

City of Ozark

Financial Statements

For The Year Ended September 30, 2010

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INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Ozark, Alabama (the "City"), as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

The financial statements referred to above include only the primary government of the City which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component units, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the financial position of the reporting entity of the City as of September 30, 2010, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information for the primary government of the City as of September 30, 2010, and the respective changes in financial position, cash flows, where applicable, and the respective budgetary comparison for the General Fund, Special Ad Valorem Fund I and Special Ad Valorem Fund II, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with **Government Auditing Standards**, we have also issued our report dated January 14, 2011 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to

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

Accounting principles generally accepted in the United States of America required that the management's discussion and analysis information on pages 3 through 11 be required 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. The bond amortization requirements are presented for purposes of additional analysis and are not a required part of the basic financial statements. We have applied certain limited procedures to management's discussion and analysis and to the bond amortization requirements in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

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

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

Certified Public Accountants

January 14, 2011

Management's Discussion and Analysis

The City of Ozark's (the "City") Management's Discussion and Analysis ("MD&A") is a narrative overview of the financial activities of the City for the fiscal year beginning October 1, 2009, and ending September 30, 2010. 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 yearend September 30, 2010.

Financial Highlights

Key financial highlights for the fiscal year 2010 are as follows:

- The City's governmental and business-type activities net assets at September 30, 2010, were \$26,464,491. This represents a decrease of \$1,919,064 from September 30, 2009. The majority of the decrease results from the impact of annual depreciation expense which reduces capital assets and an increase in long term liabilities for post employment benefits, the five year lease purchase financing of the Emergency Medical Services ("EMS") vehicles, the EMS operating line of credit, and the increase in the line of credit that was used to purchase the Mossy Oak Trailer Park in 2009-10.
- Revenues at September 30, 2010 from governmental activities were \$14,807,255 and revenues from business-type activities were \$138,407, for a combined total of \$14,945,662. This is an overall decrease of \$2,345,484 in revenues in 2010 from fiscal year 2009. The governmental activities revenues increased \$287,100, with a majority of the increase from capital grants and contributions that funded repairs for storm damage to streets and bridges occurring in the spring and winter of 2009. The majority of the decrease in revenues in the business-type activities of \$2,632,584 reflects the donation in 2009 of land and a building for the Ozark Square Shopping Center appraised at \$2,675,000.
- Expenditures reported in the governmental funds were \$15,591,015 at September 30, 2010 and \$15,197,470 at September 30, 2009. The majority of the \$393,545 increase in expenditures was due to storm damage repairs and the costs of the protective measures undertaken during the winter of 2009 and the street paving performed as part of the CDBG housing revitalization and street paving grant received in 2009-10.
- At September 30, 2010, the City's governmental funds reported a combined ending fund balance of \$1,773,828, a net decrease of \$589,529 in comparison with prior year. Of this amount, \$1,011,079 remains in the various fund types of the City as unreserved.
- The General Fund reported a total fund balance of \$1,322,866 at September 30, 2010, which represents a decrease from September 30, 2009 of \$511,756. That is 10.2 percent of total general fund expenditures or 10.8 percent of its operating expenditures of \$12,274,648 (expenditures less capital outlay).
- The City's total long-term liabilities increased \$647,539 from the previous year. The net increase reflects the following: an increase in capital leases of \$330,354, a net increase in other postemployment health benefits of \$326,171, a net decrease in compensated absences of \$5,590, a net increase in notes payable of \$205,366, and a net decrease in bonds payable of \$228,762.

Overview of the Financial Statements

The basic financial statements consist of three components:

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

Government-Wide Financial Statements

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

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g., uncollected taxes and earned but unused vacation and sick leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges. The government activities of the City include such functions as general government, education, police, fire, sanitation, street, leisure services, and other items. The business-type activities of the City include the Ozark Square Shopping Center and Mossy Oak Trailer Park, as well as the EMS program.

The government-wide financial statements begin on page 12 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 15 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 12 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 15 of this report.

Proprietary Funds. The City maintains two proprietary funds, one for the Ozark Square Shopping Center that is an enterprise fund. An enterprise fund is used to determine operating income, changes in net assets, financial position, and cash flows. This fund is presented as part of the primary government in the government-wide financial statements in columns labeled a "business-type activity". The City received the Ozark Square Shopping Center in a donation on December 30, 2008 and there are currently three business tenants who rent retail space in the shopping center. On January 26, 2010, the City purchased the Mossy Oak Mobile Home Park (formerly the Sollie Mobile Home Park) which contained four privately owned mobile home tenants and eight City owned mobile home tenants. The City accounts for this operation in the Ozark Square Shopping Center fund.

The City approved on May 4, 2010, the Fire Department implementing the EMS program to provide ambulance services to the City's residents and to replace the current ambulance service provider by October 1, 2010. The City acquired financing for the start-up from Branch Banking and Trust ("BB&T"). The financing for the five year lease purchase of four ambulances and one service vehicle totaled \$292,000 and was approved on June 1, 2010. On August 3, 2010, the final terms of the revolving operating line of credit for \$340,000 was approved. The EMS program is operated as an enterprise fund with fees charged to transported patients. This operation is accounted for in the Emergency Medical Services enterprise fund established in 2009-10.

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 26 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, governmental activities assets exceed liabilities by \$23,847,696 for fiscal year 2010, as compared to \$25,687,939 in fiscal year 2009.

September 30,	Net Assets, End of Year					
	Governmental Activities		Business-type Activities		Primary Government Total	
	2010	2009 restated	2010	2009	2010	2009 Restated
Assets						
Current and other assets	\$ 4,439,201	\$ 4,963,419	\$ 201,208	\$ 117,224	\$ 4,640,409	\$ 5,080,643
Capital assets	29,071,270	30,171,872	3,082,818	2,718,907	32,154,088	32,890,779
Total assets	\$ 33,510,471	\$ 35,135,291	\$ 3,284,026	\$ 2,836,131	\$ 36,794,497	\$ 37,971,422
Liabilities and Net Assets						
Liabilities						
Long-term liabilities	\$ 6,627,235	\$ 6,847,291	\$ 185,432	\$ 93,415	\$ 6,812,667	\$ 6,940,706
Other liabilities	3,035,540	2,600,061	481,799	47,100	3,517,339	2,647,161
Total liabilities	9,662,775	9,447,352	667,231	140,515	10,330,006	9,587,867
Net Assets:						
Invested in capital assets - net of debt	23,095,947	24,054,883	2,656,473	2,625,491	25,752,420	26,680,374
Restricted	210,254	186,894	-	-	210,254	186,894
Unrestricted	541,495	1,446,162	(39,678)	70,125	501,817	1,516,287
Total net assets	23,847,696	25,687,939	2,616,795	2,695,616	26,464,491	28,383,555
Total liabilities and net assets	\$ 33,510,471	\$ 35,135,291	\$ 3,284,026	\$ 2,836,131	\$ 36,794,497	\$ 37,971,422

By far the largest portion of the City's net assets (\$23,095,947) reflects its investment in capital assets (e.g., land, buildings, infrastructure, and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets (\$210,254) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$541,495) may be used to meet the City's ongoing obligations.

As noted previously, the City's governmental activities net assets decreased \$1,840,243 and the business-type activities decreased \$78,821, for a net decrease in net assets during fiscal year 2010 of \$1,919,064.

Operating Results for the Year

Years ended September 30,	Governmental Activities		Business-type Activities		Primary Government Total	
	2010	2009	2010	2009	2010	2009
		Restated				Restated
Program Revenues:						
Charges for services	\$ 5,082,012	\$ 5,069,782	\$ 138,253	\$ 95,991	\$ 5,220,265	\$ 5,165,773
Operating grants and contributions	406,220	290,509	-	-	406,220	290,509
Capital grants and contributions	587,541	288,694	-	-	587,541	288,694
General Revenues:						
Property taxes	728,361	750,538	-	-	728,361	750,538
Sales tax	6,075,661	5,984,254	-	-	6,075,661	5,984,254
Gasoline tax	433,230	473,210	-	-	433,230	473,210
Other taxes	811,786	841,255	-	-	811,786	841,255
Other	682,444	493,677	154	-	682,598	493,677
Special items:						
Donation Flowers Performing Arts Center	-	328,236	-	-	-	328,236
Donation Ozark Square Shopping Center	-	-	-	2,675,000	-	2,675,000
Total revenues	14,807,255	14,520,155	138,407	2,770,991	14,945,662	17,291,146
Functions/Program Expenses:						
General Government	2,572,600	2,161,592	-	-	2,572,600	2,161,592
Police Department	3,265,031	3,078,634	-	-	3,265,031	3,078,634
Fire Department	2,641,526	2,669,421	122,076	-	2,763,602	2,669,421
Street	1,131,032	1,006,099	-	-	1,131,032	1,006,099
Sanitation	1,311,675	1,350,177	-	-	1,311,675	1,350,177
Leisure Services	1,750,733	1,756,415	14,949	-	1,765,682	1,756,415
Engineering/Inspections	124,950	124,765	-	-	124,950	124,765
Vehicle Maintenance	186,305	189,873	-	-	186,305	189,873
Airport	17,460	110,547	-	-	17,460	110,547
Judicial	190,622	210,993	-	-	190,622	210,993
Appropriations	132,442	138,582	-	-	132,442	138,582
Education	2,231,291	2,236,828	-	-	2,231,291	2,236,828
Non-departmental	276,011	239,375	14,939	49	290,950	239,424
Economic Development	229,663	218,862	61,350	75,326	291,013	294,188
Ozark Technology Center	117,442	125,032	-	-	117,442	125,032
Information Technology	175,706	177,981	-	-	175,706	177,981
Interest and fiscal charges	276,771	283,549	3,914	-	280,685	283,549
Amortization	16,238	16,238	-	-	16,238	16,238
Total functions/program expenses	16,647,498	16,094,963	217,228	75,375	16,864,726	16,170,338
Increase (Decrease) in Net Assets	\$ (1,840,243)	\$ (1,574,808)	\$ (78,821)	\$ 2,695,616	\$ (1,919,064)	\$ 1,120,808

Financial Analysis of the City's Funds

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

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds report combined ending fund balances of \$1,773,828, a decrease of \$589,529, in comparison with the prior year. Unreserved fund balances of \$1,011,149 represents 57.0 percent of the ending fund balances and are available to meet the City's short-term spending needs. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to: 1) pay debt service of \$210,254; and 2) a long-term receivable of \$552,426 from the Ozark Utilities Board.

Total Governmental Funds

<i>September 30,</i>	2010	2009	Changes
Assets			
Cash and cash equivalents	\$ 883,592	\$ 1,682,634	\$ (799,042)
Receivables	3,335,208	3,087,510	247,698
Due from other budgetary funds	163,672	154,795	8,877
Other assets	10,147	6,381	3,766
Restricted cash and cash equivalents	210,254	186,894	23,360
Total assets	\$ 4,602,873	\$ 5,118,214	\$ (515,341)
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 341,312	\$ 309,530	\$ 31,782
Due to other budgetary funds	169,491	154,796	14,695
Accrued compensation	290,575	275,544	15,031
Other accrued expenses	112,428	63,834	48,594
Deferred revenue	1,915,239	1,951,153	(35,914)
Total liabilities	2,829,045	2,754,857	74,188
Fund balances			
Reserved for debt services	210,254	186,894	23,360
Reserved for long-term receivable	552,426	559,289	(6,863)
Unreserved	1,011,148	1,617,174	(606,026)
Total fund balances	1,773,828	2,363,357	(589,529)
Total liabilities and fund balances	\$ 4,602,873	\$ 5,118,214	\$ (515,341)

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the General Fund is \$770,440, while the total fund balance was \$1,322,866. The net result of General Fund operations is a decrease in the General Fund's fund balance of \$511,756. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total expenditures. Unreserved fund balance represents 5.9 percent of total General Fund expenditures, while total fund balance represents 10.2 percent of that same amount. The recommended best practice unreserved fund balance target is between one to two months of operating expenditures which would be between 8.3 percent to 16.7 percent of operating expenditures or between \$1,079,000 and \$2,171,000.

<i>Years ended September 30,</i>	Total Governmental Funds		
	2010	2009	Changes
Revenues			
Taxes	\$ 9,311,690	\$ 9,320,803	\$ (9,113)
Licenses and permits	1,707,204	1,436,035	271,169
Intergovernmental	1,092,861	636,934	455,927
Charges for services	1,406,990	1,427,229	(20,239)
Fine and forfeitures	939,998	938,817	1,181
Investment earnings	31,206	43,211	(12,005)
Miscellaneous	257,642	325,890	(68,248)
Total revenues	14,747,591	14,128,919	618,672
Expenditures			
General government	1,306,617	1,135,987	170,630
Police Department	3,070,793	2,904,255	166,538
Fire Department	2,416,646	2,437,896	(21,250)
Street	1,035,574	868,633	166,941
Sanitation	1,237,802	1,253,015	(15,213)
Leisure services	1,549,296	1,549,317	(21)
Engineering/inspections	119,200	119,274	(74)
Vehicle maintenance	176,787	180,789	(4,002)
Airport	14,753	16,256	(1,503)
Judicial	184,560	208,087	(23,527)
Appropriations	132,442	138,582	(6,140)
Nondepartmental	276,011	239,375	36,636
Economic Development	166,981	156,043	10,938
Ozark Technology Center	90,836	98,404	(7,568)
Information Technology	156,387	149,353	7,034
Education	2,231,291	2,236,828	(5,537)
Debt service:			
Principal	353,759	471,376	(117,617)
Interest, dues, and fees	276,771	283,549	(6,778)
Capitalized capital outlay	794,509	750,450	44,059
Total expenditures	15,591,015	15,197,469	393,546
Excess (Deficiency) of Revenues over Expenditures	(843,424)	(1,068,550)	225,126
Other Financing Sources (Uses)			
Proceeds from long-term debt	171,590	241,649	(70,059)
Loss recoveries	27,123	47,263	(20,140)
Proceeds from the sale of capital assets	55,182	-	55,182
Transfers in	2,654,049	2,626,784	27,265
Transfers out	(2,654,049)	(2,626,784)	(27,265)
Total other financing sources	253,895	288,912	(35,017)
Net change in fund balance	(589,529)	(779,638)	190,109
Fund balances – beginning	2,363,357	3,142,995	(779,638)
Fund balances – ending	\$ 1,773,828	\$ 2,363,357	\$ (589,529)

Revenues for FY 2010 from governmental funds were more than FY 2009 revenues by \$618,672. The majority of the increase is in intergovernmental funding for capital projects and an increase in licenses and permit revenue. Licenses and permit revenue includes the City's receipt of Southeast Alabama Gas District Consortium receipts which was \$203,000 more than last year. Also business licenses revenue reported an increase of \$54,000 in fiscal year 2010.

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 \$677,899. The amended revenue for intergovernmental reflects funding for heating, ventilation and air conditioning for the East Gate Business Park and that project will have a bid award for the work early in 2011, the CDBG grant recently awarded two contractors to perform work on the housing revitalization, demolition and street paving project that is expected to begin in November 2010.

General Fund operating expenditures were under amended projections by \$1,079,895. This reflects departments' adjustment to departmental spending as a result of lower sales tax collections than anticipated in 2009-10 and several capital grants that were not completed at year end.

Capital Assets and Long-Term Debt

Capital Assets

The City's investment in capital assets for governmental activities as of September 30, 2010, amounts to \$29,071,270 (net of accumulated depreciation). The City's investment in capital assets for business-type activities as of September 30, 2010, amounts to \$3,082,818 (net of accumulated depreciation). This investment in capital assets includes land; improvements and infrastructure; buildings; equipment; and construction in progress. The total decrease of \$736,690 in the City's investment in capital assets (net of accumulated depreciation) for the current fiscal year was 2.4 percent less than last year. The majority of the decrease in governmental activities can be attributed to annual depreciation and the business-type activities reflects an increase due to the 5-year lease purchase of EMS vehicles and an operating line of credit to start up the EMS program during 2009-10.

<i>September 30,</i>	Capital Assets (net of depreciation)					
	Governmental Activities		Business-type Activities		Primary Government Total	
	2010	2009	2010	2009	2010	2009
Land	\$ 4,837,535	\$ 4,837,535	\$ 573,045	\$ 510,959	\$ 5,410,580	\$ 5,348,494
Construction in progress	60,481	5,552,416	-	-	60,481	5,552,416
Improvements and infrastructure	15,202,334	7,593,179	-	-	15,202,334	7,593,179
Buildings	7,520,018	10,643,018	2,158,715	2,207,947	9,678,733	12,850,965
Equipment	1,092,409	1,254,419	68,787	-	1,161,196	1,254,419
Property under capital lease	358,493	291,305	282,271	-	640,764	291,305
Total	\$ 29,071,270	\$30,171,872	\$ 3,082,818	\$ 2,718,906	\$ 32,154,088	\$ 32,890,778

Additional information on the City's capital assets can be found in Note 5, beginning on page 32 of this report.

Long-Term Debt

At the end of the current fiscal year, the City has total long-term debt outstanding of \$7,604,245. This amount is comprised of notes payable of \$298,781, of obligations under capital lease agreements of \$607,330, compensated absences of \$370,735, of other postemployment benefit obligations of \$696,166, and \$5,631,233 in net bonded debt. This is an increase from fiscal year 2009 of \$663,539. The majority of the increase reflects the addition of a five year capital lease for the EMS vehicles and a revolving operating line of credit for the start up of the EMS program.

September 30,	Long-Term Debt					
	Governmental Activities		Business-type Activities		Primary Government Total	
	2010	2009	2010	2009	2010	2009
Changes in long-term liabilities						
Capital leases	\$ 319,807	\$ 256,976	\$ 287,523	\$ -	\$ 607,330	\$ 256,976
Notes payable	-	-	298,781	93,415	298,781	93,415
Compensated absences	369,388	376,325	1,347	-	370,735	376,325
Bonds payable, net	5,631,233	5,859,995	-	-	5,631,233	5,859,995
Other postemployment benefit obligation	692,974	353,995	3,192	-	696,166	353,995
Total Long-Term Liabilities	\$7,013,402	\$ 6,847,291	\$ 590,843	\$ 93,415	\$7,604,245	\$6,940,706

Additional information on the District's long-term debt can be found in Note 7, beginning on page 35 of this report.

Significant Economic Factors

The Mayor and City Council considered many factors when developing the fiscal year 2010-2011 budget. A budget of \$13.1 million was adopted for the General Fund, \$4.2 million in Special Revenue Funds and \$4.4 million in Enterprise Funds on August 20, 2010, for fiscal year 2010-11.

Major factors considered in preparing the City's budget for the 2010-2011 fiscal year were:

- Budgeted health insurance decreased 6 percent in fiscal year 2011 due to the City obtaining a preferred premium rate after joining the State Employees Health Insurance Program.
- The 2010-11 budget does not reflect a salary increase. The salary and benefits budget for 2010-11 reflects the City's staffing reorganization which reflects a reduction in staffing allocations of 20 positions.
- Dale County unemployment rate for September 2010 is 7.8 percent and for September 2009 the unemployment rate was 9.3 percent. The State's unemployment rate for September 2010 was 8.9 percent and the unemployment rate for September 2009 was 10.7 percent.

Requests For Information

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

BASIC FINANCIAL STATEMENTS

City of Ozark
Statement of Net Assets
September 30, 2010

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 883,592	\$ 109,930	\$ 993,522
Receivables	3,335,208	41,919	3,377,127
Prepaid expenses	6,360	9,947	16,307
Other assets	3,787	39,412	43,199
Restricted cash and cash equivalents	210,254	-	210,254
Capital assets, net of depreciation	24,173,254	2,509,773	26,683,027
Land and other nondepreciable capital assets	4,898,016	573,045	5,471,061
Total assets	33,510,471	3,284,026	36,794,497
Liabilities			
Accounts payable	347,131	30,522	377,653
Accrued payroll	290,575	12,273	302,848
Other accrued expenses	112,428	33,593	146,021
Deferred revenue	1,915,239	-	1,915,239
Noncurrent liabilities			
Due within one year			
Notes payable	-	53,332	53,332
Amounts due under capital leases	86,405	54,712	141,117
Bonds payable	283,762	-	283,762
Due in more than one year			
Notes payable	-	245,449	245,449
Amounts due under capital leases	233,402	232,811	466,213
Bonds payable, net	5,347,471	-	5,347,471
Compensated absences	369,388	1,347	370,735
Other post-employment benefits obligation	676,974	3,192	680,166
Total liabilities	9,662,775	667,231	10,330,006
Net Assets			
Invested in capital assets, net of related debt	23,095,947	2,656,473	25,752,420
Restricted for debt service	210,254	-	210,254
Unrestricted	541,495	(39,678)	501,817
Total net assets	\$ 23,847,696	\$ 2,616,795	\$ 26,464,491

See accompanying notes to the financial statements.

City of Ozark
Statement of Activities
For the Year Ended September 30, 2010

Functions/Programs	Expenses	Charges for Services	Program Operating Grants and Contributions
Primary Government			
Governmental Activities:			
General government	\$ 2,572,600	\$ 2,174,312	\$ 53,710
Police department	3,265,031	54,522	309,536
Fire department	2,641,526	400	-
Street	1,131,032	-	-
Sanitation	1,311,675	1,138,904	-
Leisure services	1,750,733	301,102	34,474
Engineering/inspections	124,950	-	-
Vehicle maintenance	186,305	-	-
Airport	17,460	5,384	-
Judicial	190,622	-	-
Appropriations	132,442	-	-
Non-departmental	276,011	-	-
Economic development	229,663	-	8,500
Ozark Technology Center	117,442	-	-
Information technology	175,706	-	-
Education	2,231,291	1,407,388	-
Interest	274,281	-	-
Dues and fees on long term debt	2,490	-	-
Amortization	16,238	-	-
Total governmental activities	16,647,498	5,082,012	406,220
Business-type Activities:			
Emergency medical services	123,414	-	-
Ozark square shopping center	93,814	138,253	-
Total business-type activities	217,228	138,253	-
Total primary government	\$ 16,864,726	\$ 5,220,265	\$ 406,220

See accompanying notes to financial statements.

Revenues Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets Primary Government		
	Governmental Activities	Business-type Activities	Total
\$ 231,374	\$ (113,204)	\$ -	\$ (113,204)
-	(2,900,973)	-	(2,900,973)
-	(2,641,126)	-	(2,641,126)
162,778	(968,254)	-	(968,254)
-	(172,771)	-	(172,771)
33,296	(1,381,861)	-	(1,381,861)
-	(124,950)	-	(124,950)
-	(186,305)	-	(186,305)
160,093	148,017	-	148,017
-	(190,622)	-	(190,622)
-	(132,442)	-	(132,442)
-	(276,011)	-	(276,011)
-	(221,163)	-	(221,163)
-	(117,442)	-	(117,442)
-	(175,706)	-	(175,706)
-	(823,903)	-	(823,903)
-	(274,281)	-	(274,281)
-	(2,490)	-	(2,490)
-	(16,238)	-	(16,238)
587,541	(10,571,725)	-	(10,571,725)
-	-	(123,414)	(123,414)
-	-	44,439	44,439
-	-	(78,975)	(78,975)
\$ 587,541	\$ (10,571,725)	\$ (78,975)	\$ (10,650,700)

-Continued-

City of Ozark
Statement of Activities (Continued)
For the Year Ended September 30, 2010

General Revenues	Net (Expense) Revenue and Changes in Net Assets		
	Primary Government		
	Governmental Activities	Business-type Activities	Total
Sales taxes	\$ 6,075,661	\$ -	\$ 6,075,661
Motor fuel taxes	433,230	-	433,230
Property taxes	728,361	-	728,361
Alcoholic beverage taxes	145,334	-	145,334
Lodging taxes	74,940	-	74,940
Tobacco taxes	236,108	-	236,108
Other taxes	355,404	-	355,404
Miscellaneous	140,521	150	140,671
Rental income	189,580	-	189,580
Franchise fees	321,137	-	321,137
Investment earnings	31,206	4	31,210
Total general revenues	8,731,482	154	8,731,636
Change in net assets	(1,840,243)	(78,821)	(1,919,064)
Net Assets - beginning	25,736,653	2,695,616	28,432,269
Prior Period Adjustment	(48,714)	-	(48,714)
Net Assets - ending	\$ 23,847,696	\$ 2,616,795	\$ 26,464,491

See accompanying notes to financial statements.

**City of Ozark
Balance Sheet
Governmental Funds
September 30, 2010**

	General Fund	Special Ad Valorem I	Special Ad Valorem II
Assets			
Cash and cash equivalents	\$ 746,957	\$ 24	\$ 45
Receivables	1,872,449	651,007	651,007
Due from other funds	54,414	-	-
Prepays	6,360	-	-
Other assets	3,787	-	-
Restricted cash and cash equivalents	-	-	-
Total assets	\$ 2,683,967	\$ 651,031	\$ 651,052
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 279,830	\$ 13,233	\$ 13,233
Due to other funds	40,494	-	-
Accrued payroll	290,575	-	-
Other accrued expenses	112,428	-	-
Deferred revenue	637,774	637,774	637,774
Total liabilities	1,361,101	651,007	651,007
Fund balances			
Reserved for debt service	-	-	-
Reserved for long-term receivable	552,426	-	-
Unreserved, reported in:			
General fund	770,440	-	-
Special revenue funds	-	24	45
Total fund balances	1,322,866	24	45
Total liabilities and fund balances	\$ 2,683,967	\$ 651,031	\$ 651,052

See accompanying notes to financial statements.

Other Governmental Funds	Total Governmental Funds
\$ 136,566	\$ 883,592
160,745	3,335,208
109,258	163,672
-	6,360
-	3,787
210,254	210,254
<hr/>	
\$ 616,823	\$ 4,602,873
<hr/>	
\$ 35,016	\$ 341,312
128,997	169,491
-	290,575
-	112,428
1,917	1,915,239
<hr/>	
165,930	2,829,045
<hr/>	
210,254	210,254
-	552,426
240,639	1,011,079
-	69
<hr/>	
450,893	1,773,828
<hr/>	
\$ 616,823	\$ 4,602,873
<hr/>	

City of Ozark
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Assets
September 30, 2010

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

Total fund balance - governmental funds \$ 1,773,828

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the fund financial statement, but are reported in the governmental activities of the Statement of Net Assets. 29,071,270

Some liabilities are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets:

Capital leases payable	(319,807)
Bonds and notes payable, net	(5,631,233)
Accrued compensated absences	(369,388)
Accrued other post-employment benefits	(676,974)

Net Assets of Governmental Activities in the Statement of Net Assets \$ 23,847,696

See accompanying notes to financial statements.

City of Ozark
Statement of Revenues, Expenditures and Changes in Fund
Balances - Governmental Funds
For the Year Ended September 30, 2010

	General Fund	Special Ad Valorem I	Special Ad Valorem II
Revenues			
Taxes	\$ 7,731,423	\$ 703,694	\$ 703,694
Licenses and permits	1,707,204	-	-
Intergovernmental	427,496	-	-
Charges for services	1,406,990	-	-
Fines and forfeitures	939,998	-	-
Investment earnings	30,647	-	-
Miscellaneous	248,262	-	-
Total revenues	12,492,020	703,694	703,694
Expenditures			
General government	1,183,558	-	-
Ozark Board of Education	823,903	703,694	703,694
Vehicle maintenance	176,787	-	-
Police department	2,849,680	-	-
Information technology	156,387	-	-
Fire department	2,416,646	-	-
Airport	14,753	-	-
Sanitation	1,237,802	-	-
Street	897,486	-	-
Leisure services	1,549,296	-	-
Appropriations	132,442	-	-
Judicial	182,880	-	-
Economic development	166,981	-	-
Engineering/inspections	119,200	-	-
Ozark Technology Center	90,836	-	-
Non-departmental	276,011	-	-
Debt service	-	-	-
Principal	-	-	-
Interest	-	-	-
Dues, fees and issuance costs	-	-	-
Capital outlay	751,897	-	-
Total expenditures	13,026,545	703,694	703,694
Excess (deficiency) of revenues over expenditures	(534,525)	-	-

See accompanying notes to financial statements.

Other Governmental Funds	Total Governmental Funds
\$ 172,879	\$ 9,311,690
-	1,707,204
665,365	1,092,861
-	1,406,990
-	939,998
559	31,206
9,380	257,642
<u>848,183</u>	<u>14,747,591</u>
123,059	1,306,617
-	2,231,291
-	176,787
221,113	3,070,793
-	156,387
-	2,416,646
-	14,753
-	1,237,802
138,088	1,035,574
-	1,549,296
-	132,442
1,680	184,560
-	166,981
-	119,200
-	90,836
-	276,011
353,759	353,759
274,281	274,281
2,490	2,490
42,612	794,509
<u>1,157,082</u>	<u>15,591,015</u>
<u>(308,899)</u>	<u>(843,424)</u>

-Continued-

City of Ozark

**Statement of Revenues, Expenditures and Changes in Fund
Balances - Governmental Funds (Continued)
For the Year Ended September 30, 2010**

	General Fund	Special Ad Valorem I	Special Ad Valorem II
Other Financing Sources (Uses)			
Transfers in (out)	(215,395)	-	-
Proceeds from long term debt	171,590	-	-
Proceeds from sale of capital assets	46,501	-	-
Loss recoveries	20,073	-	-
Total other financing sources (uses)	22,769	-	-
Excess revenues and other sources over (under) expenditures and other (uses)	(511,756)	-	-
Fund Balances - beginning	1,834,622	24	45
Fund Balances - ending	\$ 1,322,866	\$ 24	\$ 45

See accompanying notes to financial statements.

Other Governmental Funds	Total Governmental Funds
215,395	-
-	171,590
8,681	55,182
7,050	27,123
<u>231,126</u>	<u>253,895</u>
(77,773)	(589,529)
<u>528,666</u>	<u>2,363,357</u>
<u>\$ 450,893</u>	<u>\$ 1,773,828</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, 2010**

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

Net change in fund balances - total governmental funds:	\$	(589,529)
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.		794,508
Depreciation expense on governmental capital assets is included in the governmental activities in the Statement of Net Assets.		(1,846,659)
Change in deferred revenue related to grant awards.		48,714
Repayment of debt is reported as an expenditure in governmental funds, but as a reduction in long-term liabilities in the Statement of Net Assets		353,759
Proceeds from the issuance of long-term debt recorded as other financing source in governmental funds		(171,590)
The net effect of various miscellaneous transactions involving capital assets (i.e., exchanges, loss recoveries) is to increase net assets		(83,292)
Additional interest expense due to deferred loss on bond refunding and discount and amortization of bond issue costs		(16,238)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:		
Other post employment health benefits liability		(322,979)
Compensated absences		(6,937)
Change in net assets of governmental activities	\$	(1,840,243)

See accompanying notes to financial statements.

City of Ozark

**Statement of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual - General Fund
For the Year Ended September 30, 2010**

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues				
Taxes	\$ 7,775,409	\$ 7,821,690	\$ 7,731,423	\$ (90,267)
Licenses and permits	1,424,148	1,705,777	1,707,204	1,427
Intergovernmental	816,845	992,809	427,496	(565,313)
Charges for services	1,435,625	1,459,504	1,406,990	(52,514)
Fines and forfeitures	867,710	879,688	939,998	60,310
Investment earnings	29,803	29,803	30,647	844
Miscellaneous	272,877	280,648	248,262	(32,386)
Total revenues	12,622,417	13,169,919	12,492,020	(677,899)
Expenditures				
General government	1,134,870	1,211,495	1,183,558	27,937
Vehicle maintenance	194,290	194,290	176,787	17,503
Police department	2,835,160	2,851,275	2,849,680	1,595
Information technology	169,061	169,357	156,387	12,970
Fire department	2,517,154	2,517,154	2,416,646	100,508
Airport	27,300	27,300	14,753	12,547
Sanitation	1,279,236	1,279,236	1,237,802	41,434
Street	888,499	918,090	897,486	20,604
Leisure services	1,665,066	1,647,414	1,549,296	98,118
Appropriations	135,675	135,675	132,442	3,233
Judicial	200,287	200,287	182,880	17,407
Economic development	244,419	246,419	166,981	79,438
Engineering/inspections	127,871	127,871	119,200	8,671
Ozark Technology Center	114,547	114,547	90,836	23,711
Non-departmental	231,200	322,785	276,011	46,774
Education	832,928	832,928	823,903	9,025
Capital outlay	925,797	1,310,317	751,897	558,420
Total expenditures	13,523,360	14,106,440	13,026,545	1,079,895
Excess (deficiency) of revenues over expenditures	(900,943)	(936,521)	(534,525)	401,996
Other Financing Sources (Uses)				
Loans proceeds	200,000	200,000	171,590	(28,410)
Loss recoveries	-	16,118	20,073	3,955
Proceeds from the sale of capital assets	-	46,956	46,501	(455)
Transfers in (out)	(74,929)	(238,973)	(215,395)	23,578
Total other financing sources (uses)	125,071	24,101	22,769	(1,332)
Excess revenue and other sources over (under) expenditures and other (uses)	(775,872)	(912,420)	(511,756)	400,664
Fund Balances - beginning	1,834,622	1,834,622	1,834,622	-
Fund Balances - ending	\$ 1,058,750	\$ 922,202	\$ 1,322,866	\$ 400,664

See accompanying notes to financial statements.

City of Ozark

**Statement of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual - Special Ad Valorem Fund I
For the Year Ended September 30, 2010**

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues				
Taxes	\$ 726,000	\$ 726,000	\$ 703,694	\$ (22,306)
Expenditures				
Education	726,000	726,000	703,694	22,306
Excess (deficiency) of revenues over expenditures	-	-	-	-
Other Financing Sources (Uses)				
Transfers in (out)	-	-	-	-
Excess revenue and other sources over (under) expenditures and other (uses)	-	-	-	-
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 Balance -
Budget and Actual - Special Ad Valorem Fund II
For the Year Ended September 30, 2010**

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues				
Taxes	\$ 726,000	\$ 726,000	\$ 703,694	\$ (22,306)
Expenditures				
Education	726,000	726,000	703,694	22,306
Excess (deficiency) of revenues over expenditures	-	-	-	-
Fund Balances - beginning	45	45	45	-
Fund Balances - ending	\$ 45	\$ 45	\$ 45	-

See accompanying notes to financial statements.

City of Ozark
Statement of Net Assets
Proprietary Funds
September 30, 2010

	Business-Type Activities		
	Emergency Medical Services	Ozark Square Shopping Center	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 3,229	\$ 106,701	\$ 109,930
Receivables	41,919	-	41,919
Prepaid expenses	5,292	4,655	9,947
Due from other funds	5,819	33,593	39,412
Total current assets	56,259	144,949	201,208
Noncurrent assets			
Land	-	573,045	573,045
Capital assets, net of depreciation	351,057	2,158,716	2,509,773
Total noncurrent assets	351,057	2,731,761	3,082,818
Total assets	407,316	2,876,710	3,284,026
Liabilities			
Current liabilities			
Accounts payable	29,647	875	30,522
Due to other funds	33,593	-	33,593
Accrued payroll	12,273	-	12,273
Noncurrent liabilities			
Amount due under capital lease	287,523	-	287,523
Bond payable	163,151	-	163,151
Note payable	-	135,630	135,630
Compensated absences	1,347	-	1,347
Other post-employment benefits obligation	3,192	-	3,192
Total liabilities	530,726	136,505	667,231
Net Assets			
Invested in capital assets, net of related debt	60,342	2,596,131	2,656,473
Unrestricted	(183,752)	144,074	(39,678)
Total net assets	\$ (123,410)	\$ 2,740,205	\$ 2,616,795

See accompanying notes to financial statements.

City of Ozark
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the Year Ended September 30, 2010

	Business-Type Activities		
	Emergency Medical Services	Ozark Square Shopping Center	Total
Operating Revenues			
Rental income	\$ -	\$ 138,185	\$ 138,185
Operating Expenses			
Salaries and benefits	19,670	-	19,670
Rental expense	4,180	-	4,180
Repairs and maintenance	67,977	9,182	77,159
Utilities	573	11,060	11,633
Legal	8,174	30	8,204
Depreciation	11,871	49,532	61,403
Other operating expenses	9,780	21,285	31,065
Total operating expenses	122,225	91,089	213,314
Operating (loss) income	(122,225)	47,096	(75,129)
Non-Operating Revenues (Expenses)			
Miscellaneous revenues	-	218	218
Interest income	4	-	4
Interest expense	(1,189)	(2,725)	(3,914)
Non-operating loss	(1,185)	(2,507)	(3,692)
Change in net assets	(123,410)	44,589	(78,821)
Total Net Assets - beginning	-	2,695,616	2,695,616
Total Net Assets - ending	\$ (123,410)	\$ 2,740,205	\$ 2,616,795

See accompanying notes to financial statements.

City of Ozark
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2010

Business-Type Activities			
	Emergency Medical Services	Ozark Square Shopping Center	Totals
Cash Flows From Operating Activities			
Receipts from customers and users	\$ -	\$ 138,185	\$ 138,185
Payments to suppliers	(90,684)	-	(90,684)
Payments to employees	(19,670)	-	(19,670)
Other receipts (payments)	27,022	(75,562)	(48,540)
Net cash (used) provided by operating activities	(83,332)	62,623	(20,709)
Cash Flows From Capital and Related Financing Activities			
Interest payments on long-term debt	(1,189)	(2,725)	(3,914)
Principal payments on long-term debt	(4,477)	(26,211)	(30,688)
Proceeds from long-term debt	455,151	68,426	523,577
Proceeds from disposition of capital assets	-	6,267	6,267
Purchases of capital assets	(362,928)	(68,436)	(431,364)
Net cash provided (used) in capital and related financing activities	86,557	(22,679)	63,878
Cash Flows From Investing Activities			
Interest received	4	-	4
Net increase in cash and cash equivalents	3,229	39,944	43,173
Cash and Cash Equivalents - beginning	-	66,757	66,757
Cash and Cash Equivalents - ending	\$ 3,229	\$ 106,701	\$ 109,930
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating (loss) income	\$ (122,225)	\$ 47,096	\$ (75,129)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	11,871	49,532	61,403
Changes in operating assets and liabilities:			
(Increase) decrease in accounts receivable	(41,919)	50,468	8,549
Increase in prepaid expenses	(5,292)	(4,655)	(9,947)
Increase in due from other funds	(5,819)	(33,593)	(39,412)
Increase (decrease) in accounts payable	29,647	(46,225)	(16,578)
Increase in due to other funds	33,593	-	33,593
Increase in salaries and benefits payable	16,812	-	16,812
Net cash (used) provided by operating activities	\$ (83,332)	\$ 62,623	\$ (20,709)

See accompanying notes to financial statements.

Notes to Financial Statements

NOTE

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

Notes to Financial Statements**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

Reporting Entity

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

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

Government-wide and Fund Financial Statements

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

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

Notes to Financial Statements**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period, considered to be thirty days for property taxes, sales taxes, and interest. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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

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

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The following are reported as major governmental funds:

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

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

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

Cash and Cash Equivalents

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

Receivables and Payables

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

In Alabama, City property taxes are levied by the County Commission at its first regular meeting in February of each year based on the property on record as of the preceding October 1. The taxes are due the following October 1 and delinquent after December 31st. In accordance with the non-exchange transactions provision of GASB Statement No. 33, taxes levied in fiscal year 2009 for the 2010 budget year have been recorded as receivables and deferred revenue.

Accounts Receivable

The City considered all receivables at year end to be collectible and as such, no allowance for uncollectibles is reported.

Restricted Cash and Cash Equivalents

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

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

both are available to fund specific expenditures.

Inventories

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

Investments

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

Capital Assets

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

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

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

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

Compensated Absences

The City allows employees to accumulate vacation and sick leave up to certain limits for use in subsequent periods. Upon termination of employment, an employee receives payment of accumulated vacation hours up to certain limits at current wage rates. All leave is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for the current portion of compensated absences expected to be paid using expendable available resources.

Long-Term Obligations

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

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Net Assets/Fund Equity

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

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

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

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

Fund equity is reported in the fund financial statements. Governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Management Estimates and Assumptions

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

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 Council. The level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the government function category level.

Budgets for the governmental funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).

NOTE 3 – DEPOSITS

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

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

Restricted cash and investments were comprised of the following at September 30, 2010:

	Governmental
Cash	
Restricted for Debt Service	\$ 210,254

NOTE 4 – RECEIVABLES

Receivables at September 30, 2010 consist of the following:

	General Fund	Special Ad Valorem I	Special Ad Valorem II	Nonmajor Funds	Total
Accounts receivable	\$ 682,249	\$ 13,233	\$ 13,233	\$ 160,745	\$ 869,460
Property taxes receivable	637,774	637,774	637,774	-	1,913,322
Note receivable—Utilities Board	552,426	-	-	-	552,426
	\$1,872,449	\$ 651,007	\$ 651,007	\$ 160,745	\$3,335,208

Notes to Financial Statements

NOTE 4 – RECEIVABLES (Continued)

Included in receivables is a \$552,426 note receivable due from the Utilities Board of the City of Ozark. The note is due in monthly installments through February 2026 with interest ranging from 3.35% to 5%.

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2010 was as follows:

	Beginning Balance 9/30/09	Increases	Decreases	Ending Balance 9/30/10
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 4,837,535	\$ 38,000	\$ 38,000	\$ 4,837,535
Construction in progress	5,552,416	200,076	5,692,011	60,481
Total capital assets, not being depreciated	\$ 10,389,951	\$ 238,076	\$ 5,730,011	\$ 4,898,016
Capital assets being depreciated				
Buildings	\$ 11,652,375	\$ 204,597	\$ 1,700	\$11,855,272
Improvements and infrastructure	28,121,887	5,770,546	-	33,892,433
Equipment	5,239,490	161,374	200,239	5,200,625
Property under capital leases	412,688	171,590	171,039	413,239
Total capital assets being depreciated	45,426,440	6,308,107	372,978	51,361,569
Less accumulated depreciation for:				
Buildings	(4,059,195)	(276,059)	-	(4,335,254)
Improvements and infrastructure	(17,478,869)	(1,211,230)	-	(18,690,099)
Equipment	(3,985,072)	(323,383)	200,239	(4,108,216)
Property under capital leases	(121,383)	(35,987)	102,624	(54,746)
Total accumulated depreciation	(25,644,519)	(1,846,659)	302,863	(27,188,315)
Total capital assets, being depreciated, net	\$ 19,781,921	\$ 4,461,448	\$ 70,115	\$ 24,173,254
Governmental activities capital assets, net	\$ 30,171,872	\$ 4,699,524	\$ 5,800,126	\$ 29,071,270

Notes to Financial Statements

NOTE 5 – CAPITAL ASSETS (Continued)**Business-Type Activities:**

Capital assets, not being depreciated:				
Land	\$ 510,959	\$ 62,086	\$ -	\$ 573,045
Capital assets being depreciated				
Buildings	\$ 2,257,456	\$ 6,350	\$ 6,050	\$ 2,257,756
Equipment	-	70,929	-	70,929
Property under capital lease	-	292,000	-	292,000
Total capital assets being depreciated	2,257,456	369,279	6,050	2,620,685
Less accumulated depreciation for:				
Buildings	(49,509)	(49,532)	-	(99,041)
Equipment	-	(2,142)	-	(2,142)
Property under capital lease	-	(9,729)	-	(9,729)
Total accumulated depreciation	(49,509)	(61,403)	-	(110,912)
Total capital assets, being depreciated, net	\$ 2,207,947	\$ 307,876	\$ 6,050	\$ 2,509,773
Business-type activities capital assets, net	\$ 2,718,906	\$ 369,962	\$ 6,050	\$ 3,082,818

Net donated governmental capital assets during the year consisted of vehicles, totaling \$59,664.

Construction in progress at September 30, 2010 is comprised of amounts relating to two ongoing projects: airport expansion and downtown streetscapes. Each of these projects will be completed in fiscal year 2011 and estimated remaining costs to complete are not anticipated to be significant.

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

Governmental Activities

General government	\$ 1,257,527
Vehicle maintenance	4,401
Police department	92,676
Information technology	19,207
Fire department	118,400
Airport	2,707
Sanitation department	46,357
Street department	56,232
Leisure services	158,031
Judicial	2,249
Economic development	60,658

Notes to Financial Statements

NOTE 5 – CAPITAL ASSETS (Continued)

Engineering/inspections		3,464
Ozark Technology Center		24,750
Total depreciation expense – Governmental Activities	\$	1,846,659
Business-Type Activities		
Emergency Medical Services	\$	11,871
Ozark Square Shopping Center		49,532
Total depreciation expense – Business-Type Activities	\$	61,403

NOTE 6 – DEFERRED REVENUE

Governmental Activities:	General Fund	Special Ad Valorem I	Special Ad Valorem II	Department of Justice	Total
Property Taxes – Property taxes are levied by the County Commission in February of each year based on property on record as of the preceding October 1. The enforceable legal claim exists as of October 1 preceding the February meeting of the County Commission. The actual billing and collection of these taxes will occur subsequent to year-end.	\$ 637,774	\$ 637,774	\$ 637,774	\$ -	\$ 1,913,322
Grant Revenues – Grant revenues received from the Department of Justice for the purchase of bullet proof vests.	-	-	-	1,917	1,917
	\$ 637,774	\$ 637,774	\$ 637,774	\$ 1,917	\$ 1,915,239

Notes to Financial Statements

NOTE 7 – LONG-TERM DEBT

Changes in long-term debt for the year ended September 30, 2010 was as follows:

	Beginning Balance 9/30/09	Additions	Reductions	Ending Balance 9/30/10	Due Within One Year
Governmental Activities					
Capital leases	\$ 256,976	\$ 171,590	\$ 108,759	\$ 319,807	\$ 86,405
Compensated absences	376,325	-	6,937	369,388	-
Bonds payable	6,055,000	-	245,000	5,810,000	300,000
Unamortized loss on debt refunding	(30,612)	3,710	-	(26,902)	(3,710)
Unamortized issue costs	(116,834)	9,330	-	(107,504)	(9,330)
Unamortized discount	(47,559)	3,198	-	(44,361)	(3,198)
Other postemployment benefits	353,995	443,150	104,171	692,974	-
Governmental activity long-term liabilities	\$6,847,291	\$ 630,978	\$ 464,867	\$7,013,402	\$ 370,167
Business-Type Activities					
Notes payable—lines of credit	\$ 93,415	\$ 231,577	\$ 26,211	\$ 298,781	\$ 53,332
Compensated absences	-	1,347	-	1,347	-
Capital lease	-	292,000	4,477	287,523	54,712
Other postemployment benefits	-	3,192	-	3,192	-
Business-type activity long-term liabilities	\$ 93,415	\$ 528,116	\$ 30,688	\$ 590,843	\$ 108,044

Governmental activities, claims, obligations, and compensated absences are generally liquidated by the general fund. Long-term debt payable at September 30, 2010 is composed of the following issues:

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

	Principal Balance
\$4,150,000 General Obligation Warrants, Series 2002, dated February 1, 2002, payable in annual installments from 2003 through 2026, interest rates range from 4.15 to 5 percent.	\$ 3,975,000
\$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.	1,835,000
	\$ 5,810,000

Notes to Financial Statements

NOTE 7 – LONG-TERM DEBT (Continued)

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

The Series 2002 bonds are reported net of issuance costs and original issue discount. Issuance costs of \$94,661 are being amortized over the life of the bonds and are included in amortization expense on the statement of activities. Amortization expense related to the Series 2002 bonds for the year ended September 30, 2010 is \$3,786. Remaining issuance costs to be deferred to future periods is \$69,405. Original issue discount in the amount of \$55,339 is also being amortized over the life of the bonds and is reported as part of interest expense. The total amount expensed related to the Series 2002 bonds for the year ended September 30, 2010 is \$2,214. Remaining original issue discount to be deferred to future periods is \$40,595.

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, 2010 is \$3,710 and is reported as part of interest expense. The balance of deferred refunding cost at September 30, 2010 is \$26,902.

The Series 2004 bonds are reported net of issuance costs and original issue discount. Issuance costs of \$77,561 are being amortized over the life of the bonds and are included in amortization expense on the statement of activities. Amortization expense related to the Series 2004 bonds for the year ended September 30, 2010 is \$5,544. Remaining issuance costs to be deferred to future periods is \$38,099. 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, 2010 is \$984. Remaining original issue discount to be deferred to future periods is \$3,766.

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

Year Ending September 30,	Principal	Interest	Total
2011	\$ 300,000	\$ 255,953	\$ 555,953
2012	310,000	245,385	555,385
2013	320,000	233,904	553,904
2014	330,000	221,569	551,569
2015	345,000	208,454	553,454
Thereafter	4,205,000	1,192,525	5,397,525
	\$ 5,810,000	\$ 2,357,790	\$ 8,167,790

Notes to Financial Statements

NOTE 7 – LONG-TERM DEBT (Continued)

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

Asset	Amount
Automated garbage truck - 2008	\$ 199,100
Automated garbage truck - 2011	171,590
Commercial tractor mower - 2009	42,539
Ambulances and SUV – EMS	292,000
Total equipment under capital lease	705,229
Accumulated depreciation	64,475
Total equipment under capital lease, net	\$ 640,754

The following is a schedule of the future minimum lease payments under the capital leases and the present value of the net minimum lease payments at September 30, 2010:

Year Ending September 30,	Amount
2011	\$ 141,117
2012	139,689
2013	135,296
2014	103,335
2015	87,893
Total minimum lease payments	607,330
Less: amount representing interest	(47,604)
Present value of future minimum lease payments	\$ 559,726

The interest rates range from 3.35 to 6.99 percent.

Notes to Financial Statements

NOTE 7 – LONG-TERM DEBT (Continued)

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

	Principal Balance at 9/30/10
\$340,000 Note payable general obligation warrant to fund the start up of the EMS division, including the purchase of ambulances. The City Council approved the terms and conditions of the line of credit at a taxable interest rate of 5.5% on August 3, 2010. The City is responsible for monthly interest payments while draws are being made and will convert the line of credit to a 5-year bank loan within eighteen months.	\$ 135,630

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

	Principal Balance at 9/30/10
\$200,000 Note payable to repair roof and other ancillary infrastructure at the City owned Ozark Square Shopping Center and to purchase the Mossy Oak Trailer Park. The City Council approved the line of credit to Commercial Bank at an interest rate of 2.24% on June 16, 2009. The City is responsible for monthly interest on the line of credit while draws are being made and began making principal payments during 2010. Upon completion of the renovations, the line of credit will be converted to a 3-year bank loan.	\$ 163,151

NOTE 8 – RISK MANAGEMENT AND LITIGATION

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

NOTE 9 – CONTINGENT LIABILITIES

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

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

Notes to Financial Statements**NOTE 9 – CONTINGENT LIABILITIES (Continued)**

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

NOTE 10 – DEFERRED COMPENSATION PLAN

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

NOTE 11 – RETIREMENT PLAN

The City of Ozark, Alabama contributes to the Employees' Retirement System of Alabama, an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for the various state agencies and departments. Substantially all employees are members of the Employees' Retirement System of Alabama. Membership is mandatory for covered or eligible employees of the City of Ozark, Alabama. Benefits vest after 10 years of creditable service. Vested employees may retire with full benefits at age 60 or after 25 years of service.

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

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

Notes to Financial Statements

NOTE 11 – RETIREMENT PLAN (Continued)

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

The Retirement Systems of Alabama issues a publicly available financial report that includes financial statements and required supplementary information for the Employees' Retirement System of Alabama. That report may be obtained by writing to The Retirement Systems of Alabama, 135 South Union Street, Montgomery, Alabama 36130-2150.

Actuarial Valuation as of September 30, 2009

Summary of Employer Census Data

Number of active members		168
Annual compensation		
	\$	5,208,190
Number of retired members and beneficiaries		40
Annual retirement allowances		
	\$	574,532

Employer Contribution Rates

Normal cost		5.05%
Accrued liability		3.39
Pre-retirement death benefit		0.15
Administrative expense		0.18
<hr/>		
Total		<u>8.77%</u>
<hr/>		
5% Employer contribution factor		1.754
6% Employer contribution factor		1.462

Comments on Employer Contribution Rates

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

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

Notes to Financial Statements

NOTE 11 – RETIREMENT PLAN (Continued)

Accounting Information

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)*	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
9/30/99	\$ 6,303,008	\$ 5,270,797	\$(1,032,211)	119.58%	\$ 3,674,408	(28.1%)
9/30/00	6,871,760	5,963,379	(908,381)	115.23%	3,793,018	(23.9%)
9/30/01	7,295,141	6,846,577	(448,564)	106.55%	3,508,186	(12.8%)
9/30/02	7,562,372	7,742,115	179,743	97.68%	3,733,317	4.8%
9/30/03	8,031,043	8,521,506	490,463	94.24%	3,865,316	12.7%
9/30/04	8,544,419	9,070,928	526,509	94.20%	4,092,428	12.9%
9/30/05	9,092,559	9,957,488	864,929	91.31%	4,138,881	20.9%
9/30/06	9,832,436	11,431,416	1,598,980	86.01%	4,208,021	38.0%
9/30/07	10,600,667	12,268,892	1,668,225	86.40%	4,455,577	37.4%
9/30/08	10,912,325	13,068,281	2,155,956	83.50%	5,743,087	37.5%
9/30/09	11,037,418	14,347,749	3,310,331	76.93%	5,208,190	63.6%

Valuation date	9/30/09
Actuarial cost methods	Entry age
Amortization method	Level percent open
Remaining amortization period	30
Asset valuation method	5- year smoothed market
Actuarial assumptions:	
Investment rate of return	8.00%
Projected salary increases	4.61 – 7.75%
Includes inflation at	4.50%
Cost of living adjustments	none

Trend Information

Fiscal Year Ending	Annual Pension Cost (Apc)	Percentage of Apc Contributed	Net Pension Obligation
9/30/99	\$ 151,444	100%	\$ -0-
9/30/00	154,628	100%	-0-
9/30/01	155,270	100%	-0-
9/30/02	161,456	100%	-0-
9/30/03	155,321	100%	-0-
9/30/04	199,363	100%	-0-
9/30/05	246,183	100%	-0-
9/30/06	255,924	100%	-0-
9/30/07	265,553	100%	-0-
9/30/08	330,240	100%	-0-
9/30/09	417,460	100%	-0-

Notes to Financial Statements

NOTE 12 – POSTEMPLOYMENT HEALTH CARE BENEFITS

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

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

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

Actuarial Valuation as of September 30, 2007Summary of Employer Census Data

Number of active members		156
Annual compensation	\$	4,266,249
Number of retired members and beneficiaries		18
Annual retirement allowances	\$	446,342

Employer Contribution Rates

Normal cost	6.63%
Accrued liability	3.83%
Total	10.46%

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

Notes to Financial Statements

NOTE 12 – POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

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.

<u>Description</u>	<u>Amount</u>
Normal cost (service cost for one year)	\$ 282,962
Amortization of unfunded actuarial accrued liability	163,380
Annual required contribution	446,342
Plus interest on net OPEB obligation	14,000
Less net OPEB obligation amortization	(30,000)
Annual OPEB cost	430,342
Contribution toward the OPEB cost in fiscal year 2010	(104,171)
Increase in Net OPEB obligation	326,171
Net OPEB obligation, beginning of year	353,995
Net OPEB obligation, end of year	\$ 680,166

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, 2010 is as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
Beginning Balance, 10/1/2008	\$ -	-	\$ -
9/30/2009	446,432	20.69%	353,995
9/30/2010	430,342	24.20%	680,166

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.

Notes to Financial Statements

NOTE 12 – POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

The City's initial OPEB actuarial valuation using information as of September 30, 2007 employed the projected unit credit actuarial cost method to estimate the unfunded actuarial accrued liability as of September 30, 2010, and to estimate the City's 2010 annual required contribution. Although the OPEB liability is currently unfunded, the actuarial assumption included a 4% rate of return on invested assets and a 4% interest rate. The actuarial assumptions also included a medical cost trend of 11% initially for the 2007 fiscal year reduced by 1 percent per year to 2011 and reduced by one-half a percent to an ultimate rate of 5% after nine years. The unfunded actuarial accrued liability is being amortized as a level percent of projected payrolls on an open basis. The remaining amortization period at September 30, 2010, was 30 years.

NOTE 13 – INTERFUND BALANCES AND TRANSFERS

Interfund balances at September 30, 2010 consist of the following, all of which expect to be repaid within one year:

	Due From	Due To
General fund	\$ 54,414	\$ 40,494
Nonmajor governmental funds	109,258	128,997
Enterprise funds	39,412	33,593
Total	\$ 203,084	\$ 203,084

Transfers to/from other funds at September 30, 2010 consist of the following:

	Transfers In	Transfers Out	Net
General fund	\$ 1,875,922	\$ (2,091,318)	\$ (215,396)
Nonmajor governmental funds	778,127	(562,731)	215,396
	\$ 2,654,049	\$ (2,654,049)	\$ -

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

NOTE 14 – RELATED PARTY TRANSACTIONS

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

Notes to Financial Statements

NOTE 14 – RELATED PARTY TRANSACTIONS (Continued)

On November 22, 2005, the City and the Utilities Board entered into a formal agreement in which the Utilities Board reimburses the City for use of a portion of the Municipal Complex to be applied to the 2002 Bond Issue. The Utilities Board agreed to be responsible for 18% of the bonded indebtedness created by the City to finance the construction of the Municipal Complex. Each party is designated certain areas of exclusive use, as well as areas of common use. Each party is responsible for the repair and maintenance of those certain areas assigned for exclusive use to each party. Repair and maintenance for the roof or exterior walls is to be divided 82% to the City and 18% to the Utilities, the same as the Bond Issue.

Included in receivables described in Note 4 is a note receivable due from the Utilities Board of the City of Ozark. The note is due in monthly installments through February 2026 with interest ranging from 3.35% to 5%. During 2010, the City recorded total payments from the Utilities Board of \$33,929, which includes \$6,863 principal and \$27,066 interest.

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

NOTE 15 – PRIOR PERIOD ADJUSTMENT

The accompanying financial statements have been restated to correct an error in the omission of deferred revenues for grant revenues received during 2010. The beginning net assets have been restated to reflect the deferral. The beginning net assets on the Statement of Activities were reduced \$48,714.

NOTE 16 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through January 14, 2011, the date of these financial statements and two items were noted for disclosure.

The City Council on August 3, 2010, authorized Mayor Blackwell to enter into an intent to sell the City's cell tower located at 407 Peacock Parkway and proceed with negotiations with K2 Towers, LLC. On December 30, 2010, the City sold the cell tower for \$900,000 less settlement costs of \$12,042. The City retained ownership of the land that the tower sits on, the white block building that houses the city communications equipment, and has a long term lease with K2 Towers that commenced on December 30, 2010 and expires on December 29, 2050. The agreement contains a provision that the City would receive 20% of annual rent for any new leases added to the cell tower by K2 Towers after the sale.

The City Council on November 16, 2010, approved Frazier Lanier Company to prepare documents for the refunding of the General Obligation Warrants, Series 2002 before the March 1, 2011 call date. The outstanding balance of the Series 2002 bonds payable is \$3,975,000 at September 30, 2010. The projected net value savings on the refunding issue is \$224,297 and the present value savings is 5.64%. The industry standard for the present value savings for a refunding issue is 3% and the projection presented to the City Council on November 16, 2010, is well above the standard.

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)*	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
9/30/07	\$ -0-	\$ 5,258,930	\$ 5,258,930	0.00%	\$ 4,266,249	123.27%

COMBINING AND INDIVIDUAL FUND STATEMENTS

City of Ozark
Combining Balance Sheet
Nonmajor Governmental Funds
September 30, 2010

	Street	Four Cent Gas Tax	UDAG
Assets			
Cash and cash equivalents	\$ 1,509	\$ 27,543	\$ 10,200
Receivables	-	-	-
Due from other funds	101,361	-	-
Restricted cash and cash equivalents	-	-	-
Total assets	\$ 102,870	\$ 27,543	\$ 10,200
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ -	\$ -	\$ -
Due to other funds	-	-	-
Deferred revenues	-	-	-
Fund balances			
Reserved for debt service	-	-	-
Unreserved	102,870	27,543	10,200
Total liabilities and fund balances	\$ 102,870	\$ 27,543	\$ 10,200

Debt Service Fund	FEMA	Wiregrass Violent Crime
\$ -	\$ 13,478	\$ 4,578
-	9	47,798
-	-	-
210,254	-	-
<hr/>		
\$ 210,254	\$ 13,487	\$ 52,376
<hr/>		
\$ -	\$ -	\$ 35,015
-	7,045	13,447
-	-	-
210,254	-	-
-	6,442	3,914
<hr/>		
\$ 210,254	\$ 13,487	\$ 52,376
<hr/>		

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City of Ozark
Combining Balance Sheet
Nonmajor Governmental Funds (Continued)
September 30, 2010

	Dept of Justice	Drug Forfeiture	CDBG Economic Development
Assets			
Cash and cash equivalents	\$ 7,330	\$ 15,277	\$ 44
Receivables	-	-	-
Due from other funds	88	664	-
Restricted cash and cash equivalents	-	-	-
Total assets	\$ 7,418	\$ 15,941	\$ 44
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ -	\$ -	\$ -
Due to other funds	-	-	44
Deferred revenues	1,917	-	-
Fund balances			
Reserved for debt service	-	-	-
Unreserved	5,501	15,941	-
Total liabilities and fund balances	\$ 7,418	\$ 15,941	\$ 44

CDBG	Alabama Trust Fund Improvements	Corrections Fund	Total Nonmajor Governmental Funds
\$ 2,432	\$ 43,945	\$ 10,230	\$ 136,566
112,938	-	-	160,745
44	-	7,101	109,258
-	-	-	210,254
<u>\$ 115,414</u>	<u>\$ 43,945</u>	<u>\$ 17,331</u>	<u>\$ 616,823</u>
\$ -	\$ -	\$ -	\$ 35,016
101,361	-	7,101	128,997
-	-	-	1,917
-	-	-	210,254
14,053	43,945	10,230	240,639
<u>\$ 115,414</u>	<u>\$ 43,945</u>	<u>\$ 17,331</u>	<u>\$ 616,823</u>

City of Ozark

**Combining Statement of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended September 30, 2010**

	Street	Four Cent Gas Tax
Revenues		
Taxes	\$ 109,553	\$ 63,326
Intergovernmental	-	-
Investment Earnings	55	8
Miscellaneous	-	-
Total revenues	109,608	63,334
Expenditures		
General government	-	-
Police department	-	-
Street	25,000	62,625
Judicial	-	-
Debt Service	-	-
Principal	-	-
Interest	-	-
Dues, fees and issuance costs	-	-
Capital outlay	-	-
Total expenditures	25,000	62,625
Excess (deficiency) of revenues over expenditures	84,608	709
Other Financing Sources (Uses)		
Proceeds from sale of capital assets	-	-
Loss recoveries	-	-
Transfers in (out)	(15,760)	-
Total other financing sources (uses)	(15,760)	-
Excess revenues and other sources over (under) expenditures and other (uses)	68,848	709
Fund Balances - beginning	34,022	26,834
Fund Balances - ending	\$ 102,870	\$ 27,543

UDAG	Debt Service Fund	FEMA	Wiregrass Violent Crime
\$ -	\$ -	\$ -	\$ -
-	-	141,806	286,206
-	15	-	-
6,600	2,780	-	-
6,600	2,795	141,806	286,206
14	-	-	-
-	-	-	194,008
-	-	50,463	-
-	-	-	-
-	353,759	-	-
-	274,281	-	-
-	2,490	-	-
-	-	-	-
14	630,530	50,463	194,008
6,586	(627,735)	91,343	92,198
-	-	-	-
-	-	-	-
-	651,095	(91,343)	(92,198)
-	651,095	(91,343)	(92,198)
6,586	23,360	-	-
3,614	186,894	6,442	3,914
\$ 10,200	\$ 210,254	\$ 6,442	\$ 3,914

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City of Ozark
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances (Continued)
Nonmajor Governmental Funds
For the Year Ended September 30, 2010

	Dept of Justice	Drug Forfeiture	CDBG Economic Development
Revenues			
Taxes	\$ -	\$ -	\$ -
Intergovernmental	20,068	2,912	-
Investment earnings	-	-	-
Miscellaneous	-	-	-
Total revenues	20,068	2,912	-
Expenditures			
General government	-	-	-
Police department	20,068	7,037	-
Street	-	-	-
Judicial	-	-	-
Debt service			
Principal	-	-	-
Interest	-	-	-
Dues, fees and issuance costs	-	-	-
Capital outlay	-	39,012	-
Total expenditures	20,068	46,049	-
Excess (deficiency) of revenues over expenditures	-	(43,137)	-
Other Financing Sources (Uses)			
Proceeds from sale of capital assets	-	8,681	-
Loss recoveries	-	7,050	-
Transfers in (out)	-	-	-
(uses)	-	15,731	-
over (under) expenditures and other (uses)	-	(27,406)	-
Fund Balances - beginning	5,501	43,347	-
Fund Balances - ending	\$ 5,501	\$ 15,941	\$ -

CDBG	Alabama Trust Fund Improvements	Corrections Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ 172,879
112,938	101,435	-	665,365
-	342	139	559
-	-	-	9,380
112,938	101,777	139	848,183
123,045	-	-	123,059
-	-	-	221,113
-	-	-	138,088
-	-	1,680	1,680
-	-	-	353,759
-	-	-	274,281
-	-	-	2,490
-	-	3,600	42,612
123,045	-	5,280	1,157,082
(10,107)	101,777	(5,141)	(308,899)
-	-	-	8,681
-	-	-	7,050
16,108	(179,190)	(73,317)	215,395
16,108	(179,190)	(73,317)	231,126
6,001	(77,413)	(78,458)	(77,773)
8,052	121,358	88,688	528,666
\$ 14,053	\$ 43,945	\$ 10,230	\$ 450,893

SUPPLEMENTAL INFORMATION

City of Ozark
Schedules of Bond Amortization Requirements
September 30, 2010
(Unaudited)

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

Paying Agent: Bank of New York

Year Ending	Interest Rate	Principal	Interest	Total
9/30/11	4.15%	\$ 70,000	\$ 193,800	\$ 263,800
9/30/12	4.15%	75,000	190,791	265,791
9/30/13	4.70%	75,000	187,472	262,472
9/30/14	4.70%	85,000	183,712	268,712
9/30/15	4.70%	90,000	179,600	269,600
9/30/16	4.70%	95,000	175,252	270,252
9/30/17	4.70%	100,000	170,670	270,670
9/30/18	4.80%	305,000	161,000	466,000
9/30/19	4.90%	320,000	145,840	465,840
9/30/20	5.00%	340,000	129,500	469,500
9/30/21	5.00%	355,000	112,125	467,125
9/30/22	5.00%	375,000	93,875	468,875
9/30/23	5.00%	390,000	74,750	464,750
9/30/24	5.00%	410,000	54,750	464,750
9/30/25	5.00%	435,000	33,625	468,625
9/30/26	5.00%	455,000	11,375	466,375
Total		\$ 3,975,000	\$ 2,098,137	\$ 6,073,137

\$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
9/30/11	3.15%	\$ 230,000	\$ 65,775	\$ 295,775
9/30/12	3.35%	235,000	58,530	293,530
9/30/13	3.45%	245,000	50,658	295,658
9/30/14	3.55%	245,000	42,205	287,205
9/30/15	3.65%	255,000	33,506	288,506
9/30/16	3.75%	265,000	24,200	289,200
9/30/17	3.95%	275,000	14,262	289,262
9/30/18	4.00%	85,000	3,400	88,400
Total		\$ 1,835,000	\$ 292,536	\$ 2,127,536

City of Ozark
Schedule of Expenditures of Federal Awards
For The Year Ended September 30, 2010

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA #	Pass-through Grantor's Number	Expenditures
U.S. Department of Agriculture			
Pass-through Alabama Department of Education Summer Food Service Program for Children	10.559	AF5-K001	\$ 22,136
U.S. Department of Agriculture Natural Resources Conservation Service			
Federal Direct	10.923	69-4101-10-12	20,972
U.S. Department of Health and Human Services			
Pass-through Southern Alabama Regional Council on Aging			
Special Programs for the Aging-Title III Part B	93.044	N/A	7,920
Special Programs for the Aging-Title III Part C	93.045	N/A	3,240
Total U.S. Department of Health and Human Services			11,160
U.S. Department of Housing and Urban Development			
Pass-through Alabama Department of Economic and Community Affairs Community Development Block Grant	14.228	LR-CM-CP-09-028	112,938
U.S. Department of Homeland Security			
Pass-through Alabama Emergency Management Agency			
FEMA – Alabama FEMA	97.036	FEMA-1835-DR-AL	55,076
FEMA – Alabama FEMA	97.036	FEMA-1870-DR-AL	86,730
Total U.S. Department of Homeland Security			141,806
U.S. Department of Justice			
ARRA-Edward Byrne Memorial Justice Assistance Grant – Local Solicitation	16.804	2009-SB-B9-2274	1,268
Edward Byrne Memorial Justice Assistance Grant – Local Solicitation	16.738	09-DJ-BX-1073	18,800
Pass-through Alabama Department of Economic and Community Affairs ARRA-Edward Byrne Memorial Justice Assistance Grant	16.803	09-DR-01-023	286,206
Total U.S. Department of Justice			306,274

City of Ozark
Schedule of Expenditures of Federal Awards
For The Year Ended September 30, 2010 (Continued)

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA #	Pass-through Grantor's Number	Expenditures
U.S. Department of Transportation			
Pass-through Alabama Department of Transportation			
Airport Improvement Program	20.106	3-01-056-008-2007	819
Airport Improvement Program	20.106	3-01-056-0010-2009	129,254
Airport Improvement Program	20.106	3-01-056-0011-2010	25,916
ARRA- Highway Planning and Construction	20.205	STMTE- TE09(919)S1	17,001
Total U.S. Department of Transportation			172,990
Total Expenditures of Federal Awards			\$ 788,276

City of Ozark
Notes to Schedule of Expenditures of Federal Awards
For The Year Ended September 30, 2010

NOTE 1 – BASIS OF PRESENTATION

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

NOTE 2 – ENTITY DEFINITION

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

NOTE 3 – ALLOCATION OF INDIRECT COSTS

The City has no indirect cost allocation plan for grants.

COMPLIANCE SECTION

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

Honorable Mayor and Members of
the City Council
Ozark, Alabama

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Ozark, Alabama (the "City") as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 14, 2011. Our report disclosed that the financial statements include only the financial activities of the primary government and that the financial activities of other component units that form the reporting entity are not included. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in **Government Auditing Standards** issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting items 10-001 and 10-002. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under **Government Auditing Standards** and which are described in the accompanying schedule of findings and questioned costs as items 10-003 and 10-004.

We noted certain other matters that we reported to the management of the City in a separate letter dated January 14, 2011.

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

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

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

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

Certified Public Accountants

January 14, 2011

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

Honorable Mayor and Members of
the City Council
Ozark, Alabama

Compliance

We have audited the City of Ozark, Alabama's (the "City") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2010. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit. Our audit report disclosed that the financial statements include only the financial activities of the primary government and that the financial activities of other component units that form the reporting entity are not included.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 10-003 and 10-004.

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major

federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 10-003 and 10-004. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

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

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

Certified Public Accountants

January 14, 2011

City of Ozark
Schedule of Findings and Questioned Costs
For The Year Ended September 30, 2010

Section I – Summary of Auditors' Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

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

Type of auditor's report issued on compliance for major programs: Unqualified

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
16.804	ARRA-Edward Byrne Memorial Justice Assistance Grant-Local Solicitation (USDOJ)
16.803	ARRA-Edward Byrne Memorial Justice Assistance Grant-Local Solicitation (USDOJ)
20.205	ARRA-Highway Planning and Construction (ALDOT)
20.106	Airport Improvements - Federal Aviation Administration (ALDOT)

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

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

Section II – Financial Statements Findings

10-001 Accounting Policies and Procedures Manual

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

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

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

City of Ozark
Schedule of Findings and Questioned Costs
For The Year Ended September 30, 2010

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

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

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

Views of Responsible Officials and Planned Corrective Actions – The City's finance staff have started developing the City's Accounting Policies and Procedures Manual. Staff will be obtaining copies of other Alabama municipalities' accounting policies and procedures manuals to aid in the development of policy recommendations that could be implemented by the City. The timeline to issue a draft for the Mayor and City Clerk's review and comments is by the end of December 2011.

10-002 Grant Administration

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

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

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

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

City of Ozark
Schedule of Findings and Questioned Costs
For The Year Ended September 30, 2010

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

Views of Responsible Officials and Planned Corrective Actions – The City's finance staff will be developing policies for grant administration that will be incorporated in the Accounting Policies and Procedures Manual. The financial officer developed a master listing of federal grants during FY2010, which was used to determine which federal grants were reported on the Schedule of Expenditures of Federal Awards. This listing will be further maintained and enhanced during FY2011.

Section III – Federal Award Findings and Questioned Costs

10-003 Procurement and Suspension and Debarment
CFDA 20.106 and 20.205

Project Nos. 3-01-056-0010-2009 and STMTE-TE09(919)S1
U.S. Department of Transportation

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

Criteria – The Federal Government updates the requirements of OMB Circular A-133 Compliance Supplement regarding procurement, suspension and debarment annually. The City should also review its policies annually to ensure compliance with OMB Circular A-133.

Cause – It has been several years since the City formally updated and approved its Personnel Handbook, which includes procurement policies and procedures.

Effect – The purposes of such documented procedures are to ensure that proper accounting principles are being applied, that similar transactions are treated consistently, and that procurement is in compliance with grant requirements. Updating and documenting procurement policies will aid in the training of new employees and assist management in monitoring the risks associated with grant compliance.

Questioned Costs – None.

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

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

City of Ozark
Schedule of Findings and Questioned Costs
For The Year Ended September 30, 2010

Views of Responsible Officials and Planned Corrective Actions – The City will set a firm date for updating the Personnel Handbook, which includes updating existing procurement policies and procedures.

10-004 Equipment and Real Property Management

CFDA 16.803

Grant No. 09-DR-01-023

U.S. Department of Justice

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

Criteria – A physical count of tangible property should be periodically taken, at least annually, and compared to the items carried on the detailed subsidiary records of property and equipment, and significant differences investigated.

Cause – The current policies and procedures over inventory control are not adequate to ensure compliance.

Effect – Failure to perform periodic inventories of tangible property could result in the misappropriation or unauthorized use of City property.

Questioned Costs – None.

Recommendation – We recommend the City implement periodic physical inventories of tangible property, including those purchased with grant funds. Physical inventory counts should be performed by individuals independent of the purchasing department and should include all property recorded in the detailed subsidiary records of property and equipment. Differences should be reported to the Accounting Department and resolved timely.

Views of Responsible Officials and Planned Corrective Actions – The City's finance staff will establish a procedure to perform an annual inventory of tangible personal property and reconcile the annual inventory counts to subsidiary records beginning during FY2011.