	-	-	-
Reserved for long-term receivable	559,289	-	-
Unreserved, reported in:			
General fund	1,275,333	-	-
Special revenue funds	-	24	45
Total fund balances	1,834,622	24	45
Total liabilities and fund balances	$ 3,133,855	$ 634,170	$ 634,191

See accompanying notes to financial statements.

Other Governmental Funds	Total Governmental Funds
$ 432,679	$ 1,682,634
35,376	3,087,510
61,049	154,795
-	3,563
-	2,818
186,894	186,894
$ 715,998	$ 5,118,214
$ 61,467	$ 309,531
77,150	154,795
-	275,544
-	63,834
48,715	1,951,153
187,332	2,754,857
186,894	186,894
-	559,289
-	1,275,333
341,772	341,841
528,666	2,363,357
$ 715,998	$ 5,118,214

City of Ozark
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
September 30, 2009

Differences in amounts reported for governmental activities in the Statement of Net Assets:	
Total fund balance - governmental funds	$ 2,363,357
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.	30,171,872
Deferred revenues - some grant awards are not available to pay current period expenditures and are deferred on the fund financial statements.	48,715
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	(256,976)
Bonds and notes payable, net	(5,859,995)
Accrued compensated absences	(376,325)
Accrued other post-employment benefits	(353,995)
Net Assets of Governmental Activities in the Statement of Net Assets	$ 25,736,653

See accompanying notes to financial statements.

City of Ozark
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
For the Year Ended September 30, 2009

	General Fund	Special Ad Valorem I	Special Ad Valorem II
Revenues			
Taxes	$ 7,718,830	$ 707,027	$ 707,027
Licenses and permits	1,436,035	-	-
Intergovernmental	206,445	-	-
Charges for services	1,427,229	-	-
Fines and forfeitures	938,817	-	-
Investment earnings	40,202	-	-
Miscellaneous	311,424	-	-
Total revenues	12,078,982	707,027	707,027
Expenditures			
General government	1,135,987	-	-
Ozark Board of Education	822,774	707,027	707,027
Vehicle maintenance	180,789	-	-
Police department	2,776,129	-	-
Information technology	149,353	-	-
Fire department	2,437,896	-	-
Airport	16,256	-	-
Sanitation	1,253,015	-	-
Street	847,432	-	-
Leisure services	1,549,317	-	-
Appropriations	138,582	-	-
Judicial	203,030	-	-
Economic development	156,043	-	-
Engineering/inspections	119,274	-	-
Ozark Technology Center	98,404	-	-
Non-departmental	239,375	-	-
Debt service			
Principal	-	-	-
Interest	-	-	-
Dues, fees and issuance costs	-	-	-
Capital outlay	645,343	-	-
Total expenditures	12,768,999	707,027	707,027
Excess (deficiency) of revenues over expenditures	(690,017)	-	-

See accompanying notes to financial statements.

Other Governmental Funds	Total Governmental Funds
$ 187,919	$ 9,320,803
-	1,436,035
430,489	636,934
-	1,427,229
-	938,817
3,009	43,211
14,466	325,890
635,883	14,128,919
-	1,135,987
-	2,236,828
-	180,789
128,126	2,904,255
-	149,353
-	2,437,896
-	16,256
-	1,253,015
21,201	868,633
-	1,549,317
-	138,582
5,057	208,087
-	156,043
-	119,274
-	98,404
-	239,375
471,376	471,376
280,972	280,972
2,577	2,577
105,107	750,450
1,014,416	15,197,469
(378,533)	(1,068,550)

-Continued-

City of Ozark
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds (Continued)
For the Year Ended September 30, 2009

	General Fund	Special Ad Valorem I	Special Ad Valorem II
Other Financing Sources (Uses)			
Transfers in (out)	(139,451)	(3,903)	(80)
Proceeds from long term debt	241,649	-	-
Loss recoveries	47,263	-	-
Excess revenues and other sources over (under) expenditures and other (uses)	(540,556)	(3,903)	(80)
Fund Balances - beginning	2,375,178	3,927	125
Fund Balances - ending	$ 1,834,622	$ 24	$ 45

See accompanying notes to financial statements.

Other Governmental Funds	Total Governmental Funds
143,434	-
-	241,649
-	47,263
(235,099)	(779,638)
763,765	3,142,995
$ 528,666	$ 2,363,357

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, 2009

Differences in amounts reported for governmental activities in the Statement of Activities:		
Net change in fund balances - total governmental funds:	$	(779,638)
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.		1,159,056
Depreciation expense on governmental capital assets is included in the governmental activities in the Statement of Net Assets.		(1,708,566)
Increase in deferred revenue related to grant awards.		48,714
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		229,727
The net effect of various miscellaneous transactions involving capital assets (i.e., exchanges, loss recoveries) is to increase net assets		(113,502)
Additional interest expense due to deferred loss on bond refunding and discount and amortization of bond issue costs		(16,238)
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		(353,995)
Compensated absences		8,348
Change in net assets of governmental activities	$	(1,526,094)

See accompanying notes to financial statements.

City of Ozark
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund
For the Year Ended September 30, 2009

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues				
Taxes	$ 7,923,500	$ 7,757,921	$ 7,718,830	$ (39,091)
Licenses and permits	1,351,100	1,440,718	1,436,035	(4,683)
Intergovernmental	491,005	588,133	206,445	(381,688)
Charges for services	1,436,000	1,480,393	1,427,229	(53,164)
Fines and forfeitures	750,000	930,120	938,817	8,697
Investment earnings	23,550	29,812	40,202	10,390
Miscellaneous	1,419,500	1,791,795	311,424	(1,480,371)
Total revenues	13,394,655	14,018,892	12,078,982	(1,939,910)
Expenditures				
General government	1,188,710	1,284,550	1,135,987	148,563
Vehicle maintenance	196,225	196,225	180,789	15,436
Police department	2,863,907	2,875,500	2,776,129	99,371
Information technology	150,048	175,753	149,353	26,400
Fire department	2,574,192	2,574,192	2,437,896	136,296
Airport	33,650	33,650	16,256	17,394
Sanitation	1,324,300	1,324,300	1,253,015	71,285
Street	927,326	891,305	847,432	43,873
Leisure services	1,658,344	1,643,771	1,549,317	94,454
Appropriations	134,500	139,500	138,582	918
Judicial	191,442	206,394	203,030	3,364
Economic development	232,854	161,800	156,043	5,757
Engineering/inspections	135,945	135,945	119,274	16,671
Ozark Technology Center	117,605	112,169	98,404	13,765
Non-departmental	204,000	255,091	239,375	15,716
Education	666,000	832,929	822,774	10,155
Capital outlay	349,964	955,171	645,343	309,828
Total expenditures	12,949,012	13,798,245	12,768,999	1,029,246
Excess (deficiency) of revenues over expenditures	445,643	220,647	(690,017)	(910,664)
Other Financing Sources (Uses)				
Loans proceeds	-	241,650	241,649	(1)
Loss recoveries	1,000	42,194	47,263	5,069
Transfers in (out)	(278,971)	(359,405)	(139,451)	219,954
Total other financing sources (uses)	(277,971)	(75,561)	149,461	225,022
Excess revenue and other sources over (under) expenditures and other (uses)	167,672	145,086	(540,556)	(685,642)
Fund Balances - beginning	2,375,178	2,375,178	2,375,178	-
Fund Balances - ending	$ 2,542,850	$ 2,520,264	$ 1,834,622	$ (685,642)

See accompanying notes to financial statements.

City of Ozark
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Special Ad Valorem Fund I
For the Year Ended September 30, 2009

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues				
Taxes	$ 640,000	$ 707,027	$ 707,027	$ -
Expenditures				
Education	640,000	707,027	707,027	-
Excess (deficiency) of revenues over expenditures	-	-	-	-
Other Financing Sources (Uses)				
Transfers in (out)	-	(3,903)	(3,903)	-
Excess revenue and other sources over (under) expenditures and other (uses)	-	(3,903)	(3,903)	-
Fund Balances - beginning	3,927	3,927	3,927	-
Fund Balances - ending	$ 3,927	$ 24	$ 24	$ -

See accompanying notes to financial statements.

City of Ozark
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Special Ad Valorem Fund II
For the Year Ended September 30, 2009

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues				
Taxes	$ 640,000	$ 707,027	$ 707,027	$ -
Expenditures				
Education	640,000	707,027	707,027	-
Excess (deficiency) of revenues over expenditures	-	-	-	-
Other Financing Sources (Uses)				
Transfers in (out)	-	(80)	(80)	-
Excess revenue and other sources over (under) expenditures and other (uses)	-	(80)	(80)	-
Fund Balances - beginning	125	125	125	-
Fund Balances - ending	$ 125	$ 45	$ 45	$ -

See accompanying notes to financial statements.

City of Ozark
Statement of Net Assets
Proprietary Fund
September 30, 2009

	Business-Type Activities
	Ozark Square Shopping Center
Assets	
Current assets	
Cash and cash equivalents	$ 66,757
Receivables	50,468
Total current assets	117,225
Noncurrent assets	
Land	510,959
Capital assets, net of depreciation	2,207,947
Total noncurrent assets	2,718,906
Total assets	2,836,131
Liabilities	
Current liabilities	
Accounts payable	47,100
Noncurrent liabilities	
Note payable	93,415
Total liabilities	140,515
Net Assets	
Invested in capital assets, net of	
Invested in capital assets, net of related debt	2,625,491
Unrestricted	70,125
Total net assets	$ 2,695,616

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, 2009

	Ozark Square Shopping Center
Operating Revenues	
Charges for services	$ 95,991
Operating Expenses	
Purchased services	23,564
Energy services	2,253
Depreciation	49,509
Total operating expenses	75,326
Operating Income	20,665
Non-Operating Revenues (Expenses)	
Interest expense	(49)
Special Items	
Donation of land and building	2,675,000
Change in net assets	2,695,616
Total Net Assets - beginning	-
Total Net Assets - ending	$ 2,695,616

See accompanying notes to financial statements.

City of Ozark
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2009

	Business-Type Activities	
	Ozark Square Shopping Center	
Cash Flows From Operating Activities		
Receipts from customers and users	$	92,574
Other receipts (payments)		(25,768)
Net cash provided by operating activities		66,806
Cash Flows From Capital and Related Financing Activities		
Interest payments on debt		(49)
Proceeds from long-term debt		46,364
Purchases of capital assets		(46,364)
Net cash used in capital and related financing activities		(49)
Net increase in cash and cash equivalents		66,757
Cash and Cash Equivalents - beginning		-
Cash and Cash Equivalents - ending	$	66,757
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	$	20,665
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation		49,509
Changes in operating assets and liabilities:		
(Increase) in accounts receivable		(50,468)
Decrease in accounts payable		47,100
Net cash provided by operating activities	$	66,806
Non-Cash Investing, Capital and Financing Activities:		
Acquisition of donated assets	$	2,675,000

See accompanying notes to financial statements.

NOTE

1. Summary of Significant Accounting Policies

2. Stewardship, Compliance, and Accountability

3. Deposits

4. Receivables

5. Capital Assets

6. Deferred Revenue

7. Long-Term Debt

8. Risk Management and Litigation

9. Contingent Liabilities

10. Deferred Compensation Plan

11. Retirement Plan

12. Postemployment Health Care Benefits

13. Interfund Balances and Transfers

14. Related Party Transactions

15. Prior Period Adjustment

16. Special Items

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements 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

Statement No. 14 of the Governmental Accounting Standards Board establishes standards for defining and reporting on the financial reporting entity. The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for agencies that make up its legal entity. It is also financially accountable for a legally separate agency if its officials appoint a voting majority of that agency's governing body and either it is able to impose its will on that agency or there is a potential for the agency to provide specific financial benefits to, or to impose specific financial burdens on, the primary government.

The following are considered to be component units of the City: 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. The financial statements of these component units are not included in the primary government financial statements of the City.

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 reports 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.

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. Operating expenses for the enterprise fund include the cost of maintaining and operating the building, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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 that 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 2008 for the 2009 budget year have been recorded as receivables and deferred revenue.

Accounts Receivable

Accounts receivable are written off on an individual basis in the year the City deems them uncollectible. The City considered all receivables at year end to be collectible and as such, no allowance for uncollectibles is reported.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Assets

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 cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant, and equipment 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	3 – 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.

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 report 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. Governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

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.

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.

Restricted cash and investments were comprised of the following at September 30, 2009:

	Governmental
Cash	
Restricted for Debt Service	$ 186,894

NOTE 4 – RECEIVABLES

Receivables at September 30, 2009 consist of the following:

	General Fund	Special Ad Valorem I	Special Ad Valorem II	Nonmajor Funds	Total
Accounts receivable	$ 590,407	$ -	$ -	$ -	$ 590,407
Property taxes receivable	634,146	634,146	634,146	-	1,902,438
Grants receivable	-	-	-	35,376	35,376
Note receivable– Utilities Board	559,289	-	-	-	559,289
	$1,783,842	$ 634,146	$ 634,146	$ 35,376	$3,087,510

NOTE 4 – RECEIVABLES (Continued)

Included in receivables is a $559,289 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 – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2009 was as follows:

	Beginning Balance 9/30/08 (Restated)	Increases	Decreases	Ending Balance 9/30/09
Governmental Activities:				
Capital assets, not being depreciated:				
Land	$ 4,863,299	$ 29,736	$ 55,500	$ 4,837,535
Construction in progress	5,467,923	128,510	44,017	5,552,416
Total capital assets, not being depreciated	$ 10,331,222	$ 158,246	$ 99,517	$10,389,951
Capital assets being depreciated				
Buildings	$ 11,252,680	$ 399,695	$ -	$11,652,375
Improvements and infrastructure	27,941,320	180,567	-	28,121,887
Equipment	5,111,114	178,900	50,524	5,239,490
Property under capital leases	171,039	241,649	-	412,688
Total capital assets being depreciated	44,476,153	1,000,811	50,524	45,426,440
Less accumulated depreciation for:				
Buildings	(3,783,903)	(275,292)	-	(4,059,195)
Improvements and infrastructure	(16,423,482)	(1,055,387)	-	(17,478,869)
Equipment	(3,696,684)	(324,920)	36,532	(3,985,072)
Property under capital leases	(68,416)	(52,967)	-	(121,383)
Total capital assets, being depreciated, net	20,503,668	(707,755)	13,992	19,781,921
Governmental activities capital assets, net	$ 30,834,890	$ (549,507)	$ 113,509	$ 30,171,872

NOTE 5 – CAPITAL ASSETS (Continued)

Business-Type Activities:				
Capital assets, not being depreciated:				
Land	$ -	$ 510,959	$ -	$ 510,959
Capital assets being depreciated				
Buildings	$ -	$ 2,257,456	$ -	$ 2,257,456
Less accumulated depreciation for:				
Buildings	-	(49,509)	-	(49,509)
Total capital assets, being depreciated, net	$ -	$ 2,207,947	$ -	$ 2,207,947
Business-type activities capital assets, net	$ -	$ 2,718,906	$ -	$ 2,718,906

Net donated governmental capital assets during the year totaled $357,946. This amount is comprised of buildings, land, vehicles, and land transferred of $354,000, $29,736, $29,710, and ($55,500), respectively, as detailed in Note 16. Donated business-type assets during the year totaled $2,675,000. This amount is comprised of land of $510,959 and the Ozark Square Shopping Center building in the amount of $2,164,041.

Construction in progress represents several airport expansion projects at September 30, 2009. Each of these projects will be completed in fiscal year 2010 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	$ 103,078
Vehicle maintenance	3,185
Police department	86,809
Information technology	23,688
Fire department	117,752
Airport	94,291
Sanitation department	65,701
Street department	966,351
Leisure services	157,187
Judicial	1,769
Economic development	60,743
Engineering/inspections	3,465
Ozark Technology Center	24,547
Total depreciation expense – Governmental Activities	$ 1,708,566

NOTE 5 – CAPITAL ASSETS (Continued)

Business-Type Activities	
Ozark Square Shopping Center	$ 49,509
Total depreciation expense – Business-Type Activities	$ 49,509

NOTE 6 – DEFERRED REVENUE

Governmental Activities:	General Fund	Special Ad Valorem I	Special Ad Valorem II	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.	$ 634,146	$ 634,146	$ 634,146	$ 1,902,438

NOTE 7 – LONG-TERM DEBT

Changes in long-term debt for the year ended September 30, 2009 was as follows:

	Beginning Balance 9/30/08 (Restated)	Additions	Reductions	Ending Balance 9/30/09	Due Within One Year
Governmental Activities					
Capital leases	$ 81,888	$ 241,649	$ 66,561	$ 256,976	$ 103,494
Compensated absences	384,674	-	8,349	376,325	-
Note payable	140,280	-	140,280	-	-
Bonds payable	6,319,535	-	264,535	6,055,000	245,000
Unamortized loss on debt refunding	(34,322)	3,710	-	(30,612)	(3,710)
Unamortized issue costs	(126,164)	9,330	-	(116,834)	(9,330)
Unamortized discount	(50,757)	3,198	-	(47,559)	(3,198)
Other postemployment benefits	-	446,342	92,347	353,995	-
Governmental activity long-term liabilities	$6,715,134	$ 704,229	$ 572,072	$6,847,291	$ 332,256

NOTE 7 – LONG-TERM DEBT (Continued)

Business-Type Activities

Note payable–line of credit	$ -	$ 93,415	$ -	$ 93,415	$ -	

Governmental activities, claims, obligations, and compensated absences are generally liquidated by the general fund. Long-term debt payable at September 30, 2009 is composed of the following issues:

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

	Principal Balance
$4,150,000 General Obligation Warrants, Series 2002, dated February 1, 2002, payable in annual installments from 2003 through 2026, interest rates range from 4.15 to 5 percent.	$ 4,000,000
$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.	2,055,000
	$ 6,055,000

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

The Series 2002 bonds are reported net of issuance costs and original issue discount. Issuance costs of $94,661 are being amortized over the life of the bonds and are included in amortization expense on the statement of activities. Amortization expense related to the Series 2002 bonds for the year ended September 30, 2009 is $3,786. Remaining issuance costs to be deferred to future periods is $73,191. Original issue discount in the amount of $55,339 is also being amortized over the life of the bonds and is reported as part of interest expense. The total amount expensed related to the Series 2002 bonds for the year ended September 30, 2009 is $2,214. Remaining original issue discount to be deferred to future periods is $42,809.

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, 2009 is $3,710 and is reported as part of interest expense. The balance of deferred refunding cost at September 30, 2009 is $30,612.

NOTE 7 – LONG-TERM DEBT (Continued)

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, 2009 is $5,544. Remaining issuance costs to be deferred to future periods is $43,643. 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, 2009 is $984. Remaining original issue discount to be deferred to future periods is $4,750.

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

Year Ending September 30,	Principal	Interest	Total
2010	$ 245,000	$ 264,846	$ 509,846
2011	300,000	255,953	555,953
2012	310,000	245,385	555,385
2013	320,000	233,904	553,904
2014	330,000	221,569	551,569
Thereafter	4,550,000	1,400,979	5,950,979
	$ 6,055,000	$ 2,622,636	$ 8,677,636

In 2005 and 2008, the City in entered into two 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. 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 - 2005	$ 171,039
Automated garbage truck - 2008	199,110
Commercial tractor mower - 2009	42,539
Total equipment under capital lease	412,688
Accumulated depreciation	121,383
Total equipment under capital lease, net	$ 291,305

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, 2009:

NOTE 7 – LONG-TERM DEBT (Continued)

Year Ending September 30,	Amount
2010	$ 111,971
2011	59,108
2012	52,541
2013	43,348
2014	7,225
Total minimum lease payments	274,193
Less: amount representing interest	(17,217)
Present value of future minimum lease payments	$ 256,976

The interest rates range from 3.39 to 6.99 percent.

The Proprietary fund reported a noted payable from the Commercial Bank as follows:

	Principal Balance
$200,000 Note payable to repair roof and other ancillary infrastructure at the City owned Ozark Square Shopping Center. 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. Upon completion of the renovations, the line of credit will be converted to a 3-year bank loan.	$ 93,415

NOTE 8 – 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.

NOTE 9 – 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.

NOTE 9 – CONTINGENT LIABILITIES (Continued)

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 10 – 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 11 – 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.

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.

NOTE 11 – RETIREMENT PLAN (Continued)

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, 2008

Summary of Employer Census Data		
Number of active members		160
Annual compensation	$	4,743,087
Number of retired members and beneficiaries		35
Annual retirement allowances	$	492,066
Employer Contribution Rates		
Normal cost		4.99%
Accrued liability		3.15
Pre-retirement death benefit		0.15
Administrative expense		0.18
Total		8.47%
5% Employer contribution factor		1.694
6% Employer contribution factor		1.412

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.

NOTE 11 – 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)
9/30/99	$ 6,303,008	$ 5,270,797	$(1,032,211)	119.58%	$ 3,674,408	(28.09%)
9/30/00	6,871,760	5,963,379	(908,381)	115.23%	3,793,018	(23.95%)
9/30/01	7,295,141	6,846,577	(448,564)	106.55%	3,508,186	(12.79%)
9/30/02	7,562,372	7,742,115	179,743	97.68%	3,733,317	4.81%
9/30/03	8,031,043	8,521,506	490,463	94.24%	3,865,316	12.69%
9/30/04	8,544,419	9,070,928	526,509	94.20%	4,092,428	12.87%
9/30/05	9,092,559	9,957,488	864,929	91.31%	4,138,881	20.90%
9/30/06	9,832,436	11,431,416	1,598,980	86.01%	4,208,021	38.00%
9/30/07	10,600,667	12,268,892	1,668,225	86.40%	4,455,577	37.44%
9/30/08	10,912,325	13,068,281	2,155,956	83.50%	5,743,087	37.54%

Valuation date	9/30/08
Actuarial cost methods	Entry age
Amortization method	Level percent open
Remaining amortization period	20
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
9/30/99	$ 151,444	100%	$ -0-
9/30/00	154,628	100%	-0-
9/30/01	155,270	100%	-0-
9/30/02	161,456	100%	-0-
9/30/03	155,321	100%	-0-
9/30/04	199,363	100%	-0-
9/30/05	246,183	100%	-0-
9/30/06	255,924	100%	-0-
9/30/07	265,553	100%	-0-
9/30/08	330,240	100%	-0-

NOTE 12 – 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.

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, 2007

Summary of Employer Census Data		
Number of active members		156
Annual compensation	$	4,266,249
Number of retired members and beneficiaries		18
Annual retirement allowances	$	446,342
Employer Contribution Rates		
Normal cost		6.63%
Accrued liability		3.83
Total		10.46%

Funded Status and Funding Progress. As of September 30, 2007, the most recent actuarial valuation date, the actuarial accrued liability for benefits was $5,258,930, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability of $5,258,930. The covered payroll (annual payroll of active participating employees) was $4,266,249 for fiscal year 2007 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 10.46%.

NOTE 12 – POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

Accounting Information

Schedule of Funding Progress

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%

Valuation date	9/30/07
Actuarial cost methods	Projected unit credit
Amortization method	Level percentage of pay, open
Remaining amortization period	30
Asset valuation method	Market value of assets
Actuarial assumptions:	
Investment rate of return	4.00%
Medical cost trend rate	11.00 – 5.00%
Year of ultimate trend rate	2015

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.

Description	Amount
Normal cost (service cost for one year)	$ 282,962
Amortization of unfunded actuarial accrued liability	163,380
Annual required contribution	$ 446,342
Annual OPEB cost (expense)	$ 446,342
Contribution toward the OPEB cost in fiscal year 2009	(92,347)
Increase in Net OPEB obligation	353,995
Net OPEB obligation, beginning of year	-
Net OPEB obligation, end of year	$ 353,995

NOTE 12 – POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

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, 2009 (first year of implementation), was as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Beginning Balance, 10/1/2008	$ -	-	$ -
2009	446,432	20.69%	353,995

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 initial OPEB actuarial valuation using information as of September 30, 2007 employed the projected unit credit actuarial cost method to estimate the unfunded actuarial accrued liability as of September 30, 2009, and to estimate the City's 2009 annual required contribution. Although the OPEB liability is currently unfunded, the actuarial assumption included a 4% rate of return on invested assets and a 4% interest rate. The actuarial assumptions also included a medical cost trend of 11% initially for the 2007 fiscal year reduced by 1 percent per year to 2011 and reduced by one-half a percent to an ultimate rate of 5% after nine 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, 2009, was 30 years.

NOTE 13 – INTERFUND BALANCES AND TRANSFERS

Interfund balances at September 30, 2009 consist of the following, all of which expect to be repaid within one year:

	Due From	Due To
General fund	$ 93,746	$ 77,645
Nonmajor governmental funds	61,049	77,150
Total	$ 154,795	$ 154,795

NOTE 13 – INTERFUND BALANCES AND TRANSFERS (Continued)

Transfers to/from other funds at September 30, 2009 consist of the following:

	Transfers In	Transfers Out	Net
General fund	$ 1,903,259	$ (2,042,710)	$ (139,451)
Special Ad Valorem I fund	-	(3,903)	(3,903)
Special Ad Valorem II fund	-	(80)	(80)
Nonmajor governmental funds	749,549	(606,115)	143,434
	$ 2,652,808	$ 2,652,808	$ -

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

NOTE 14 – 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 2009, the City recorded total payments from the Utilities Board of $30,464, which includes $27,265 principal and $3,199 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.

NOTE 15 – PRIOR PERIOD ADJUSTMENTS

A prior period adjustment was made at the government-wide level which increased beginning net assets by $529,490. This adjustment was made so that the financial statements would reflect the value of net depreciable assets of $525,985 that were acquired or should have been capitalized in prior years and a $3,505 reduction in the prior year bonds outstanding on the Pea River General Obligation Industrial Development Warrants, Series 2000. The City made an additional payment on the issue in fiscal year 2004 that was not recorded. The accompanying financial statements have been restated to correct an error in the omission of deferred revenues for estimated property taxes due as of September 30, 2008, based on the assessment by the Dale County Revenue Commissioner on October 1, 2008. The beginning net assets have been restated to reflect the deferral. The beginning net assets on the Statement of Activities were reduced $1,828,853.

NOTE 16 – SPECIAL ITEMS

The special item reported as a governmental activity was for the donation of the Flowers Center for the Performing Arts. The donation was comprised of a building and land with estimated market values of $354,000 and $29,736 respectively, totaling $383,736. As part of the donation agreement, the City transferred $55,500 of land to the Ozark Board of Education. The net donation of governmental assets is $328,236.

Also, a special item was reported for the donation to the City of the Ozark Square Shopping Center. The total business-type assets donation was comprised of a building and land with estimated market values of $2,164,041 and $510,959 respectively, totaling $2,675,000.

COMBINING AND INDIVIDUAL FUND STATEMENTS

City of Ozark
Combining Balance Sheet
Nonmajor Governmental Funds
September 30, 2009

	Street	Four Cent Gas Tax	UDAG
Assets			
Cash and cash equivalents	$ 23,565	$ 20,820	$ 3,614
Receivables	10,457	6,014	-
Due from other funds	-	-	-
Restricted cash and cash equivalents	-	-	-
Total assets	$ 34,022	$ 26,834	$ 3,614
Liabilities and Fund Balances			
Liabilities			
Accounts payable	$ -	$ -	$ -
Due to other funds	-	-	-
Deferred revenues	-	-	-
Fund balances			
Reserved for debt service	-	-	-
Unreserved	34,022	26,834	3,614
Total liabilities and fund balances	$ 34,022	$ 26,834	$ 3,614

Bond Fund	Debt Service Fund	FEMA	Wiregrass Violent Crime
$ -	$ -	$ 52,348	$ 3,914
-	-	-	18,905
-	-	-	-
-	186,894	-	-
$ -	$ 186,894	$ 52,348	$ 22,819
$ -	$ -	$ -	$ 9,070
-	-	-	9,835
-	-	45,906	-
-	186,894	-	-
-	-	6,442	3,914
$ -	$ 186,894	$ 52,348	$ 22,819

-Continued-

City of Ozark
Combining Balance Sheet
Nonmajor Governmental Funds (Continued)
September 30, 2009

	Dept of Justice	Drug Forfeiture	CDBG Economic Development
Assets			
Cash and cash equivalents	$ 60,706	$ 43,347	$ 21,973
Receivables	-	-	-
Due from other funds	-	-	14,870
Restricted cash and cash equivalents	-	-	-
Total assets	$ 60,706	$ 43,347	$ 36,843
Liabilities and Fund Balances			
Liabilities			
Accounts payable	$ 52,396	$ -	$ -
Due to other funds	-	-	36,843
Deferred revenues	2,809	-	-
Fund balances			
Reserved for debt service	-	-	-
Unreserved	5,501	43,347	-
Total liabilities and fund balances	$ 60,706	$ 43,347	$ 36,843

CDBG	Alabama Trust Fund Improvements	Corrections Fund	Total Nonmajor Governmental Funds
$ 1,683	$ 121,358	$ 79,351	$ 432,679
-	-	-	35,376
36,842	-	9,337	61,049
-	-	-	186,894
$ 38,525	$ 121,358	$ 88,688	$ 715,998
$ -	$ -	$ -	$ 61,467
30,473	-	-	77,150
-	-	-	48,715
			-
-	-	-	186,894
8,052	121,358	88,688	341,772
$ 38,525	$ 121,358	$ 88,688	$ 715,998

City of Ozark
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended September 30, 2009

	Street	Four Cent Gas Tax
Revenues		
Taxes	$ 119,234	$ 68,685
Intergovernmental	-	11,085
Investment Earnings	326	100
Miscellaneous	-	-
Total revenues	119,560	79,870
Expenditures		
Police department	-	-
Street	19,985	-
Judicial	-	-
Non-departmental	-	-
Debt Service		
Principal	70,140	70,140
Interest	-	-
Dues, fees and issuance costs	-	-
Capital outlay	65,303	-
Total expenditures	155,428	70,140
Excess (deficiency) of revenues over expenditures	(35,868)	9,730
Other Financing Sources (Uses)		
Transfers in (out)	(25,000)	-
Net change in fund balances	(60,868)	9,730
Fund Balances - beginning	94,890	17,104
Fund Balances - ending	$ 34,022	$ 26,834

UDAG	Bond Fund	Debt Service Fund	FEMA	Wiregrass Violent Crime
$ -	$ -	$ -	$ -	$ -
-	-	-	22,876	107,232
2	5	729	-	-
1,640	-	-	-	-
1,642	5	729	22,876	107,232
-	-	-	-	66,289
-	-	-	1,216	-
-	-	-	-	-
-	-	-	-	-
-	-	331,096	-	-
-	-	280,972	-	-
-	-	2,577		
-	-	-	-	-
-	-	614,645	1,216	66,289
1,642	5	(613,916)	21,660	40,943
-	(5)	605,924	(21,660)	(40,943)
1,642	-	(7,992)	-	-
1,972	-	194,886	6,442	3,914
$ 3,614	$ -	$ 186,894	$ 6,442	$ 3,914

-Continued-

City of Ozark
Combining Statement of Revenues, Expenditures and Changes in Fund Balances (Continued)
Nonmajor Governmental Funds
For the Year Ended September 30, 2009

	Dept of Justice	Drug Forfeiture	CDBG Economic Development
Revenues			
Taxes	$ -	$ -	$ -
Intergovernmental	90,002	14,168	-
Investment earnings	-	-	-
Miscellaneous	-	12,826	-
Total revenues	90,002	26,994	-
Expenditures			
Police department	56,567	5,270	-
Street	-	-	-
Judicial	-	-	-
Non-departmental	-	-	-
Debt service			
Principal	-	-	-
Interest	-	-	-
Dues, fees and issuance costs	-	-	-
Capital outlay	33,435	-	-
Total expenditures	90,002	5,270	-
Excess (deficiency) of revenues over expenditures	-	21,724	-
Other Financing Sources (Uses)			
Transfers in (out)	-	-	(130,211)
Net change in fund balances	-	21,724	(130,211)
Fund Balances - beginning	5,501	21,623	130,211
Fund Balances - ending	$ 5,501	$ 43,347	$ -

CDBG	Alabama Trust Fund Improvements	Corrections Fund	Total Nonmajor Governmental Funds
$ -	$ -	$ -	$ 187,919
-	185,126	-	430,489
-	382	1,465	3,009
-	-	-	14,466
-	185,508	1,465	635,883
-	-	-	128,126
-	-	-	21,201
-	-	5,057	5,057
-	-	-	-
			-
-	-	-	471,376
-	-	-	280,972
-	-	-	2,577
6,369	-	-	105,107
6,369	-	5,057	1,014,416
(6,369)	185,508	(3,592)	(378,533)
(98,927)	(95,000)	(50,744)	143,434
(105,296)	90,508	(54,336)	(235,099)
113,348	30,850	143,024	763,765
$ 8,052	$ 121,358	$ 88,688	$ 528,666

SUPPLEMENTAL INFORMATION

City of Ozark
Schedules of Bond Amortization Requirements
September 30, 2009
(Unaudited)

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

Paying Agent: Bank of New York

Year Ending	Interest Rate	Principal	Interest	Total
9/30/10	4.15%	$ 25,000	$ 195,771	$ 220,771
9/30/11	4.15%	70,000	193,800	263,800
9/30/12	4.15%	75,000	190,791	265,791
9/30/13	4.70%	75,000	187,472	262,472
9/30/14	4.70%	85,000	183,712	268,712
9/30/15	4.70%	90,000	179,600	269,600
9/30/16	4.70%	95,000	175,252	270,252
9/30/17	4.70%	100,000	170,670	270,670
9/30/18	4.80%	305,000	161,000	466,000
9/30/19	4.90%	320,000	145,840	465,840
9/30/20	5.00%	340,000	129,500	469,500
9/30/21	5.00%	355,000	112,125	467,125
9/30/22	5.00%	375,000	93,875	468,875
9/30/23	5.00%	390,000	74,750	464,750
9/30/24	5.00%	410,000	54,750	464,750
9/30/25	5.00%	435,000	33,625	468,625
9/30/26	5.00%	455,000	11,375	466,375
Total		$ 4,000,000	$ 2,293,908	$ 6,293,908

$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
9/30/10	3.00%	$ 220,000	$ 72,375	$ 292,375
9/30/11	3.15%	230,000	65,775	295,775
9/30/12	3.35%	235,000	58,530	293,530
9/30/13	3.45%	245,000	50,658	295,658
9/30/14	3.55%	245,000	42,205	287,205
9/30/15	3.65%	255,000	33,506	288,506
9/30/16	3.75%	265,000	24,200	289,200
9/30/17	3.95%	275,000	14,262	289,262
9/30/18	4.00%	85,000	3,400	88,400
Total		$ 2,055,000	$ 364,911	$ 2,419,911

City of Ozark
Schedule of Expenditures of Federal Awards
For The Year Ended September 30, 2009

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	N/A	$ 21,635
U.S. Department of Agriculture Natural Resources Conservation Service			
Federal Direct	10.923	69-4101-09-10	34,600
U.S. Department of Homeland Security			
Pass-through Alabama Emergency Management Agency			
FEMA – Alabama FEMA	97.036	FEMA-1835-DR-PA	22,876
U.S. Department of Justice			
ARRA-Recovery Justice Assistance Grant	16.804	2009-SB-B9-2274	90,002
Pass-through Alabama Department of Economic and Community Affairs			
Edward Byrne Memorial Justice Assistance Grant	16.738	07-DJ-01-029	57,238
Edward Byrne Memorial Justice Assistance Grant	16.738	08-DJ-01-019	49,995
Total U.S. Department of Justice			197,235
U.S. Department of Transportation			
Pass-through Alabama Department of Transportation			
Airport Improvement Program	20.106	3-01-056-007-2006	528
Airport Improvement Program	20.106	3-01-056-008-2007	38,937
Highway Planning and Construction	20.205	STPTE-TE02(970)	1,151
Total U.S. Department of Transportation			40,616
Total Expenditures of Federal Awards			$ 316,962

City of Ozark
Notes to Schedule of Expenditures of Federal Awards
For The Year Ended September 30, 2009

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 City exclusive of its boards, agencies and authorities for which a lack of influence, control and dependence exists on the part of the City and in their relationship with the City. These exclusions are in conformance with the criteria 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

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

Honorable Mayor and Members of
the City Council
Ozark, Alabama

We have audited the financial statements of the governmental 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, 2009, which collectively comprise the basic financial statements of the City's primary government and have issued our report thereon dated January 28, 2010. 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 in order to determine our auditing procedures for the purpose of expressing our opinion 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We consider deficiencies 09-001, 09-002, and 09-003 described below, to be material weaknesses.

09-001 Civic Center Events and Procedures

Finding - The Civic Center operation lacks adequate controls to accurately account for gross ticket sales and concessions revenue for events held at the facility. Additionally, adequate supporting documentation for third party promoter settlements is not maintained. Furthermore, a separate checking account outside the City's general controls is maintained at the Civic Center and employees are compensated from this account.

Recommendation - The City should establish policies and procedures to ensure that all Civic Center revenue and expenses from special events are properly accounted for, including standard reporting documents signed and dated by preparer and reviewer, as well as any third party promoter. Supporting documentation should be maintained for every event held, to include at a minimum:

- Signed contract
- Settlement sheet showing revenue and expenses
- Ticket logs for tickets purchased in advance, at the door, etc
- Cash counts of concession revenue signed by a Civic Center employee and supervisor

The City should also close the Civic Center checking account and transferring the payment of all expenses to the Accounting Department at City Hall.

09-002 Grant Administration and Compliance

Finding - The City does not maintain a grant summary schedule for monitoring all awarded grants, the grant administrator and funding source. 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. No formal policies or procedures exist relating to the application, approval, administration, reporting, and compliance process.

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.

09-003 Bank Accounts

Finding - Four City-administered bank accounts are not included on the general ledger nor is the activity in those accounts reported in the City's financial statements. Those accounts are: the Flexible Spending account, the Public Building Authority account, the Industrial Development Board account, and the Volunteer Fire Department account.

Recommendation - The City should determine the purpose and nature of each account and review all bank account activity to verify that all accounts are properly maintained and recorded. We recommend the activity of the four aforementioned accounts be included in the City's financial statements.

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. We consider deficiencies 09-004, 09-005, and 09-006 described below, to be significant deficiencies.

09-004 Daily Cash Receipts

Finding - The City lacks adequate control procedures to verify the recording of daily cash receipts from the City's various cash collection points. Cash receipts are not consistently brought to the cashier daily from each revenue source within the City. Additionally, cash receipts from the Department of Leisure Services changes hands multiple times prior to being brought to the cashier increasing the risk of misappropriation of assets. Furthermore, adequate supporting documentation disclosing the source, date and collection of cash receipts is not consistently filed by the cashier.

Recommendation - The City should require daily activity reports denoting cash collections from each cash collection location, to include reviewing zero activity reports for those sites with no cash collections, to ensure that daily collections are accounted for. The City should also ensure that appropriate documentation be filed with every cash receipt. The City should additionally streamline its process by which cash is brought to the cashier and should consider assigning one individual with the responsibility of collecting cash receipts for each department.

09-005 Accounting Policies and Procedures Manual

Finding - The City does not have an accounting policies and procedures manual. The purposes of such a manual are to ensure that proper accounting principles are being applied, 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. 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
- Any other documents or forms for which uniformity of use is desired

Recommendation - We recommend the City establish a firm date for completion and adoption of its accounting policies and procedures manual. In the process of developing the manual, we recommend a comprehensive review of the existing accounting system, 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 within the finance department with the objective of improving efficiency and effectiveness.

09-006 Segregation of Duties

Finding - Presently, one individual's responsibilities include accounts payable check preparation and distribution of signed checks. This individual is not an authorized check signer, but has access to check stock.

Recommendation - We recommend that control procedures be implemented to separate accounts payable and check writing responsibilities. One individual's responsibilities should be limited to approving accounts payable and reviewing the distribution check register. A second

individual should have check stock custodial and check drafting responsibilities. Once checks are drafted, they should be forwarded along with supporting documentation directly to the check signers for review, approval, and signatures. A third person should be forwarded the signed checks directly from the check signers for distribution.

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 28, 2010.

This communication 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 28, 2010