

City of Ozark

Financial Statements

For The Year Ended September 30, 2012

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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, the discretely presented component unit, 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, 2012, 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 did not audit the financial statements of the Ozark City Board of Education, which represents 100 percent of the assets, net assets, and revenues of the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Ozark City Board of Education, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of September 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund, Special Ad Valorem Fund I and Special Ad Valorem Fund II for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with **Government Auditing Standards**, we have also issued our report dated May 24, 2013 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with **Government Auditing Standards** and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedule of funding progress information on pages 3 through 12 and page 55 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 and the bond amortization requirements are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, **Audits of States, Local Governments, and Non-Profit Organizations**, and is not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates 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. The combining and individual nonmajor fund financial statements and bond amortization requirements have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

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

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

Certified Public Accountants

May 24, 2013

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, 2011, and ending September 30, 2012. We encourage readers to consider information presented here along with the City's financial statements, which follow this section.

The intent of the MD&A is to provide a brief, objective, and easily readable analysis of the City's financial performance for the year and its financial position at fiscal year-end September 30, 2012.

Financial Highlights

From the Government-Wide Financial Statements:

- The City's governmental and business-type activities net assets at September 30, 2012 were \$26,270,485. This represents a decrease of \$897,445 from September 30, 2011.
- Revenues at September 30, 2012 from governmental activities were \$14,875,008 and revenues from business-type activities were \$1,053,081, for a combined total of \$15,928,089. This is an overall decrease in revenues from fiscal year 2011 of \$1,622,954. The governmental activities revenues decreased \$1,378,469; approximately \$626,000 of the decrease came from a reduction in capital grants and contributions that funded the housing revitalizations related to the CDBG grant, the downtown canopies, the heating, ventilation and air conditioning modification at Eastgate Business Park and the Department of Justice technology grants for the police department in 2011. Approximately \$858,000 of the decrease is attributable to the sale of the communications tower during 2011. The business-type activities revenues decreased \$244,485, a function of two factors. First, the Emergency Medical Services (EMS) Division of the Fire Department expanded its service area to three cities in south Dale County, which caused an increase in charges for services. Also, an allowance for doubtful accounts on aged accounts receivable was estimated and recorded during FY2012, which offset the increase related to the expanded service area as the provision for bad debts is a reduction of transport revenue.

From the Fund Financial Statements:

- Revenues reported in the governmental funds were \$14,764,619 at September 30, 2012 and are \$518,792 less than governmental funds revenues of \$15,283,411 reported at September 30, 2011. Three revenue categories, taxes, licenses and permits, and intergovernmental, accounted for \$882,525 of the reduction and four revenue categories, charges for services, fines and forfeitures, and miscellaneous, accounted for \$363,733 of revenue increases. Expenditures reported in the governmental funds were \$15,144,018 at September 30, 2012 and \$15,460,496 at September 30, 2011. The net decrease of \$316,478 in expenditures was due in part to reductions in capital outlay expenditures.
- The General Fund reported a total fund balance of \$2,334,842 at September 30, 2012. That is 18.1 percent of total general fund expenditures of \$12,868,224 or 19.6 percent of its operating expenditures of \$11,925,443 (expenditures less capital outlay). The total general fund balance at September 30, 2011 was \$2,458,692, representing a decrease in the total general fund balance of \$123,850.
- On August 7, 2012, the City approved a capital line-of-credit for \$727,870. Total draws against the line-of-credit at September 30, 2012 were \$253,883. The proceeds were used to acquire a new vehicle maintenance facility and to acquire engineering services on the upcoming repairs to the Roy Parker Bridge in FY2013.

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 (business-type activities).

The governmental activities of the City include such functions as general government, education, police, fire, sanitation, street, and leisure services. The business-type activities of the City include the Ozark Square Shopping Center and Mossy Oak Trailer Park, as well as the EMS program. All of these activities are collectively referred to in the financial statements as those of the primary government.

As described in the notes to the financial statements, other entities' activities are included in this report because of the relationship of these legally separate entities to the City. Financial information of the Ozark City Board of Education is referred to in the financial statements as those of the discretely-presented component unit. This MD&A focuses on the primary government. The complete financial statements (including MD&A) of the discretely-presented component unit may be obtained from the Finance Department of the City.

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

Fund Financial Statements

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

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

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

The City maintains sixteen individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the General Fund, Special Ad Valorem I Fund and Special Ad Valorem II Fund that are considered to be major funds. Data from the other thirteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements in the other supplementary information section of this report.

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

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

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

In May 2010, the City approved the Fire Department implementing the EMS Division to provide ambulance services to the City's residents and to replace the current ambulance service provider. The EMS program transported 3,325 patients during the current fiscal year and the average gross charge per trip is \$658, the average net charge per trip is \$466, and the average cash collection per trip is \$261. The average cash collected per trip is 55.9 percent of the average net charge per trip. The numbers of patients transported by payment type for FY2012 are: Medicare - 1,739 or 52 percent of total; Medicaid - 428 or 13 percent of total; Insurance - 615 or 18.5 percent of total; and Self-Pay (without insurance) - 543 or 16.5 percent of total. During the current year, the City made principal payments totaling \$68,984 and paid off the EMS fund's general obligation operating line of credit.

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

Notes to Financial Statements

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

Government-Wide Financial Analysis

As noted earlier, net 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 \$23,845,739 for fiscal year 2012, as compared to \$24,538,100 in fiscal year 2011.

Net Assets, End of Year

	Governmental Activities		Business-type Activities		Primary Government Total	
<i>September 30,</i>	2012	2011	2012	2011	2012	2011
Assets						
Current and other assets	\$ 5,504,964	\$ 5,593,116	\$ 655,322	\$ 580,997	\$ 6,160,286	\$ 6,174,113
Capital assets	28,040,458	28,702,630	2,920,781	2,966,788	30,961,239	31,669,418
Total assets	33,545,422	34,295,746	3,576,103	3,547,785	37,121,525	37,843,531
Liabilities						
Long-term liabilities	6,992,658	7,065,787	262,149	416,475	7,254,807	7,482,262
Other liabilities	2,707,025	2,691,859	889,208	501,480	3,596,233	3,193,339
Total liabilities	9,699,683	9,757,646	1,151,357	917,955	10,851,040	10,675,601
Net Assets						
Invested in capital assets - net of debt	22,299,587	22,797,762	2,716,798	2,651,679	25,016,385	25,449,441
Restricted	463,513	505,188	-	-	463,513	505,188
Unrestricted	1,082,639	1,235,150	(292,052)	(21,849)	790,587	1,213,301
Total net assets	\$ 23,845,739	\$ 24,538,100	\$ 2,424,746	\$ 2,629,830	\$ 26,270,485	\$ 27,167,930

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

An additional portion of the City's net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the City's ongoing obligations. The City, at September 30, 2012, reported positive balances in governmental net assets.

As noted previously, the City's governmental activities net assets decreased \$692,361 and the business-type activities decreased \$205,084, for a total decrease in net assets during fiscal year 2012 of \$897,445.

	Governmental Activities		Business-type Activities		Primary Government Total	
<i>Years ended September 30,</i>	2012	2011	2012	2011	2012	2011
Program Revenues:						
Charges for services	\$ 5,372,147	\$ 5,042,964	\$ 1,047,196	\$ 1,282,201	\$ 6,419,343	\$ 6,325,165
Operating grants and contributions	236,756	274,038	-	-	236,756	274,038
Capital grants and contributions	578,339	1,204,757	-	-	578,339	1,204,757
General Revenues:						
Property taxes	689,318	687,333	-	-	689,318	687,333
Sales tax	6,123,339	6,225,220	-	-	6,123,339	6,225,220
Gasoline tax	377,947	418,642	-	-	377,947	418,642
Other taxes	910,218	836,688	-	-	910,218	836,688
Other	586,944	705,877	5,885	15,365	592,829	721,242
Special items:						
Gain on sale of communications tower	-	857,958	-	-	-	857,958
Total revenues	14,875,008	16,253,477	1,053,081	1,297,566	15,928,089	17,551,043
Functions/Program Expenses:						
General government	2,294,919	2,681,472	-	-	2,294,919	2,681,472
Police department	2,928,888	2,837,929	-	-	2,928,888	2,837,929
Fire department	2,533,955	2,452,458	1,170,771	1,191,557	3,704,726	3,644,015
Street	935,231	929,246	-	-	935,231	929,246
Sanitation	1,278,942	1,217,398	-	-	1,278,942	1,217,398
Leisure services	1,637,859	1,528,586	8,277	12,409	1,646,136	1,540,995
Engineering/inspections	129,960	120,348	-	-	129,960	120,348
Vehicle maintenance	184,173	170,838	-	-	184,173	170,838
Airport	17,748	21,288	-	-	17,748	21,288
Judicial	196,720	193,812	-	-	196,720	193,812
Appropriations	144,917	129,036	-	-	144,917	129,036
Education	2,159,092	2,168,415	-	-	2,159,092	2,168,415
Non-departmental	318,198	253,794	-	-	318,198	253,794
Economic development	289,006	246,060	70,230	57,606	359,236	303,666
Ozark technology center	103,937	119,237	-	-	103,937	119,237
Information technology	184,464	185,214	-	-	184,464	185,214
Interest and fiscal charges	199,121	277,703	8,887	22,959	208,008	300,662
Amortization	30,239	30,239	-	-	30,239	30,239
Total functions/program expenses	15,567,369	15,563,073	1,258,165	1,284,531	16,825,534	16,847,604
Increase (Decrease) in Net Assets	\$ (692,361)	\$ 690,404	\$ (205,084)	\$ 13,035	\$ (897,445)	\$ 703,439

Financial Analysis of the City's Funds

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

Governmental Funds

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

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

	Total Governmental Funds		
<u>September 30,</u>	2012	2011	Changes
Assets			
Cash and cash equivalents	\$ 1,111,659	\$ 677,164	\$ 434,495
Investments	-	750,000	(750,000)
Receivables	3,188,480	3,095,784	92,696
Due from other budgetary funds	895,735	569,414	326,321
Other assets	12,152	11,075	1,077
Restricted cash and cash equivalents	330,746	578,302	(247,556)
Total assets	\$ 5,538,772	\$ 5,681,739	\$ (142,967)
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 378,649	\$ 357,967	\$ 20,682
Due to other budgetary funds	233,811	288,624	(54,813)
Accrued compensation	98,085	93,379	4,706
Payroll deductions	28,270	25,270	3,000
Other accrued expenses	121,957	139,009	(17,052)
Deferred revenue	1,880,055	1,876,228	3,827
Total liabilities	2,740,827	2,780,477	(39,650)
Fund balances			
Nonspendable	1,406,166	553,516	852,650
Spendable			
Restricted	467,866	505,188	(37,322)
Unassigned	923,913	1,842,558	(918,645)
Total fund balances	2,797,945	2,901,262	(103,317)
Total liabilities and fund balances	\$ 5,538,772	\$ 5,681,739	\$ (142,967)

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned spendable fund balance of the General Fund is \$923,913, while the total fund balance was \$2,334,842. The net result of General Fund operations is a decrease in the General Fund's fund balance of \$123,850. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total expenditures. Unassigned fund balance represents 7.1 percent of total General Fund expenditures, while total fund balance represents 18.1 percent of that same amount. The recommended best practice target for unassigned fund balance should be no less than two months operating expenditures. Two months operating expenditures would be approximately \$2,144,703, the City is currently at \$923,913.

<i>Years ended September 30,</i>	Total Governmental Funds		
	2012	2011	Changes
Revenues			
Taxes	\$ 9,334,949	\$ 9,414,275	\$ (79,326)
Licenses and permits	1,620,722	1,797,582	(176,860)
Intergovernmental	912,545	1,539,083	(626,538)
Charges for services	1,799,764	1,458,049	341,715
Fine and forfeitures	838,516	801,980	36,536
Investment earnings	32,137	31,843	294
Miscellaneous	225,986	240,599	(14,613)
Total revenues	14,764,619	15,283,411	(518,792)
Expenditures			
General government	1,122,121	1,473,728	(351,607)
Police department	2,804,433	2,705,061	99,372
Fire department	2,378,180	2,287,908	90,272
Street	875,120	848,226	26,894
Sanitation	1,215,205	1,163,838	51,367
Leisure services	1,453,818	1,342,448	111,370
Engineering/inspections	125,285	116,408	8,877
Vehicle maintenance	178,576	164,958	13,618
Airport	15,042	18,582	(3,540)
Judicial	193,376	189,880	3,496
Appropriations	144,917	129,036	15,881
Nondepartmental	318,198	253,794	64,404
Economic development	215,614	181,070	34,544
Ozark technology center	78,497	93,176	(14,679)
Information technology	167,190	169,347	(2,157)
Education	2,159,092	2,168,415	(9,323)
Debt service:			
Principal	448,117	386,405	61,712
Interest, dues, and fees	199,121	312,706	(113,585)
Capitalized capital outlay	1,052,116	1,455,210	(403,094)
Total expenditures	15,144,018	15,460,196	(316,178)
Excess (Deficiency) of Revenues over Expenditures	(379,399)	(176,785)	(202,614)

Other Financing Sources (Uses)

Proceeds from bond refunding	-	4,425,000	(4,425,000)
Proceeds from the sale of capital assets and loss recoveries	22,199	959,220	(937,021)
Proceeds from bond anticipation notes	253,883	-	253,883
Bond refunding payments	-	(4,080,001)	4,080,001
Transfers in	1,095,735	6,062,793	(4,967,058)
Transfers out	(1,095,735)	(6,062,793)	4,967,058
Total other financing sources	276,082	1,304,219	(1,028,137)
Net change in fund balance	(103,317)	1,127,434	(1,230,751)
Fund balances – beginning	2,901,262	1,773,828	1,127,434
Fund balances – ending	\$ 2,797,945	\$ 2,901,262	\$ (103,317)

Revenues for FY 2012 from governmental funds were less than FY 2011 revenues by \$518,792. The majority of the decrease came from taxes (\$79,326); licenses and permits (\$176,860); and intergovernmental funding for operating and capital projects (\$626,538). Offsetting increases in revenue were in charges for services, fines and forfeitures, miscellaneous, and investment earnings.

General Fund Budgetary Highlights

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

General Fund revenues came in below budgeted amounts by \$527,208. Operating and/or capital reimbursement grant revenues follow expenditures and the revenue collections may extend beyond a single fiscal year.

General Fund operating expenditures were under amended projections by \$882,402. This reflects departments' efforts to reduce spending as a result of monthly budget reviews at staff meetings and when operating and/or capital grants expenditures on the grant extend beyond a single fiscal year and the unspent budget capacity will be re-budgeted in the next fiscal year.

Capital Assets and Long-Term Debt**Capital Assets**

The City's investment in capital assets for governmental activities as of September 30, 2012, totaled \$28,040,458 (net of accumulated depreciation). The City's investment in capital assets for business-type activities as of September 30, 2012 totaled \$2,920,781 (net of accumulated depreciation). This investment in capital assets includes land; improvements and infrastructure; buildings; equipment; and construction in progress. The total decrease of \$708,179 in the City's investment in capital assets (net of accumulated depreciation) for the current fiscal year was 2.2 percent less than last year. The majority of the decrease in governmental activities can be attributed to annual depreciation in excess of additions to capital assets.

	Capital Assets (net of depreciation)					
	Governmental Activities		Business-type Activities		Primary Government Total	
	9-30-12	9-30-11	9-30-12	9-30-11	9-30-12	9-30-11
Land	\$5,298,365	\$4,874,087	\$573,045	\$573,045	\$5,871,410	\$5,447,132
Construction in progress	114,734	10,298	-	-	114,734	10,298
Improvements/Infrastructure	13,827,030	14,830,893	-	-	13,827,030	14,830,893
Buildings	7,392,687	7,525,520	2,059,422	2,109,054	9,452,109	9,634,574
Equipment	1,155,193	1,145,728	100,912	60,787	1,256,105	1,206,515
Property under capital lease	252,449	316,104	187,402	223,902	439,851	540,006
Total	\$ 28,040,458	\$ 28,702,630	\$ 2,920,781	\$ 2,966,788	\$ 30,961,239	\$ 31,669,418

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

Long-Term Debt

The City entered into a line-of-credit agreement for \$727,870 on August 7, 2012. The City will make monthly interest payments only during the first year based on actual draws against the line-of-credit. At the end of FY2013, the line-of-credit will be converted to a three-year loan and principal and interest payments during the three years will be based on a ten-year loan. The City plans to convert the note within three years to a general obligation bond issue and has a reimbursement resolution that will allow the City to be reimbursed from the future general obligation bond issue. The City's total draws during FY2012 were \$253,883 and were used to acquire a new public works facility and to provide the match on a grant to renovate the Roy Parker Bridge.

	Long-term Debt					
	Governmental Activities		Business-type Activities		Primary Government Total	
	9-30-12	9-30-11	9-30-12	9-30-11	9-30-12	9-30-11
Capital leases	\$150,285	\$233,402	\$176,238	\$232,811	\$326,523	\$466,213
Notes payable	253,883	-	27,745	151,281	281,628	151,191
Compensated absences	243,319	318,070	5,389	2,468	248,708	320,538
Bonds payable, net	5,336,703	5,671,466	-	-	5,336,703	5,671,466
Other postemployment benefit obligation	1,008,468	842,849	52,777	29,915	1,061,245	872,764
Total	\$ 6,992,658	\$ 7,065,787	\$ 262,149	\$ 416,475	\$ 7,254,807	\$ 7,482,262

Additional information on the City's long-term debt can be found in Note 9, beginning on page 42 of this report.

Significant Economic Factors

The Mayor and City Council considered many factors when developing the fiscal year 2013 budget. A budget of \$14.3 million was adopted for the General Fund, \$4.9 million in Special Revenue Funds and \$1.7 million in Enterprise Funds on September 18, 2012 for fiscal year 2013.

Major factors considered in preparing the City's budget for the 2013 fiscal year were:

- The City reached a participation threshold of 80 percent with Blue Cross Blue Shield, which resulted in a reduction in group health insurance costs of approximately \$10 per month per employee. Estimated savings in health insurance premiums was approximately \$18,000.
- The 2013 budget included a cost of living adjustment of approximately 2.5 percent.
- The City projected revenues at the same level as actual collections in FY2012.
- Dale County unemployment rate for September 2012 was 7.4 percent and the rate for September 2011 was 8.5 percent.
- The City committed \$30,000 a year for three years to the Friends of Fort Rucker to assist the organization in preventing or mitigating any impact to Fort Rucker if there is a base realignment and closure reduction by 2015.

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, 2012

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Ozark City Board of Education
Assets				
Cash and cash equivalents	\$ 1,111,659	\$ 99,481	\$ 1,211,140	\$ 13,686,359
Investments	-	-	-	55,329
Receivables, net	3,188,481	350,549	3,539,030	1,220,948
Other assets	12,154	5,292	17,446	133,265
Due from other funds	861,924	200,000	1,061,924	-
Restricted cash and cash equivalents	330,746	-	330,746	-
Capital assets, net of depreciation	22,627,359	2,347,736	24,975,095	5,350,937
Land and other nondepreciable capital assets	5,413,099	573,045	5,986,144	15,450,802
Total assets	33,545,422	3,576,103	37,121,525	35,897,640
Liabilities				
Accounts payable	376,386	10,369	386,755	5,567
Accrued payroll and other accrued expenses	250,584	16,915	267,499	1,331,601
Due to other funds	200,000	861,924	1,061,924	-
Deferred revenue	1,880,055	-	1,880,055	-
Noncurrent liabilities				
Due within one year				
Notes payable	3,674	-	3,674	81,917
Amounts due under capital leases	76,798	58,498	135,296	-
Bonds payable	344,761	-	344,761	1,245,465
Due in more than one year				
Notes payable	250,209	27,745	277,954	440,754
Amounts due under capital leases	73,487	117,740	191,227	-
Bonds payable, net	4,991,942	-	4,991,942	22,495,600
Compensated absences	243,319	5,389	248,708	-
Other post-employment benefits obligation	1,008,468	52,777	1,061,245	-
Total liabilities	9,699,683	1,151,357	10,851,040	25,600,904
Net Assets				
Invested in capital assets, net of related debt	22,299,587	2,716,798	25,016,385	4,708,692
Restricted:				
Special revenue funds	463,103	-	463,103	-
General fund	410	-	410	-
Other governmental funds	-	-	-	3,165,095
Unrestricted (deficit)	1,082,639	(292,052)	790,587	2,422,949
Total net assets	\$ 23,845,739	\$ 2,424,746	\$ 26,270,485	\$ 10,296,736

See accompanying notes to the financial statements.

City of Ozark
Statement of Activities
For the Year Ended September 30, 2012

Functions/Programs	Expenses	Program	
		Charges for Services	Operating Grants and Contributions
Primary Government			
Governmental Activities:			
General government	\$ 2,294,919	\$ 2,033,002	\$ -
Police department	2,928,888	119,780	157,227
Fire department	2,533,955	219,577	-
Street	935,231	-	6,128
Sanitation	1,278,942	1,314,790	-
Leisure services	1,637,859	286,440	64,901
Engineering/inspections	129,960	-	-
Vehicle maintenance	184,173	-	-
Airport	17,748	19,922	-
Judicial	196,720	-	-
Appropriations	144,917	-	-
Non-departmental	318,198	-	-
Economic development	289,006	-	8,500
Ozark technology center	103,937	-	-
Information technology	184,464	-	-
Education	2,159,092	1,378,636	-
Interest	196,871	-	-
Dues and fees on long term debt	2,250	-	-
Amortization	30,239	-	-
Total governmental activities	15,567,369	5,372,147	236,756
Business-type Activities:			
Emergency medical services	1,178,351	927,975	-
Ozark square shopping center	79,814	119,221	-
Total business-type activities	1,258,165	1,047,196	-
Total primary government	\$ 16,825,534	\$ 6,419,343	\$ 236,756
Component Unit			
Ozark City Board of Education	\$ 21,308,840	\$ 1,917,317	\$ 15,555,820

See accompanying notes to financial statements.

		Net (Expense) Revenue and Changes in Net Assets				
Revenues		Primary Government			Component Unit	
Capital Grants and Contributions		Governmental Activities	Business- type Activities	Total	Ozark City Board of Education	
\$	156,658	\$ (105,259)	\$ -	\$ (105,259)	\$	-
	-	(2,651,881)	-	(2,651,881)		-
	-	(2,314,378)	-	(2,314,378)		-
	-	(929,103)	-	(929,103)		-
	-	35,848	-	35,848		-
	17,697	(1,268,821)	-	(1,268,821)		-
	-	(129,960)	-	(129,960)		-
	-	(184,173)	-	(184,173)		-
	403,984	406,158	-	406,158		-
	-	(196,720)	-	(196,720)		-
	-	(144,917)	-	(144,917)		-
	-	(318,198)	-	(318,198)		-
	-	(280,506)	-	(280,506)		-
	-	(103,937)	-	(103,937)		-
	-	(184,464)	-	(184,464)		-
	-	(780,456)	-	(780,456)		-
	-	(196,871)	-	(196,871)		-
	-	(2,250)	-	(2,250)		-
	-	(30,239)	-	(30,239)		-
	578,339	(9,380,127)	-	(9,380,127)		-
	-	-	(250,376)	(250,376)		-
	-	-	39,407	39,407		-
	-	-	(210,969)	(210,969)		-
\$	578,339	\$ (9,380,127)	\$ (210,969)	\$ (9,591,096)	\$	-
\$	820,028	\$ -	\$ -	\$ -	\$	(3,015,675)

-Continued-

City of Ozark
Statement of Activities (Continued)
For the Year Ended September 30, 2012

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

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Ozark City Board of Education
General Revenues				
Sales taxes	\$ 6,123,339	\$ -	\$ 6,123,339	\$ 2,052,707
Motor fuel taxes	377,947	-	377,947	-
Property taxes	689,318	-	689,318	2,238,616
Alcoholic beverage taxes	150,621	-	150,621	-
Lodging taxes	135,665	-	135,665	-
Tobacco taxes	254,445	-	254,445	-
Other taxes	369,487	-	369,487	9,689
Miscellaneous	190,921	5,858	196,779	460,745
Rental income	82,729	-	82,729	-
Franchise fees	281,157	-	281,157	-
Investment earnings	32,137	27	32,164	34,188
Total general revenues	8,687,766	5,885	8,693,651	4,795,945
Change in net assets	(692,361)	(205,084)	(897,445)	1,780,270
Net Assets - beginning	24,538,100	2,629,830	27,167,930	8,516,466
Net Assets - ending	\$ 23,845,739	\$ 2,424,746	\$ 26,270,485	\$ 10,296,736

See accompanying notes to financial statements.

**City of Ozark
Balance Sheet
Governmental Funds
September 30, 2012**

	General Fund	Special Ad Valorem I	Special Ad Valorem II
Assets			
Cash and cash equivalents	\$ 969,565	\$ 24	\$ 45
Receivables	1,883,360	642,391	642,391
Due from other funds	870,001	-	-
Prepays	7,021	-	-
Other assets	5,131	-	-
Restricted cash and cash equivalents	4,763	-	-
Total assets	\$ 3,739,841	\$ 642,415	\$ 642,436
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 304,523	\$ 21,816	\$ 21,816
Due to other funds	225,736	-	-
Accrued payroll	126,355	-	-
Other accrued expenses	121,957	-	-
Deferred revenue	626,428	620,575	620,575
Total liabilities	1,404,999	642,391	642,391
Fund balances			
Nonspendable	1,406,166	-	-
Spendable			
Restricted	4,763	24	45
Unassigned	923,913	-	-
Total fund balances	2,334,842	24	45
Total liabilities and fund balances	\$ 3,739,841	\$ 642,415	\$ 642,436

See accompanying notes to financial statements.

Other Governmental Funds	Total Governmental Funds
\$ 142,025	\$ 1,111,659
20,338	3,188,480
25,734	895,735
-	7,021
-	5,131
325,983	330,746
<hr/>	
\$ 514,080	\$ 5,538,772
<hr/>	

\$ 30,494	\$ 378,649
8,075	233,811
-	126,355
-	121,957
12,477	1,880,055
<hr/>	
51,046	2,740,827
<hr/>	
-	1,406,166
463,034	467,866
-	923,913
<hr/>	
463,034	2,797,945
<hr/>	
\$ 514,080	\$ 5,538,772
<hr/>	

City of Ozark
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Assets
September 30, 2012

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

Total fund balance - governmental funds	\$ 2,797,945
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Capital assets used in governmental activities are not current financial resources and therefore are not reported in the fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.	28,040,458
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Some liabilities are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets:

Capital leases payable	(150,285)
Bonds and notes payable, net	(5,590,592)
Accrued compensated absences	(243,319)
Accrued other post-employment benefits	(1,008,468)

Net Assets of Governmental Activities in the Statement of Net Assets	\$ 23,845,739
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City of Ozark

**Statement of Revenues, Expenditures and Changes in Fund
Balances - Governmental Funds
For the Year Ended September 30, 2012**

	General Fund	Special Ad Valorem I	Special Ad Valorem II
Revenues			
Taxes	\$ 7,784,098	\$ 689,318	\$ 689,318
Licenses and permits	1,620,722	-	-
Intergovernmental	631,155	-	-
Charges for services	1,799,764	-	-
Fines and forfeitures	838,516	-	-
Investment earnings	31,698	-	-
Miscellaneous	221,235	-	-
Total revenues	12,927,188	689,318	689,318
Expenditures			
General government	1,079,499	-	-
Ozark Board of Education	780,456	689,318	689,318
Vehicle maintenance	178,576	-	-
Police department	2,724,065	-	-
Information technology	167,190	-	-
Fire department	2,378,180	-	-
Airport	15,042	-	-
Sanitation	1,215,205	-	-
Street	874,865	-	-
Leisure services	1,453,818	-	-
Appropriations	130,000	-	-
Judicial	190,953	-	-
Economic development	215,614	-	-
Engineering/inspections	125,285	-	-
Ozark technology center	78,497	-	-
Non-departmental	318,198	-	-
Debt service			
Principal	-	-	-
Interest	-	-	-
Dues, fees and issuance costs	-	-	-
Capital outlay	942,781	-	-
Total expenditures	12,868,224	689,318	689,318
Excess (deficiency) of revenues over expenditures	58,964	-	-

See accompanying notes to financial statements.

Other Governmental Funds	Total Governmental Funds
\$ 172,215	\$ 9,334,949
-	1,620,722
281,390	912,545
-	1,799,764
-	838,516
439	32,137
4,751	225,986
458,795	14,764,619
42,622	1,122,121
-	2,159,092
-	178,576
80,368	2,804,433
-	167,190
-	2,378,180
-	15,042
-	1,215,205
255	875,120
-	1,453,818
14,917	144,917
2,423	193,376
-	215,614
-	125,285
-	78,497
-	318,198
448,117	448,117
196,871	196,871
2,250	2,250
109,335	1,052,116
897,158	15,144,018
(438,363)	(379,399)

-Continued-

City of Ozark

**Statement of Revenues, Expenditures and Changes in Fund
Balances - Governmental Funds (Continued)
For the Year Ended September 30, 2012**

	General Fund	Special Ad Valorem I	Special Ad Valorem II
Other Financing Sources (Uses)			
Transfers in (out), net	(458,896)	-	-
Proceeds from long term debt	253,883	-	-
Proceeds from sale of capital assets	1,178	-	-
Loss recoveries	21,021	-	-
Total other financing sources (uses)	(182,814)	-	-
Excess revenues and other sources over (under) expenditures and other (uses)	(123,850)	-	-
Fund Balances - beginning	2,458,692	24	45
Fund Balances - ending	\$ 2,334,842	\$ 24	\$ 45

See accompanying notes to financial statements.

Other Governmental Funds	Total Governmental Funds
458,896	-
-	253,883
-	1,178
-	21,021
458,896	276,082
20,533	(103,317)
442,501	2,901,262
<u>\$ 463,034</u>	<u>\$ 2,797,945</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, 2012**

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

Net change in fund balances - total governmental funds: \$ (103,317)

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. 1,052,116

Depreciation expense on governmental capital assets is included in the governmental activities in the Statement of Net Assets. (1,802,481)

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 448,117

Proceeds from the issuance of notes payable recorded as other financing source in governmental funds (253,883)

The net effect of various miscellaneous transactions involving capital assets (i.e., exchanges, loss recoveries) is to increase net assets 88,192

Additional interest expense due to deferred loss on bond refunding and discount and amortization of bond issue costs (30,237)

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

Other post employment health benefits liability (165,619)

Compensated absences 74,751

Change in net assets of governmental activities \$ (692,361)

City of Ozark

**Statement of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual - General Fund
For the Year Ended September 30, 2012**

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues				
Taxes	\$ 7,990,846	\$ 7,885,667	\$ 7,784,098	\$ (101,569)
Licenses and permits	1,881,852	1,881,852	1,620,722	(261,130)
Intergovernmental	761,885	745,745	631,155	(114,590)
Charges for services	1,486,913	1,611,501	1,799,764	188,263
Fines and forfeitures	769,388	861,977	838,516	(23,461)
Investment earnings	28,244	31,849	31,698	(151)
Miscellaneous	271,999	435,805	221,235	(214,570)
Total revenues	13,191,127	13,454,396	12,927,188	(527,208)
Expenditures				
General government	1,107,110	1,114,110	1,079,499	34,611
Vehicle maintenance	179,885	179,885	178,576	1,309
Police department	2,574,393	2,724,129	2,724,065	64
Information technology	172,653	180,554	167,190	13,364
Fire department	2,366,690	2,395,374	2,378,180	17,194
Airport	20,925	20,925	15,042	5,883
Sanitation	1,207,232	1,220,822	1,215,205	5,617
Street	943,978	895,849	874,865	20,984
Leisure services	1,458,793	1,482,250	1,453,818	28,432
Appropriations	130,500	130,000	130,000	-
Judicial	202,164	205,011	190,953	14,058
Economic development	223,000	223,000	215,614	7,386
Engineering/inspections	124,709	125,456	125,285	171
Ozark Technology Center	99,333	99,333	78,497	20,836
Non-departmental	238,618	320,148	318,198	1,950
Education	821,074	804,049	780,456	23,593
Capital outlay	853,800	1,629,731	942,781	686,950
Total expenditures	12,724,857	13,750,626	12,868,224	882,402
Excess (deficiency) of revenues over expenditures	466,270	(296,230)	58,964	355,194
Other Financing Sources (Uses)				
Loans proceeds	-	727,870	253,883	(473,987)
Loss recoveries	5,000	5,000	21,021	16,021
Proceeds from the sale of capital assets	5,000	5,000	1,178	(3,822)
Transfers in (out), net	(475,564)	(461,733)	(458,896)	2,837
Total other financing sources (uses)	(465,564)	276,137	(182,814)	(458,951)
Excess (deficiency) of revenues and other sources over expenditures	706	(20,093)	(123,850)	(103,757)
Fund Balances - beginning	1,686,958	2,458,692	2,458,692	-
Fund Balances - ending	\$ 1,687,664	\$ 2,438,599	\$ 2,334,842	\$ (103,757)

See accompanying notes to financial statements.

City of Ozark

**Statement of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual - Special Ad Valorem Fund I
For the Year Ended September 30, 2012**

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues				
Taxes	\$ 689,420	\$ 689,420	\$ 689,318	\$ (102)
Expenditures				
Education	689,420	689,420	689,318	102
Excess revenues over expenditures	-	-	-	-
Fund Balances - beginning	24	24	24	-
Fund Balances - ending	\$ 24	\$ 24	\$ 24	\$ -

See accompanying notes to financial statements.

City of Ozark

**Statement of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual - Special Ad Valorem Fund II
For the Year Ended September 30, 2012**

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues				
Taxes	\$ 689,420	\$ 689,420	\$ 689,318	\$ (102)
Expenditures				
Education	689,420	689,420	689,318	102
Excess revenues over expenditures	-	-	-	-
Fund Balances - beginning	45	45	45	-
Fund Balances - ending	\$ 45	\$ 45	\$ 45	\$ -

See accompanying notes to financial statements.

City of Ozark
Statement of Net Assets
Proprietary Funds
September 30, 2012

	Business-Type Activities		
	Emergency Medical Services	Ozark Square Shopping Center	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 47,954	\$ 51,527	\$ 99,481
Receivables, net	350,549	-	350,549
Prepaid expenses	5,292	-	5,292
Due from other funds	-	200,000	200,000
Total current assets	403,795	251,527	655,322
Noncurrent assets			
Land	-	573,045	573,045
Capital assets, net of depreciation	288,314	2,059,422	2,347,736
Total noncurrent assets	288,314	2,632,467	2,920,781
Total assets	692,109	2,883,994	3,576,103
Liabilities			
Current liabilities			
Accounts payable	10,327	41	10,368
Due to other funds	861,924	-	861,924
Accrued payroll	16,916	-	16,916
Noncurrent liabilities			
Due within one year			
Amount due under capital lease	58,498	-	58,498
Note payable	-	-	-
Due in more than one year			
Amount due under capital lease	117,740	-	117,740
Note payable	-	27,745	27,745
Compensated absences	5,389	-	5,389
Other post-employment benefits obligation	52,777	-	52,777
Total liabilities	1,123,571	27,786	1,151,357
Net Assets			
Invested in capital assets, net of related debt	112,076	2,604,722	2,716,798
Unrestricted (deficit)	(543,538)	251,486	(292,052)
Total net assets (deficit)	\$ (431,462)	\$ 2,856,208	\$ 2,424,746

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, 2012

	Business-Type Activities		
	Emergency Medical Services	Ozark Square Shopping Center	Total
Operating Revenues			
Charges for services (net of provision for bad debts of \$618,748)	\$ 927,975	\$ -	\$ 927,975
Rental income	-	119,221	119,221
Total operating revenues	927,975	119,221	1,047,196
Operating Expenses			
Salaries and benefits	903,852	-	903,852
Rental expense	17,940	-	17,940
Repairs and maintenance	44,812	4,267	49,079
Utilities	11,309	9,099	20,408
Insurance	5,250	5,729	10,979
Legal	1,741	810	2,551
Depreciation	58,315	49,509	107,824
Other operating expenses	127,551	9,095	136,646
Total operating expenses	1,170,770	78,509	1,249,279
Operating income (loss)	(242,795)	40,712	(202,083)
Non-Operating Revenues (Expenses)			
Miscellaneous revenues	5,319	539	5,858
Interest income	27	-	27
Interest expense	(7,581)	(1,305)	(8,886)
Non-operating loss	(2,235)	(766)	(3,001)
Change in net assets	(245,030)	39,946	(205,084)
Total Net Assets (Deficit) - beginning	(186,432)	2,816,262	2,629,830
Total Net Assets (Deficit) - ending	\$ (431,462)	\$ 2,856,208	\$ 2,424,746

See accompanying notes to financial statements.

City of Ozark
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2012

	Business-Type Activities		
	Emergency Medical Services	Ozark Square Shopping Center	Total
Cash Flows From Operating Activities			
Receipts from customers and users	\$ 853,344	\$ 119,221	\$ 972,565
Payments to suppliers	(206,490)	(23,198)	(229,688)
Payments to employees	(865,067)	-	(865,067)
Other payments	(5,472)	-	(5,472)
Net cash provided by (used in) operating activities	(223,685)	96,023	(127,662)
Cash Flows From Noncapital and Related Financing Activities			
Proceeds from insurance	5,319	-	5,319
Net repayments of short-term debt	(68,984)	-	(68,984)
Net loans from other funds	381,133	-	381,133
Net cash provided by noncapital and related financing activities	317,468	-	317,468
Cash Flows From Capital and Related Financing Activities			
Interest payments on long-term debt	(7,581)	(1,305)	(8,886)
Principal payments on long-term debt	(56,573)	(54,552)	(111,125)
Proceeds from disposition of capital assets	-	663	663
Purchases of capital assets	(61,940)	-	(61,940)
Net cash used in capital and related financing activities	(126,094)	(55,194)	(181,288)
Cash Flows From Investing Activities			
Interest received	27	-	27
Net increase (decrease) in cash and cash equivalents	(32,284)	40,829	8,545
Cash and Cash Equivalents - beginning	80,238	10,698	90,936
Cash and Cash Equivalents - ending	\$ 47,954	\$ 51,527	\$ 99,481

See accompanying notes to financial statements.

-Continued-

City of Ozark
Statement of Cash Flows
Proprietary Funds (Continued)
For the Year Ended September 30, 2012

Business-Type Activities			
	Emergency Medical Services	Ozark Square Shopping Center	Total
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities			
Operating income (loss)	\$ (242,795)	\$ 40,712	\$ (202,083)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	58,315	49,509	107,824
Provision for bad debts	618,748	-	618,748
Changes in operating assets and liabilities:			
(Increase) decrease in receivables	(691,084)	1,900	(689,184)
Decrease in prepaid expenses	-	4,655	4,655
Increase (decrease) in accounts payable	2,233	(753)	1,480
Increase in salaries and benefits payable	30,898	-	30,898
Net cash provided by (used in) operating activities	\$ (223,685)	\$ 96,023	\$ (127,662)

See accompanying notes to financial statements.

Notes to Financial Statements

NOTE

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

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

The City is a municipal corporation governed by an elected mayor and City Council. The definition of the reporting entity, pursuant to Codification of Governmental Accounting and Financial Reporting Standards, Sections 2100 and 2600, is based primarily on the notion of financial accountability. A primary government is financially accountable for agencies that make up its legal entity. It is also financially accountable for a legally separate agency if its officials appoint a voting majority of that agency's governing body and either it is able to impose its will on that agency or there is a potential for the agency to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. As required by GAAP, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations and so financial information from these units are combined with financial information of the primary government. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that is legally separate from the City. Each blended and discretely presented component unit has a September 30 year end.

Discretely Presented Component Unit

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

Blended Component Units

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

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Government-wide and Fund Financial Statements

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

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

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.

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Ozark Square Shopping Center and Mossy Oak Trailer Park 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 proprietary funds include the cost of maintaining and operating buildings, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

The following are reported as major governmental funds:

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

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Cash and Cash Equivalents

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

Investments

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

Accounts Receivable

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

Inventories

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

Interfund Loans and Transfers

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

Restricted Assets

The assets restricted by bond agreement as shown in the statement of net 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.

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)***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. 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.

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City's reported governmental fund balance at September 30, 2012 is comprised of the following:

	General Fund	Special Ad Valorem I	Special Ad Valorem II	Nonmajor Funds	Total
Nonspendable	\$ 1,406,166	\$ -	\$ -	\$ -	\$ 1,406,166
Restricted	4,763	24	45	463,034	467,866
Unassigned	923,913	-	-	-	923,913
	\$ 2,334,842	\$ 24	\$ 45	\$ 463,034	\$ 2,797,945

Nonspendable fund balances include inventory of \$5,131, prepaid items of \$7,023, long-term accounts receivable of \$532,088, and amounts due from the EMS fund of \$861,924.

Restricted fund balances include ad valorem taxes due to the Ozark City Board of Education of \$69; funds available for street paving and resurfacing of \$97,571; grant funds available for the purchase of equipment and supplies for the Wiregrass Violent Crime and Drug Task Force of \$9,428; costs and charges fixed by law for municipal court violation of \$20,278; grant funds available for capital improvements for the airport, vehicle maintenance building and Roy Parker bridge totaling \$10,313; bond proceeds for repairs to the Flowers Center for the Performing Arts, Ozark-Dale County Public Library and resurfacing tennis courts totaling \$73,050; grant funds available for improving the entrance and exit corridors to the City of \$18,203; and debt service principal and interest payments of \$238,954.

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

Property Tax Calendar

In Alabama, City property taxes are levied by the County Commission at its first regular meeting in February of each year based on the property on record as of the preceding October 1. The taxes are due the following October 1 and delinquent after December 31st. In accordance with the non-exchange transactions provision of GASB Statement No. 33, taxes levied in fiscal year 2012 for the 2013 budget year have been recorded as receivables and deferred revenue.

Management Estimates and Assumptions

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

Notes to Financial Statements

NOTE 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 GAAP.

Deficit Fund Equity

As of September 30, 2012, the EMS Proprietary Fund reported a deficit unrestricted net assets of \$543,538, which is expected to be funded by future revenues.

NOTE 3 – CASH AND CASH EQUIVALENTS

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

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

NOTE 4 – RECEIVABLES***Governmental Funds***

Receivables at September 30, 2012 consist of the following:

	General Fund	Special Ad Valorem I	Special Ad Valorem II	Nonmajor Funds	Total
Accounts receivable	\$ 730,697	\$ 21,816	\$ 21,816	\$ 20,338	\$ 794,667
Property taxes receivable	620,575	620,575	620,575	-	1,861,725
Note receivable—Utilities Board	532,088	-	-	-	532,088
	\$1,883,360	\$ 642,391	\$ 642,391	\$ 20,338	\$ 3,188,480

Notes to Financial Statements

NOTE 4 – RECEIVABLES (Continued)

Included in receivables is an unsecured \$532,088 note receivable due from the Utilities Board of the City of Ozark (the "Utilities Board"). The note is due in monthly installments through February 2026 with interest ranging from 3.35% to 5%.

Proprietary Funds

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

Accounts receivable, net of contractual allowances, from patients, third parties and/or insurance carriers at September 30, 2012 consists of the following:

Medicare	\$	137,160
Medicaid		54,546
Insurance providers		182,025
Patients		227,499
Insurance settlement		5,319
Collection agency		512,820
		1,119,369
Allowance for doubtful accounts		(768,820)
Net patient transport accounts receivable	\$	350,549

Discretely Presented Component Unit

Receivables at September 30, 2012 consist of the following:

	General Fund	Food and Nutrition	Total
City of Ozark	\$ 13,020	\$ -	\$ 13,020
Dale County Board of Education	98,126	-	98,126
Dale County Revenue Commissioner	901,631	-	901,631
Miscellaneous receivables	887	-	887
State Department of Education	53,720	153,564	207,284
	\$ 1,067,384	\$ 153,564	\$ 1,220,948

Notes to Financial Statements

NOTE 5 – INTERFUND BALANCES AND TRANSFERS

Interfund balances at September 30, 2012 consist of the following:

	Due From	Due To
General fund	\$ 870,001	\$ 225,736
Nonmajor governmental funds	25,734	8,075
Enterprise funds	200,000	861,924
Total	\$ 1,095,735	\$ 1,095,735

Transfers to/from other funds at September 30, 2012 consist of the following:

	Transfers In	Transfers Out	Net
General fund	\$ 152,006	\$ (610,902)	\$ (458,896)
Nonmajor governmental funds	817,197	(358,301)	458,896
	\$ 969,203	\$ (969,203)	\$ -

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

NOTE 6 – RESTRICTED ASSETS

Restricted cash and investments were comprised of the following at September 30, 2012:

	Governmental
Cash	
Restricted for general fund	\$ 4,763
Restricted for special revenue funds	325,983
Total restricted cash	\$ 330,746

Notes to Financial Statements

NOTE 7 – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2012 was as follows:

	Beginning Balance 10/1/11	Increases	Decreases	Ending Balance 9/30/12
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 4,874,087	\$ 424,278	\$ -	\$ 5,298,365
Construction in progress	10,298	724,400	619,964	114,734
Total capital assets, not being depreciated	\$ 4,884,385	\$ 1,148,678	\$ 619,964	\$ 5,413,099
Capital assets being depreciated:				
Buildings	\$ 12,149,002	\$ 167,925	\$ -	\$12,316,927
Improvements and infrastructure	34,706,262	145,911	-	34,852,173
Equipment	5,335,282	349,808	162,369	5,522,721
Property under capital leases	413,239	-	42,539	370,700
Total capital assets being depreciated	52,603,785	663,644	204,908	53,062,521
Less accumulated depreciation for:				
Buildings	(4,623,482)	(300,758)	-	(4,924,240)
Improvements and infrastructure	(19,875,369)	(1,149,775)	-	(21,025,144)
Equipment	(4,189,554)	(330,830)	152,858	(4,367,526)
Property under capital leases	(97,134)	(21,118)	-	(118,252)
Total accumulated depreciation	(28,785,539)	(1,802,481)	152,858	(30,435,162)
Total capital assets, being depreciated, net	\$ 23,818,246	\$ (1,138,837)	\$ 52,050	\$ 22,627,359
Governmental activities capital assets, net	\$ 28,702,631	\$ 9,841	\$ 672,014	\$ 28,040,458
Business-Type Activities:				
Capital assets, not being depreciated:				
Land	\$ 573,045	\$ -	\$ -	\$ 573,045

Notes to Financial Statements

NOTE 7 – CAPITAL ASSETS (Continued)

Capital assets being depreciated:

Buildings	\$ 2,257,606	\$ -	\$ 150	\$ 2,257,456
Equipment	79,849	61,940	-	141,789
Property under capital lease	292,000	-	-	292,000

Total capital assets being depreciated	2,629,455	61,940	150	2,691,245
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Less accumulated depreciation for:

Buildings	(148,553)	(49,509)	27	(198,035)
Equipment	(19,060)	(21,815)	-	(40,875)
Property under capital lease	(68,099)	(36,500)	-	(104,599)

Total accumulated Depreciation	(235,712)	(107,824)	27	(343,509)
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Total capital assets, being depreciated, net	\$ 2,393,743	\$ (45,884)	\$ 123	\$ 2,347,736
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Business-type activities capital assets, net	\$ 2,966,788	\$ (45,884)	\$ 123	\$ 2,920,781
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Component Unit:

Capital assets, not being depreciated:

Land and land improvements	\$ 233,294	\$ -	\$ -	\$ 233,294
Construction in progress	924,865	14,292,643	-	15,217,508

Total capital assets, not being depreciated	\$ 1,158,159	\$ 14,292,643	\$ -	\$ 15,450,802
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Capital assets being depreciated:

Buildings	\$ 6,391,301	\$ -	\$ -	\$ 6,391,301
Improvements	6,025,152	-	-	6,025,152
Equipment and furniture	3,520,616	150,867	64,435	3,607,048

Total capital assets being depreciated	15,937,069	150,867	64,435	16,023,501
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Less accumulated depreciation for:

Buildings	(3,059,353)	(117,260)	-	(3,176,613)
Improvements	(4,606,926)	(185,322)	-	(4,792,248)
Equipment and furniture	(2,493,799)	(265,345)	55,441	(2,703,703)

Total accumulated depreciation	(10,160,078)	(567,927)	55,441	(10,672,564)
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Total capital assets, being depreciated, net	\$ 5,776,991	\$ (417,060)	\$ 8,994	\$ 5,350,937
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Component unit capital assets, net	\$ 6,935,150	\$ 13,875,583	\$ 8,994	\$ 20,801,739
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Notes to Financial Statements

NOTE 7 – CAPITAL ASSETS (Continued)

Construction in progress for governmental activities at September 30, 2012 is comprised of amounts relating to ongoing Roy Parker Bridge repairs and paving projects. These projects will be completed in fiscal year 2013 with estimated remaining costs of \$1,300,000.

Construction in progress for the component unit at September 30, 2012 is primarily comprised of amounts relating to ongoing construction of the new Carroll High School. This project will be completed in fiscal year 2013 with estimated remaining costs of \$6,600,000.

Depreciation expense was charged to functions/programs as follows:

Governmental Activities

General government	\$ 1,176,468
Vehicle maintenance	4,571
Police department	120,076
Information technology	18,102
Fire department	114,097
Airport	2,706
Sanitation department	45,307
Street department	45,282
Leisure services	171,581
Judicial	2,620
Economic development	73,392
Engineering/inspections	3,896
Ozark Technology Center	24,383

<u>Total depreciation expense – Governmental Activities</u>	<u>\$ 1,802,481</u>
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Business-Type Activities

Emergency Medical Services	\$ 58,315
Ozark Square Shopping Center	49,509

<u>Total depreciation expense – Business-Type Activities</u>	<u>\$ 107,824</u>
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Component Unit

Instructional	\$ 326,809
Instructional support	20,092
Operation and maintenance	13,469
Student transportation	178,082
Food service	18,089
General administrative	2,786
Other	11,600

<u>Total depreciation expense – Component Unit</u>	<u>\$ 567,927</u>
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Notes to Financial Statements

NOTE 8 – DEFERRED REVENUE

Governmental Activities:	General Fund	Special Ad Valorem I	Special Ad Valorem II
Property Taxes – Property taxes are levied by the County Commission in February of each year based on property on record as of the preceding October 1. The enforceable legal claim exists as of October 1 preceding the February meeting of the County Commission. The actual billing and collection of these taxes will occur subsequent to year-end.	\$ 620,575	\$ 620,575	\$ 620,575
Grant Revenues – Grant revenues received from various agencies to be spent in accordance with the respective grant agreement.	5,853	-	-
	\$ 626,428	\$ 620,575	\$ 620,575

(Continued)	Department of Justice	FEMA	Total
Property Taxes – Property taxes are levied by the County Commission in February of each year based on property on record as of the preceding October 1. The enforceable legal claim exists as of October 1 preceding the February meeting of the County Commission. The actual billing and collection of these taxes will occur subsequent to year-end.	\$ -	\$ -	\$ 1,861,725
Grant Revenues – Grant revenues received from various agencies to be spent in accordance with the respective grant agreement.	978	11,499	18,330
	\$ 978	\$ 11,499	\$ 1,880,055

Notes to Financial Statements

NOTE 9 – LONG-TERM DEBT

Changes in long-term debt for the year ended September 30, 2012 was as follows:

	Beginning Balance 10/1/11	Additions	Reductions	Ending Balance 9/30/12	Due Within One Year
Governmental Activities					
Capital leases	\$ 233,402	\$ -	\$ 83,117	\$ 150,285	\$ 76,798
Note payable	-	253,883	-	253,883	3,674
Compensated absences	318,070	-	74,751	243,319	-
Bonds payable	6,030,000	-	365,000	5,665,000	375,000
Unamortized loss on debt refunding	(162,926)	-	(13,026)	(149,900)	(13,026)
Unamortized issue costs	(143,012)	-	(12,908)	(130,104)	(12,908)
Unamortized discount	(52,596)	-	(4,303)	(48,293)	(4,305)
Other postemployment benefits	842,849	292,343	126,724	1,008,468	-
Governmental activity long-term liabilities	\$ 7,065,787	\$ 546,226	\$ 619,355	\$ 6,992,658	\$ 425,233
Business-Type Activities					
Notes payable—lines of credit	\$ 151,281	\$ -	\$ 123,536	\$ 27,745	\$ 27,745
Compensated absences	2,468	2,921	-	5,389	-
Capital lease	232,811	-	56,573	176,238	58,497
Other postemployment benefits	29,915	22,862	-	52,777	-
Business-type activity long-term liabilities	\$ 416,475	\$ 25,783	\$ 180,109	\$ 262,149	\$ 86,242
Component Unit					
Bonds payable	\$ 23,964,000	\$ -	\$ 210,000	\$ 23,754,000	\$ 1,245,465
Unamortized discount	(16,715)	-	(3,780)	(12,935)	-
Other long-term debt	586,864	-	64,193	522,671	81,917
Component unit long-term liabilities	\$ 24,534,149	\$ -	\$ 270,413	\$ 24,263,736	\$ 1,327,382

Primary government:**Bonds payable**

Governmental activities, claims, obligations, and compensated absences are generally liquidated by the general fund. Long-term debt payable at September 30, 2012 is comprised of the following issues:

Notes to Financial Statements

NOTE 9 – LONG-TERM DEBT (Continued)

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

	Principal Balance
\$4,425,000 General Obligation Warrants, Series 2011, dated July 1, 2011, payable in annual installments from 2012 through 2026, interest rates range from 2 to 3.75 percent.	\$ 4,295,000
\$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.	1,370,000
	\$ 5,665,000

On December 1, 2004, the City issued its Series 2004 General Obligation Warrants in the amount of \$2,970,000. Proceeds of the bonds were used to redeem the Series 1997 bond issue and to provide funds for the construction of capital improvements. As required by GASB Statement No. 23, the difference between the reacquisition price (funds required to refund the old debt) and the net carrying amount of the old debt is carried as deferred refunding cost and amortized over the remaining life of the old bond on the straight line basis. The amount deferred on the 1997 bond reacquisition was \$48,235. The total amount amortized for the year ended September 30, 2012 is \$3,710 and is reported as part of interest expense. The balance of deferred refunding cost at September 30, 2012 is \$19,482.

The Series 2004 bonds are reported net of issuance costs and original issue discount. Issuance costs of \$77,561 are being amortized over the life of the bonds and are included in amortization expense on the statement of activities. Amortization expense related to the Series 2004 bonds for the year ended September 30, 2011 is \$5,544. Remaining issuance costs to be deferred to future periods is \$27,011. 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, 2012 is \$984. Remaining original issue discount to be deferred to future periods is \$1,798.

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

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

Notes to Financial Statements

NOTE 9 – LONG-TERM DEBT (Continued)

As required by GASB Statement No. 23, the difference between the reacquisition price (funds required to refund the old debt) and the net carrying amount of the old debt is carried as deferred refunding costs and amortized over the life of the old debt on the straight line basis. The amount of deferred refunding costs on the 2002 bond refunding was \$149,050. The total amount amortized for the year ended September 30, 2012 was \$9,316. The balance on the deferred refunding cost at September 30, 2012 is \$130,418.

The Series 2011 bonds are reported net of issuance costs and original issue discount. Issuance costs of \$117,821 are being amortized over the life of the bonds and are included in amortization expense on the Statement of Activities. Amortization expense related to the Series 2011 bonds for the year ended September 30, 2011 is \$7,364. Remaining issuance costs to be deferred to future periods is \$103,093. Original issue discount in the amount of \$53,135 is also being amortized over the life of the bonds and is reported as part of interest expense. The total amount expensed related to the Series 2011 bonds for the year ended September 30, 2012 is \$3,321. Remaining original issue discount to be deferred to future periods is \$46,495.

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

Year Ending September 30,	Principal	Interest	Total
2013	\$ 375,000	\$ 178,296	\$ 553,296
2014	385,000	167,021	552,021
2015	395,000	155,219	550,219
2016	410,000	142,928	552,928
2017	425,000	129,384	554,384
Thereafter	3,675,000	598,396	4,273,396
	\$ 5,665,000	\$ 1,371,244	\$ 7,036,244

Obligations Under Capital Lease

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

Notes to Financial Statements

NOTE 9 – LONG-TERM DEBT (Continued)

Asset	Amount
Automated garbage truck - 2008	\$ 199,100
Automated garbage truck - 2011	171,590
Ambulances and SUV – EMS	292,000
Total equipment under capital lease	662,690
Accumulated depreciation	(222,850)
Total equipment under capital lease, net	\$ 439,840

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, 2012:

September 30,	Governmental Activities	Business-Type Activities	Total
2013	\$ 80,684	\$ 63,509	\$ 144,193
2014	44,561	63,509	108,070
2015	31,114	58,216	89,330
Total minimum lease payments	156,359	185,234	341,593
Less: amount representing interest	(6,074)	(8,996)	(15,070)
Present value of future minimum lease payments	\$ 150,285	\$ 176,238	\$ 326,523

The interest rates range from 3.35 to 3.5 percent.

Notes Payable

The General fund reported a note payable as follows:

	Principal Balance at 9/30/12
\$727,870 Capital line of credit to acquire a new vehicle maintenance facility and to provide the local match on a grant to refurbish the Roy Parker Bridge. The City Council approved the terms and conditions of the line of credit at a taxable interest rate of 2.81% on August 7, 2012. The City is responsible for monthly interest payments while draws are being made. The City adopted a resolution such that the City could be reimbursed from a future general obligation within three years.	\$ 253,883

Notes to Financial Statements

NOTE 9 – LONG-TERM DEBT (Continued)

The Ozark Square Shopping Center Proprietary fund reported a note payable as follows:

	Principal Balance at 9/30/12
\$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.	\$ 27,745

Component Unit:**General Obligation Warrants**

The BOE issued General Obligation School Warrants, Series 2005 in the principal amount of \$2,230,000 dated January 20, 2005. The warrants mature on February 15 annually in amounts as specified in the following table and bear interest ranging from 2.10% to 3.75%. The purpose of the warrants was to retire the Capital Outlay School Warrants, Series 1995 on their ten year call date, which occurred during the year ending September 30, 2005. The security for these warrants is the proceeds of the Special City School Ad valorem tax, which is levied and collected by the City. The BOE incurred a deferred loss on the early retirement of the Series 1995 warrants of \$41,600, which is reported as a contra amount to the Series 2005 warrants in the Statement of Net Assets. The deferred loss is being amortized using the straight-line method over the term of the new bonds. Amortization of the deferred loss is reported as a component of interest expense in the Statement of Activities.

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

February 15,	Interest Rate	Principal	Interest	Total
2013	3.45%	\$ 225,000	\$ 30,369	\$ 255,369
2014	3.55%	230,000	22,405	252,405
2015	3.65%	240,000	13,943	253,943
2016	3.75%	255,000	4,781	259,781
		\$ 950,000	\$ 71,498	\$ 1,021,498

Capital Outlay Pool Warrants

The BOE issued Capital Outlay Pool Warrant, Series 2010 in the principal amount of \$22,074,000 dated August 9, 2011. The warrant matures on September 1, 2027 and bears 5.15% interest. This warrant is not a general obligation of the BOE. This warrant is a limited obligation of the BOE. This warrant will be payable solely out of and secured by the annual amounts of PSF Capital Purchase

Notes to Financial Statements

NOTE 9 – LONG-TERM DEBT (Continued)

Funds allocated and distributed by the BOE pursuant to Section 16-13-234 and proceeds pledged and allocable to the BOE of the sales and use taxes levied by the City pursuant to Ordinance No. 2007-8 and Ordinance No. 2010-AA. Semi-annual interest payments are due March 1 and September 1. Annual principal payments are made to a sinking fund and are due September 1.

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

Year	Interest Rate	Principal	Interest, Net of Subsidy	Total
2013	5.15%	\$ 983,715	\$ 94,918	\$ 1,078,633
2014	5.15%	983,715	94,918	1,078,633
2015	5.15%	983,715	94,918	1,078,633
2016	5.15%	983,715	94,918	1,078,633
2017	5.15%	983,715	94,918	1,078,633
2018-2027	5.15%	9,837,150	949,180	10,786,330
		\$ 14,755,725	\$ 1,423,770	\$16,179,495

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

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

Year	Interest Rate	Principal	Interest, Net of Subsidy	Total
2013	4.60%	\$ 36,570	\$ 16,790	\$ 53,360
2014	4.60%	36,570	16,790	53,360
2015	4.60%	36,570	16,790	53,360
2016	4.60%	36,570	16,790	53,360
2017-2026	4.60%	365,700	167,900	533,600
		\$ 511,980	\$ 235,060	\$ 747,040

Notes Payable

A note payable to the Commercial Bank of Ozark was issued on August 13, 2008 for \$702,870 at an interest rate of 4.08%. The note was refinanced May 25, 2012 with Community Bank and Trust

Notes to Financial Statements

NOTE 9 – LONG-TERM DEBT (Continued)

at a reduced rate of 2.99% and a shorter repayment period. The balance at the time of refinancing was \$524,652. The note is secured by equipment.

The maturity schedule for the notes payable is as follows:

Year Ending September 30,	Principal	Interest	Total
2013	\$ 81,917	\$ 13,192	\$ 95,109
2014	84,400	10,709	95,109
2015	86,959	8,150	95,109
2016	89,580	5,529	95,109
2017	89,512	2,798	92,310
	\$ 432,368	\$ 40,378	\$ 472,746

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

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

Notes to Financial Statements

NOTE 11 – RETIREMENT PLAN (Continued)

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

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

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

Actuarial Valuation as of September 30, 2011Summary of Employer Census Data

Number of active members	153
Annual compensation	\$ 5,091,443
Number of retired members and beneficiaries	50
Annual retirement allowances	\$ 800,525

Employer Contribution Rates – Tier 1 Employees (percent)

(applies to all members hired before January 1, 2013)

Normal costs	3.48%
Accrued liability	5.42
Pre-retirement death benefit	0.14
Administrative expense	0.21

Total	9.25%
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5% Employer contribution factor	1.8500
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6% Employer contribution factor	1.5417
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Employer Contribution Rates – Tier 2 Employees (percent)

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

Total Employer Contribution Rate	6.95%
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6% Employer contribution factor	1.1583
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7% Employer contribution factor	0.9929
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Notes to Financial Statements

NOTE 11 – RETIREMENT PLAN (Continued)**Comments on Employer Contribution Rates**

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

These contribution rates 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.

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)
9/30/09	\$ 11,037,418	\$ 14,347,749	\$ 3,310,331	76.9%	\$ 5,208,190	63.6%
9/30/10(1)	11,195,919	14,899,617	3,703,698	75.1%	5,123,773	72.3%
9/30/10(2)	11,195,919	14,964,546	3,768,627	74.8%	5,123,773	73.6%
9/30/11	10,946,970	15,554,155	4,607,185	70.4%	5,091,443	90.5%

(1) – Reflects the impact of Act 2011-27, which closes the DROP program to new applicants after March 24, 2011.

(2) – Reflects the impact of 2011-676, which increases the member contribution rates by 2.25% beginning October 1, 2011 and by an additional 0.25% beginning October 1, 2012.

Valuation date	9/30/11
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	3.75 – 7.25%
Includes inflation at	3.00%
Cost of living adjustments	none

Notes to Financial Statements

NOTE 11 – RETIREMENT PLAN (Continued)***Trend Information***

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
9/30/09	\$ 417,460	100%	\$ -0-
9/30/10	419,064	100%	-0-
9/30/11	438,227	100%	-0-

NOTE 12 – POSTEMPLOYMENT HEALTH CARE BENEFITS

Effective for the 2009 fiscal year, the City implemented GASB 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, 2010Summary of Employer Census Data

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

Notes to Financial Statements

NOTE 12 – POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)Employer Contribution Rates

Normal cost	4.14%
Accrued liability	2.85%
Total	6.99%

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

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

<u>Description</u>	<u>Amount</u>
Normal cost (service cost for one year)	\$ 212,348
Amortization of unfunded actuarial accrued liability	145,857
Annual required contribution	358,205
Plus interest on net OPEB obligation	35,000
Less net OPEB obligation amortization	(78,000)
Annual OPEB cost	315,205
Contribution toward the OPEB cost in fiscal year 2012	(126,724)
Increase in Net OPEB obligation	188,481
Net OPEB obligation, beginning of year	872,764
Net OPEB obligation, end of year	\$ 1,061,245

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, 2012 is as follows:

Notes to Financial Statements

NOTE 12 – POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Beginning balance, 10/1/2008	\$ -	-	\$ -
9/30/2009	446,432	20.69%	353,995
9/30/2010	430,342	24.20%	680,190
9/30/2011	325,405	40.82%	872,764
9/30/2012	315,205	40.20%	1,061,245

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

The City's OPEB actuarial valuation using information as of September 30, 2010 employed the projected unit credit actuarial cost method to estimate the unfunded actuarial accrued liability as of September 30, 2010, and to estimate the City's 2012 annual required contribution. Although the OPEB liability is currently unfunded, the actuarial assumption included a 4% rate of return on invested assets. The actuarial assumptions also included a medical cost trend of 10.5% for the 2011 fiscal year reduced by 1% per year to 2015 and reduced by 0.5% to an ultimate rate of 5% after seven years. The unfunded actuarial accrued liability is being amortized as a level percent of projected payrolls on an open basis. The remaining amortization period at September 30, 2010, was 30 years.

NOTE 13 – CONTINGENT LIABILITIES

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

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

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

Notes to Financial Statements

NOTE 14 – RISK MANAGEMENT AND LITIGATION

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

NOTE 15 – RELATED PARTY TRANSACTIONS

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

On November 22, 2005, the City and the Utilities Board entered into a formal agreement in which the Utilities Board reimburses the City for use of a portion of the Municipal Complex to be applied to the 2002 Bond Issue. The Utilities Board agreed to be responsible for 18% of the bonded indebtedness created by the City to finance the construction of the Municipal Complex. Each party is designated certain areas of exclusive use, as well as areas of common use. Each party is responsible for the repair and maintenance of those certain areas assigned for exclusive use to each party. Repair and maintenance for the roof or exterior walls is to be divided 82% to the City and 18% to the Utilities, the same as the Bond Issue. Included in receivables described in Note 4 is a note receivable due from the Utilities Board. The note is due in monthly installments through February 2026 with interest ranging from 3.35% to 5%. During 2012, the City recorded total payments from the Utilities Board of \$36,484, which includes \$10,353 principal and \$26,131 interest.

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

NOTE 16 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through May 24, 2013, the date of these financial statements, and there are none to disclose.

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

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

COMBINING AND INDIVIDUAL FUND STATEMENTS

DESCRIPTION OF NONMAJOR GOVERNMENTAL FUNDS

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

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

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

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

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

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

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

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

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

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

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

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

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

City of Ozark
Combining Balance Sheet
Nonmajor Governmental Funds
September 30, 2012

	Street	Four Cent Gas Tax	UDAG
Assets			
Cash and cash equivalents	\$ 50,271	\$ 40,856	\$ 12,161
Receivables	-	-	-
Due from other funds	-	-	-
Restricted cash and cash equivalents	-	-	-
Total assets	\$ 50,271	\$ 40,856	\$ 12,161
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ -	\$ -	\$ -
Due to other funds	-	-	-
Deferred revenues	-	-	-
Fund balances			
Spendable: Restricted	50,271	40,856	12,161
Total liabilities and fund balances	\$ 50,271	\$ 40,856	\$ 12,161

Bond Fund	Debt Service	FEMA	Wiregrass Violent Crime
\$ -	\$ -	\$ 2,941	\$ 3,914
-	-	-	20,338
-	-	15,000	-
87,968	238,015	-	-
\$ 87,968	\$ 238,015	\$ 17,941	\$ 24,252
\$ 14,917	\$ 3,314	\$ -	\$ 12,263
-	-	-	8,075
-	-	11,499	-
73,051	234,701	6,442	3,914
\$ 87,968	\$ 238,015	\$ 17,941	\$ 24,252

-Continued-

City of Ozark
Combining Balance Sheet
Nonmajor Governmental Funds (Continued)
September 30, 2012

	Dept of Justice	Drug Forfeiture	Municipal Court
Assets			
Cash and cash equivalents	\$ 6,479	\$ 14	\$ 5,036
Receivables	-	-	-
Due from other funds	-	-	2,972
Restricted cash and cash equivalents	-	-	-
Total assets	\$ 6,479	\$ 14	\$ 8,008
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ -	\$ -	\$ -
Due to other funds	-	-	-
Deferred revenues	978	-	-
Fund balances			
Spendable: Restricted	5,501	14	8,008
Total liabilities and fund balances	\$ 6,479	\$ 14	\$ 8,008

CDBG	Alabama Trust Fund Improvements	Corrections Fund	Total Nonmajor Governmental Funds
\$ 5,942	\$ 9,904	\$ 4,507	\$ 142,025
-	-	-	20,338
-	-	7,762	25,734
-	-	-	325,983
\$ 5,942	\$ 9,904	\$ 12,269	\$ 514,080
\$ -	\$ -	\$ -	\$ 30,494
-	-	-	8,075
-	-	-	12,477
5,942	9,904	12,269	463,034
\$ 5,942	\$ 9,904	\$ 12,269	\$ 514,080

City of Ozark
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended September 30, 2012

	Street	Four Cent Gas Tax
Revenues		
Taxes	\$ 110,468	\$ 61,747
Intergovernmental	-	-
Investment earnings	-	7
Miscellaneous	-	-
Total revenues	110,468	61,754
Expenditures		
General government	-	-
Police department	-	-
Street	-	190
Judicial	-	-
Appropriations	-	-
Debt service		
Principal	-	-
Interest	-	-
Dues, fees and issuance costs	-	-
Capital outlay	39,835	31,682
Total expenditures	39,835	31,872
Excess (deficiency) of revenues over expenditures	70,633	29,882
Other Financing Sources (Uses)		
Transfers in (out)	(27,279)	-
Excess revenues and other sources over (under) expenditures and other (uses)	43,354	29,882
Fund Balances - beginning	6,917	10,974
Fund Balances - ending	\$ 50,271	\$ 40,856

UDAG	Bond Fund	Debt Service Fund	FEMA	Wiregrass Violent Crime
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	65	122,396
1	367	2	-	-
960	-	-	-	-
961	367	2	65	122,396
-	-	-	-	-
-	-	-	-	73,718
-	-	-	65	-
-	-	-	-	-
-	14,917	-	-	-
-	-	448,117	-	-
-	-	196,871	-	-
-	-	2,250	-	-
-	35,851	-	-	1,967
-	50,768	647,238	65	75,685
961	(50,401)	(647,236)	-	46,711
-	-	701,751	-	(58,742)
961	(50,401)	54,515	-	(12,031)
11,200	123,452	180,186	6,442	15,945
\$ 12,161	\$ 73,051	\$ 234,701	\$ 6,442	\$ 3,914

-Continued-

City of Ozark
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances (Continued)
Nonmajor Governmental Funds
For the Year Ended September 30, 2012

	Dept of Justice	Drug Forfeiture	Municipal Court
Revenues			
Taxes	\$ -	\$ -	\$ -
Intergovernmental	778	5,596	-
Investment earnings	-	-	1
Miscellaneous	-	199	-
Total revenues	778	5,795	1
Expenditures			
General government	-	-	-
Police department	778	5,872	-
Street	-	-	-
Judicial	-	-	23
Appropriations	-	-	-
Debt service			
Principal	-	-	-
Interest	-	-	-
Dues, fees and issuance costs	-	-	-
Capital outlay	-	-	-
Total expenditures	778	5,872	23
Excess (deficiency) of revenues over expenditures	-	(77)	(22)
Other Financing Sources (Uses)			
Transfers in (out)	-	-	8,030
Excess revenues and other sources over (under) expenditures and other (uses)	-	(77)	8,008
Fund Balances - beginning	5,501	91	-
Fund Balances - ending	\$ 5,501	\$ 14	\$ 8,008

CDBG	Alabama Trust Fund Improvements	Corrections Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ 172,215
25,223	127,332	-	281,390
-	35	26	439
3,592	-	-	4,751
28,815	127,367	26	458,795
42,622	-	-	42,622
-	-	-	80,368
-	-	-	255
-	-	2,400	2,423
-	-	-	14,917
-	-	-	448,117
-	-	-	196,871
-	-	-	2,250
-	-	-	109,335
42,622	-	2,400	897,158
(13,807)	127,367	(2,374)	(438,363)
5,696	(172,206)	1,646	458,896
(8,111)	(44,839)	(728)	20,533
14,053	54,743	12,997	442,501
\$ 5,942	\$ 9,904	\$ 12,269	\$ 463,034

SUPPLEMENTAL INFORMATION

City of Ozark
Schedules of Bond Amortization Requirements
September 30, 2012
(Unaudited)

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

Paying Agent: Bank of New York

Year Ending	Interest Rate	Principal	Interest	Total
9/30/13	2.00%	\$ 130,000	\$ 131,865	\$ 261,865
9/30/14	2.00%	140,000	129,165	269,165
9/30/15	1.75%	140,000	126,365	266,365
9/30/16	2.50%	145,000	123,696	268,696
9/30/17	2.50%	150,000	120,553	270,553
9/30/18	2.75%	350,000	114,303	464,303
9/30/19	3.00%	360,000	104,978	464,978
9/30/20	3.20%	375,000	94,403	469,403
9/30/21	3.40%	385,000	82,618	467,618
9/30/22	3.50%	400,000	69,658	469,658
9/30/23	3.60%	405,000	55,770	460,770
9/30/24	3.75%	420,000	41,123	461,123
9/30/25	3.75%	440,000	25,313	465,313
9/30/26	3.75%	455,000	8,531	463,531
Total		\$ 4,295,000	\$ 1,228,341	\$ 5,523,341

\$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
9/30/13	3.45%	\$ 245,000	\$ 46,431	\$ 291,431
9/30/14	3.55%	245,000	37,856	282,856
9/30/15	3.65%	255,000	28,854	283,854
9/30/16	3.75%	265,000	19,231	284,231
9/30/17	3.95%	275,000	8,831	283,831
9/30/18	4.00%	85,000	1,700	86,700
Total		\$ 1,370,000	\$ 142,903	\$ 1,512,903

City of Ozark
Schedule of Expenditures of Federal Awards
For The Year Ended September 30, 2012

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	\$ 48,841
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 Homeland Security			
Pass-through Alabama Emergency Management Agency FEMA – Alabama Emergency Management Agency	97.036	FEMA 1870 DR-AL	65
Pass-through Alabama Department of Homeland Security Dale County Commission	97.067	OMAL	2,640
Total U.S. Department of Homeland Security			2,705
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	41,575
U.S. Department of Justice			
Bulletproof Vest Partnership Grant	16.607	2009BUBX08042398	778
Pass-through Alabama Department of Economic and Community Affairs ARRA-Edward Byrne Memorial Justice Assistance Grant	16.803	09-DR-01-32	122,397
Total U.S. Department of Justice			123,175

-Continued-

City of Ozark

Schedule of Expenditures of Federal Awards
For The Year Ended September 30, 2012 (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	3-01-0056-012-2011	392,357
Airport Improvement Program	20.106	3-01-056-0011-2010	1,270
ARRA - Highway Planning and Construction	20.205	STMTE- TE09(919)S1	512
Pass-through Southeast Alabama Highway Safety Office			
Alcohol Impaired Driving Countermeasures Incentive Grant	20.601	12-TF-AL-007	1,481
402 Selective Traffic Enforcement	20.600	12-SP-PT-009	1,884
Safety Belt Performance Grants	20.609	12-TF-OP-009	786
Total U.S. Department of Transportation			398,290
Total Expenditures of Federal Awards			\$ 625,746

City of Ozark

Notes to Schedule of Expenditures of Federal Awards
For The Year Ended September 30, 2012

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 pursuant to Codification of Governmental Accounting and Financial Reporting Standards, Sections 2100 and 2600.

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, the discretely presented component units, 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, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 24, 2013. 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

Management of the City is responsible for establishing and maintaining effective 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 12-01 and 12-02. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

We noted certain other matters that we reported to the management of the City in a separate letter dated May 24, 2013.

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

May 24, 2013

**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, 2012. 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.

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, 2012.

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

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

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

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

Certified Public Accountants

May 24, 2013

City of Ozark
Schedule of Findings and Questioned Costs
For The Year Ended September 30, 2012

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

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

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

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
20.106	Airport Improvements (ALDOT)
Dollar threshold used to distinguish between type A and type B programs?	\$ 300,000
Auditee qualified as low-risk auditee?	<u> X </u> yes _____ no

Section II – Financial Statements Findings

12-01 Grant Administration (repeat)

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

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

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

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

City of Ozark

**Schedule of Findings and Questioned Costs
For The Year Ended September 30, 2012**

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 – Some policies and procedures for grant initiation and recording have been incorporated into the Accounting Policies and Procedures Manual. Additional policies and procedures relating to the identification of compliance requirements and monitoring will be considered during FY2013. 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 FY2013 to more accurately identify and monitor compliance requirements.

12-02 Allowance for Doubtful Accounts and Bad Debt Expense

Condition – No formal policies or procedures exist for estimating and recording an allowance for doubtful accounts relating to Emergency Medical Services fund receivables.

Criteria – Policies and procedures should be in place to establish a basis for write-offs and to document the management's consideration of the adequacy of the allowance for doubtful accounts.

Cause – The absence of these policies and procedures increases the City's risk of material misstatement by overstating accounts receivable.

Effect – A material adjusting journal entry was proposed and posted during the FY2012 audit, as the allowance for doubtful accounts was deemed inadequate.

Recommendation – The City should establish formal procedures relating to estimating, recording, and monitoring the allowance for doubtful accounts relating to Emergency Medical Services fund receivables. The City should implement a review of the allowance for doubtful accounts as part of the month-end closing procedures.

Views of Responsible Officials and Planned Corrective Actions – Management agrees with the recommendation noted. Policies and procedures related to estimating the allowance for doubtful accounts and recording write-offs will be established and presented to the City Council for approval. Further, a review of the adequacy of the allowance for doubtful accounts will be incorporated to month-end closing procedures.

Section III – Federal Award Findings and Questioned Costs

No such findings in the current year.

City of Ozark

**Schedule of Prior Audit Findings for Federal Awards
For The Year Ended September 30, 2012**

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

Project Nos. 3-01-0056-010-2009, 3-01-0056-011-2010, and 3-10-0056-012-2011

U.S. Department of Transportation

Condition – The City does not have updated procurement policies and procedures that include suspension and debarment monitoring.

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 to included suspension and debarment
- Any other documents or forms for which uniformity of use is desired

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