

City of Ozark

Financial Statements

For The Year Ended September 30, 2013

**City of Ozark
Table of Contents
September 30, 2013**

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1 - 3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4 - 12
BASIC FINANCIAL STATEMENTS	
GOVERNMENT WIDE FINANCIAL STATEMENTS	
Statement of Net Position	13
Statement of Activities	14 - 15
FUND FINANCIAL STATEMENTS	
Balance Sheet – Governmental Funds	16
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	17
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	18 - 19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	20
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual	
General Fund	21
Special Ad Valorem Fund I	22
Special Ad Valorem Fund II	23
Statement of Net Position – Proprietary Funds	24
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds	25
Statement of Cash Flows – Proprietary Funds	26 - 27
Notes to Financial Statements	28 - 54
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Funding Progress for the Retiree Health Plan	55

City of Ozark, Alabama
Table of Contents
September 30, 2013

	<u>Page</u>
COMBINING AND INDIVIDUAL FUND STATEMENTS	
Description of Nonmajor Governmental Funds	56
Combining Balance Sheet – Nonmajor Governmental Funds	57 - 58
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	59 - 60
SUPPLEMENTAL INFORMATION	
Schedules of Bond Amortization Requirements	61
COMPLIANCE SECTION	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	62 - 63
Schedule of Findings and Responses	64 - 66

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Ozark, Alabama, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents. We did not audit the financial statements of the Ozark City Board of Education, which is 100 percent of the assets, net position, and revenues of the discretely presented component unit.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Ozark City Board of Education, which is 100 percent of the assets, net position, and revenues of the discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and in our opinion, insofar as it relates to the amounts included for the Ozark City Board of Education, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Ozark, Alabama, as of September 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedule of funding progress on pages 4-12 and page 55 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Ozark, Alabama's basic financial statements. The combining and individual nonmajor fund financial statements and schedules of bond amortization requirements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and the schedules of bond amortization requirements have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Emphasis of Matter

As described in Note 1 to the financial statements, in 2013, the City adopted new accounting guidance, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 4, 2014, on our consideration of the City of Ozark, Alabama's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Ozark, Alabama's internal control over financial reporting and compliance.

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

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

Certified Public Accountants

April 4, 2014

Management's Discussion and Analysis

The City of Ozark, Alabama'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, 2012, and ending September 30, 2013. 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, 2013.

Financial Highlights

From the Government-Wide Financial Statements:

- The City's governmental and business-type activities net position at September 30, 2013 was \$25,189,578. This represents a decrease of \$950,803 from restated net position at September 30, 2012 of \$26,140,381.
- Revenues at September 30, 2013 from governmental activities were \$15,315,182 and revenues from business-type activities were \$926,988, for a combined total of \$16,242,170. This is an overall increase in revenues from fiscal year 2012 of \$314,081. The governmental activities revenues increased \$440,174; a significant portion of the increase is due to changes in grant monies received during FY13 as compared to FY12, such as the receipt of a \$285,000 grant for the purchase of a fire truck. Additionally, sales taxes, motor fuel taxes, lodging taxes, and insurance premium taxes all showed increases over the prior year. The business-type activities revenues decreased \$126,093, primarily attributable to a decrease in the overall number of patient transports of approximately 7.6% from the prior fiscal year.

From the Fund Financial Statements:

- Revenues reported in the governmental funds were \$15,173,900 at September 30, 2013 and are \$409,281 more than governmental funds revenues of \$14,764,619 reported at September 30, 2012. Three revenue categories (taxes, charges for services, and investment earnings) accounted for \$285,450 of the reduction and four revenue categories (licenses and permits, intergovernmental, fines and forfeitures, and miscellaneous) accounted for \$694,731 of revenue increases. Expenditures reported in the governmental funds were \$15,838,751 at September 30, 2013 and \$15,144,018 at September 30, 2012. The net increase of \$694,733 in expenditures was primarily attributable to increase in personnel costs in the fire department function and economic development function.
- The General Fund reported a total fund balance of \$2,478,609 at September 30, 2013. That is 18.3 percent of total general fund expenditures of \$13,531,973 or 20 percent of its operating expenditures of \$12,394,552 (expenditures less capital outlay). The total general fund balance at September 30, 2012 was \$2,334,842, representing an increase in the total general fund balance of \$143,767.

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 position presents information on all of the City's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and resulting net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position 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 (business-type activities).

The governmental activities of the City include such functions as general government, education, police, fire, sanitation, street, and leisure services. The business-type activities of the City include the Ozark Square Shopping Center and the Emergency Medical Services ("EMS") program. All of these activities are collectively referred to in the financial statements as those of the primary government.

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

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City are classified as either governmental funds or proprietary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

The City maintains sixteen 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 thirteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements in the other supplementary information section of this report.

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

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

Proprietary Funds. The City maintains two proprietary funds, one for the Ozark Square Shopping Center and one for the Fire Department's EMS Division. Both are enterprise funds. An enterprise fund is used to determine operating income, changes in net position, financial position, and cash flows. These funds are presented as part of the primary government in the government-wide financial statements in columns labeled "business-type activities". The City received the Ozark Square Shopping Center in a donation in December 2008 and there are currently four business tenants who rent retail space in the shopping center. The City plans to develop trailer park property acquired in this fund in January 2010 as an extension of the Flowers Performing Arts Center and into a multi-use recreational, fitness and aquatic center.

In May 2010, the City approved the Fire Department implementing the EMS Division to provide ambulance services to the City's residents and to replace the current ambulance service provider. The EMS program transported 3,176 patients during the current fiscal year (its third year of operations), and the three-year average gross charge per trip is \$659, the three-year average net charge per trip is \$426, and the three-year average cash collection per trip is \$271. The three-year average cash collected per trip is 63.5 percent of the average net charge per trip. The numbers of patients transported by payment type for FY2013 are: Medicare - 1,680 or 46.6 percent of total; Medicaid - 460 or 6.7 percent of total; Insurance - 479 or 24.1 percent of total; and Self-Pay (without insurance) - 554 or 22.3 percent of total.

The basic proprietary fund financial statements can be found beginning on page 24 of this report.

Notes to Financial Statements

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

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, governmental activities assets exceed liabilities by \$23,106,606 for fiscal year 2013, as compared to \$23,715,635 (restated) in fiscal year 2012.

	Governmental Activities		Business-type Activities		Primary Government Total	
<i>September 30,</i>	2013	Restated 2012	2013	2012	2013	Restated 2012
Assets						
Current and other assets	\$ 5,433,970	\$ 5,504,964	\$ 448,911	\$ 655,322	\$ 5,882,881	\$ 6,160,286
Capital assets	28,083,144	28,040,458	2,880,280	2,920,781	30,963,424	30,961,239
Total assets	33,517,114	33,545,422	3,329,191	3,576,103	36,846,305	37,121,525
Deferred outflows of resources						
	136,874	149,900	-	-	136,874	149,900
Liabilities						
Long-term liabilities	7,707,934	6,821,495	146,310	262,149	7,854,244	7,083,644
Other liabilities	976,878	1,278,137	1,099,909	889,208	2,076,787	2,167,345
Total liabilities	8,684,812	8,099,632	1,246,219	1,151,357	9,931,031	9,250,989
Deferred inflows of resources						
	1,862,570	1,880,055	-	-	1,862,570	1,880,055
Net Position						
Net investment in capital assets	21,638,601	22,019,583	2,762,541	2,716,798	24,401,142	24,736,381
Restricted	854,828	463,513	-	-	854,828	463,513
Unrestricted	613,177	1,232,539	(679,569)	(292,052)	(66,392)	940,487
Total net position	\$ 23,106,606	\$ 23,715,635	\$ 2,082,972	\$ 2,424,746	\$ 25,189,578	\$ 26,140,381

By far, the largest portion of the City's net position reflects its investment in capital assets (e.g., land, buildings, infrastructure, and equipment), less any related debt used to acquire those assets that are 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 position represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position may be used to meet the City's ongoing obligations. The City, at September 30, 2013, reported positive balances in governmental net position.

The City's governmental activities net position decreased \$609,029 and the business-type activities decreased \$341,774, for a total decrease in net position during fiscal year 2013 of \$950,803, as noted previously.

Operating Results for the Year

	Governmental Activities		Business-type Activities		Primary Government Total	
<i>Years ended September 30,</i>	2013	2012	2013	2012	2013	2012
Program Revenues:						
Charges for services	\$ 5,459,646	\$ 5,372,147	\$ 924,698	\$ 1,047,196	\$ 6,384,344	\$ 6,419,343
Operating grants and contributions	189,564	236,756	-	-	189,564	236,756
Capital grants and contributions	745,247	578,339	-	-	745,247	578,339
General Revenues:						
Property taxes	698,890	689,318	-	-	698,890	689,318
Sales tax	6,089,228	6,123,339	-	-	6,089,228	6,123,339
Gasoline tax	359,234	377,947	-	-	359,234	377,947
Other taxes	1,036,948	910,218	-	-	1,036,948	910,218
Other	736,425	586,944	2,290	5,885	738,715	592,829
Total revenues	15,315,182	14,875,008	926,988	1,053,081	16,242,170	15,928,089
Functions/Program Expenses:						
General government	1,883,118	2,294,919	-	-	1,883,118	2,294,919
Police department	3,073,148	2,928,888	-	-	3,073,148	2,928,888
Fire department	2,785,995	2,533,955	1,184,258	1,170,771	3,970,253	3,704,726
Street	937,028	935,231	-	-	937,028	935,231
Sanitation	1,288,944	1,278,942	-	-	1,288,944	1,278,942
Leisure services	1,731,953	1,637,859	-	8,277	1,731,953	1,646,136
Engineering/inspections	132,728	129,960	-	-	132,728	129,960
Vehicle maintenance	231,293	184,173	-	-	231,293	184,173
Airport	65,570	17,748	-	-	65,570	17,748
Judicial	218,699	196,720	-	-	218,699	196,720
Appropriations	191,882	144,917	-	-	191,882	144,917
Education	2,180,673	2,159,092	-	-	2,180,673	2,159,092
Non-departmental	302,888	318,198	-	-	302,888	318,198
Economic development	432,192	289,006	79,313	70,230	511,505	359,236
Ozark technology center	69,659	103,937	-	-	69,659	103,937
Information technology	181,131	184,464	-	-	181,131	184,464
Interest and fiscal charges	199,979	199,121	5,191	8,887	205,170	208,008
Amortization	17,331	30,239	-	-	17,331	30,239
Total functions/program expenses	15,924,211	15,567,369	1,268,762	1,258,165	17,192,973	16,825,534
Increase (Decrease) in Net Position	\$ (609,029)	\$ (692,361)	\$ (341,774)	\$ (205,084)	\$ (950,803)	\$ (897,445)

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, spendable 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 \$2,797,945, a decrease of \$103,317, in comparison with the prior year. Spendable, unassigned fund balances of \$923,913 represents 33 percent of the ending fund balances and are available to meet the City's short-term spending needs. The remainder of spendable fund balance is restricted to indicate that it is not available for new spending because it is restricted in its use by a grantor.

	Total Governmental Funds		
<i>September 30,</i>	2013	2012	Changes
Assets			
Cash and cash equivalents	\$ 1,070,946	\$ 1,111,659	\$ (40,713)
Receivables	2,979,630	3,188,480	(208,850)
Due from other budgetary funds	877,441	895,735	(18,294)
Other assets	9,280	12,152	(2,872)
Restricted cash and cash equivalents	510,115	330,746	179,369
Total assets	\$ 5,447,412	\$ 5,538,772	\$ (91,360)
Liabilities, Deferred Inflows of Resources and Fund Balances			
Liabilities			
Accounts payable	\$ 240,709	\$ 378,649	\$ (137,940)
Due to other budgetary funds	13,442	233,811	(220,369)
Accrued compensation	118,336	98,085	20,251
Payroll deductions	30,761	28,270	2,491
Other accrued expenses	119,288	121,957	(2,669)
Total liabilities	522,536	860,772	(338,236)
Deferred inflows of resources			
Unavailable revenue	1,862,570	1,880,055	(17,485)
Fund balances			
Nonspendable	1,394,154	1,406,166	(12,012)
Spendable			
Restricted	854,828	467,866	386,962
Unassigned	813,324	923,913	(110,589)
Total fund balances	3,062,306	2,797,945	264,361
Total liabilities, deferred inflows of resources, and fund balances	\$ 5,447,412	\$ 5,538,772	\$ (91,360)

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned spendable fund balance of the General Fund is \$813,324, while the total fund balance was \$2,478,609. The net result of General Fund operations is an increase in the General Fund's fund balance of \$143,767. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total expenditures. Unassigned fund balance represents 6 percent of total General Fund expenditures, while total fund balance represents 18.3 percent of that same amount. The recommended best practice target for unassigned fund balance should be no less than two months operating expenditures. Two months operating expenditures (expenditures less capital outlay) would be approximately \$2,066,000; the City is currently at \$813,324.

<i>Years ended September 30,</i>	Total Governmental Funds		
	2013	2012	Changes
Revenues			
Taxes	\$ 9,305,948	\$ 9,334,949	\$ (29,001)
Licenses and permits	1,871,823	1,620,722	251,101
Intergovernmental	1,037,731	912,545	125,186
Charges for services	1,549,639	1,799,764	(250,125)
Fine and forfeitures	851,887	838,516	13,371
Investment earnings	25,813	32,137	(6,324)
Miscellaneous	531,059	225,986	305,073
Total revenues	15,173,900	14,764,619	409,281
Expenditures			
General government	1,147,411	1,122,121	25,290
Police department	2,846,301	2,804,433	41,868
Fire department	2,548,887	2,378,180	170,707
Street	915,892	875,120	40,772
Sanitation	1,193,567	1,215,205	(21,638)
Leisure services	1,502,051	1,453,818	48,233
Engineering/inspections	126,232	125,285	947
Vehicle maintenance	216,085	178,576	37,509
Airport	61,725	15,042	46,683
Judicial	210,109	193,376	16,733
Appropriations	191,882	144,917	46,965
Nondepartmental	302,888	318,198	(15,310)
Economic development	355,114	215,614	139,500
Ozark technology center	44,900	78,497	(33,597)
Information technology	160,108	167,190	(7,082)
Education	2,180,673	2,159,092	21,581
Debt service:			
Principal	454,626	448,117	6,509
Interest, dues, and fees	199,979	199,121	858
Capitalized capital outlay	1,180,321	1,052,116	128,205
Total expenditures	15,838,751	15,144,018	694,733
Excess (Deficiency) of Revenues over Expenditures	(664,851)	(379,399)	(285,452)
Other Financing Sources (Uses)			
Proceeds from the sale of capital assets and loss recoveries	55,225	22,199	33,026
Proceeds from bond anticipation notes	873,987	253,883	620,104
Transfers in	1,198,129	1,095,735	102,394
Transfers out	(1,198,129)	(1,095,735)	(102,394)
Total other financing sources	929,212	276,082	653,130
Net change in fund balance	264,361	(103,317)	367,678
Fund balances – beginning	2,797,945	2,901,262	(103,317)
Fund balances – ending	\$ 3,062,306	\$ 2,797,945	\$ 264,361

Revenues for FY 2013 from governmental funds were more than FY 2012 revenues by \$409,281. The majority of the increase came from licenses and permits and miscellaneous. Offsetting decreases in revenue were in charges for services, taxes, and investment earnings.

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 \$1,238,095. Operating and/or capital reimbursement grant revenues follow expenditures and the revenue collections may extend beyond a single fiscal year.

General Fund operating expenditures were under amended projections by \$2,180,897. This reflects departments' efforts to reduce spending as a result of monthly budget reviews at staff meetings and when operating and/or capital grants expenditures on the grant extend beyond a single fiscal year and the unspent budget capacity will be re-budgeted in the next fiscal year.

Capital Assets

The City's investment in capital assets for governmental activities as of September 30, 2013, totaled \$28,083,144 (net of accumulated depreciation). The City's investment in capital assets for business-type activities as of September 30, 2013 totaled \$2,880,280 (net of accumulated depreciation). This investment in capital assets includes land; improvements and infrastructure; buildings; equipment; and construction in progress. The total increase in the City's investment in capital assets (net of accumulated depreciation) was \$2,185 for the current fiscal year.

	Capital Assets (net of depreciation)					
	Governmental Activities		Business-type Activities		Primary Government Total	
	9-30-13	9-30-12	9-30-13	9-30-12	9-30-13	9-30-12
Land	\$ 5,401,158	\$5,298,365	\$573,045	\$573,045	\$ 5,974,203	\$5,871,410
Construction in progress	349,507	114,734	-	-	349,507	114,734
Improvements/ Infrastructure	13,397,321	13,827,030	-	-	13,397,321	14,827,030
Buildings	7,396,172	7,392,687	2,066,120	2,059,422	9,462,292	9,452,109
Equipment	1,323,608	1,155,195	90,213	100,914	1,413,821	1,256,109
Property under capital lease	215,378	252,448	150,902	187,402	366,280	439,850
Total	\$ 28,083,144	\$ 28,040,459	\$ 2,880,280	\$ 2,920,783	\$ 30,963,424	\$ 30,961,242

Additional information on the City's capital assets can be found in Note 7, beginning on page 38 of this report.

Long-Term Debt

On February 14, 2013, the City increased its line-of-credit by \$400,000, bringing the total line-of-credit to \$1,127,870. The City made monthly interest payments through August 15, 2013 and started making principal and interest payments on September 15, 2013 as the line-of-credit was converted to a two year note payable. The principal and interest payments made during the remaining two years will be based on a 10-year loan amortization. The City plans to convert the

note within two years to a general obligation bond issue and has a reimbursement resolution that will allow the City to be reimbursed from the future general obligation bond issue. The City's total draws during FY2013 were \$873,987 and were used to provide the match on a grant to renovate the Roy Parker Bridge, to acquire the historic Holman Mansion on Broad Street in downtown Ozark, to continue improvements on the City's vehicle maintenance facility, and to fund a portion of the match on the FEMA Assistance to Firefighters grant which was used to purchase a new fire truck.

	Long-term Debt					
	Governmental Activities		Business-type Activities		Primary Government Total	
	9-30-13	Restated 9-30-12	9-30-13	9-30-12	9-30-13	Restated 9-30-12
Capital leases	\$73,487	\$150,285	\$117,740	\$176,238	\$191,227	\$326,523
Notes payable	1,125,042	253,883	-	27,745	1,125,042	281,628
Compensated absences	425,343	243,319	2,664	5,389	428,007	248,708
Bonds payable, net	5,246,014	5,616,707	-	-	5,246,014	5,616,707
Other postemployment benefit obligation	1,305,833	1,008,468	86,394	52,777	1,392,227	1,061,245
Total	\$ 8,175,719	\$ 7,272,662	\$ 206,798	\$ 262,149	\$ 8,382,517	\$ 7,534,811

Additional information on the City's long-term debt can be found in Note 9, beginning on page 41 of this report.

Significant Economic Factors

The Mayor and City Council considered many factors when developing the fiscal year 2014 budget. A budget of \$14.5 million was adopted for the General Fund, \$9.6 million in Special Revenue Funds and \$1.2 million in Enterprise Funds on September 17, 2013 for fiscal year 2014. Major factors considered in preparing the City's budget for the 2014 fiscal year were:

- In FY13, the City reached a participation threshold of 80 percent with Blue Cross Blue Shield, which resulted in a reduction in group health insurance costs of approximately \$10 per month per employee. The City anticipates meeting that level of participation again in FY14, which would result in estimated savings in health insurance premiums of approximately \$19,560. The City received a 5% increase in health insurance rates for 2014.
- The 2014 budget does not include a cost of living adjustment.
- The City projected revenues at the same level as actual collections in FY2013.
- Dale County unemployment rate for August 2013 was 7.1 percent and the rate for August 2012 was 7.8 percent.
- In the prior year, the City committed \$30,000 a year for three years to the Friends of Fort Rucker to assist the organization in preventing or mitigating any impact to Fort Rucker if there is a base realignment and closure reduction by 2015. FY14 represents the second year of the commitment.

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 Position
September 30, 2013

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Ozark City Board of Education
Assets				
Current assets				
Cash and cash equivalents	\$ 1,070,946	\$ 151,130	\$ 1,222,076	\$ 7,994,379
Receivables, net	2,979,630	172,781	3,152,411	1,530,683
Other assets	9,280	-	9,280	90,697
Due from other funds	863,999	125,000	988,999	-
Total current assets	4,923,855	448,911	5,372,766	9,615,759
Restricted assets				
Restricted cash and cash equivalents	510,115	-	510,115	-
Capital assets				
Capital assets, net of depreciation	22,332,479	2,307,235	24,639,714	5,879,458
Land and other nondepreciable capital assets	5,750,665	573,045	6,323,710	21,673,185
Total capital assets	28,083,144	2,880,280	30,963,424	27,552,643
Total assets	33,517,114	3,329,191	36,846,305	37,168,402
Deferred Outflows of Resources				
Deferred charge on refunding	136,874	-	136,874	-
Total assets and deferred outflows of resources	\$ 33,653,988	\$ 3,329,191	\$ 36,983,179	37,168,402

See accompanying notes to the financial statements.

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Ozark City Board of Education
Liabilities				
Current liabilities				
Accounts payable	238,446	36,811	275,257	5,567
Accrued payroll and other accrued expenses	270,647	13,611	284,258	236,776
Due to other funds	-	988,999	988,999	-
Notes payable	42,559	-	42,559	128,813
Amounts due under capital leases	44,531	60,488	105,019	-
Bonds payable	380,695	-	380,695	230,000
Total current liabilities	976,878	1,099,909	2,076,787	601,156
Noncurrent liabilities				
Notes payable	1,082,483	-	1,082,483	833,249
Amounts due under capital leases	28,956	57,252	86,208	-
Bonds payable, net	4,865,319	-	4,865,319	23,299,000
Compensated absences	425,343	2,664	428,007	-
Other post-employment benefits obligation	1,305,833	86,394	1,392,227	-
Total noncurrent liabilities	7,707,934	146,310	7,854,244	24,132,249
Total liabilities	8,684,812	1,246,219	9,931,031	24,733,405
Deferred Inflows of Resources				
Unavailable revenue	1,862,570	-	1,862,570	945,888
Net Position				
Net investment in capital assets	21,638,601	2,762,541	24,401,142	3,061,581
Restricted for:				
Capital outlay	113,843	-	113,843	-
Debt service	521,012	-	521,012	135,205
Education	69	-	69	-
Law enforcement	69,047	-	69,047	-
Transportation	150,857	-	150,857	-
Unrestricted (deficit)	613,177	(679,569)	(66,392)	8,292,323
Total net position	23,106,606	2,082,972	25,189,578	11,489,109
Total liabilities, deferred inflows of resources, and net position	\$ 33,653,988	\$ 3,329,191	\$ 36,983,179	37,168,402

City of Ozark
Statement of Activities
For the Year Ended September 30, 2013

Functions/Programs	Expenses	Charges for Services	Program Operating Grants and Contributions
Primary Government			
Governmental Activities:			
General government	\$ 1,883,118	\$ 2,174,313	\$ -
Police department	3,073,148	132,195	110,888
Fire department	2,785,995	170,743	-
Street	937,028	-	11,499
Sanitation	1,288,944	1,284,794	-
Leisure services	1,731,953	293,213	58,677
Engineering/inspections	132,728	-	-
Vehicle maintenance	231,293	-	-
Airport	65,570	6,542	-
Judicial	218,699	-	-
Appropriations	191,882	-	-
Non-departmental	302,888	-	-
Economic development	432,192	-	8,500
Ozark technology center	69,659	-	-
Information technology	181,131	-	-
Education	2,180,673	1,397,846	-
Interest	197,729	-	-
Dues and fees on long term debt	2,250	-	-
Amortization	17,331	-	-
Total governmental activities	15,924,211	5,459,646	189,564
Business-type Activities:			
Emergency medical services	1,189,269	815,760	-
Ozark square shopping center	79,493	108,938	-
Total business-type activities	1,268,762	924,698	-
Total primary government	\$ 17,192,973	\$ 6,384,344	\$ 189,564
Component Unit			
Ozark City Board of Education	\$ 22,927,179	\$ 1,888,856	\$ 15,612,079

See accompanying notes to financial statements.

**Net (Expense) Revenue
and Changes in Net Position**

<u>Revenues</u> Capital Grants and Contributions	<u>Primary Government</u>			<u>Component Unit</u>
	Governmental Activities	Business- type Activities	Total	Ozark City Board of Education
\$ 337,428	\$ 628,623	\$ -	\$ 628,623	\$ -
-	(2,830,065)	-	(2,830,065)	-
285,000	(2,330,252)	-	(2,330,252)	-
-	(925,529)	-	(925,529)	-
-	(4,150)	-	(4,150)	-
57,500	(1,322,563)	-	(1,322,563)	-
-	(132,728)	-	(132,728)	-
-	(231,293)	-	(231,293)	-
65,319	6,291	-	6,291	-
-	(218,699)	-	(218,699)	-
-	(191,882)	-	(191,882)	-
-	(302,888)	-	(302,888)	-
-	(423,692)	-	(423,692)	-
-	(69,659)	-	(69,659)	-
-	(181,131)	-	(181,131)	-
-	(782,827)	-	(782,827)	-
-	(197,729)	-	(197,729)	-
-	(2,250)	-	(2,250)	-
-	(17,331)	-	(17,331)	-
<u>745,247</u>	<u>(9,529,754)</u>	<u>-</u>	<u>(9,529,754)</u>	<u>-</u>
-	-	(373,509)	(373,509)	-
-	-	29,445	29,445	-
<u>-</u>	<u>-</u>	<u>(344,064)</u>	<u>(344,064)</u>	<u>-</u>
<u>\$ 745,247</u>	<u>\$ (9,529,754)</u>	<u>\$ (344,064)</u>	<u>\$ (9,873,818)</u>	<u>\$ -</u>
<u>\$ 1,013,976</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (4,412,268)</u>

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City of Ozark
Statement of Activities
For the Year Ended September 30, 2013

Functions/Programs

General Revenues

Sales taxes
Motor fuel taxes
Property taxes
Alcoholic beverage taxes
Lodging taxes
Tobacco taxes
Other taxes
Miscellaneous
Rental income
Franchise fees
Investment earnings

Total general revenues

Change in net position

Net Position - beginning, as previously stated

Restatement of net position due to implementation of GASB 63 and 65

Net Position - beginning, restated

Net Position - ending

See accompanying notes to financial statements.

**Net (Expense) Revenue
and Changes in Net Position**

Primary Government			Component Unit
Governmental Activities	Business- type Activities	Total	Ozark City Board of Education
\$ 6,089,228	\$ -	\$ 6,089,228	\$ 2,109,492
359,234	-	359,234	-
698,890	-	698,890	2,689,905
154,400	-	154,400	-
122,136	-	122,136	-
247,165	-	247,165	-
513,247	-	513,247	10,773
361,027	2,285	363,312	716,433
76,089	-	76,089	-
273,496	-	273,496	-
25,813	5	25,818	78,038
8,920,725	2,290	8,923,015	5,604,641
(609,029)	(341,774)	(950,803)	1,192,373
23,845,739	2,424,746	26,270,485	10,296,736
(130,104)	-	(130,104)	-
23,715,635	2,424,746	26,140,381	10,296,736
\$ 23,106,606	\$ 2,082,972	\$ 25,189,578	\$ 11,489,109

**City of Ozark
Balance Sheet
Governmental Funds
September 30, 2013**

	General Fund	Special Ad Valorem I	Special Ad Valorem II
Assets			
Cash and cash equivalents	\$ 728,409	\$ 24	\$ 45
Receivables	1,719,605	623,436	623,436
Due from other funds	869,944	-	-
Prepays	6,531	-	-
Other assets	2,749	-	-
Restricted cash and cash equivalents	271,131	-	-
Total assets	\$ 3,598,369	\$ 623,460	\$ 623,481
Liabilities, Deferred Inflows of Resources, and Fund Balances			
Liabilities			
Accounts payable	\$ 228,180	\$ -	\$ -
Due to other funds	7,497	-	-
Accrued payroll	149,097	-	-
Other accrued expenses	119,288	-	-
Total liabilities	504,062	-	-
Deferred inflows of resources			
Unavailable revenue	615,698	623,436	623,436
Fund balances			
Nonspendable	1,394,154	-	-
Spendable			
Restricted	271,131	24	45
Unassigned	813,324	-	-
Total fund balances	2,478,609	24	45
Total liabilities, deferred inflows of resources, and fund balances	\$ 3,598,369	\$ 623,460	\$ 623,481

See accompanying notes to financial statements.

Other Governmental Funds	Total Governmental Funds
\$ 342,468	\$ 1,070,946
13,153	2,979,630
7,497	877,441
-	6,531
-	2,749
238,984	510,115
<hr/>	
\$ 602,102	\$ 5,447,412
<hr/>	
\$ 12,529	\$ 240,709
5,945	13,442
-	149,097
-	119,288
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18,474	522,536
<hr/>	
-	1,862,570
<hr/>	
-	1,394,154
583,628	854,828
-	813,324
<hr/>	
583,628	3,062,306
<hr/>	
\$ 602,102	\$ 5,447,412
<hr/>	

City of Ozark

**Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Position
September 30, 2013**

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

Total fund balance - governmental funds	\$ 3,062,306
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Capital assets used in governmental activities are not current financial resources and therefore are not reported in the fund financial statement, but are reported in the governmental activities of the Statement of Net Position.	28,083,144
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Some liabilities are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position:

Capital leases payable	(73,487)
Bonds and notes payable	(6,415,041)
Less: deferred charges on refunding (to be amortized as interest expense)	136,874
Including: issuance discount (to be amortized as an increase in interest expense)	43,986
Accrued compensated absences	(425,343)
Accrued other post-employment benefits	(1,305,833)

Net Position of Governmental Activities in the Statement of Net Position	\$ 23,106,606
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See accompanying notes to financial statements.

City of Ozark

**Statement of Revenues, Expenditures and Changes in Func
Balances - Governmental Funds
For the Year Ended September 30, 2013**

	General Fund	Special Ad Valorem I	Special Ad Valorem II
Revenues			
Taxes	\$ 7,738,177	\$ 698,923	\$ 698,923
Licenses and permits	1,871,823	-	-
Intergovernmental	319,297	-	-
Charges for services	1,549,639	-	-
Fines and forfeitures	851,887	-	-
Investment earnings	25,696	-	-
Miscellaneous	530,019	-	-
Total revenues	12,886,538	698,923	698,923
Expenditures			
General government	1,147,397	-	-
Education	782,827	698,923	698,923
Vehicle maintenance	216,085	-	-
Police department	2,789,877	-	-
Information technology	160,108	-	-
Fire department	2,548,887	-	-
Airport	61,725	-	-
Sanitation	1,193,567	-	-
Street	809,264	-	-
Leisure services	1,502,051	-	-
Appropriations	166,800	-	-
Judicial	186,855	-	-
Economic development	355,114	-	-
Engineering/inspections	126,207	-	-
Ozark technology center	44,900	-	-
Non-departmental	302,888	-	-
Debt service			
Principal	-	-	-
Interest	-	-	-
Dues, fees and issuance costs	-	-	-
Capital outlay	1,137,421	-	-
Total expenditures	13,531,973	698,923	698,923
Excess (deficiency) of revenues over expenditures	(645,435)	-	-

See accompanying notes to financial statements.

Other Governmental Funds	Total Governmental Funds
\$ 169,925	\$ 9,305,948
-	1,871,823
718,434	1,037,731
-	1,549,639
-	851,887
117	25,813
1,040	531,059
<hr/>	
889,516	15,173,900
<hr/>	
14	1,147,411
-	2,180,673
-	216,085
56,424	2,846,301
-	160,108
-	2,548,887
-	61,725
-	1,193,567
34,778	844,042
-	1,502,051
25,082	191,882
23,254	210,109
-	355,114
25	126,232
-	44,900
-	302,888
454,626	454,626
197,729	197,729
2,250	2,250
114,750	1,252,171
<hr/>	
908,932	15,838,751
<hr/>	
(19,416)	(664,851)
<hr/>	

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City of Ozark

**Statement of Revenues, Expenditures and Changes in Fund
Balances - Governmental Funds (Continued)**
For the Year Ended September 30, 2013

	General Fund	Special Ad Valorem I	Special Ad Valorem II
Other Financing Sources (Uses)			
Transfers in (out), net	(98,034)	-	-
Proceeds from long term debt	873,987	-	-
Proceeds from sale of capital assets	5,038	-	-
Loss recoveries	8,211	-	-
Total other financing sources	789,202	-	-
Excess revenues and other sources over expenditures and other (uses)	143,767	-	-
Fund Balances - beginning	2,334,842	24	45
Fund Balances - ending	\$ 2,478,609	\$ 24	\$ 45

See accompanying notes to financial statements.

Other Governmental Funds	Total Governmental Funds
98,034	-
-	873,987
41,976	47,014
-	8,211
<u>140,010</u>	<u>929,212</u>
120,594	264,361
<u>463,034</u>	<u>2,797,945</u>
<u><u>\$ 583,628</u></u>	<u><u>\$ 3,062,306</u></u>

City of Ozark

**Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities
For the Year Ended September 30, 2013**

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

Net change in fund balances - total governmental funds:	\$	264,361
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.		1,252,171
Depreciation expense on governmental capital assets is included in the governmental activities in the Statement of Net Position.		(1,295,763)
Repayment of debt is reported as an expenditure in governmental funds, but as a reduction in long-term liabilities in the Statement of Net Position.		454,626
Proceeds from the issuance of notes payable recorded as other financing source in governmental funds.		(873,987)
The net effect of various miscellaneous transactions involving capital assets (i.e., exchanges, loss recoveries) is to increase net position.		86,283
Additional interest expense due to deferred loss on bond refunding and discount.		(17,331)
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		(297,365)
Compensated absences		(182,024)
Change in net position of governmental activities	\$	(609,029)

See accompanying notes to financial statements.

City of Ozark

**Statement of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual - General Fund
For the Year Ended September 30, 2013**

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues				
Taxes	\$ 7,805,332	\$ 7,888,076	\$ 7,738,177	\$ (149,899)
Licenses and permits	1,709,937	1,721,809	1,871,823	150,014
Intergovernmental	1,226,474	1,367,622	319,297	(1,048,325)
Charges for services	1,604,205	1,604,205	1,549,639	(54,566)
Fines and forfeitures	877,950	877,950	851,887	(26,063)
Investment earnings	29,035	29,035	25,696	(3,339)
Miscellaneous	595,934	635,936	530,019	(105,917)
Total revenues	13,848,867	14,124,633	12,886,538	(1,238,095)
Expenditures				
General government	1,120,124	1,149,437	1,147,397	2,040
Vehicle maintenance	188,363	222,363	216,085	6,278
Police department	2,635,889	2,794,855	2,789,877	4,978
Information technology	210,545	194,795	160,108	34,687
Fire department	2,426,232	2,550,687	2,548,887	1,800
Airport	80,257	66,107	61,725	4,382
Sanitation	1,182,423	1,193,569	1,193,567	2
Street	929,036	809,888	809,264	624
Leisure services	1,535,055	1,596,743	1,502,051	94,692
Appropriations	167,050	167,050	166,800	250
Judicial	201,221	198,402	186,855	11,547
Economic development	360,156	355,126	355,114	12
Engineering/inspections	126,173	126,323	126,207	116
Ozark Technology Center	51,152	47,395	44,900	2,495
Non-departmental	275,749	307,615	302,888	4,727
Education	785,562	785,562	782,827	2,735
Capital outlay	1,538,860	3,146,953	1,137,421	2,009,532
Total expenditures	13,813,847	15,712,870	13,531,973	2,180,897
Excess (deficiency) of revenues over expenditures	35,020	(1,588,237)	(645,435)	942,802
Other Financing Sources (Uses)				
Loans proceeds	462,378	873,986	873,987	1
Loss recoveries	-	-	8,211	8,211
Proceeds from insurance	-	3,544	-	(3,544)
Proceeds from the sale of capital assets	5,000	5,000	5,038	38
Transfers in (out), net	(13,954)	243,088	(98,034)	(341,122)
Total other financing sources (uses)	453,424	1,125,618	789,202	(336,416)
Excess (deficiency) of revenues and other sources over expenditures	488,444	(462,619)	143,767	606,386
Fund Balances - beginning	1,905,524	2,334,842	2,334,842	-
Fund Balances - ending	\$ 2,393,968	\$ 1,872,223	\$ 2,478,609	\$ 606,386

See accompanying notes to financial statements.

City of Ozark

**Statement of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual - Special Ad Valorem Fund I
For the Year Ended September 30, 2013**

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues				
Taxes	\$ 677,979	\$ 698,923	\$ 698,923	\$ -
Expenditures				
Education	677,979	698,923	698,923	-
Excess revenues over expenditures	-	-	-	-
Fund Balances - beginning	24	24	24	-
Fund Balances - ending	\$ 24	\$ 24	\$ 24	\$ -

See accompanying notes to financial statements.

City of Ozark

**Statement of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual - Special Ad Valorem Fund II
For the Year Ended September 30, 2013**

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues				
Taxes	\$ 677,979	\$ 698,923	\$ 698,923	\$ -
Expenditures				
Education	677,979	698,923	698,923	-
Excess revenues over expenditures	-	-	-	-
Fund Balances - beginning	45	45	45	-
Fund Balances - ending	\$ 45	\$ 45	\$ 45	-

See accompanying notes to financial statements.

City of Ozark
Statement of Net Position
Proprietary Funds
September 30, 2013

	Business-Type Activities		
	Emergency Medical Services	Ozark Square Shopping Center	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 8,320	\$ 142,810	\$ 151,130
Receivables, net	170,531	2,250	172,781
Due from other funds	-	125,000	125,000
Total current assets	178,851	270,060	448,911
Noncurrent assets			
Land	-	573,045	573,045
Capital assets, net of depreciation	241,115	2,066,120	2,307,235
Total noncurrent assets	241,115	2,639,165	2,880,280
Total assets	419,966	2,909,225	3,329,191
Liabilities			
Current liabilities			
Accounts payable	13,239	23,572	36,811
Due to other funds	988,999	-	988,999
Accrued payroll	13,611	-	13,611
Amount due under capital lease	60,488	-	60,488
Total current liabilities	1,076,337	23,572	1,099,909
Noncurrent liabilities			
Amount due under capital lease	57,252	-	57,252
Compensated absences	2,664	-	2,664
Other post-employment benefits obligation	86,394	-	86,394
Total noncurrent liabilities	146,310	-	146,310
Total liabilities	1,222,647	23,572	1,246,219
Net Position			
Net investment in capital assets	123,375	2,639,166	2,762,541
Unrestricted (deficit)	(926,056)	246,487	(679,569)
Total net position (deficit)	\$ (802,681)	\$ 2,885,653	\$ 2,082,972

See accompanying notes to financial statements.

City of Ozark

Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended September 30, 2013

	Business-Type Activities		
	Emergency Medical Services	Ozark Square Shopping Center	Total
Operating Revenues			
Charges for services (net of provision for bad debts of \$505,043)	\$ 815,760	\$ -	\$ 815,760
Rental income	-	108,938	108,938
Total operating revenues	815,760	108,938	924,698
Operating Expenses			
Salaries and benefits	873,048	-	873,048
Rental expense	15,405	-	15,405
Repairs and maintenance	67,147	16,464	83,611
Utilities	14,306	6,918	21,224
Insurance	5,250	6,180	11,430
Legal	1,530	-	1,530
Depreciation	65,401	49,744	115,145
Other operating expenses	142,171	7	142,178
Total operating expenses	1,184,258	79,313	1,263,571
Operating income (loss)	(368,498)	29,625	(338,873)
Non-Operating Revenues (Expenses)			
Miscellaneous revenues	2,285	-	2,285
Interest income	5	-	5
Interest expense	(5,011)	(180)	(5,191)
Non-operating loss	(2,721)	(180)	(2,901)
Change in net position	(371,219)	29,445	(341,774)
Total Net Position (Deficit) - beginning	(431,462)	2,856,208	2,424,746
Total Net Position (Deficit) - ending	\$ (802,681)	\$ 2,885,653	\$ 2,082,972

See accompanying notes to financial statements.

City of Ozark
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2013

Business-Type Activities

	Emergency Medical Services	Ozark Square Shopping Center	Total
Cash Flows From Operating Activities			
Receipts from customers and users	\$ 991,385	\$ 106,688	\$ 1,098,073
Payments to suppliers	(230,990)	(6,039)	(237,029)
Payments to employees	(847,687)	-	(847,687)
Net cash provided by (used in) operating activities	(87,292)	100,649	13,357
Cash Flows From Noncapital and Related Financing Activities			
Proceeds from insurance	2,285	-	2,285
Net loans from other funds	127,078	75,000	202,078
Net cash provided by noncapital and related financing activities	129,363	75,000	204,363
Cash Flows From Capital and Related Financing Activities			
Interest payments on long-term debt	(5,011)	(180)	(5,191)
Principal payments on long-term debt	(58,498)	(27,745)	(86,243)
Purchases of capital assets	(18,201)	(56,441)	(74,642)
Net cash used in capital and related financing activities	(81,710)	(84,366)	(166,076)
Cash Flows From Investing Activities			
Interest received	5	-	5
Net increase (decrease) in cash and cash equivalents	(39,634)	91,283	51,649
Cash and Cash Equivalents - beginning	47,954	51,527	99,481
Cash and Cash Equivalents - ending	\$ 8,320	\$ 142,810	\$ 151,130

-Continued-

See accompanying notes to financial statements.

City of Ozark
Statement of Cash Flows
Proprietary Funds (Continued)
For the Year Ended September 30, 2013

Business-Type Activities

	Emergency Medical Services	Ozark Square Shopping Center	Total
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities			
Operating income (loss)	\$ (368,498)	\$ 29,625	\$ (338,873)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	65,401	49,744	115,145
Provision for bad debts	505,043	-	505,043
Changes in operating assets and liabilities:			
Increase in receivables	(325,025)	(2,250)	(327,275)
Decrease in prepaid expenses	5,292	-	5,292
Increase in accounts payable	2,909	23,530	26,439
Increase in salaries and benefits payable	27,586	-	27,586
Net cash provided by (used in) operating activities	\$ (87,292)	\$ 100,649	\$ 13,357

See accompanying notes to financial statements.

City of Ozark, Alabama
Notes to Financial Statements

NOTE

1. Summary of Significant Accounting Policies
2. Stewardship, Compliance, and Accountability
3. Cash and Cash Equivalents
4. Receivables
5. Interfund Balances and Transfers
6. Restricted Assets
7. Capital Assets
8. Deferred Inflows of Resources
9. Long-Term Debt
10. Deferred Compensation Plan
11. Retirement Plan
12. Postemployment Health Care Benefits
13. Contingent Liabilities
14. Risk Management and Litigation
15. Related Party Transactions
16. Prior Period Adjustments
17. Subsequent Events

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

The City is a municipal corporation governed by an elected mayor and City Council. The definition of the reporting entity, pursuant to Codification of Governmental Accounting and Financial Reporting Standards, Sections 2100 and 2600, is based primarily on the notion of financial accountability. A primary government is financially accountable for agencies that make up its legal entity. It is also financially accountable for a legally separate agency if its officials appoint a voting majority of that agency’s governing body and either it is able to impose its will on that agency or there is a potential for the agency to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. As required by GAAP, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City’s operations and so financial information from these units are combined with financial information of the primary government. Under the provisions of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, the Ozark City Board of Education (the “BOE”) is reported as a discretely presented component unit of the City’s financial statements in a separate column in the government-wide statements to emphasize that it is legally separate from the City. Each blended and discretely presented component unit has a September 30 year end.

Discretely Presented Component Unit

The BOE consists of five board members and is the governing body of the Ozark City School System. The City appoints the Board. The Dale County Revenue Commissioner remits to the City 14 mils of property taxes and the City distributes the millage to the BOE. The City also remits ½ cent of its 4 cent sales tax levied to the BOE. A resolution adopted by the City council pledges to and commits itself to the BOE, the State of Alabama Department of Education and holders of the Qualified School Construction Bonds (QSCB) allocated to the BOE that it will take no action to rescind, change or otherwise alter the distribution of taxes levied under Article X, Sec 11-191, Code of Ordinances of the City to the BOE. The pledge is in full force and effect for such period of time as the BOE is obligated for repayment of its allocation of the QSCB. The BOE is reported as a governmental fund. Complete financial statements for the BOE may be obtained from the entity’s administrative office, Chief School Financial Officer, 1044 Andrews Avenue, Ozark, AL 36360.

Blended Component Units

Public Building Authority of the City of Ozark – The Public Building Authority of the City of Ozark (the “PBA”) is a non-profit organization. The City appoints the PBA’s governing body. The PBA provides services entirely to the City. The PBA is reported as a governmental fund within the General Fund of the City.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

City of Ozark Volunteer Fire Department – The City of Ozark Volunteer Fire Department (the “VFD”) does not have separate governing powers than that of the City. The City receives a portion of tobacco tax revenues due to the VFD staffing. The VFD is reported as a governmental fund within the General Fund of the City.

Industrial Development Board – the Industrial Development Board (the “IDB”) is a non-profit organization. The City appoints the IDB’s governing body. The IDB provides services entirely to the City. The IDB is reported as a governmental fund within the General Fund of the City.

Government-wide and Fund Financial Statements

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

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.

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 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 and proprietary funds’ 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.

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 tenants for rent. The principal operating revenues of the Emergency Medical Services ("EMS") are charges to patients for emergency transports. Operating expenses for the proprietary funds include the cost of maintaining and operating buildings, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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 BOE. 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 BOE. The referendum passed on September 8, 1987.

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Investments

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

Accounts Receivable

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

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.

Interfund Loans and Transfers

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."

Restricted Assets

The assets restricted by bond agreement as shown in the statement of net position are to be used strictly to retire the long-term debt. The assets were accumulated according to the bond indenture of the various issues.

Capital Assets

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

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

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Deferred Outflows/inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The City has one item that qualifies for reporting in this category, the deferred charge on refunding reported in the statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will *not* be recognized as an inflow of resources (revenue) until that time. The unavailable revenues from ad valorem property taxes and grants qualify for reporting in this category.

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.

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 position. Bond premiums and discounts 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.

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

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position/Fund Balance

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

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

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

Unrestricted – Net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of the City Council.

Fund balance is reported in the fund financial statement in two major categories: nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. The City has gas and diesel inventory, prepaid expenditures, and a long term receivable from the Utilities Board that are considered nonspendable.

In addition to the nonspendable fund balance, spendable fund balances are reported based on a hierarchy of spending constraints:

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

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

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

Unassigned – Fund balances that are not constrained for any particular purpose.

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City’s reported governmental fund balance at September 30, 2013 is comprised of the following:

	General Fund	Special Ad Valorem I	Special Ad Valorem II	Nonmajor Funds	Total
Nonspendable	\$ 1,394,154	\$ -	\$ -	\$ -	\$ 1,394,154
Spendable					
Restricted	271,131	24	45	583,628	854,828
Unassigned	813,324	-	-	-	813,324
	\$ 2,478,609	\$ 24	\$ 45	\$ 583,628	\$ 3,062,306

Nonspendable fund balances include gas inventories of \$2,744, prepaid items of \$6,531, long-term accounts receivable of \$520,880, and amounts due from the EMS fund of \$863,999.

Restricted fund balances include ad valorem taxes due to the Ozark City Board of Education; funds available for street paving and resurfacing; grant funds available for the purchase of equipment and supplies for the Wiregrass Violent Crime and Drug Task Force; costs and charges fixed by law for municipal court violation; grant funds available for capital improvements; bond proceeds for repairs; and debt service principal and interest payments.

When both restricted and unrestricted fund balances are available for use, it is the City’s policy to use restricted fund balance first, then unrestricted fund balance. Furthermore, committed fund balances are reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposed which amounts in any of those unrestricted fund balance classifications can be used.

Property Tax Calendar

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 and deferred inflows of resources guidance from GASB Statement No. 65, taxes levied in fiscal year 2013 for the 2014 budget year have been recorded as receivables and deferred inflows of resources.

Management Estimates and Assumptions

The preparation of financial statements in conformity with GAAP 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.

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Pronouncements

The GASB has issued the following statements:

- Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement improves financial reporting by codifying all sources of GAAP for state and local governments so that they derive from a single source. The Board has elected to include all pre-November 30, 1989 FASB pronouncements which are now codified in GASB Statement No. 62, as mentioned in the *Basis of Accounting* section above. As such, disclosures of FASB or AICPA pronouncements applied to these and future financial statements are no longer required.
- Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement provides guidance for certain items formerly classified as assets and liabilities. GASB Concepts Statement 4 redefines these as “deferred outflows of resources” (formerly assets) and “deferred inflows of resources” (formerly liabilities). Each new category must have its own section on the Statement of Net Position. This statement also requires that the last line of the statements formerly titled “Net assets” now be titled “Net position” to reflect the new classifications. In addition, “Capital assets, net of related debt” should now be titled “Net investment in capital assets” in order to properly present the total of the items. Other than the new titles and presentation, this statement only addresses upfront payments of service concession arrangements and the deferral of annual changes in the fair value of derivatives as items to be reclassified as either a deferred outflow or deferred inflow.
- Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement provides more guidance for the items in GASB Statement No. 63. It requires the avoidance of the word “deferred” throughout financial statements, except as it relates to items that are designated as deferred outflows or deferred inflows. It addresses the calculation of a deferred outflow or inflow for refunding of debt. For nonexchange transactions such as grants, amounts received before the time period of eligibility are treated as deferred inflows. This statement also addresses taxes received prior to the period to which they relate. It requires issuance costs related to debt to be expenses in the period that the debt was issued versus amortizing over the life of the debt, as previously allowed. The effects of implementation of this statement are to be disclosed on the financial statements in the period of adoption. Losses on debt refundings are not expensed, but rather, are treated as deferred outflows. For operating leases, any initial direct costs are recognized in the period incurred instead of being amortized over the life of the lease which was effective for periods beginning after December 15, 2012. The City chose to early implement GASB Statement No. 65 for the year ended September 30, 2013. It required debt issuance costs to be recognized as an expense in the period incurred. Further, to retroactively apply the provisions, it required a restatement of beginning net position to expense bond issuance costs previously capitalized by the City.

Notes to Financial Statements

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 City 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 GAAP.

Net Deficit

As of September 30, 2013, the EMS Proprietary Fund reported unrestricted deficit of \$926,056 and total net deficit of \$802,681, which is expected to be funded by future revenues.

NOTE 3 – CASH AND CASH EQUIVALENTS

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.

NOTE 4 – RECEIVABLES

Governmental Funds

Receivables at September 30, 2013 consist of the following:

	General Fund	Special Ad Valorem I	Special Ad Valorem II	Nonmajor Funds	Total
Accounts receivable	\$ 585,955	\$ -	\$ -	\$ 13,153	\$ 599,108
Property taxes receivable	612,770	623,436	623,436	-	1,859,642
Note receivable–Utilities Board	520,880	-	-	-	520,880
	\$1,719,605	\$ 623,436	\$ 623,436	\$ 13,153	\$ 2,979,630

Notes to Financial Statements

NOTE 4 – RECEIVABLES (Continued)

Proprietary Funds

The Ozark Square Shopping Center fund reported unpaid rent for one tenant in accounts receivable as of September 30, 2013 totaling \$2,250.

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

Accounts receivable, net of contractual allowances, from patients, third parties and/or insurance carriers at September 30, 2013 consists of the following:

Medicare	\$	120,664
Medicaid		38,852
Insurance providers		105,055
Patients		244,963
Collection agency		894,128
		<u>1,403,662</u>
Allowance for doubtful accounts		<u>(1,233,131)</u>
Net patient transport accounts receivable	\$	<u>170,531</u>

Discretely Presented Component Unit

Receivables at September 30, 2013 consist of the following:

	General Fund	Food and Nutrition	Debt Service	Other Governmental	Total
City of Ozark	\$ -	\$ -	\$ -	\$ 63,207	\$ 63,207
Dale County Board of Education	98,109	-	-	-	98,109
Dale County Revenue Commissioner	972,391	-	-	-	972,391
Miscellaneous receivables	257	-	-	-	257
State Board of Education	208,721	164,753	12,171	11,074	396,719
	<u>\$1,279,478</u>	<u>\$ 164,753</u>	<u>\$ 12,171</u>	<u>\$ 74,281</u>	<u>\$1,530,683</u>

NOTE 5 – INTERFUND BALANCES AND TRANSFERS

Interfund balances are generally used to meet cash demands necessary to pay operating expenditures. Interfund balances at September 30, 2013 consist of the following:

	Due From	Due To
General fund	\$ 869,944	\$ 7,497
Nonmajor governmental funds	7,497	5,945
Enterprise funds	125,000	988,999
Total	<u>\$ 1,002,441</u>	<u>\$ 1,002,441</u>

City of Ozark, Alabama

Notes to Financial Statements

NOTE 5 – INTERFUND BALANCES AND TRANSFERS (Continued)

Transfers to/from other funds at September 30, 2013 consist of the following:

	Transfers In	Transfers Out	Net
General fund	\$ 397,839	\$ (495,873)	\$ (98,034)
Nonmajor governmental funds	800,290	(702,256)	98,034
	\$ 1,198,129	\$ (1,198,129)	\$ -

NOTE 6 – RESTRICTED ASSETS

Restricted cash in the governmental funds totaling \$510,115 was comprised \$271,131 and \$238,984 from the general and special revenue funds, respectively, at September 30, 2013, and is restricted for debt service.

NOTE 7 – CAPITAL ASSETS

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

	Beginning Balance 10/1/12	Increases	Decreases	Ending Balance 9/30/13
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 5,298,365	\$ 102,793	\$ -	\$ 5,401,158
Construction in progress	114,734	356,225	121,452	349,507
Total capital assets, not being depreciated	\$ 5,413,099	\$ 459,018	\$ 121,452	\$ 5,750,665
Capital assets being depreciated:				
Buildings	\$ 12,316,927	\$ 313,135	\$ -	\$12,630,062
Improvements and infrastructure	34,852,173	255,421	-	35,107,594
Equipment	5,522,721	436,702	84,102	5,875,321
Property under capital leases	370,700	-	-	370,700
Total capital assets being depreciated	53,062,521	1,005,258	84,102	53,983,677

City of Ozark, Alabama

Notes to Financial Statements

NOTE 7 – CAPITAL ASSETS (Continued)

Less accumulated depreciation for:				
Buildings	(4,924,240)	(309,650)	-	(5,233,890)
Improvements and infrastructure	(21,025,144)	(685,129)	-	(21,710,273)
Equipment	(4,367,526)	(263,914)	79,727	(4,551,713)
Property under capital leases	(118,252)	(37,070)	-	(155,322)
Total accumulated depreciation	(30,435,162)	(1,295,763)	79,727	(31,651,198)
Total capital assets, being depreciated, net	\$ 22,627,359	\$ (290,505)	\$ 4,375	\$ 22,332,479
Governmental activities capital assets, net	\$ 28,040,458	\$ 168,513	\$ 125,827	\$ 28,083,144
Business-Type Activities:				
Capital assets, not being depreciated:				
Land	\$ 573,045	\$ -	\$ -	\$ 573,045
Capital assets being depreciated:				
Buildings	\$ 2,257,456	\$ 56,442	\$ -	\$ 2,313,898
Equipment	141,789	18,202	-	159,991
Property under capital lease	292,000	-	-	292,000
Total capital assets being depreciated	2,691,245	74,644	-	2,765,889
Less accumulated depreciation for:				
Buildings	(198,035)	(49,744)	-	(247,779)
Equipment	(40,875)	(28,901)	-	(69,776)
Property under capital lease	(104,599)	(36,500)	-	(141,099)
Total accumulated depreciation	(343,509)	(115,145)	-	(458,654)
Total capital assets, being depreciated, net	\$ 2,347,736	\$ (40,501)	\$ -	\$ 2,307,235
Business-type activities capital assets, net	\$ 2,920,781	\$ (40,501)	\$ -	\$ 2,880,280

City of Ozark, Alabama

Notes to Financial Statements

NOTE 7 – CAPITAL ASSETS (Continued)

	Beginning Balance 10/1/12	Increases	Decreases	Ending Balance 9/30/13
Component Unit:				
Capital assets, not being depreciated:				
Land and land improvements	\$ 233,294	\$ -	\$ -	\$ 233,294
Construction in progress	15,217,508	6,222,383	-	21,439,891
Total capital assets, not being depreciated	\$ 15,450,802	\$ 6,222,383	\$ -	\$ 21,673,185
Capital assets being depreciated:				
Buildings	\$ 6,391,301	\$ -	\$ 883,179	\$ 5,508,122
Improvements	6,025,152	-	903,761	5,121,391
Equipment	3,607,048	1,142,152	495,523	4,253,677
Total capital assets being depreciated	16,023,501	1,142,152	2,282,463	14,883,190
Less accumulated depreciation for:				
Buildings	(3,176,614)	(114,628)	883,179	(2,408,063)
Improvements	(4,792,248)	(178,458)	900,622	(4,070,084)
Equipment	(2,703,702)	(317,406)	495,523	(2,525,585)
Total accumulated depreciation	(10,672,564)	(610,492)	2,279,324	(9,003,732)
Total capital assets, being depreciated, net	\$ 5,350,937	\$ 531,660	\$ 3,139	\$ 5,879,458
Component unit capital assets, net	\$ 20,801,739	\$ 6,754,043	\$ 3,139	\$ 27,552,643

Construction in progress for governmental activities at September 30, 2013 is comprised of amounts relating to ongoing Roy Parker Bridge repairs. This project will be completed in fiscal year 2014 with estimated remaining costs of approximately \$995,000.

Depreciation expense was charged to functions/programs as follows:

Governmental Activities

General government	\$ 710,557
Vehicle maintenance	4,713
Police department	111,637
Information technology	19,004
Fire department	78,225
Airport	2,706
Sanitation department	45,307

Notes to Financial Statements

NOTE 7 – CAPITAL ASSETS (Continued)

Street department	50,695
Leisure services	170,511
Judicial	2,620
Economic development	73,181
Engineering/inspections	1,848
Ozark Technology Center	24,759

<u>Total depreciation expense – Governmental Activities</u>	<u>\$ 1,295,763</u>
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Business-Type Activities

Emergency Medical Services	\$ 65,401
Ozark Square Shopping Center	49,744

<u>Total depreciation expense – Business-Type Activities</u>	<u>\$ 115,145</u>
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Component Unit

Instructional	\$ 349,672
Instructional support	21,655
Operation and maintenance	10,520
Student transportation	195,115
Food service	19,144
General administrative	2,786
Other	11,600

<u>Total depreciation expense – Component Unit</u>	<u>\$ 610,492</u>
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NOTE 8 – DEFERRED INFLOWS OF RESOURCES

Governmental Activities:	General Fund	Special Ad Valorem I	Special Ad Valorem II	Total
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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.

\$ 612,770	\$ 623,436	\$ 623,436	\$ 1,859,642
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City of Ozark, Alabama

Notes to Financial Statements

NOTE 8 – DEFERRED INFLOWS OF RESOURCES (Continued)

Grant Revenues – Grant revenues received from various agencies to be spent in accordance with the respective grant agreement.

	2,928	-	-	2,928
	\$ 615,698	\$ 623,436	\$ 623,436	\$ 1,862,570

NOTE 9 – LONG-TERM DEBT

Changes in long-term debt for the year ended September 30, 2013 was as follows:

	Restated Beginning Balance 10/1/12	Additions	Reductions	Ending Balance 9/30/13	Due Within One Year
Governmental Activities					
Capital leases	\$ 150,285	\$ -	\$ 76,798	\$ 73,487	\$ 44,531
Note payable	253,883	873,987	2,828	1,125,042	42,559
Compensated absences	243,319	182,024	-	425,343	-
Bonds payable	5,665,000	-	375,000	5,290,000	385,000
Unamortized discount	(48,293)	-	(4,307)	(43,986)	(4,305)
Other postemployment benefits	1,008,468	432,527	135,162	1,305,833	-
Governmental activity long-term liabilities	\$ 7,272,662	\$ 1,488,538	\$ 585,481	\$ 8,175,719	\$ 467,785
Business-Type Activities					
Notes payable—lines of credit	\$ 27,745	-	\$ 27,745	-	-
Compensated absences	5,389	-	2,725	2,664	-
Capital lease	176,238	-	58,498	117,740	60,488
Other postemployment benefits	52,777	33,617	-	86,394	-
Business-type activity long-term liabilities	\$ 262,149	\$ 33,617	\$ 88,968	\$ 206,798	\$ 60,488
Component Unit					
Bonds payable	\$ 23,754,000	-	\$ 225,000	\$23,529,000	\$ 230,000
Unamortized discount	(12,935)	-	(12,935)	-	-
Notes payable	522,672	528,878	89,488	962,062	128,813
Component unit long-term liabilities	\$ 24,263,737	\$ 528,878	\$ 301,553	\$24,491,062	\$ 358,813

Notes to Financial Statements

NOTE 9 – LONG-TERM DEBT (Continued)

Governmental activities, claims, obligations, and compensated absences are generally liquidated by the general fund.

Bonds payable

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

	Principal Balance
\$4,425,000 General Obligation Warrants, Series 2011, dated July 1, 2011, payable in annual installments from 2012 through 2026, interest rates range from 2 to 3.75 percent.	\$ 4,165,000
\$2,970,000 General Obligation Warrants, Series 2004, dated December 1, 2004, payable in annual installments from 2005 through 2018, interest rates range from 3 to 4 percent.	1,125,000
	\$ 5,290,000

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, 2013 is \$3,710 and is reported as part of interest expense. The balance of deferred refunding cost at September 30, 2013 is \$15,772 and is reported as a deferred outflow of resources in the statement of net position.

The Series 2004 bonds are reported net of original issue discount. 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, 2013 is \$984. Remaining original issue discount to be deferred to future periods is \$814. Issuance costs of \$77,561 associated with the Series 2004 bond issue were previously being amortized over the life of the bonds; however, GASB Statement No. 65 requires these costs to be recognized as an expense in the period incurred. Therefore, a prior period adjustment was recorded to restate beginning net position for the cumulative effect of applying this statement retroactively. Refer to Note 16.

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

Notes to Financial Statements

NOTE 9 – LONG-TERM DEBT (Continued)

The City's refunding of the 2002 Series bonds was to obtain additional proceeds that could be used for construction of capital improvements for street resurfacings, improvements to the Flowers Performing Arts Center, tennis court resurfacings, and provide the local match for re-roofing of the Ozark-Dale County Public Library. The net present value of the cash flow savings resulted in an economic gain of \$314,325 and represents the difference between the net present value of the net cash flows of the old and new debt and the additional bond proceeds for construction of capital improvements.

As required by GASB Statement No. 23, the difference between the reacquisition price (funds required to refund the old debt) and the net carrying amount of the old debt is carried as deferred refunding costs and amortized over the life of the old debt on the straight line basis. The amount of deferred refunding costs on the 2002 bond refunding was \$149,050. The total amount amortized for the year ended September 30, 2013 was \$9,316. The balance on the deferred refunding cost at September 30, 2013 is \$121,102 and is reported as a deferred outflow of resources in the statement of net position.

The Series 2011 bonds are reported net of original issue discount. Original issue discount in the amount of \$53,135 is also being amortized over the life of the bonds and is reported as part of interest expense. The total amount expensed related to the Series 2011 bonds for the year ended September 30, 2013 is \$3,321. Remaining original issue discount to be deferred to future periods is \$43,172. Issuance costs of \$117,821 associated with the Series 2011 bond issue were previously being amortized over the life of the bonds; however, GASB Statement No. 65 requires these costs to be recognized as an expense in the period incurred. Therefore, a prior period adjustment was recorded to restate beginning net position for the cumulative effect of applying this statement retroactively. Refer to Note 16.

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

Year Ending September 30,	Principal	Interest	Total
2014	\$ 385,000	\$ 167,021	\$ 552,021
2015	395,000	155,219	550,219
2016	410,000	142,928	552,928
2017	425,000	129,384	554,384
2018	435,000	116,003	551,003
Thereafter	3,240,000	482,391	3,722,391
	\$ 5,290,000	\$ 1,192,946	\$ 6,482,946

Obligations Under Capital Lease

In 2008 and 2011, the City entered into two separate lease agreements as lessee for financing the acquisition of two automated garbage trucks. In April 2009, the City entered into an agreement as lessee for financing the acquisition of a commercial tractor mower; the City paid off this lease during 2012 and reclassified the equipment into the equipment category in capital assets. In August 2010, the City entered into an agreement as lessee for financing the acquisition of ambulances for EMS.

Notes to Financial Statements

NOTE 9 – LONG-TERM DEBT (Continued)

Component Unit

General Obligation Warrant

The BOE issued General Obligation School Warrants, Series 2005 in the principal amount of \$2,230,000 dated January 20, 2005. The warrants mature on February 15 annually in amounts as specified in the following table and bear interest ranging from 2.10% to 3.75%. The purpose of the warrants was to retire the Capital Outlay School Warrants, Series 1995 on their ten year call date, which occurred during the year ending September 30, 2005. These warrants are secured by the proceeds of the Special City School Ad Valorem Tax, which is levied and collected by the City. The BOE incurred a deferred loss on the early retirement of the Series 1995 warrants of \$41,600, which is reported as a contra account to the Series 2005 warrants in the Statement of Net Position as the BOE did not early implement GASB Statement No. 65. If the BOE had early implemented GASB Statement No. 65, the deferred loss would be reported as a deferred outflow of resources in the Statement of Net Position. The deferred loss is being amortized using the straight-line method over the term of the new bonds. Amortization of the deferred loss is reported as a component of interest expense in the Statement of Activities.

The maturity schedule of the 2005 General Obligation School Warrants is as follows:

February 15,	Interest Rate	Principal	Interest	Total
2014	3.55%	\$ 230,000	\$ 22,405	\$ 252,405
2015	3.65%	240,000	13,943	253,943
2016	3.75%	255,000	4,781	259,781
		\$ 725,000	\$ 41,129	\$ 766,129

Capital Outlay Pool Warrants

The BOE issued Capital Outlay Pool Warrant, Series 2010 in the principal amount of \$22,074,000 dated August 9, 2011. The warrant matures on September 1, 2027 and bears interest at 5.15%. This warrant is not a general obligation of the BOE. This warrant is a limited obligation of the BOE. This warrant will be payable solely from and secured by the annual revenues of PSF Capital Purchase Funds allocated and distributed by the BOE pursuant to Section 16-13-234 and proceeds pledged and allocable to the BOE of the sales and use taxes levied by the City pursuant to Ordinance No. 2007-8 and Ordinance No. 2010-AA. Semi-annual interest payments are due March 1 and September 1. Annual principal payments are made to a sinking fund and are due September 1.

The schedule of the annual principal payments made to the sinking fund of the Capital Outlay Pool Warrant, Series 2010 is as follows:

City of Ozark, Alabama

Notes to Financial Statements

NOTE 9 – LONG-TERM DEBT (Continued)

Year	Interest Rate	Principal	Interest, Net of Subsidy	Total
2014	5.15%	\$ 983,715	\$ 94,918	\$ 1,078,633
2015	5.15%	983,715	94,918	1,078,633
2016	5.15%	983,715	94,918	1,078,633
2017	5.15%	983,715	94,918	1,078,633
2018	5.15%	983,715	94,918	1,078,633
2019 - 2027	5.15%	8,853,435	854,262	9,707,697
		<u>\$ 13,772,010</u>	<u>\$ 1,328,852</u>	<u>\$ 15,100,826</u>

The BOE issued a second Capital Outlay Pool Warrant, Series 2011-QZAB in the principal amount of \$730,000 dated June 2, 2011. The warrant matures on May 1, 2026 and bears interest at 4.60%. This warrant is not a general obligation of the BOE. This warrant is a limited obligation of the BOE. This warrant will be payable solely from and secured by the annual revenues of PSF Capital Purchase Funds allocated and distributed by the BOE pursuant to Section 16-13-234 and proceeds pledged and allocable to the BOE of the sales and use taxes levied by the City pursuant to Ordinance No. 2007-8 and Ordinance No. 2010-AA. Payment of principal and sinking fund deposits and interest on this warrant shall be transferred from the pledged revenues to the Debt Service Fund for the 2011 Pool Bonds. Semi-annual interest payments are due November 1 and May 1. Annual principal payments are made to a sinking fund and are due May 1.

The schedule of the annual principal payments made to the sinking fund of the Capital Outlay Pool Warrant, Series 2011-QZAB is as follows:

Year	Interest Rate	Principal	Interest, Net of Subsidy	Total
2014	4.60%	\$ 36,570	\$ 16,790	\$ 53,360
2015	4.60%	36,750	16,790	53,540
2016	4.60%	36,750	16,790	53,540
2017	4.60%	36,750	16,790	53,540
2018	4.60%	36,750	16,790	53,540
2019 - 2026	4.60%	367,500	167,900	535,400
		<u>\$ 551,070</u>	<u>\$ 251,850</u>	<u>\$ 802,920</u>

Notes Payable

A note payable to the Commercial Bank of Ozark was issued on August 13, 2008 for \$702,870 at an interest rate of 4.08%. The note was refinanced May 25, 2012 with Community Bank and Trust at a reduced rate of 2.99% and a shorter repayment period. The balance at the time of refinancing was \$524,652. The note is secured by equipment.

The maturity schedule for the note payable is as follows:

City of Ozark, Alabama

Notes to Financial Statements

NOTE 9 – LONG-TERM DEBT (Continued)

Year Ending September 30,	Principal	Interest	Total
2014	\$ 84,400	\$ 10,709	\$ 95,109
2015	86,959	8,150	95,109
2016	89,580	5,529	95,109
2017	89,512	2,798	92,310
	\$ 350,451	\$ 27,186	\$ 377,637

A note payable to the Commercial Bank of Ozark was issued on December 6, 2012 for \$528,878 at an interest rate of 2.69%. The note is payable in ten annual payments of \$61,123, beginning December 1, 2013. The note is secured by equipment.

The maturity schedule for the note payable is as follows:

Year Ending September 30,	Principal	Interest	Total
2014	\$ 46,896	\$ 14,227	\$ 61,123
2015	48,158	12,965	61,123
2016	49,453	11,670	61,123
2017	50,783	10,340	61,123
2018	52,149	8,974	61,123
2019 - 2023	281,439	23,056	304,495
	\$ 528,878	\$ 81,232	\$ 610,110

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 (the "RSA"), 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.

Notes to Financial Statements

NOTE 11 – RETIREMENT PLAN

The City contributes to the RSA, 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 RSA. Membership is mandatory for covered or eligible employees of the City. 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 RSA was established as of October 1, 1945, under the provisions of Act 515, Acts of Alabama 1945, for the purpose of providing retirement allowances and other specified benefits for State employees, State police, and on an elective basis to all cities, counties, towns and quasi-public organizations. The responsibility for general administration and operation of the Employees' Retirement System is vested in the Board of Control. Benefit provisions are established by the Code of Alabama 1975, Sections 36-27-1 through 36-27-103, as amended, Section 36-27-120 through 36-27-139, as amended, and Sections 36-27B-1 through 36-27B-6.

Authority to amend the plan rests with the Legislature of Alabama. However, the Legislature has granted the Council authority to accept or reject various cost of living adjustments (COLAs) granted to retirees.

The RSA issues a publicly available financial report that includes financial statements and required supplementary information for the RSA. 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, 2012

Summary of Employer Census Data

Number of active members	156
Annual compensation	\$ 4,758,441
Number of retired members and beneficiaries	51
Annual retirement allowances	\$ 820,581

Employer Contribution Rates – Tier 1 Employees (percent)

(applies to all members hired before January 1, 2013) (retain current member contribution rates)

Normal costs	3.05%
Accrued liability	5.85
Pre-retirement death benefit	0.14
Administrative expense	0.21

<u>Total</u>	<u>9.25%</u>
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Notes to Financial Statements

NOTE 11 – RETIREMENT PLAN (Continued)

5% Employer contribution factor	1.8500
6% Employer contribution factor	1.5417

Employer Contribution Rates – Tier 1 Employees (percent)

(applies to all members hired before January 1, 2013) (elect to increase member contribution rates under Act 2011-676)

Normal costs	0.83%
Accrued liability	5.93
Pre-retirement death benefit	0.14
Administrative expense	0.21
Total	7.11%

7.5% Employer contribution factor	0.9480
8.5% Employer contribution factor	0.8365

Employer Contribution Rates – Tier 2 Employees (percent)

(applies to all members hired on or after January 1, 2013)

Total Employer Contribution Rate	6.95%
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6% Employer contribution factor	1.1583
7% Employer contribution factor	0.9929

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 COLAs granted to retirees. These contribution rates have been determined in accordance with generally accepted actuarial standards of practice.

Accounting Information

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets^ (a)	Actuarial 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)
9/30/10(1)	\$ 11,195,919	\$ 14,899,617	\$ 3,703,698	75.1%	\$ 5,123,773	72.3%
9/30/11(2)	10,946,970	15,496,801	4,549,831	70.6%	5,091,443	89.4%
9/30/12(3)	10,946,341	15,052,307	4,105,966	72.7%	4,758,441	86.3%
9/30/12(3)(4)	10,946,341	15,105,493	4,159,152	72.5%	4,758,441	87.4%

Notes to Financial Statements

NOTE 11 – RETIREMENT PLAN (Continued)

- ^ The actuarial value of assets was set equal to the market value of assets as of September 30, 2012.
- * Reflects liability for cost of living benefit increases granted on or after October 1, 1978.
- (1) Reflects the impact of Act 2011-27, which closes the DROP program to new applicants after March 24, 2011.
- (2) Reflects changes in actuarial assumptions.
- (3) Reflects changes to interest smoothing methodology.
- (4) Reflects the impact of 2011-676, which increases the member contribution rates by 2.25% beginning October 1, 2011 and by an additional 0.25% beginning October 1, 2012.

Valuation date	9/30/12
Actuarial cost methods	Entry age
Amortization method	Level percent open
Remaining amortization period	26 years
Asset valuation method	5- year smoothed market [^]
Actuarial assumptions:	
Ultimate investment rate of return (discount rate)**	8.00%
Projected salary increases	3.75 – 7.25%
**Includes inflation at	3.00%
Cost of living adjustments	none

Trend Information

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual</u> <u>Pension</u> <u>Cost (APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
9/30/10	\$ 419,064	100%	\$ -0-
9/30/11	438,227	100%	-0-
9/30/12	381,501	100%	-0-

NOTE 12 – POSTEMPLOYMENT HEALTH CARE BENEFITS

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.

Notes to Financial Statements

NOTE 12 – POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

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, 2013

Summary of Employer Census Data

Number of active members	161
Number of retired members	26
Number of disabled members	3

Funded Status and Funding Progress As of October 1, 2012, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$6,065,017, and the actuarial value of present assets was \$0, resulting in an unfunded actuarial accrued liability of \$6,065,017. The covered payroll (annual payroll of active participating employees) was \$6,341,876 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 95.63%.

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

<i>Fiscal Year Ending September 30, 2013</i>	<i>Amount</i>
Service cost	\$ 226,302
<u>Amortization of unfunded actuarial accrued liability</u>	<u>240,830</u>
Annual required contribution	467,132
Plus interest on prior year net OPEB obligation	42,450
<u>Less prior year net OPEB obligation amortization</u>	<u>(41,356)</u>
Annual OPEB cost	468,226
<u>Contribution toward the OPEB cost in fiscal year 2013</u>	<u>(137,244)</u>
Increase in Net OPEB obligation	330,982
<u>Net OPEB obligation, beginning of year</u>	<u>1,061,245</u>
<u>Net OPEB obligation, end of year</u>	<u>\$ 1,392,227</u>

Notes to Financial Statements

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, 2013 is as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
9/30/2011	\$ 325,405	40.82%	\$ 872,764
9/30/2012	315,205	40.20%	1,061,245
9/30/2013	468,226	29.31%	1,392,227

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

The City’s OPEB actuarial valuation using information as of September 30, 2013 employed the projected unit cost method to estimate the unfunded actuarial accrued liability as of September 30, 2013 and to estimate the City’s 2013 annual required contribution. Although the OPEB liability is currently unfunded, the actuarial assumption included a 4% discount rate (1.00% real rate of return plus 3.00% inflation) on invested assets. The actuarial assumptions also included a health care cost trend level 5.00% for medical and level 2.00% for dental. The amortization period used to determine amortization costs for the initial unfunded actuarial accrued liability is a level period for 30 years on an open basis.

NOTE 13 – CONTINGENT LIABILITIES

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

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

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

Notes to Financial Statements

NOTE 14 – 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 15 – RELATED PARTY TRANSACTIONS

The Utilities Board of the City of Ozark, Alabama (the “Utilities Board”) is a related organization to the City 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. 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 with a principal balance of \$520,880 as of September 30, 2013. The note is due in monthly installments through February 2026 with interest ranging from 3.35% to 5%. During 2013, the City recorded total payments from the Utilities Board of \$36,825, which includes \$11,208 principal and \$25,617 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 16 – PRIOR PERIOD ADJUSTMENT

As discussed in Note 1, the implementation of GASB Statement No. 65 required that debt issuance costs, with the exception of prepaid insurance costs, be recognized as an expense in the period incurred. The cumulative effect of applying this statement retroactively was a decrease in net position in the amount of \$130,104.

NOTE 17 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through April 4, 2014, the date of these financial statements. On November 19, 2013, the City Council adopted a resolution to enter into an agreement to rebate no more than \$2,200,000 of City diesel and gasoline tax to a commercial business to promote economic development. The agreement expires the sooner of 15 years from the date of opening or when rebates to the commercial business total \$2,200,000. On December 3, 2013, the City Council adopted a resolution to enter into an agreement with an additional retail business to grant 50% of the collected local sales tax (up to \$100,000) back to the retail business. The term of the agreement begins May 1, 2014 and continues for two years or less.

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)*	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
9/30/07	\$ -0-	\$ 5,258,930	\$ 5,258,930	0.00%	\$ 4,266,249	123.27%
9/30/10	\$ -0-	\$ 4,694,895	\$ 4,694,895	0.00%	\$ 5,123,773	91.63%
10/1/12	\$ -0-	\$ 6,065,017	\$ 6,065,017	0.00%	\$ 6,341,876	95.63%

COMBINING AND INDIVIDUAL FUND STATEMENTS

DESCRIPTION OF NONMAJOR GOVERNMENTAL FUNDS

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

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

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

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

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

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

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

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

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

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

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

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

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

**City of Ozark
Combining Balance Sheet
Nonmajor Governmental Funds
September 30, 2013**

	Street	Four Cent Gas Tax	UDAG
Assets			
Cash and cash equivalents	\$ 50,244	\$ 101,654	\$ 13,187
Receivables	-	-	-
Due from other funds	-	-	-
Restricted cash and cash equivalents	-	-	-
<hr/>			
Total assets	\$ 50,244	\$ 101,654	\$ 13,187
<hr/>			
Liabilities, Deferred Inflows of Resources, and Fund Balances			
Liabilities			
Accounts payable	\$ 1,041	\$ -	\$ -
Due to other funds	-	-	-
Deferred inflows of resources			
Unavailable revenues	-	-	-
Fund balances			
Spendable: restricted	49,203	101,654	13,187
<hr/>			
Total liabilities, deferred inflows of resources, and fund balances	\$ 50,244	\$ 101,654	\$ 13,187
<hr/>			

Bond Fund	Debt Service	FEMA	Wiregrass Violent Crime
\$ 8,513	\$ 13,160	\$ 6,516	\$ 3,914
-	-	-	13,153
-	-	-	-
-	238,984	-	-
<hr/>			
\$ 8,513	\$ 252,144	\$ 6,516	\$ 17,067
<hr/>			
\$ -	\$ 2,263	\$ -	\$ 7,208
-	-	-	5,945
-	-	-	-
8,513	249,881	6,516	3,914
<hr/>			
\$ 8,513	\$ 252,144	\$ 6,516	\$ 17,067
<hr/>			

-Continued-

City of Ozark
Combining Balance Sheet
Nonmajor Governmental Funds (Continued)
September 30, 2013

	Dept of Justice	Drug Forfeiture	Municipal Court
Assets			
Cash and cash equivalents	\$ 37,271	\$ 12,453	\$ 17,180
Receivables	-	-	-
Due from other funds	-	-	2,482
Restricted cash and cash equivalents	-	-	-
Total assets	\$ 37,271	\$ 12,453	\$ 19,662
Liabilities, Deferred Inflows of Resources, and Fund Balances			
Liabilities			
Accounts payable	\$ 793	\$ 1,224	\$ -
Due to other funds	-	-	-
Deferred inflows of resources			
Unavailable revenues	-	-	-
Fund balances			
Spendable: restricted	36,478	11,229	19,662
Total liabilities, deferred inflows of resources, and fund balances	\$ 37,271	\$ 12,453	\$ 19,662

CDBG	Alabama Trust Fund Improvements	Corrections Fund	Total Nonmajor Governmental Funds
\$ 5,917	\$ 68,481	\$ 3,978	\$ 342,468
-	-	-	13,153
-	-	5,015	7,497
-	-	-	238,984
\$ 5,917	\$ 68,481	\$ 8,993	\$ 602,102
\$ -	\$ -	\$ -	\$ 12,529
-	-	-	5,945
-	-	-	-
5,917	68,481	8,993	583,628
\$ 5,917	\$ 68,481	\$ 8,993	\$ 602,102

City of Ozark
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended September 30, 2013

	Street	Four Cent Gas Tax
Revenues		
Taxes	\$ 109,135	\$ 60,790
Intergovernmental	-	-
Investment earnings	-	8
Miscellaneous	-	-
Total revenues	109,135	60,798
Expenditures		
General government	-	-
Police department	-	-
Street	23,353	-
Engineering/inspections	-	-
Judicial	-	-
Appropriations	-	-
Debt service		
Principal	-	-
Interest	-	-
Dues, fees and issuance costs	-	-
Capital outlay	71,850	-
Total expenditures	95,203	-
Excess (deficiency) of revenues over expenditures	13,932	60,798
Other Financing Sources (Uses)		
Transfers in (out)	(15,000)	-
Excess revenues and other sources over (under) expenditures and other (uses)	(1,068)	60,798
Fund Balances - beginning	50,271	40,856
Fund Balances - ending	\$ 49,203	\$ 101,654

UDAG	Bond Fund	Debt Service Fund	FEMA	Wiregrass Violent Crime
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	296,499	68,931
-	44	5	-	-
1,040	-	-	-	-
1,040	44	5	296,499	68,931
14	-	-	-	-
-	-	-	-	44,464
-	-	-	11,425	-
-	-	-	-	-
-	-	-	-	-
-	25,082	-	-	-
-	-	454,626	-	-
-	-	197,729	-	-
-	-	2,250	-	-
-	39,500	-	-	-
14	64,582	654,605	11,425	44,464
1,026	(64,538)	(654,600)	285,074	24,467
-	-	669,780	(285,000)	(24,467)
1,026	(64,538)	15,180	74	-
12,161	73,051	234,701	6,442	3,914
\$ 13,187	\$ 8,513	\$ 249,881	\$ 6,516	\$ 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, 2013**

	Dept of Justice	Drug Forfeiture	Municipal Court
Revenues			
Taxes	\$ -	\$ -	\$ -
Intergovernmental	980	14,596	-
Investment earnings	-	-	13
Miscellaneous	-	-	-
Total revenues	980	14,596	13
Expenditures			
General government	-	-	-
Police department	7,103	4,857	-
Street	-	-	-
Engineering/inspections	-	-	-
Judicial	-	-	20,854
Appropriations	-	-	-
Debt service			
Principal	-	-	-
Interest	-	-	-
Dues, fees and issuance costs	-	-	-
Capital outlay	3,400	-	-
Total expenditures	10,503	4,857	20,854
Excess (deficiency) of revenues over expenditures	(9,523)	9,739	(20,841)
Other Financing Sources (Uses)			
Transfers in (out)	-	-	32,495
Proceeds from sale of capital assets	40,500	1,476	-
Total other financing sources (uses)	40,500	1,476	32,495
Excess revenues and other sources over (under) expenditures and other (uses)	30,977	11,215	11,654
Fund Balances - beginning	5,501	14	8,008
Fund Balances - ending	\$ 36,478	\$ 11,229	\$ 19,662

CDBG	Alabama Trust Fund Improvements	Corrections Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ 169,925
-	337,428	-	718,434
-	34	13	117
-	-	-	1,040
-	337,462	13	889,516
-	-	-	14
-	-	-	56,424
-	-	-	34,778
25	-	-	25
-	-	2,400	23,254
-	-	-	25,082
-	-	-	454,626
-	-	-	197,729
-	-	-	2,250
-	-	-	114,750
25	-	2,400	908,932
(25)	337,462	(2,387)	(19,416)
-	(278,885)	(889)	98,034
-	-	-	41,976
-	(278,885)	(889)	140,010
(25)	58,577	(3,276)	120,594
5,942	9,904	12,269	463,034
\$ 5,917	\$ 68,481	\$ 8,993	\$ 583,628

SUPPLEMENTAL INFORMATION

City of Ozark, Alabama
Schedules of Bond Amortization Requirements
September 30, 2013
(Unaudited)

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

Paying Agent: Bank of New York

Year Ending	Interest Rate	Principal	Interest	Total
9/30/14	2.00%	\$ 140,000	\$ 129,165	\$ 269,165
9/30/15	2.00%	140,000	126,365	266,365
9/30/16	1.75%	145,000	123,696	268,696
9/30/17	2.50%	150,000	120,553	270,553
9/30/18	2.50%	350,000	114,303	464,303
9/30/19	2.75%	360,000	104,978	464,978
9/30/20	3.00%	375,000	94,403	469,403
9/30/21	3.20%	385,000	82,618	467,618
9/30/22	3.40%	400,000	69,658	469,658
9/30/23	3.50%	405,000	55,770	460,770
9/30/24	3.60%	420,000	41,122	461,122
9/30/25	3.75%	440,000	25,312	465,312
9/30/26	3.75%	455,000	8,531	463,531
Total		\$ 4,165,000	\$ 1,096,474	\$ 5,261,474

\$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
9/30/14	3.55%	\$ 245,000	\$ 37,856	\$ 282,856
9/30/15	3.65%	255,000	28,854	283,854
9/30/16	3.75%	265,000	19,231	284,231
9/30/17	3.95%	275,000	8,831	283,831
9/30/18	4.00%	85,000	1,700	86,700
Total		\$ 1,125,000	\$ 96,472	\$ 1,221,472

COMPLIANCE SECTION

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

Honorable Mayor and Members of
the City Council
Ozark, Alabama

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Ozark, Alabama (the "City"), as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated April 4, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses: Finding number 2013-1.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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*.

City of Ozark, Alabama's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

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

Certified Public Accountants

City of Ozark, Alabama
Schedule of Findings and Responses
For the Year Ended September 30, 2013

2013-1 Municipal Court Administration

Condition – Municipal court policies and procedures are not in compliance with State regulations. Further, system controls are deficient or non-existent and create the opportunity for material misstatement due to fraud or error.

Criteria – Municipal court administration should at a minimum be compliant and in accordance with the Alabama Rules of Judicial Administration, Rule 43. Formally documented policies and procedures should be in place. System capabilities should provide effective controls over access and authorization, as well as adequate audit evidence to support transactions.

Cause – The City is susceptible to increased risks of data loss, fraud, and improper accounting as a result of a deficient Municipal Court control environment.

Effect – Numerous transactions were noted during the year that lacked the proper authorization, lacked underlying support, created opportunities for fraudulent activities to occur and go undetected, and resulted in improper maintenance of case files.

Recommendation – The City should formally document the policies and procedures of the Municipal Court. The basis of such policies and procedures should be Rule 43 of the Alabama Rules of Judicial Administration. Policies and procedures should also include, at a minimum:

- **Posting and reviewing voided transactions** - Adequate supporting documentation should be required for all voids posted. Further, all voided transactions should be timely reviewed by an independent reviewer familiar with such transactions.
- **Signature stamps** - The City should formally document when the use of the Municipal Court judge's or the prosecutor's signature stamp is appropriate and should implement a log to record the use of such stamps. The log should be reviewed periodically by an independent supervisor and by the signature owner.
- **Physical access** - The back entrance door should be locked at all times and access should only be granted to authorized personnel. Greater care should be exercised in monitoring the physical access to confidential case information.
- **Workstation access** – Instances were noted when multiple users were accessing the same workstation. In order to maintain the integrity of the audit trail underlying transactions, the City should implement policies and controls to prohibit multi-user access and such policies should include greater reliance on password protection.
- **Sensitive information** - Defined procedures should be outlined regarding credit card payment records to avoid the potential misappropriation of sensitive information for purposes outside of the intended use of the payer.
- **Court orders** – We were made aware that Municipal Court employees have been directed to use their judgment under certain circumstances with regards to extending or altering judge's orders, setting up payment plans, and closing cases. Formal policies should be established to define the circumstances in which Municipal Court employees can exercise such authority. Further, a formal review of such transactions should be documented by the judge.
- **Definition of responsibilities** - Responsibilities should be clearly defined by position within the Municipal Court office. Further, assignment of responsibility for initiating, authorizing, reviewing, approving, and reporting transactions should be documented.

City of Ozark, Alabama
Schedule of Findings and Responses
For the Year Ended September 30, 2013
(Continued)

- **Cash receipts** - The City should consider a no cash policy to mitigate fraud risk and should formalize its cash receipts policy to address accepting payments on behalf of other related agencies. The City should also document detailed procedures for daily reconciliations to include sign offs by each Municipal Court employee and in some instances dual review and approval.

The City should also consider methods for enhancing the system controls, to include ability of all users to change fees and fines, ability of all users to alter case charges, receipting, posting payments to closed cases, providing a tickler system to track and monitor due dates, and proper posting of payments across multiple open cases. In addition, a contingency plan should be formulated. The current system is maintained by a single person. No recovery or continuance plan exists.

Views of response Officials and Planned Corrective Actions –

Response to Finding #2013-1 – Municipal Court Administration: The City of Ozark has provided all municipal court staff members copies of the Alabama Rules of Judicial Administration, Rule 43. On December 17, 2013, the City Council approved the Receipts and Accounts Receivable Policy and all staff with cash collection responsibilities has signed a receipt and acknowledgement form and that form is filed in their personal folder.

- **Signature stamp.** The Judge and Ozark Municipal Court Clerk have stated that the Judge's signature shall only be used on warrants, case action summaries, probation forms and dismissed tickets, which are post-court transactions.
- **Physical access.** The back entrance door is now locked all the time to limit access to authorized personnel and the Receipts and Accounts Receivable Policy was adopted by the City Council on December 17, 2013, which states only authorized employees are allowed access in designated cash collection areas and direct access to criminal justice records or access to areas where such records are stored must be limited to employees whose official duties require access to such records.
- **Workstation access.** Municipal Court staff are required to log-off their computer terminal when they leave their workstation to prevent unauthorized access in a multiuser environment. This control should eliminate another employee having the opportunity to post transactions under another employee's log-in identification.
- **Sensitive information.** Municipal Court staff have been informed that sensitive information obtained during the payment process shall be adequately protected to prevent such information being used outside the information's intended purpose.
- **Court orders.** The Judge has informed the Municipal Court staff that defendants who are required to make payments on their fines shall be set up with Judicial Court Services and the court will discontinue the practice of allowing defendants to pay fines by a certain date.

City of Ozark, Alabama
Schedule of Findings and Responses
For the Year Ended September 30, 2013
(Continued)

- **Definition of responsibilities.** The City Clerk and Chief Financial Officer will work with the Judge and the Municipal Court Clerk to assign specific responsibility for initiating, authorizing, reviewing, approving and reporting transactions between those of a fiscal nature and those that are judicial.
- **Cash receipts.** On December 17, 2013, the City Council approved the Receipts and Accounts Receivable Policy and all staff with cash collection responsibilities have signed a receipt and acknowledgement form and that form is filed in their personnel folder. On March 4, 2014, the City Council adopted the City of Ozark's Accounting Policy and Procedures Manual, which includes a chapter on Receipts and Accounts Receivable.
- **System controls.** The Chief Financial Officer and the Municipal Court Clerk have been working with the current software provider to prevent a payment on closed cases, the proper handling of payments across multiple open cases, to maintain documentation on any change made to a City fine that the Judge has discretion to change, and to disallow a change to a previously issued receipt without voiding the receipt and to maintain the documentation. The Chief Financial Officer has contacted three companies that provide municipal court software to provide information on their system and a list of customers that are located in Alabama. In the near future, the Chief Financial Officer and the Municipal Court Clerk will ask these three companies to provide a webinar on their company's software for staff evaluation.