

City of Ozark, Alabama

FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

For The Year Ended September 30, 2017



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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, 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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express

no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2017, 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 I, and Special Ad Valorem II, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 4-15), schedule of funding progress for the retiree health plan (page 64), schedule of changes in net pension liability (page 65), and schedule of employer contributions (page 66) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB, 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 and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements and schedules of bond amortization requirements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedules of bond amortization requirements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of

the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit, the procedures performed as described above, the combining and individual nonmajor fund financial statements and schedules of bond amortization requirements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2018, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

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

Enterprise, Alabama

March 21, 2018

Management's Discussion and Analysis

The City of Ozark, Alabama's (the "City") Management's Discussion and Analysis ("MD&A") is a narrative overview of the financial activities of the City for the fiscal year beginning October 1, 2016, and ending September 30, 2017. 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, 2017.

Financial Highlights

From the Government-Wide Financial Statements

- The City's governmental activities total net position is \$20,892,629 and is less than prior year by \$280,030. Net investment in capital assets of \$23,860,898 increased \$411,774 and reflects acquisitions of leased equipment for the Police Department, the Fire Department, the Street Department and the Leisure Services Department. Restricted net position of \$564,351 reflects an increase of \$206,064 in earmarked funds for grant purposes, debt service obligations and street resurfacing. The deficit unrestricted net position of \$3,532,620 reflects the impact of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* ("GASB 68") and GASB Statement No. Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. The pension and other postemployment obligations will be funded in future periods.
- The City's business-type activities total net position is \$2,252,010 and is more than prior year by \$205,662. Net investment in capital assets decreased \$69,396 over prior year and reflects the impact of annual depreciation and the reduction in the outstanding obligation under capital leases. The deficit unrestricted net position of \$225,165 improved by \$275,058 and reflects improved management of staffing and benefit costs and planning for capital equipment replacement in the future in the Emergency Medical Services (EMS) Fund.

From the Fund Financial Statements

- Revenues reported in the governmental funds were \$16,902,308 at September 30, 2017 and are \$616,108 less than governmental funds revenues of \$17,518,416 reported last year. The majority of the decrease in revenues was in the intergovernmental revenue category. The City received \$1,163,784 in intergovernmental revenues which is \$1,031,426 less than in 2016. The capital grant funding received in fiscal year 2016 funded the following: airport improvement funding used to constructed entrance way from US Highway 231 to Ozark Airport, the addition of a terminal parking lot, phase II of parking apron, and state ALDOT funding to assist local funding to construct the airport terminal that opened in September 2016; the majority of the expenditures on the housing rehabilitations from a Community Development Block Grant for housing rehabilitation and sidewalk improvements in 2016; and the completion of the ALDOT ADA Improvement grant for ADA sidewalks improvements in downtown Ozark in 2016.
- The General Fund reported a total fund balance of \$2,253,959 at September 30, 2017. The spendable unassigned portion of total fund balance is \$1,434,314, the nonspendable is \$634,294, and restricted is \$185,351. The net result of operations is a decrease of \$50,847.

Management's Discussion and Analysis

As a measure of the General Fund's liquidity, it may be useful to compare both spendable unassigned fund balance and total fund balance to operating expenditures. Spendable unassigned fund balance represents 11.0 percent of the total general fund operating expenditures of \$13,045,837 (total expenditures less capital outlay). The GFOA's best practice target for the spendable unassigned fund balance is 2 months operating expenditures, which calculates to approximately \$2,174,308. Total fund balance as a percentage of the general operating expenditures is 17.3 percent.

Overview of the Financial Statements

The basic financial statements consist of three components:

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

Government-Wide Financial Statements

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

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

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

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

The government-wide financial statements begin on page 16 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 seventeen 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 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 governmental fund to demonstrate compliance with this budget.

The basic governmental fund financial statements and the budgetary comparison statements can be found beginning on page 20 of this report.

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

Management's Discussion and Analysis

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. Statistics related to EMS, in its seventh year of operations, are as follows:

<i>Years ended September 30,</i>	2017	2016	Increase (Decrease)	% Increase (Decrease)
Number of patients transported	4,174	3,804	370	9.7%
Six year average:				
Gross charge per trip	\$ 672			
Net charge per trip	\$ 421			
Cash collection per trip	\$ 297			
Cash collection per trip as a percent of net charge per trip	70.5%			
Average cost per transport:				
FY2016-17	\$ 270			
FY2015-16	\$ 276			
FY2014-15	\$ 295			
FY2013-14	\$ 343			
FY2012-13	\$ 375			
FY2011-12	\$ 542			
FY2010-11	\$ 440			

Number of patients transported by payer type:

	FY2016-17	% of total	FY2015-16	% of total
Medicare	2,468	59.1%	2,310	60.7%
Medicaid	597	14.3%	515	13.5%
Other Insurance	679	16.3%	616	16.3%
Patient (no insurance)	430	10.3%	363	9.5%

The EMS program increased the net position by \$351,992 in fiscal year 2017, this increase was \$144,966 more than the prior year's increase in net position of \$207,026. The advance EMS owes to the General Fund at September 30, 2017 is \$169,484 and is \$303,182 less than the \$472,667 at September 30, 2016.

The basic proprietary fund financial statements can be found beginning on page 28 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 31 of this report.

Management's Discussion and Analysis

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, governmental activities assets and deferred outflows of resources exceed liabilities and deferred inflows of resources by \$20,892,629 for fiscal year 2017, as compared to \$21,172,659 for fiscal year 2016.

Net Position, End of Year

September 30,	Governmental Activities		Business-type Activities		Primary Government Total	
	2017	2016	2017	2016	2017	2016
Assets						
Current and other assets	\$ 6,460,088	\$ 7,510,796	\$ 438,775	\$ 421,363	\$ 6,898,863	\$ 7,932,159
Capital assets	34,677,326	34,470,679	2,582,353	2,697,286	37,259,679	37,167,965
Total assets	41,137,414	41,981,475	3,021,128	3,118,649	44,158,542	45,100,124
Deferred outflows of resources						
	1,488,597	925,000	172,957	72,274	1,661,554	997,274
Liabilities						
Current liabilities	1,696,318	2,279,029	251,338	555,499	1,947,656	2,834,528
Long-term liabilities	18,008,452	17,388,677	675,431	570,668	18,683,883	17,959,345
Total liabilities	19,704,770	19,667,706	926,769	1,126,167	20,631,539	20,793,873
Deferred inflows of resources						
	2,028,612	2,066,110	15,306	18,408	2,043,918	2,084,518
Net Position (Deficit)						
Net investment in capital assets	23,860,898	23,449,124	2,477,174	2,546,571	26,338,072	25,995,695
Restricted	564,351	358,287	-	-	564,351	358,287
Unrestricted (deficit)	(3,532,620)	(2,634,752)	(225,164)	(500,223)	(3,757,784)	(3,134,975)
Total net position	\$ 20,892,629	\$ 21,172,659	\$ 2,252,010	\$ 2,046,348	\$ 23,144,639	\$ 23,219,007

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

An additional portion of the City's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position may be used to meet the City's ongoing obligations. The City, at September 30, 2017 and 2016, reported unrestricted deficits in governmental and business-type activities. The unrestricted deficit in governmental activities was the result of the implementation of GASB 68 effective last fiscal year. The governmental activities unrestricted deficit increased by \$897,868, net investment in capital assets increased by \$342,378, and restricted net position increased by \$206,064 over prior year. As

Management's Discussion and Analysis

noted previously, the City's governmental activities net position decreased \$280,030 and the business-type activities increased \$205,662, for a net decrease in total net position during fiscal year 2017 of \$74,368.

Operating Results for the Year

<i>Years ended September 30,</i>	Governmental Activities		Business-type Activities		Primary Government Total	
	2017	2016	2017	2016	2017	2016
Program Revenues:						
Charges for services	\$ 5,266,166	\$ 5,307,205	\$ 1,479,365	\$ 1,354,541	\$ 6,745,531	\$ 6,661,746
Operating grants and contributions	387,429	329,129	-	-	387,429	329,129
Capital grants and contributions	924,477	2,030,015	-	-	924,477	2,030,015
General Revenues:						
Property taxes	731,195	734,536	-	-	731,195	734,536
Sales tax	7,042,900	6,729,822	-	-	7,042,900	6,729,822
Motor fuel tax	1,276,419	1,031,932	-	-	1,276,419	1,031,932
Other taxes	951,079	1,004,759	-	-	951,079	1,004,759
Other	487,557	431,673	2,585	8	490,142	431,681
Total revenues	17,067,222	17,599,071	1,481,950	1,354,549	18,549,172	18,953,620
Functions/Program Expenses:						
General government	2,259,540	2,301,151	-	-	2,259,540	2,301,151
Police department	3,012,547	3,033,568	-	-	3,012,547	3,033,568
Fire department	2,834,980	2,653,947	1,129,036	1,048,527	3,964,016	3,702,474
Street	942,023	873,644	-	-	942,023	873,644
Sanitation	1,277,458	1,228,235	-	-	1,277,458	1,228,235
Leisure services	1,776,624	1,717,166	-	-	1,776,624	1,717,166
Engineering/inspections	142,853	129,088	-	-	142,853	129,088
Vehicle maintenance	203,676	201,635	-	-	203,676	201,635
Airport	219,265	110,289	-	-	219,265	110,289
Judicial	208,614	217,377	-	-	208,614	217,377
Appropriations	135,253	129,550	-	-	135,253	129,550
Education	2,365,859	2,335,916	-	-	2,365,859	2,335,916
Non-departmental	323,416	314,106	-	-	323,416	314,106
Economic development	853,947	815,695	147,252	141,881	1,001,199	957,576
Ozark technology center	141,248	120,691	-	-	141,248	120,691
Information technology	197,804	239,063	-	-	197,804	239,063
Interest and fees on long term debt	442,414	351,622	-	-	442,414	351,622
Amortization	9,731	11,875	-	-	9,731	11,875
Total functions/program expenses	17,347,252	16,784,618	1,276,288	1,190,408	18,623,540	17,975,026
Increase (Decrease) in Net Position	\$ (280,030)	\$ 814,453	\$ 205,662	\$ 164,141	\$ (74,368)	\$ 978,594

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.

Management's Discussion and Analysis

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 \$3,704,463, a decrease of \$250,811 in comparison with the prior year. Spendable unassigned fund balances of \$1,434,314 represents 38.7 percent of the ending total fund balances and are available to meet the City's short-term spending needs. The remainder of fund balance that is nonspendable is \$634,294 and the spendable, restricted amount is \$1,635,855 to indicate that it is not available for new spending because it has already been committed to grants accounted for in the general and special revenue funds.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, spendable unassigned fund balance of the General Fund is \$1,434,314 while the total fund balance was \$2,253,959. The net result of General Fund operations is a decrease in the General Fund's fund balance of \$50,847. As a measure of the General Fund's liquidity, it may be useful to compare both spendable unassigned fund balance and total fund balance to total operating expenditures. Spendable unassigned fund balance represents 11.0 percent of total General Fund operating expenditures of \$13,045,837 while total fund balance represents 17.3 percent of that same amount. The recommended best practice target for the spendable unassigned fund balance should be no less than two months operating expenditures. Two months operating expenditures (expenditures less capital outlay of \$13,045,837 would be approximately \$2,174,308, the City is currently at \$1,434,314).

<i>September 30,</i>	Total Governmental Funds		Change
	2017	2016	
Assets			
Cash and cash equivalents	\$ 2,282,691	\$ 3,127,059	\$ (844,368)
Receivables, net	3,485,924	3,540,745	(54,821)
Due from other funds	178,869	769,550	(590,681)
Other assets	13,473	16,985	(3,512)
Restricted cash and cash equivalents	508,516	353,340	155,176
Total assets	\$ 6,469,473	\$ 7,807,679	\$ (1,338,206)

Management's Discussion and Analysis

Liabilities, Deferred Inflows of Resources, and Fund Balances

Liabilities			
Accounts payable	\$ 357,801	\$ 1,269,947	\$ (912,146)
Due to other funds	9,385	296,883	(287,498)
Accrued payroll	292,010	239,001	53,009
Other accrued expenses	184,946	110,741	74,205
Total liabilities	844,142	1,916,572	(1,072,430)
Deferred inflows of resources	1,920,868	1,935,833	(14,965)
Fund balances			
Nonspendable	634,294	971,645	(337,351)
Restricted	1,635,855	1,713,440	(77,585)
Unassigned	1,434,314	1,270,189	164,125
Total fund balances	3,704,463	3,955,274	(250,811)
Total liabilities, deferred inflows of resources, and fund balances	\$ 6,469,473	\$ 7,807,679	\$ (1,338,206)

<i>Years ended September 30,</i>	<u>Total Governmental Funds</u>		Changes
	2017	2016	
Revenues			
Taxes	\$ 11,289,642	\$ 10,804,655	\$ 484,987
Licenses and permits	1,673,157	1,747,111	(73,954)
Intergovernmental	1,163,784	2,195,210	(1,031,426)
Charges for services	1,563,197	1,550,395	12,802
Fines and forfeitures	524,459	542,751	(18,292)
Investment earnings	25,595	25,492	103
Miscellaneous	662,474	652,802	9,672
Total revenues	16,902,308	17,518,416	(616,108)

Revenues for FY 2017 from governmental funds were more than FY 2016 revenues by \$616,108. The majority of the decrease came from intergovernmental revenues less than prior year by \$1,031,426, which was a reduction in grant proceeds for airport improvement projects, reduction in CDBG grant for housing rehabilitation, and reduction in ALDOT Transportation Alternative Project grant for ADA sidewalk improvements in downtown Ozark. The majority of the increase in tax revenues of \$484,987 was due in fiscal year 2017 having 12 months of the increase in the local fuel tax from \$0.02 per gallon to \$0.06 per gallon and slight improvement in sales and use taxes.

Management's Discussion and Analysis

<i>Years ended September 30,</i>	Total Governmental Funds		Changes
	2017	2016	
Expenditures			
General government	\$ 1,142,090	\$ 1,372,542	\$ (230,452)
Education	2,365,859	2,335,916	29,943
Vehicle maintenance	201,870	197,988	3,882
Police department	2,784,283	2,814,838	(30,555)
Information technology	155,317	208,251	(52,934)
Fire department	2,559,246	2,426,673	132,573
Airport	190,732	104,304	86,428
Sanitation	1,141,123	1,131,073	10,050
Street	888,610	821,489	67,121
Leisure services	1,579,003	1,534,265	44,738
Appropriations	135,253	129,550	5,703
Judicial	199,990	210,406	(10,416)
Economic development	782,990	739,961	43,029
Engineering/inspections	133,076	126,399	6,677
Ozark technology center	115,453	94,691	20,762
Non-departmental	323,416	314,076	9,340
Debt service			
Principal	667,630	474,429	193,201
Interest, fees and issuance costs	363,283	351,621	11,662
Capital outlay	1,932,865	4,693,667	(2,760,802)
Total expenditures	17,662,089	20,082,139	(2,420,050)
Excess (deficiency) of revenues over expenditures	(759,781)	(2,563,723)	1,803,942
Other Financing Sources (Uses)			
Transfers in, net	50,000	49,999	1
Net proceeds from long term debt	3,342,128	2,844,541	497,587
Payment to refunded bond escrow agent	(2,959,132)	-	(2,959,132)
Proceeds from sale of capital assets and loss recoveries	75,974	17,493	58,481
Total other financing sources	508,970	2,912,033	(2,403,063)
Excess (deficiency) of revenues and other sources over expenditures	(250,811)	348,310	(599,121)
Fund Balances - beginning	3,955,274	3,606,964	348,310
Fund Balances - ending	\$ 3,704,463	\$ 3,955,274	\$ (250,811)

Management's Discussion and Analysis

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 \$576,866. The majority of \$99,331 budget reduction in tax revenues was due to the actual local option fuel revenues being under budget by \$44,551 and ad valorem tax revenues being under budget by \$39,369. The majority of the \$193,758 of budget reductions was in relation to licenses and permits.

General Fund operating expenditures (excluding capital outlay) were under the final amended budget by \$419,854. This reflects operating estimated expenditures coming in under budget due to continued efforts by departments to keep positions vacated for several months before filling.

Capital Assets

The City's investment in capital assets for governmental activities as of September 30, 2017 amounts to \$34,677,326 (net of accumulated depreciation). The City's investment in capital assets for business-type activities as of September 30, 2017, amounts to \$2,582,353 (net of accumulated depreciation). This investment in capital assets includes land; improvements and infrastructure; buildings; equipment; and construction in progress. Governmental activities construction in progress decreased by \$2,143,330 as several capital improvement projects which were completed in fiscal year 2017. Capital improvement projects completed in fiscal year 2017 included: the 2016 street resurfacing from the GO Bonds, Series 2016 issued in May 2016; the Downtown ADA sidewalk project; the painting and siding repairs to the Holman House; and the completion of the Steagall Park Restroom and splash pad. Additional information on the City's capital assets can be found in Note 7 of this report.

Capital Assets (net of depreciation)

	Governmental Activities		Business-type Activities		Primary Government Total	
	9/30/2017	9/30/2016	9/30/2017	9/30/2016	9/30/2017	9/30/2016
Land	\$ 5,382,658	\$5,400,558	\$ 573,045	\$573,045	\$ 5,955,703	\$5,973,603
Construction in progress	95,738	2,239,068	-	-	95,738	2,239,068
Improvements/infrastructure	18,865,055	16,165,265	-	-	18,865,055	16,165,265
Buildings	7,405,155	7,621,552	1,856,796	1,909,127	9,261,951	9,530,679
Equipment	2,062,927	2,252,417	10,474	50,042	2,073,401	2,302,459
Property under capital lease	865,793	791,819	142,038	165,072	1,007,831	956,891
Total	\$34,677,326	\$34,470,679	\$2,582,353	\$2,697,286	\$ 37,259,679	\$37,167,965

Management's Discussion and Analysis

Long-Term Debt

The City Council on April 4, 2017, approved a 48 month financing with Commercial Bank for six work vehicles for the Fire Department (1), Public Works (3), and Leisure Services (2) in the amount of \$146,236.

The City Council approved an ordinance on June 6, 2017, for the purpose of acquiring and construction certain municipal improvements, paying issuance costs and partially advance refunding \$2,880,000 of the General Obligation Bonds, Series 2011 with a new \$3,140,000 General Obligation Bond, Series 2017. The net present value savings on the partial refunding was \$142,836.

The City Council approved a 48 month financing with Commercial Bank of Ozark on September 19, 2017 in the amount of \$36,600 for the purchase of one work vehicle for the Police Department-Animal Control operation.

The net pension liability reflects compliance with the implementation of two new GASB Statements: GASB 68 and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB Statement No. 68*. These Statements established new accounting and financial reporting for governments that provide their employees with pension benefits. The RSA provided each participating employer of the ERS with the accounting entries to include in the financial statements for fiscal year 2017. Additional information on the City's long-term debt can be found in Note 9 of this report.

Long-term Debt

	Governmental Activities		Business-type Activities		Primary Government Total	
	9/30/2017	9/30/2016	9/30/2017	9/30/2016	9/30/2017	9/30/2016
Capital leases	\$ 651,513	\$ 686,307	\$ 105,179	\$ 150,715	\$ 756,692	\$ 837,022
Bonds payable, net	10,164,916	10,335,248	-	-	10,164,916	10,335,248
Compensated absences	310,659	296,029	20,942	16,107	331,601	312,136
Net pension liability	5,521,260	4,749,165	384,178	277,894	5,905,438	5,027,059
Other postemployment benefit obligation	2,221,666	1,981,268	211,408	171,488	2,433,074	2,152,756
Total	\$ 18,870,014	\$ 18,048,017	\$ 721,707	\$ 616,204	\$ 19,591,721	\$ 18,664,221

Significant Economic Factors

The Mayor and City Council considered many factors when developing the fiscal year 2017-18 budget. A budget of \$16.8 million was adopted for the General Fund, \$6.9 million in Special Revenue Funds, and \$1.7 million in Enterprise Funds on August 15, 2017.

- The local government health insurance carrier (Blue Cross/Blue Shield of Alabama) continues to offer an annual health screening to all employees and again if the City has 80 percent of its enrolled employees participate the City will receive a wellness discount of \$10

Management's Discussion and Analysis

per employee per month. The City reached the required employee participation in 2016 and expects to meet that level of participation for 2017 and the estimated savings in health insurance premiums is approximately \$19,500. The City did receive a health rate increase of 1.5 percent for calendar year 2018.

- The 2017-18 budget does include a step increase adjustment of approximately 2.5%. The salary and benefits budget reflects a staffing reorganization which reflects a reduction in staffing allocations of 5 positions.
- Estimated expenditures for Troy University of \$7,000 will be the fourth year of a five year commitment, and the City has budgeted one-third of the cost of a marketing study which is \$9,000 the other two entities budgeting the other two-thirds of the study is the Dale Medical Center and the Ozark City Schools.
- The City projected slight increases in revenues in sales and use tax due to the future opening of a poultry retail, expansion of restaurant facilities and consumer optimism as a result of reduction in the Dale County unemployment rate over last year.
- Dale County unemployment rate for September 2017 was 3.4 percent and the rate for September 2016 was 6.0 percent.

These factors were considered in preparing the City's budget for fiscal year 2017-18.

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 City Clerk/Chief Financial Officer, City of Ozark, Office of the City Clerk, P.O. Box 1987, Ozark, Alabama 36361.

Under the provisions of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, the Ozark City Board of Education (the "BOE") is reported as a discretely presented component unit of the City's financial statements in a separate column in the government-wide statements to emphasize that it is legally separate from the City. 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.

City of Ozark, Alabama
Statement of Net Position
September 30, 2017

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Ozark City Board of Education
Assets				
Current assets				
Cash and cash equivalents	\$ 2,282,691	\$ 183,868	\$ 2,466,559	\$ 14,284,661
Investments	-	-	-	47,756
Receivables, net	3,485,924	254,907	3,740,831	1,511,616
Other assets	13,473	-	13,473	61,665
Due from other funds	169,484	-	169,484	-
Total current assets	5,951,572	438,775	6,390,347	15,905,698
Restricted cash and cash equivalents	508,516	-	508,516	-
Capital assets				
Capital assets, net of depreciation	29,198,930	2,009,308	31,208,238	24,544,683
Land and other nondepreciable capital assets	5,478,396	573,045	6,051,441	4,887,744
Total capital assets	34,677,326	2,582,353	37,259,679	29,432,427
Total assets	41,137,414	3,021,128	44,158,542	45,338,125
Deferred Outflows of Resources				
Deferred outflows related to pension	1,404,101	172,957	1,577,058	3,004,239
Deferred charge on debt refunding	84,496	-	84,496	-
Total deferred outflows of resources	1,488,597	172,957	1,661,554	3,004,239
Liabilities				
Current liabilities				
Accounts payable	357,801	8,507	366,308	90,254
Accrued payroll and other accrued expenses	476,956	27,071	504,027	1,489,994
Due to other funds	-	169,484	169,484	-
Notes payable	-	-	-	123,419
Amounts due under capital leases	311,937	46,276	358,213	-
Bonds payable	549,624	-	549,624	158,387
Total current liabilities	1,696,318	251,338	1,947,656	1,862,054

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City of Ozark, Alabama
Statement of Net Position (Continued)
September 30, 2017

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Ozark City Board of Education
Noncurrent liabilities				
Notes payable	-	-	-	1,158,571
Amounts due under capital leases	339,575	58,903	398,478	-
Bonds payable, net	9,615,292	-	9,615,292	27,010,731
Compensated absences	310,659	20,942	331,601	-
Net pension liability	5,521,260	384,178	5,905,438	18,607,000
Other post-employment benefits obligation	2,221,666	211,408	2,433,074	-
Total noncurrent liabilities	18,008,452	675,431	18,683,883	46,776,302
Total liabilities	19,704,770	926,769	20,631,539	48,638,356
Deferred Inflows of Resources				
Deferred inflows related to pension	107,744	15,306	123,050	1,585,000
Unearned property taxes	1,920,868	-	1,920,868	1,005,923
Total deferred inflows of resources	2,028,612	15,306	2,043,918	2,590,923
Net Position (Deficit)				
Net investment in capital assets	23,860,898	2,477,174	26,338,072	981,319
Restricted for:				
Capital outlay	185,351	-	185,351	-
Debt service	378,931	-	378,931	-
Education	69	-	69	-
Unrestricted (deficit)	(3,532,620)	(225,164)	(3,757,784)	(3,868,234)
Total net position	\$ 20,892,629	\$ 2,252,010	\$ 23,144,639	(2,886,915)

See accompanying notes to the financial statements.

City of Ozark, Alabama
Statement of Activities
For the Year Ended September 30, 2017

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
General government	\$ 2,259,540	\$ 1,848,787	\$ 15,933	\$ 328,749
Police department	3,012,547	163,808	82,299	-
Fire department	2,834,980	185,471	10,815	-
Street	942,023	-	-	495,651
Sanitation	1,277,458	1,301,107	-	-
Leisure services	1,776,624	239,809	61,692	-
Engineering/inspections	142,853	-	-	-
Vehicle maintenance	203,676	-	-	-
Airport	219,265	51,722	-	100,077
Judicial	208,614	-	-	-
Appropriations	135,253	-	-	-
Non-departmental	323,416	-	-	-
Economic development	853,947	-	216,690	-
Ozark technology center	141,248	-	-	-
Information technology	197,804	-	-	-
Education	2,365,859	1,475,462	-	-
Interest	360,470	-	-	-
Fees on long term debt	81,944	-	-	-
Amortization	9,731	-	-	-
Total governmental activities	17,347,252	5,266,166	387,429	924,477
Business-type Activities:				
Emergency medical services	1,129,036	1,386,969	-	-
Ozark square shopping center	147,252	92,396	-	-
Total business-type activities	1,276,288	1,479,365	-	-
Total primary government	\$18,623,540	\$ 6,745,531	\$ 387,429	\$ 924,477
Component Unit				
Ozark City Board of Education	\$22,491,445	\$ 1,831,935	\$ 14,849,090	\$ 779,364

See accompanying notes to the financial statements.

Net (Expense) Revenue and Changes in Net Position				
Primary Government			Component Unit	
Governmental Activities	Business-type Activities	Total	Ozark City Board of Education	
\$ (66,071)	\$ -	\$ (66,071)	\$ -	
(2,766,440)	-	(2,766,440)	-	
(2,638,694)	-	(2,638,694)	-	
(446,372)	-	(446,372)	-	
23,649	-	23,649	-	
(1,475,123)	-	(1,475,123)	-	
(142,853)	-	(142,853)	-	
(203,676)	-	(203,676)	-	
(67,466)	-	(67,466)	-	
(208,614)	-	(208,614)	-	
(135,253)	-	(135,253)	-	
(323,416)	-	(323,416)	-	
(637,257)	-	(637,257)	-	
(141,248)	-	(141,248)	-	
(197,804)	-	(197,804)	-	
(890,397)	-	(890,397)	-	
(360,470)	-	(360,470)	-	
(81,944)	-	(81,944)	-	
(9,731)	-	(9,731)	-	
<u>(10,769,180)</u>	<u>-</u>	<u>(10,769,180)</u>	<u>-</u>	
-	257,933	257,933	-	
-	(54,856)	(54,856)	-	
<u>-</u>	<u>203,077</u>	<u>203,077</u>	<u>-</u>	
<u>\$ (10,769,180)</u>	<u>\$ 203,077</u>	<u>\$ (10,566,103)</u>	<u>\$ -</u>	
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (5,031,056)</u>	

-Continued-

City of Ozark, Alabama
Statement of Activities (Continued)
For the Year Ended September 30, 2017

Functions/Programs	Net (Expense) Revenue and Changes in Net Position			
	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Ozark City Board of Education
General Revenues				
Sales taxes	\$ 7,042,900	\$ -	\$ 7,042,900	\$ 2,499,753
Motor fuel taxes	1,276,419	-	1,276,419	-
Property taxes	731,195	-	731,195	2,447,209
Alcoholic beverage taxes	153,631	-	153,631	-
Lodging taxes	132,876	-	132,876	-
Tobacco taxes	269,667	-	269,667	-
Other taxes	394,905	-	394,905	8,807
Miscellaneous	209,696	2,578	212,274	648,822
Rental income	94,325	-	94,325	-
Franchise fees	157,941	-	157,941	-
Investment earnings	25,595	7	25,602	224,547
Total general revenues	10,489,150	2,585	10,491,735	5,829,138
Change in net position	(280,030)	205,662	(74,368)	798,082
Net Position - beginning	21,172,659	2,046,348	23,219,007	(3,684,997)
Net Position - ending	\$ 20,892,629	\$ 2,252,010	\$ 23,144,639	\$ (2,886,915)

See accompanying notes to the financial statements.

City of Ozark, Alabama
Balance Sheet-Governmental Funds
September 30, 2017

	General Fund	Special Ad Valorem I	Special Ad Valorem II
Assets			
Cash and cash equivalents	\$ 1,248,789	\$ 24	\$ 45
Receivables	2,068,745	657,501	657,501
Due from other funds	171,528	-	-
Prepays	11,854	-	-
Inventory	1,619	-	-
Restricted cash and cash equivalents	174,258	-	-
Total assets	\$ 3,676,793	\$ 657,525	\$ 657,546
Liabilities, Deferred Inflows of Resources and Fund Balances			
Liabilities			
Accounts payable	\$ 302,873	\$ 14,899	\$ 14,899
Due to other funds	7,341	-	-
Accrued payroll	292,010	-	-
Other accrued expenses	184,946	-	-
Total liabilities	787,170	14,899	14,899
Deferred inflows of resources			
Unearned property taxes	635,664	642,602	642,602
Fund balances			
Nonspendable	634,294	-	-
Restricted	185,351	24	45
Unassigned	1,434,314	-	-
Total fund balances	2,253,959	24	45
Total liabilities, deferred inflows of resources, and fund balances	\$ 3,676,793	\$ 657,525	\$ 657,546

See accompanying notes to the financial statements.

Other Governmental Funds	Total Governmental Funds
\$ 1,033,833	\$ 2,282,691
102,177	3,485,924
7,341	178,869
-	11,854
-	1,619
334,258	508,516
\$ 1,477,609	\$ 6,469,473
\$ 25,130	\$ 357,801
2,044	9,385
-	292,010
-	184,946
27,174	844,142
-	1,920,868
-	634,294
1,450,435	1,635,855
-	1,434,314
1,450,435	3,704,463
\$ 1,477,609	\$ 6,469,473

City of Ozark, Alabama
Reconciliation of the Balance Sheet-Governmental Funds
to the Statement of Net Position
September 30, 2017

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

Total fund balance - governmental funds	\$ 3,704,463
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Capital assets used in governmental activities are not current financial resources and therefore are not reported in the fund financial statement, but are reported in the governmental activities of the Statement of Net Position.	34,677,326
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Some liabilities are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position:

Capital leases payable	(651,513)
Bonds payable, net	(10,164,915)
Deferred charges on debt refunding (amortized as interest expense)	84,496
Net pension liability	(5,521,260)
Deferred outflows related to pension	1,404,101
Deferred inflows related to pension	(107,744)
Accrued compensated absences	(310,659)
Accrued other post-employment benefits	(2,221,666)

Net position of governmental activities in the statement of net position	\$ 20,892,629
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City of Ozark, Alabama

Statement of Revenues, Expenditures and Changes in Fund Balances-
Governmental Funds
For the Year Ended September 30, 2017

	General Fund	Special Ad Valorem I	Special Ad Valorem II
Revenues			
Taxes	\$ 9,629,283	\$ 737,731	\$ 737,731
Licenses and permits	1,673,157	-	-
Intergovernmental	447,127	-	-
Charges for services	1,563,197	-	-
Fines and forfeitures	524,459	-	-
Investment earnings	22,986	-	-
Miscellaneous	653,920	-	-
Total revenues	14,514,129	737,731	737,731
Expenditures			
General government	1,062,154	-	-
Education	890,397	737,731	737,731
Vehicle maintenance	201,870	-	-
Police department	2,743,819	-	-
Information technology	155,317	-	-
Fire department	2,559,246	-	-
Airport	190,732	-	-
Sanitation	1,141,123	-	-
Street	850,432	-	-
Leisure services	1,579,003	-	-
Appropriations	135,253	-	-
Judicial	181,556	-	-
Economic development	782,990	-	-
Engineering/inspections	133,076	-	-
Ozark technology center	115,453	-	-
Non-departmental	323,416	-	-
Debt service			
Principal	-	-	-
Interest	-	-	-
Dues, fees and issuance costs	-	-	-
Capital outlay	518,573	-	-
Total expenditures	13,564,410	737,731	737,731
Excess (deficiency) of revenues over expenditures	949,719	-	-

See accompanying notes to the financial statements.

Other Governmental Funds	Total Governmental Funds
\$ 184,897	\$ 11,289,642
-	1,673,157
716,657	1,163,784
-	1,563,197
-	524,459
2,609	25,595
8,554	662,474
<hr/> 912,717	<hr/> 16,902,308
79,936	1,142,090
-	2,365,859
-	201,870
40,464	2,784,283
-	155,317
-	2,559,246
-	190,732
-	1,141,123
38,178	888,610
-	1,579,003
-	135,253
18,434	199,990
-	782,990
-	133,076
-	115,453
-	323,416
667,630	667,630
281,338	281,338
81,945	81,945
<hr/> 1,414,292	<hr/> 1,932,865
<hr/> 2,622,217	<hr/> 17,662,089
<hr/> (1,709,500)	<hr/> (759,781)

-Continued-

City of Ozark, Alabama

**Statement of Revenues, Expenditures and Changes in Fund Balances-
Governmental Funds (Continued)**

For the Year Ended September 30, 2017

	General Fund	Special Ad Valorem I	Special Ad Valorem II
Other Financing Sources (Uses)			
Proceeds from long term debt, net	182,836	-	-
Payment to refunded bond escrow agent	-	-	-
Proceeds from sale of capital assets	43,009	-	-
Loss recoveries	32,965	-	-
Transfers in (out), net	(1,259,376)	-	-
Total other financing sources (uses)	(1,000,566)	-	-
Excess revenues and other financing sources over (under) expenditures and other (uses)	(50,847)	-	-
Fund Balances - beginning	2,304,806	24	45
Fund Balances - ending	\$ 2,253,959	\$ 24	\$ 45

See accompanying notes to the financial statements.

Other Governmental Funds	Total Governmental Funds
3,159,292	3,342,128
(2,959,132)	(2,959,132)
-	43,009
-	32,965
1,309,376	50,000
<u>1,509,536</u>	<u>508,970</u>
(199,964)	(250,811)
<u>1,650,399</u>	<u>3,955,274</u>
<u>\$ 1,450,435</u>	<u>\$ 3,704,463</u>

City of Ozark, Alabama

**Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances-Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2017**

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

Net change in fund balances - total governmental funds:	\$ (250,811)
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.	1,932,865
Depreciation expense on governmental capital assets is included in the governmental activities in the Statement of Net Position.	(1,765,150)
Repayment of debt is reported as an expenditure in governmental funds, but as a reduction in long-term liabilities in the Statement of Net Position.	3,547,254
Net proceeds from the issuance of long-term debt recorded as other financing source in governmental funds.	(3,342,128)
Additional interest expense due to deferred charges on refunding and issuance discounts.	69,777
The net effect of various miscellaneous transactions involving capital assets (i.e., exchanges, loss recoveries) is to increase net position.	(40,199)
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:	
Net pension liability	(176,610)
Other post employment health benefits liability	(240,398)
Compensated absences	(14,630)
Change in net position of governmental activities	\$ (280,030)

See accompanying notes to the financial statements.

City of Ozark, Alabama

Statement of Revenues, Expenditures and Changes in Fund Balance-
Budget and Actual – General Fund
For the Year Ended September 30, 2017

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues				
Taxes	\$ 9,567,450	\$ 9,728,614	\$ 9,629,283	\$ (99,331)
Licenses and permits	1,738,073	1,721,895	1,673,157	(48,738)
Intergovernmental	364,848	532,516	447,127	(85,389)
Charges for services	1,742,312	1,756,955	1,563,197	(193,758)
Fines and forfeitures	576,962	577,586	524,459	(53,127)
Investment earnings	22,948	22,948	22,986	38
Miscellaneous	591,857	750,481	653,920	(96,561)
Total revenues	14,604,450	15,090,995	14,514,129	(576,866)
Expenditures				
General government	1,347,799	1,125,538	1,062,154	63,384
Education	879,843	890,398	890,397	1
Vehicle maintenance	211,978	213,339	201,870	11,469
Police department	2,843,271	2,900,497	2,743,819	156,678
Information technology	217,220	202,220	155,317	46,903
Fire department	2,521,296	2,627,136	2,559,246	67,890
Airport	229,160	203,481	190,732	12,749
Sanitation	1,165,766	1,160,194	1,141,123	19,071
Street	799,467	853,927	850,432	3,495
Leisure services	1,477,281	1,580,260	1,579,003	1,257
Appropriations	134,753	135,253	135,253	-
Judicial	184,943	190,241	181,556	8,685
Economic development	865,574	791,388	782,990	8,398
Engineering/inspections	129,465	135,304	133,076	2,228
Ozark Technology Center	115,799	121,067	115,453	5,614
Non-departmental	307,686	335,448	323,416	12,032
Capital outlay	398,000	864,193	518,573	345,620
Total expenditures	13,829,301	14,329,884	13,564,410	765,474
Excess of revenues over expenditures	775,149	761,111	949,719	188,608
Other Financing Sources (Uses)				
Proceeds from long-term debt, net	155,000	191,600	182,836	(8,764)
Proceeds from insurance	1,000	2,900	-	(2,900)
Proceeds from the sale of capital assets	5,000	23,173	43,009	19,836
Loss recoveries	1,000	25,408	32,965	7,557
Transfers in (out), net	(925,477)	(1,133,238)	(1,259,376)	(126,138)
Total other financing sources (uses)	(763,477)	(890,157)	(1,000,566)	(110,409)
Excess (deficiency) of revenues and other sources (uses) over expenditures	11,672	(129,046)	(50,847)	78,199
Fund Balance - beginning	2,286,214	2,304,811	2,304,806	(5)
Fund Balance - ending	\$ 2,297,886	\$ 2,175,765	\$ 2,253,959	\$ 78,194

See accompanying notes to the financial statements.

City of Ozark, Alabama

**Statement of Revenues, Expenditures and Changes in Fund Balance-
Budget and Actual – Special Ad Valorem Fund I
For the Year Ended September 30, 2017**

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues				
Taxes	\$ 741,362	\$ 741,362	\$ 737,731	\$ (3,631)
Expenditures				
Education	741,362	741,362	737,731	3,631
Excess revenues over expenditures	-	-	-	-
Fund Balance - beginning	24	24	24	-
Fund Balance - ending	\$ 24	\$ 24	\$ 24	\$ -

See accompanying notes to the financial statements.

City of Ozark, Alabama

**Statement of Revenues, Expenditures and Changes in Fund Balance-
Budget and Actual- Special Ad Valorem Fund II
For the Year Ended September 30, 2017**

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues				
Taxes	\$ 741,362	\$ 741,362	\$ 737,731	\$ (3,631)
Expenditures				
Education	741,362	741,362	737,731	3,631
Excess revenues over expenditures	-	-	-	-
Fund Balance - beginning	45	45	45	-
Fund Balance - ending	\$ 45	\$ 45	\$ 45	\$ -

See accompanying notes to the financial statements.

City of Ozark, Alabama
Statement of Net Position
Proprietary Funds
For the Year Ended September 30, 2017

	Emergency Medical Services	Ozark Square Shopping Center	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 22,038	\$ 161,830	\$ 183,868
Receivables, net	254,907	-	254,907
Total current assets	276,945	161,830	438,775
Noncurrent assets			
Land	-	573,045	573,045
Capital assets, net of depreciation	152,511	1,856,797	2,009,308
Total noncurrent assets	152,511	2,429,842	2,582,353
Total assets	429,456	2,591,672	3,021,128
Deferred Outflows of Resources			
Deferred outflows related to pension	172,957	-	172,957
Liabilities			
Current liabilities			
Accounts payable	7,576	931	8,507
Due to other funds	169,484	-	169,484
Accrued payroll	27,071	-	27,071
Amount due under capital lease	46,276	-	46,276
Total current liabilities	250,407	931	251,338
Noncurrent liabilities			
Amount due under capital lease	58,903	-	58,903
Compensated absences	20,942	-	20,942
Net pension liability	384,178	-	384,178
Other post-employment benefits obligation	211,408	-	211,408
Total noncurrent liabilities	675,431	-	675,431
Total liabilities	925,838	931	926,769
Deferred Inflows of Resources			
Deferred inflows related to pension	15,306	-	15,306
Net Position (Deficit)			
Net investment in capital assets	47,332	2,429,842	2,477,174
Unrestricted (deficit)	(386,063)	160,899	(225,164)
Total net position (deficit)	\$ (338,731)	\$ 2,590,741	\$ 2,252,010

See accompanying notes to the financial statements.

City of Ozark, Alabama
Statement of Revenues, Expenses and Changes in Net Position-
Proprietary Funds
For the Year Ended September 30, 2017

	Emergency Medical Services	Ozark Square Shopping Center	Total
Operating Revenues			
Charges for services (net of provision for bad debts of \$399,681)	\$ 1,386,969	\$ -	\$ 1,386,969
Rental income	-	92,396	92,396
Total operating revenues	1,386,969	92,396	1,479,365
Operating Expenses			
Salaries and benefits	871,295	-	871,295
Repairs and maintenance	41,840	19,930	61,770
Utilities	6,865	18,143	25,008
Insurance	5,742	6,254	11,996
Legal	4,576	-	4,576
Depreciation	62,601	52,331	114,932
Other operating expenses	134,024	594	134,618
Total operating expenses	1,126,943	97,252	1,224,195
Operating income (loss)	260,026	(4,856)	255,170
Non-Operating Revenues (Expenses)			
Miscellaneous revenues	2,578	-	2,578
Interest income (expense)	(2,086)	-	(2,086)
Total non-operating revenues (expenses)	492	-	492
Income (loss) before transfers	260,518	(4,856)	255,662
Transfers In (Out)	-	(50,000)	(50,000)
Change in net position	260,518	(54,856)	205,662
Total Net Position (Deficit) - beginning	(599,249)	2,645,597	2,046,348
Total Net Position (Deficit) - ending	\$ (338,731)	\$ 2,590,741	\$ 2,252,010

See accompanying notes to the financial statements.

City of Ozark, Alabama
Statement of Cash Flows-Proprietary Funds
For the Year Ended September 30, 2017

	Emergency Medical Services	Ozark Square Shopping Center	Total
Cash Flows From Operating Activities			
Receipts from customers and users	\$ 1,340,879	\$ 92,396	\$ 1,433,275
Payments to suppliers	(197,346)	(45,464)	(242,810)
Payments to employees	(811,924)	-	(811,924)
Net cash provided by operating activities	331,609	46,932	378,541
Cash Flows From Noncapital and Related Financing Activities			
Advances to other funds	-	(50,000)	(50,000)
Net repayments of loans to other funds	(303,183)	-	(303,183)
Net cash used in noncapital and related financing activities	(303,183)	(50,000)	(353,183)
Cash Flows From Capital and Related Financing Activities			
Interest payments on long-term debt	(2,093)	-	(2,093)
Principal payments on long-term debt	(45,536)	-	(45,536)
Net cash used in capital and related financing activities	(47,629)	-	(47,629)
Cash Flows From Investing Activities			
Interest received	7	-	7
Net decrease in cash and cash equivalents	(19,196)	(3,068)	(22,264)
Cash and Cash Equivalents - beginning	41,234	164,898	206,132
Cash and Cash Equivalents - ending	\$ 22,038	\$ 161,830	\$ 183,868
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating income (loss)	\$ 260,026	\$ (4,856)	\$ 255,170
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	62,601	52,331	114,932
Provision for bad debts	399,681	-	399,681
Changes in operating assets and liabilities:			
Increase in receivables	(436,778)	-	(436,778)
Decrease in accounts payable	(3,880)	(543)	(4,423)
Decrease in deferred inflows related to pension	(3,102)	-	(3,102)
Increase in deferred outflows related to pension	(100,683)	-	(100,683)
Increase in net pension liability	106,284	-	106,284
Increase in salaries and benefits payable	47,460	-	47,460
Net cash provided by operating activities	\$ 331,609	\$ 46,932	\$ 378,541

See accompanying notes to the financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

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

Discretely Presented Component Unit

The BOE consists of five board members and is the governing body of the Ozark City School System. The City appoints the board members. The Dale County Revenue Commissioner remits to the City 14 mils of property taxes and the City distributes the millage to the BOE. The City also remits ½ cent of its 4 cent sales tax levied to the BOE. A resolution adopted by the City Council pledges to and commits itself to the BOE, the State of Alabama Department of Education and holders of the Qualified School Construction Bonds (“QSCB”) allocated to the BOE that it will take no action to rescind, change or otherwise alter the distribution of taxes levied under Article X, Sec 11-191, Code of Ordinances of the City to the BOE. The pledge is in full force and effect for such period of time as the BOE is obligated for repayment of its allocation of the QSCB. The BOE is reported as a governmental activity. 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

The following organizations, though legally independent of the City, are deemed to be an extension of the City and are reported within the City’s general fund.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and the PBA provides services entirely to the City.

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.

Industrial Development Board – the Industrial Development Board (the “IDB”) is a non-profit organization. The City appoints the IDB’s governing body and the IDB provides services entirely to the City.

Government-wide and Fund Financial Statements

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Ozark Square Shopping Center are charges to tenants for rent. The principal operating revenues of 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following are reported as major governmental funds:

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

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

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

Cash and Cash Equivalents

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

Investments

The City’s investments are limited to money market accounts held at federally insured banks. These investments are reported at amortized cost.

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.

Interfund Loans and Transfers

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

Restricted Assets

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

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has two items that qualify for reporting in this category, the deferred charge on refunding and the deferred outflows related to pension reported in the statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. A deferred outflow related to pension results from pension contributions related to normal and accrued employer liability (net of any refunds or error service payments) subsequent to the measurement date, in accordance with GASB Statement No. 71.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will *not* be recognized as an inflow of resources (revenue) until that time. The unearned revenues from ad valorem property taxes and grants qualify for reporting in this category. Also, the net difference between projected and actual earnings on plan investments, in accordance with the GASB Statement No. 71, is reported as a deferred inflow related to pension.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences

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

Long-Term Obligations

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

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

Net Position/Fund Balance

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

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

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

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

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

City of Ozark, Alabama
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

The City’s reported governmental fund balance at September 30, 2017 is comprised of the following:

	Nonspendable	Restricted	Unassigned
General Fund	\$ 634,294	\$ 185,351	\$ 1,434,314
Special Ad Valorem I	-	24	-
Special Ad Valorem II	-	45	-
Nonmajor governmental funds	-	1,450,435	-
	<u>\$ 634,294</u>	<u>\$ 1,635,855</u>	<u>\$ 1,434,314</u>

Nonspendable fund balances include gas and diesel inventory of \$1,619, prepaid expenditures of \$11,854, long-term note receivable due from the Utilities Board of \$451,337, and amounts due from the EMS fund of \$169,484.

Restricted fund balances include ad valorem taxes due to the BOE; funds available for street paving and resurfacing; grant funds available for the purchase of equipment and supplies for the 33rd Judicial Circuit Drug Task Force; costs and charges fixed by law for municipal court violation; grant funds available for capital improvements; bond proceeds for capital improvements; and debt service principal and interest payments.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Tax Calendar

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. The enforceable claim exists as of October 1 preceding the February meeting of the County Commission. In accordance with the non-exchange transactions provision of GASB Statement No. 33 and deferred inflows of resources guidance from GASB Statement No. 65, taxes levied in fiscal year 2016 for the 2017 budget year have been recorded as receivables and deferred inflows of resources.

Pensions

The Employees' Retirement System of Alabama (the "Plan") financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to the plan requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Expenses are recognized when the corresponding liability is incurred regardless of when the payment is made. Investments are reported at fair value. Financial statements are prepared in accordance with requirements of the GASB. Under these requirements, the Plan is considered a component unit of the State of Alabama and is included in the State's Comprehensive Annual Financial Report.

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.

Impact of Recently Issued Accounting Pronouncements

In fiscal year 2017, the City adopted four new statements of financial accounting standards issued by the GASB:

- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* ("GASB 74").
- GASB Statement No. 77, *Tax Abatement Disclosures* ("GASB 77").
- GASB Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans* ("GASB 78").
- GASB Statement No. 80, *Blending Requirements for Certain Component Units an amendment of GASB Statement No. 14* ("GASB 80").

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GASB 74 establishes accounting and financial reporting standards, but not funding or budgetary standards for state and local governmental other postemployment benefit (“OPEB”) plans. GASB 74 replaces GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and Statement No. 57, *OPEB Measurement by Agent Employers and Agent Multiple-Employer Plans*. The adoption of GASB 74 had no impact on the City’s financial statements.

GASB 77 defines a tax abatement and contains required disclosures about a reporting government’s own tax abatement agreements and those agreements that are entered into by other governments and that reduce the reporting government’s tax revenues. Refer to Note 13 for the additional required disclosures.

GASB 78 amends the scope and applicability of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*—and amendment of GASB Statement No. 27 to exclude pension plans provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (a) is not a state or local government pension plan, (b) is used to provide defined benefits both to employees of state or local governmental employers and to employees of employers that are not state or local governments, and (c) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). The Statement also establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. There was no material impact on the City’s financial statements as a result of the implementation of GASB 78.

GASB 80 amends the blending requirements for the financial statement presentation of component units of all state and local governments by providing an additional criterion. As provided for in GASB 80, a component unit should be included in the reporting entity financial statements using the blending method if the component unit is organized as a not-for-profit corporation in which the primary government is the sole corporate member as identified in the component unit’s articles of incorporation or bylaws. There was no impact on the City’s financial statements as a result of the implementation of GASB 80.

Recently Issued But Not Yet Effective

GASB has issued the following pronouncements that may affect future financial position, results of operations, cash flows, or financial presentation of the City upon implementation. Management has not yet evaluated the effect of implementation of these standards.

City of Ozark, Alabama
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GASB Statement No.	GASB Accounting Standard	Effective Fiscal Year
75	<i>Account and Financial Reporting for Postemployment Benefits Other Than Pensions</i>	2018
81	<i>Irrevocable Split-Interest Agreements</i>	2018
83	<i>Certain Asset Retirement Obligations</i>	2019
84	<i>Fiduciary Activities</i>	2020
85	<i>Omnibus 2017</i>	2018
86	<i>Certain Debt Extinguishment Issues</i>	2018
87	<i>Leases</i>	2021

GASB Statement No. 75 (“GASB 75”) establishes standards of accounting and financial reporting, but not funding or budgetary standards, for OPEB that is provided to the employees of state and local governmental employers through OPEB Plans that are administered through trusts or equivalent arrangements meeting certain criteria. This statement also establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditure. It replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended*, and No. 57, *OPEB Measurement by Agent Employers and Agent Multiple-Employer Plans*. For defined benefit OPEB plans, the statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information are addressed. GASB 75 is effective for fiscal years beginning after June 15, 2017.

GASB Statement No. 81 (“GASB 81”) requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. GASB 81 also provides expanded guidance for circumstances in which the government holds the assets. The requirements of GASB 81 are effective for periods beginning after December 15, 2016.

GASB Statement No. 83 (“GASB 83”) addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in GASB 83. GASB 83 establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This statement also includes various disclosure requirements. The requirements for GASB 83 are effective for reporting periods beginning after June 15, 2018.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GASB Statement No. 84 (“GASB 84”) establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. The requirements of GASB 84 are effective for reporting periods beginning after December 15, 2018.

GASB Statement No. 85 (“GASB 85”) addresses practice issues that have been identified during implementation and application of certain GASB Statements. GASB 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and OPEB). The requirements of GASB 85 are effective for reporting periods beginning after June 15, 2017.

GASB Statement No. 86 (“GASB 86”) improves the consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. GASB 86 also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of GASB 86 are effective for reporting periods beginning after June 15, 2017.

The objective of GASB Statement No. 87 (“GASB 87”) is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. GASB 87 increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

Under GASB 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of GASB 87 are effective for reporting periods beginning after December 15, 2019.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

Each year formal budgets are legally adopted and amended as required by the City Council for the General Fund and Special Revenue Funds. Management can approve transfers within government function categories only. Transfers of appropriations or revisions between government function categories require the approval of the City Council. The level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the government function category level.

City of Ozark, Alabama
Notes to Financial Statements

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

Budgets for the governmental funds are adopted on a basis consistent with GAAP.

Net Deficit

As of September 30, 2017, the EMS Proprietary Fund reported unrestricted deficit of \$386,063 and total net deficit of \$338,731, which is expected to be funded by future revenues. The current deficit was funded through increased cash collections on charges for service.

NOTE 3 – CASH AND CASH EQUIVALENTS

The City has elected to place its cash and cash equivalents in demand deposits, 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, 2017 consist of the following:

	Accounts Receivable	Property Taxes Receivable	Note Receivable - Utilities Board	Total
General Fund	\$ 981,744	\$ 635,664	\$ 451,337	\$ 2,068,745
Special Ad Valorem I	14,899	642,602	-	657,501
Special Ad Valorem II	14,899	642,602	-	657,501
Nonmajor governmental funds	102,177	-	-	102,177
	\$ 1,113,719	\$ 1,920,868	\$ 451,337	\$ 3,485,924

Proprietary Funds

Patient transport accounts receivable, net reported in the EMS Fund at September 30, 2017 consists of these amounts:

City of Ozark, Alabama
Notes to Financial Statements

NOTE 4 – RECEIVABLES (Continued)

Medicare	\$	88,289
Medicaid		50,337
Insurance providers		106,885
Patients		153,883
Collection agency		2,286,113
Other		4,508
		2,690,015
Less: allowance for doubtful accounts		(2,435,108)
Patient transport accounts receivable, net		\$ 254,907

NOTE 5 – INTERFUND BALANCES AND TRANSFERS

Interfund balances are generally used to meet cash demands necessary to pay operating expenditures. Interfund balances at September 30, 2017 consist of the following:

	Due From	Due To
General fund	\$ 171,528	\$ 7,341
Nonmajor governmental funds	7,341	2,044
Enterprise funds	-	169,484
		\$ 178,869

Transfers to/from other funds for the year ended September 30, 2017 consist of the following:

	Transfers In	Transfers Out	Net
General fund	\$ 106,678	\$ (1,366,054)	\$ (1,259,376)
Nonmajor governmental funds	4,755,870	(3,446,494)	1,309,376
Enterprise funds	-	(50,000)	(50,000)
		\$ 4,862,548	\$ (4,862,548)

NOTE 6 – RESTRICTED ASSETS

Restricted cash in the governmental funds is comprised of \$334,258 from the debt service fund restricted for debt service and \$174,258 from the general fund for capital projects.

City of Ozark, Alabama
Notes to Financial Statements

NOTE 7 – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2017 was as follows:

	Beginning Balance 10/1/2016	Increases	Decreases	Ending Balance 9/30/2017
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 5,400,558	\$ -	\$ 17,900	\$ 5,382,658
Construction in progress	2,239,068	1,012,679	3,156,009	95,738
Total capital assets not being depreciated	\$ 7,639,626	\$1,012,679	\$ 3,173,909	\$ 5,478,396
Capital assets being depreciated:				
Buildings	\$13,765,619	\$ 82,023	\$ -	\$13,847,642
Improvements and infrastructure	40,149,952	3,649,230	-	43,799,182
Equipment	7,415,801	234,103	169,162	7,480,742
Property under capital leases	933,874	182,836	-	1,116,710
Total capital assets being depreciated	62,265,246	4,148,192	169,162	66,244,276
Less accumulated depreciation for:				
Buildings	6,144,067	298,420	-	6,442,487
Improvements and infrastructure	23,984,687	949,440	-	24,934,127
Equipment	5,163,384	408,428	153,997	5,417,815
Property under capital leases	142,055	108,862	-	250,917
Total accumulated depreciation	35,434,193	1,765,150	153,997	37,045,346
Total capital assets being depreciated, net	\$26,831,053	\$2,383,042	\$ 15,165	\$29,198,930
Governmental activities capital assets, net	\$34,470,679	\$3,395,721	\$ 3,189,074	\$34,677,326
Business-type Activities:				
Capital assets not being depreciated:				
Land	\$ 573,045	\$ -	\$ -	\$ 573,045
Capital assets being depreciated:				
Buildings	\$ 2,313,898	\$ -	\$ -	\$ 2,313,898
Equipment	379,919	-	-	379,919
Property under capital lease	184,266	-	-	184,266
Total capital assets being depreciated	2,878,083	-	-	2,878,083
Less accumulated depreciation for:				
Buildings	404,771	52,331	-	457,102
Equipment	329,877	39,568	-	369,445
Property under capital lease	19,195	23,033	-	42,228
Total accumulated depreciation	753,843	114,932	-	868,775
Total capital assets being depreciated, net	\$ 2,124,240	\$ (114,932)	\$ -	\$ 2,009,308
Business-type activities capital assets, net	\$ 2,697,285	\$ (114,932)	\$ -	\$ 2,582,353

City of Ozark, Alabama
Notes to Financial Statements

NOTE 7 – CAPITAL ASSETS (Continued)

Construction in progress for governmental activities at September 30, 2017 is comprised of the amounts relating to airport improvement projects, particularly an airport fueling station. These projects are expected to be completed and reclassified during the next fiscal year. The estimated costs to complete the airport improvement projects are insignificant.

Depreciation expense was charged to functions/programs as follows:

Governmental Activities	
General government	\$ 963,911
Vehicle maintenance	1,236
Police department	153,266
Information technology	38,070
Fire department	190,725
Airport	26,447
Sanitation department	106,765
Street department	30,941
Leisure services	152,007
Judicial	2,906
Economic development	73,181
Engineering/inspections	1,848
Ozark Technology Center	23,847
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Total depreciation expense – Governmental Activities	\$ 1,765,150
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Business-type Activities	
Emergency Medical Services	\$ 62,601
Ozark Square Shopping Center	52,331
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Total depreciation expense – Business-type Activities	\$ 114,932
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City of Ozark, Alabama
Notes to Financial Statements

NOTE 8 – DEFERRED INFLOWS OF RESOURCES

	General Fund	Special Ad Valorem I	Special Ad Valorem II	Governmental Activities
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.	\$ 635,664	\$ 642,602	\$ 642,602	\$ 1,920,868
Pensions – Net difference between projected and actual earnings on pension plan investments.	-	-	-	107,744
	<u>\$ 635,664</u>	<u>\$ 642,602</u>	<u>\$ 642,602</u>	<u>\$ 2,028,612</u>
Business-type Activities:			EMS	Total
Pensions – Net difference between projected and actual earnings on pension plan investments			\$ 15,306	\$ 15,306

NOTE 9 – LONG-TERM DEBT

Changes in long-term debt for the year ended September 30, 2017 were as follows:

	Beginning Balance 10/1/2016	Additions	Reductions	Ending Balance 9/30/2017	Due Within One Year
Governmental Activities					
Capital leases	\$ 686,307	\$ 182,836	\$ 217,630	\$ 651,513	\$ 311,937
Bonds payable	10,365,000	3,140,000	3,330,000	10,175,000	549,624
Unamortized discount	(29,752)	19,292	(376)	(10,084)	-
Compensated absences	296,029	14,630	-	310,659	-
Net pension liability	4,749,165	772,095	-	5,521,260	-
Other postemployment benefits	1,981,268	449,059	208,661	2,221,666	-
Governmental activities long-term liabilities	<u>\$ 18,048,017</u>	<u>\$ 4,577,912</u>	<u>\$ 3,755,915</u>	<u>\$ 18,870,014</u>	<u>\$ 861,561</u>
Business-type Activities					
Capital lease	\$ 150,715	\$ -	\$ 45,536	\$ 105,179	\$ 46,276
Compensated absences	16,107	4,835	-	20,942	-
Net pension liability	277,894	106,284	-	384,178	-
Other postemployment benefits	171,488	39,920	-	211,408	-
Business-type activities long-term liabilities	<u>\$ 616,204</u>	<u>\$ 151,039</u>	<u>\$ 45,536</u>	<u>\$ 721,707</u>	<u>\$ 46,276</u>

City of Ozark, Alabama
Notes to Financial Statements

NOTE 9 – LONG-TERM DEBT (Continued)

Component Unit

Bonds payable	\$ 26,911,046	\$ -	\$ 142,542	\$ 26,768,504	\$ 136,925
Bond premium	422,075	-	21,461	400,614	21,462
Notes payable	1,215,964	384,965	318,939	1,281,990	123,419
Net pension liability	18,587,000	20,000	-	18,607,000	-
Component unit long-term liabilities	\$ 47,136,085	\$ 404,965	\$ 482,942	\$ 47,058,108	\$ 281,806

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

Bonds payable

A description and terms of the City's bonds payable at September 30, 2017 are as follows:

	9/30/2017 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.	\$ 710,000
\$4,180,000 General Obligation Warrants, Series 2014 , dated May 15, 2014, payable in annual installments from 2015 through 2034, interest rates range from 2 to 3.6 percent.	3,785,000
\$2,695,000 General Obligation Warrants, Series 2016 , dated May 1, 2016, payable in annual installments from 2016 through 2031, interest rates range from 1 to 4.0 percent.	2,540,000
\$3,140,000 General Obligation Warrants, Series 2017 , dated June 1, 2017, payable in annual installments from 2018 through 2026, interest rates range from 2 to 2.1 percent.	3,140,000
	\$ 10,175,000

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 the bond holders on August 8, 2011. As a result, the 2002 Series bonds are considered to be defeased and the liability for those bonds has been removed from the City's outstanding general obligation 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

NOTE 9 – LONG-TERM DEBT (Continued)

Performing Arts Center, tennis court resurfacings, and provide the local match for reroofing of the Ozark-Dale County Public Library. The net present value of the cash flow savings resulted in an economic gain of \$314,325 and represents the difference between the net present value of the net cash flows of the old and new debt and the additional bond proceeds for construction of capital improvements.

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, 2017 was \$9,316. The balance on the deferred refunding cost at September 30, 2017 is \$83,838 and is reported as a deferred outflow of resources in the statement of net position.

The Series 2011 bonds are reported net of original issue discount. Original issue discount in the amount of \$53,135 is also being amortized over the life of the bonds and is reported as part of the interest expense. The total amount expensed related to the Series 2011 bonds for the year ended September 30, 2017 is \$3,321. Remaining original issue discount to be deferred to future periods is \$29,888.

On May 15, 2014, the City issued its Series 2014 General Obligation Warrants in the amount of \$4,180,000. Proceeds of the bond were used to redeem \$880,000 of outstanding Series 2004, redeem a Note Payable with Community Bank and Trust Bank ("CB&T") in the amount of \$1,102,500, and to provide \$2,012,132 in funds for the construction of capital improvements. The net proceeds of \$841,502 plus an additional \$48,085 from the 2004 Series sinking fund were used to repay the bondholders on June 14, 2014. As a result, the 2004 Series bonds are considered to be defeased and the liability for those bonds has been removed from the City's outstanding general obligation warrants.

The City's current refunding of the 2004 Series bonds was to obtain additional proceeds that could be used for the redemption of the Note Payable with CB&T, for construction of capital improvements which includes street resurfacing, purchase of police cars and in-car video systems, local match for the construction of airport terminal, providing the local match on several federal capital grants, the replacement of restrooms, playground equipment and construction of a splash pad at Steagall Park, and the replacement of other equipment. The net present value of the cash flows savings total \$89,065 and represent the difference between the net cash flows of the old and new debt. 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 2004 bond refunding was \$814. The total amount amortized for the year ended September 30, 2017 was \$39. The balance on the deferred refunding cost at September 30, 2017 is \$658 and is reported as a deferred outflow of resources in the statement of net position.

The Series 2014 bonds are reported net of original issue discount. Original issue discount in the amount of \$40,733 is also being amortized over the life of the bonds and is reported as a

City of Ozark, Alabama
Notes to Financial Statements

NOTE 9 – LONG-TERM DEBT (Continued)

component of interest expense. The total amount expensed related to the Series 2014 bonds for the year ended September 30, 2017 is \$1,940. Remaining original issue discount to be deferred to future periods is \$32,973.

On May 10, 2016, the City issued its Series 2016 General Obligation Warrants in the amount of \$2,695,000. Proceeds of the bond were used to resurface streets in the City. The Series 2016 bonds are reported net of original issue premium. Original issue premium in the amount of \$41,111 is being amortized over the life of the bonds and is reported as a component of interest expense. The total amount of revenue recognized related to the Series 2016 bonds for the year ended September 30, 2017 is \$2,741. Remaining original issue premium to be recognized in future periods is \$35,629.

On June 6, 2017, the City issued its Series 2017 General Obligation Warrants in the amount of \$3,140,000. Proceeds of this bond issue were used to partially redeem \$2,880,000 of outstanding Series 2011 bonds and provide the match on an ALDOT Transportation Alternative Project for sidewalks, the match on a 2018 Airport entitlement grant, and to fund capital equipment purchases for the Fire and Street departments. As a result, a portion of the 2011 Series bonds are considered to be defeased and the liability for those bonds has been removed from the City's outstanding general obligation warrants. The net present value of the cash flow savings resulted in an economic gain of \$142,836 and represents the difference between the net present value of the net cash flows of the old and new debt and the additional bond proceeds for construction of capital improvements. The difference between the reacquisition price (funds required to refund the old debt) and the net carrying amount of the old debt was included as a component of interest expense.

The Series 2017 bonds are reported net of original issue premium. Original issue premium in the amount of \$19,292 is also being amortized over the life of the bonds and reported as a component of interest expense. The total amount of revenue recognized related to the Series 2017 bonds for the year ended September 30, 2017 is \$2,144. Remaining original issue premium to be recognized in future periods is \$17,149.

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

Year Ending September 30,	Principal	Interest	Total
2018	\$ 550,000	\$ 255,256	\$ 805,256
2019	565,000	243,841	808,841
2020	575,000	234,131	809,131
2021	585,000	225,441	810,441
2022	595,000	214,630	809,630
2023-2027	3,125,000	846,034	3,971,034
2028-2032	3,140,000	428,881	3,568,881
2033-2034	1,040,000	37,545	1,077,545
	\$ 10,175,000	\$ 2,485,759	\$ 12,660,759

City of Ozark, Alabama
Notes to Financial Statements

NOTE 9 – LONG-TERM DEBT (Continued)

Obligations Under Capital Lease

In prior fiscal years, the City entered into separate lease agreements as lessee for financing the acquisition of two automated garbage trucks (one in 2014 and one in 2015), 13 police vehicles, two ambulances, a dump truck, and an emergency generator.

In the current fiscal year, the City entered into two separate additional lease agreements as lessee. In April 2017, financing was obtained for the acquisition of six vehicles for various departments. In September 2017, financing was obtained for the purchase of an Animal Control vehicle.

These lease agreements qualify as capital leases for accounting purposes (title transfer at the end of 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:

Asset	Governmental Activities	Business-type Activities
Rear load garbage truck - 2014	\$ 159,942	\$ -
Police vehicles (13) and garbage truck - 2015	665,502	-
Dump truck and emergency generator - 2016	108,430	-
Two ambulances - 2016	-	184,266
Six work vehicles - 2017	146,236	-
Animal control vehicle - 2017	36,600	-
Total equipment under capital lease	1,116,710	184,266
Accumulated depreciation	(250,917)	(42,228)
Total equipment under capital lease, net	\$ 865,793	\$ 142,038

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, 2017:

September 30,	Governmental Activities	Business-type Activities
2018	\$ 321,877	\$ 47,630
2019	231,170	47,630
2020	74,042	11,907
2021	41,920	-
Total minimum lease payments	669,008	107,167
Less: amount representing interest	(17,495)	(1,988)
Present value of future minimum lease payments	\$ 651,513	\$ 105,179

The interest rates range from 1.59 to 2.76 percent.

NOTE 9 – LONG-TERM DEBT (Continued)

Component Unit

General Obligation Warrant

The BOE issued General Obligation School Warrants, Series 2005 in the principal amount of \$2,230,000 dated January 20, 2005. The warrants mature on February 15 annually in amounts as specified in the following table and bear interest ranging from 2.10% to 3.75%. The purpose of the warrants was to retire the Capital Outlay School Warrants, Series 1995 on their ten year call date, which occurred during the year ended September 30, 2005. These warrants are secured by the proceeds of the Special City School Ad Valorem Tax, which is levied and collected by the City. The BOE incurred a deferred loss on the early retirement of the Series 1995 warrants of \$41,600, which was expensed in prior years. These warrants were paid off during the fiscal year.

Capital Outlay Pool Warrants

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

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

Year	Interest Rate	Principal	Interest, Net of Subsidy	Total
2018	5.15%	\$ 983,715	\$ 94,918	\$ 1,078,633
2019	5.15%	983,715	94,918	1,078,633
2020	5.15%	983,715	94,918	1,078,633
2021	5.15%	983,715	94,918	1,078,633
2022	5.15%	983,715	94,918	1,078,633
2023 - 2026	5.15%	3,934,860	379,672	4,314,532
		\$ 8,853,435	\$ 854,262	\$ 9,707,697

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

City of Ozark, Alabama
Notes to Financial Statements

NOTE 9 – LONG-TERM DEBT (Continued)

For the current year, revenue from the pledged sources from the City was \$766,100. Payment of principal and sinking fund deposits and interest on this warrant shall be transferred from the pledged revenues to the Debt Service Fund for the 2011 Pool Bonds. Semi-annual interest payments are due November 1 and May 1. Annual principal payments are made to a sinking fund and are due May 1.

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

Year	Interest Rate	Principal	Interest, Net of Subsidy	Total
2018	4.60%	\$ 36,750	\$ 16,790	\$ 53,540
2019	4.60%	36,750	16,790	53,540
2020	4.60%	36,750	16,790	53,540
2021	4.60%	36,750	16,790	53,540
2022	4.60%	36,750	16,790	53,540
2023 - 2027	4.60%	183,750	83,950	267,700
		<u>\$ 367,500</u>	<u>\$ 167,900</u>	<u>\$ 535,400</u>

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 deferred compensation plan, available to all City employees participating in the Retirement Systems of Alabama (the "RSA"), permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. GASB Statement No. 32 was issued in response to a change in federal law that removes the assets in deferred compensation plans from the general creditors in the event of a government bankruptcy. The City's deferred compensation plan meets the requirements of this law therefore no financial statement presentation is required.

NOTE 11 – RETIREMENT PLAN

General Information about the Pension Plan

Plan description. The Employees' Retirement System of Alabama ("ERS"), an agency multiple-employer plan, was established October 1, 1945 under the provisions of Act 515 of the Legislature of 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 the general administration and operating of ERS is vested in its

NOTE 11 – RETIREMENT PLAN (Continued)

Board of Control. The ERS Board of Control consists of 13 trustees. The Plan is administered by the Retirement Systems of Alabama (“RSA”). Title 36-Chapter 27 of the Code of Alabama grants the authority to establish and amend the benefit terms to the ERS Board of Control. The Plan issues a publicly available financial report that can be obtained at www.rsa-al.gov.

The ERS Board of Control consists of 13 trustees as follows:

- 1) The Governor, ex officio.
- 2) The State Treasurer, ex officio.
- 3) The State Personnel Director, ex officio.
- 4) The State Director of Finance, ex officio.
- 5) Three vested members of ERS appointed by the Governor for a term of four years, no two of whom are from the same department of state government nor from any department of which an ex officio trustee is the head.
- 6) Six members of ERS who are elected by members from the same category of ERS for a term of four years as follows:
 - a. Two retired members with one from the ranks of retired state employees and one from the ranks of retired employees of a city, county or a public agency each of whom is an active beneficiary of ERS.
 - b. Two vested active state employees.
 - c. Two vested active employees of an employer participating in ERS pursuant to §36-27-6.

Benefits provided. State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the ERS. Benefits for ERS members vest after 10 years of creditable service. State employees who retire after age 60 (52 for State Police) with 10 years or more of creditable service or with 25 years of service (regardless of age) are entitled to an annual retirement benefit, payable monthly for life. Local employees who retire after age 60 with 10 years or more of creditable service or with 25 or 30 years of service (regardless of age), depending on the particular entity’s election, are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, members of the ERS (except State Police) are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service. State Police are allowed 2.875% for each year of State Police service in computing the formula method.

Act 377 of the Legislature of 2012 established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 ERS members are eligible for retirement after age 62 (56 for State Police) with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the ERS (except State Police) are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service. State Police are allowed 2.375% for each year of State Police service in computing the formula method.

NOTE 11 – RETIREMENT PLAN (Continued)

Members are eligible for disability retirement if they have 10 years of credible service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits are calculated and paid to the beneficiary on the member’s age, service credit, employment status and eligibility for retirement.

The ERS serves approximately 875 local participating employers. These participating employers include 294 cities, 65 counties, and 516 other public entities. The ERS membership includes approximately 85,874 participants. As of September 30, 2016, membership consisted of:

Retirees and beneficiaries currently receiving benefits	23,007
Terminated employees entitled to but not yet receiving benefits	1,155
Terminated employees not entitled to a benefit	6,654
<u>Active members</u>	<u>55,058</u>
 <u>Total</u>	 <u>85,874</u>

As of September 30, 2016, the City’s membership consisted of:

Retirees and beneficiaries currently receiving benefits	64
Terminated employees entitled to but not yet receiving benefits	2
Terminated employees not entitled to a benefit	6
<u>Active members</u>	<u>159</u>
 <u>Total</u>	 <u>231</u>

Contributions. Covered members of the ERS contributed 5% of earnable compensation to the ERS as required by statute until September 30, 2011. From October 1, 2011 to September 30, 2012, covered members of the ERS were required by a statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered members of the ERS are required by statute to contribute 7.50% of earnable compensation. Certified law enforcement, correctional officers, and firefighters of the ERS contributed 6% of earnable compensation as required by statute until September 30, 2011. From October 1, 2011 to September 30, 2012, certified law enforcement, correctional officers, and firefighters of the ERS were required by statute to contribute 8.25% of earnable compensation. Effective October 1, 2012, certified law enforcement, correctional officers, and firefighters of the ERS are required by statute to contribute 8.50% of earnable compensation. State Police of the ERS contribute 10% of earnable compensation. ERS local participating employers are not required by statute to increase contribution rates for their members.

Tier 2 covered members of the ERS contribute 6% of earnable compensation to the ERS as required by statute. Tier 2 certified law enforcement, correctional officers, and firefighters of the ERS are required by statute to contribute 7% of earnable compensation. Tier 2 State Police members of the ERS contribute 10% of earnable compensation. These contributions rates are the same for Tier 2 covered members of ERS local participating employers.

NOTE 11 – RETIREMENT PLAN (Continued)

The ERS establishes rates based upon an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with additional amounts to finance any unfunded accrued liability, the pre-retirement death benefit and administrative expenses of the Plan.

For the year ended September 30, 2016, the City's active employee contribution rate was 5% of covered employee payroll for normal Tier 1 employees and 6% of covered employee payroll for normal Tier 2 employees, and the City's average contribution rate to fund the normal and accrued liability costs was 9.13% of covered employee payroll for Tier 1 employees and 5.97% for Tier 2 employees.

The City's contractually required contribution rate for the year ended September 30, 2016 was 9.5% of pensionable pay for Tier 1 employees, and 6.34% of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation dated September 30, 2014, a percent of annual pensionable payroll, and actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the City were \$459,888 for the year ended September 30, 2017.

Net Pension Liability

The City's net pension liability was measured as of September 30, 2016, and the total pension liability ("TPL") used to calculate the net pension liability was determined by an actuarial valuation as September 30, 2015 rolled forward to September 30, 2016 using standard roll-forward techniques as shown in the following table:

City of Ozark, Alabama
Notes to Financial Statements

NOTE 11 – RETIREMENT PLAN (Continued)

	Expected	Actual-2015 Valuation Assumptions	Actual-2016 Valuation Assumptions
(a) TPL as of September 30, 2015	\$ 18,307,696	\$ 18,572,705	\$ 19,416,682
(b) Discount rate	8.00%	8.00%	7.75%
(c) Entry Age Normal Cost for the period October 1, 2015 - September 30, 2016	474,328	474,328	480,377
(d) Transfers Among Employers	-	161,456	161,456
(e) Actual Benefit Payments and Refunds for the period October 1, 2015 - September 30, 2016	<u>(1,411,749)</u>	<u>(1,411,749)</u>	<u>(1,411,749)</u>
(f) TPL as of September 30, 2016 = [[a) x (1+(b))] + (c) + (d) + [(e) c (1 + 0.5*(b))]	<u>\$ 18,778,421</u>	<u>\$ 19,226,086</u>	<u>\$ 20,096,854</u>
(g) Difference between Expected and Actual:		\$ 447,665	
(h) Less Liability Transferred for Immediate recognition:		<u>161,456</u>	
(i) Experience (Gain)/Loss = (g) - (h)		<u>\$ 286,209</u>	
(j) Difference between Actual (2015 Assumptions) and Actual (2016 Assumptions): Assumption Change (Gain)/Loss			\$ 870,768

Actuarial assumptions. The total pension liability as of September 30, 2016 was determined based on the annual actuarial funding valuation report prepared as of September 30, 2015. The key actuarial assumptions are summarized below:

Inflation	2.75%
Salary increases	3.25% - 5.00%
Investment rate of return*	7.75%

* Net of pension plan investment expense

Mortality rates for ERS were based on the RP-2000 Blue Collar Mortality Table Projected with Scale BB to 2020 with an adjustment of 125% at all ages for males and 120% for females at ages on and after age 78. The rates of mortality for the period after disability retirement are according to the sex distinct RP-2000 Disabled Retiree Mortality Table Projected with Scale BB to 2020 with an adjustment of 130% at all ages for females.

The actuarial assumptions used in the September 30, 2015 valuation were based on the results of an investigation of the economic and demographic experience for the ERS based upon participant data as of September 30, 2010. The Board of Control accepted and approved these changes on January 27, 2012, which became effective at the beginning of fiscal year 2012.

City of Ozark, Alabama
Notes to Financial Statements

NOTE 11 – RETIREMENT PLAN (Continued)

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of geometric real rates of return for each major asset class are as follows:

	Target Allocation	Long-Term Expected Rate of Return[^]
Fixed income	17.00%	4.40%
US Large Stocks	32.00%	8.00%
US Mid Stocks	9.00%	10.00%
US Small Stocks	4.00%	11.00%
Int'l Developed Mkt Stocks	12.00%	9.50%
Int'l Emerging Mkt Stocks	3.00%	11.00%
Alternatives	10.00%	10.10%
Real Estate	10.00%	7.50%
Cash Equivalents	3.00%	1.50%
Total	100.00%	

[^] Includes assumed rate of inflation of 2.5%

Discount rate. The discount rate used to measure the total pension liability was the long-term rate of return, 7.75%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the rates currently in effect and that employer contributions will be made in accordance with the funding policy adopted by the ERS Board of Control. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

City of Ozark, Alabama
Notes to Financial Statements

NOTE 11 – RETIREMENT PLAN (Continued)

Schedule of Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balances at September 30, 2015	\$ 18,307,696	\$ 13,280,637	\$ 5,027,059
Changes for the year:			
Service cost	474,328	-	474,328
Interest	1,408,146	-	1,408,146
Changes of assumptions	870,768	-	870,768
Differences between expected and actual experience	286,209	-	286,209
Contributions - employer	-	467,660	(467,660)
Contributions - employee	-	362,299	(362,299)
Net investment income	-	1,331,113	(1,331,113)
Benefit payments, including refunds of employee contributions	(1,411,749)	(1,411,749)	-
Administrative expenses	-	-	-
Transfers among employers	161,456	161,456	-
Net changes	1,789,158	910,779	878,379
Balances at September 30, 2016	\$ 20,096,854	\$ 14,191,416	\$ 5,905,438

Sensitivity of the net pension liability to changes in the discount rate. The following table presents the City's net pension liability calculated using the discount rate of 7.75%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.75%) or 1-percentage point higher (8.75%) than the current rate:

	1% Decrease (6.75%)	Current Rate (7.75%)	1% Increase (8.75%)
City's net pension liability	\$ 8,242,328	\$ 5,905,438	\$ 3,942,135

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2016. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2016. The auditor's report dated September 18, 2017 on the Schedule of Changes in Fiduciary Net Position by Employer and accompanying notes is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

City of Ozark, Alabama
Notes to Financial Statements

NOTE 11 – RETIREMENT PLAN (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2017, the City recognized pension expense of \$638,997. At September 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions of the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 245,898	\$ \$ 123,050
Changes of assumptions	748,125	-
Net difference between projected and actual earnings on pension plan investments	123,147	-
Employer contributions subsequent to the measurement date	459,888	-
Total	\$ 1,577,058	\$ 123,050

Amounts reported as deferred outflows of resources and deferred inflows of resources to pensions will be recognized in pension expense as follows:

Year ending September 30:	
2018	\$ 624,348
2019	164,461
2020	263,278
2021	80,224
2022	142,444
Thereafter	179,253

NOTE 12 – POSTEMPLOYMENT HEALTH CARE BENEFITS

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

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-

City of Ozark, Alabama
Notes to Financial Statements

NOTE 12 – POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

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 at age sixty (60) through 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 October 1, 2016

Summary of Employer Census Data

Number of active members	153
Number of retired members	34
Number of disabled members	2

Funded Status and Funding Progress As of October 1, 2016, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$6,951,208, and the actuarial value of present assets was \$0, resulting in an unfunded actuarial accrued liability of \$6,951,208. The covered payroll (annual payroll of active participating employees) was \$6,286,222 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 110.58%.

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

<i>Fiscal Year Ended September 30, 2017</i>	Amount
Service cost	\$ 211,684
Amortization of unfunded actuarial accrued liability	275,076
Annual required contribution	486,760
Plus interest on prior year net OPEB obligation	86,110
Less prior year net OPEB obligation amortization	(83,891)
Annual OPEB cost	488,979
Contribution toward the OPEB cost in fiscal year 2017	(208,661)
Increase in Net OPEB obligation	280,318
Net OPEB obligation, beginning of year	2,152,756
Net OPEB obligation, end of year	\$ 2,433,074

City of Ozark, Alabama
Notes to Financial Statements

NOTE 12 – POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of September 30, 2017 is as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
9/30/2015	\$ 426,780	46.26%	\$ 1,924,342
9/30/2016	428,641	46.71%	2,152,756
9/30/2017	488,979	42.67%	2,433,074

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 employed the projected unit cost method to estimate the unfunded actuarial accrued liability as of September 30, 2017 and to estimate the City’s 2017 annual required contribution. Although the OPEB liability is currently unfunded, the actuarial assumption included a 4% discount rate (1.00% real rate of return plus 3.00% inflation) on invested assets. The actuarial assumptions also included a health care cost trend level 5.00% for medical and level 2.00% for dental. The amortization period used to determine amortization costs for the initial unfunded actuarial accrued liability is a level period for 30 years on an open basis.

NOTE 13 – COMMITMENTS AND CONTINGENT LIABILITIES

Grants

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.

Litigation

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

NOTE 13 – COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

Tax Abatements

On November 19, 2013, the City Council adopted a resolution to enter into an agreement to rebate no more than \$2,200,000 of City diesel and gasoline tax to a commercial business to promote economic development. The agreement expires the sooner of 15 years from the date of opening or when rebates to the commercial business total \$2,200,000. During the year ended September 30, 2017, rebates totaled \$311,765 and remaining available rebates under the agreement were approximately \$1,527,000.

On June 3, 2014, the City Council adopted a resolution to enter into an agreement with a commercial business to grant 50% of the collected local motor vehicle sales tax (up to \$250,000) back to the commercial business. The agreement expires the sooner of December 2021 or when the motor vehicle sales tax grants remitted to the retail business total \$250,000. During the year ended September 30, 2017, rebates totaled \$21,687 and remaining available rebates under the agreement were approximately \$228,000.

On September 22, 2014, the City Council adopted a resolution to enter into an agreement with a retail business to grant 50% of the collected local sales tax (up to \$1,000,000) back to the retail business. The agreement expires the sooner of September 22, 2024 or when the sales tax grants remitted to the retail business total \$1,000,000. During the year ended September 30, 2017, rebates totaled \$45,240 and remaining available rebates under the agreement were approximately \$895,000.

On August 1, 2017, the City Council adopted a resolution to enter into an agreement with a restaurant to grant 50% of the collected local sales tax (up to \$7,500) back to the restaurant. The agreement expires the sooner of October 30, 2020 or when the sales tax grants remitted to the retail business total \$7,500. No taxes were rebated under the agreement during the year ended September 30, 2017. The remaining rebate at September 30, 2017 is \$7,500.

NOTE 14 – RISK MANAGEMENT AND LITIGATION

The City 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. Transactions that should be disclosed are listed below.

NOTE 15 – RELATED PARTY TRANSACTIONS (Continued)

On November 22, 2005, the City and the Utilities Board entered into a formal agreement in which the Utilities Board reimburses the City for use of a portion of the Municipal Complex to be applied to the 2002 Bond Issue. The Utilities Board agreed to be responsible for 18% of the bonded indebtedness created by the City to finance the construction of the Municipal Complex. Each party is designated certain areas of exclusive use, as well as areas of common use. Each party is responsible for the repair and maintenance of those certain areas assigned for exclusive use to each party. Repair and maintenance for the roof or exterior walls is to be divided 82% to the City and 18% to the Utilities, the same as the Bond Issue. Included in receivables described in Note 4 is a note receivable due from the Utilities Board with a principal balance of \$451,337 as of September 30, 2017. The note is due in monthly installments through February 2026 with interest ranging from 3.35% to 5%. During 2017, the City recorded total payments from the Utilities Board of \$53,568, which includes \$30,657 principal and \$22,911 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 March 21, 2018, the date of these financial statements, and there are none to disclose.

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial 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)
10/1/2012	\$ -	\$ 6,065,017	\$ 6,065,017	0.00%	\$ 6,341,876	95.63%
10/1/2014	\$ -	\$ 5,976,936	\$ 5,976,936	0.00%	\$ 6,008,072	99.48%
10/1/2016	\$ -	\$ 6,951,208	\$ 6,951,208	0.00%	\$ 6,286,222	110.58%

City of Ozark, Alabama
Required Supplementary Information
Schedule of Changes in Net Pension Liability

September 30,	2016	2015	2014
Total Pension Liability			
Service cost	\$ 474,328	\$ 444,431	\$ 486,720
Interest	1,408,146	1,386,963	1,334,762
Changes of benefit terms	-	-	-
Differences between expected and actual experience	286,209	(174,320)	-
Changes of assumptions	870,768	-	-
Benefit payments, including refunds of employee contributions	(1,411,749)	(1,372,821)	(965,131)
Transfers among employers	161,456	-	-
Net change in total pension liability	1,789,158	284,253	856,351
Total pension liability - beginning	18,307,696	18,023,443	17,167,092
Total pension liability - ending (a)	\$ 20,096,854	\$ 18,307,696	\$ 18,023,443
Plan Fiduciary Net Position			
Contributions - employer	\$ 467,660	\$ 457,419	\$ 463,937
Contributions - member	362,299	301,942	298,308
Net investment income	1,331,113	159,366	1,482,615
Benefit payments, including refunds of employee contributions	(1,411,749)	(1,372,821)	(965,131)
Transfers among employers	161,456	(9,909)	13,776
Net change in plan fiduciary net position	910,779	(464,003)	1,293,505
Plan net position - beginning	13,280,637	13,744,640	12,451,135
Plan net position - ending (b)	\$ 14,191,416	\$ 13,280,637	\$ 13,744,640
Net pension liability (asset) - ending (a) - (b)	\$ 5,905,438	\$ 5,027,059	\$ 4,278,803
Plan fiduciary net position as a percentage of the total pension liability	70.62%	72.54%	76.26%
Covered-employee payroll*	\$ 5,885,886	\$ 5,609,577	\$ 5,749,664
Net pension liability (asset) as a percentage of covered-employee payroll	100.33%	89.62%	74.42%

*Employer's covered-payroll during the measurement period is the total covered payroll. For FY 2017, the measurement period is October 1, 2015 - September 30, 2016. GASB issued a statement "Pension Issues" in March 2016 to redefine covered payroll for FY2017.

City of Ozark, Alabama
Required Supplementary Information
Schedule of Employer Contributions

September 30,	2017	2016	2015
Actuarially determined contribution*	\$ 474,328	\$ 444,431	\$ 486,720
Contributions in relation to the actuarially determined contribution*	459,888	467,660	457,419
Contribution deficiency (excess)	\$ 14,440	\$ (23,229)	\$ 29,301
Covered-employee payroll**	\$ 6,148,668	\$ 5,885,886	\$ 5,609,577
Contributions as a percentage of covered-employee payroll	7.48%	7.95%	8.15%

*Amount of employer contributions related to normal and accrued liability components of employer rate net of any refunds or error service payments.

**Employer's covered payroll for FY2017 is the total covered payroll for the twelve month period of the underlying financial statement.

Notes to Schedule

Actuarially determined contribution rates are calculated as of September 30, three years prior to the end of the fiscal year in which contributions are reported. Contributions for fiscal year 2017 were based on the September 30, 2014 actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percent closed
Remaining amortization period	26 years
Asset valuation method	Five years smoothed market
Inflation	3.00%
Salary increases	3.75 – 7.25%, including inflation
Investment rate of return	8.00%, net of pension plan investment expense, including inflation

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– Funding is restricted to expenditures related to construction, improvement, and maintenance of highways, bridges and streets.

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.

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

Wiregrass Violent Crime – Accounts for a federal grant to fund the Wiregrass Violent Crime and Drug Task Force. The proceeds pay for staff in the Dale County Sheriff’s Office, Geneva County Sheriff’s Office, Dale County District Attorney and staff in the Ozark Police Department.

Department of Justice – Accounts for direct federal 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 – Accounts for proceeds from settled drug court cases and reflects seizure resources distributed to the City. Funds are restricted to acquire vehicles, equipment and supplies for the Wiregrass Violent Crime Drug Task Force use.

Municipal Court/Judicial Admin – Accounts for municipal court fees 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 – Accounts for municipal court fees restricted for the enforcement of municipal court ordinances.

Bond – Accounts for the proceeds of General Obligations Bonds, Series 2014, for capital projects and to acquire capital equipment.

Bond 2016 – Accounts for the proceeds of General Obligations Bonds, Series 2016, for street resurfacing.

Debt Service – Accounts for debt service. The funds are restricted for the payments of principal, interest, bond issue costs, and agent fees.

City of Ozark, Alabama
Combining Balance Sheet-Nonmajor Governmental Funds
September 30, 2017

	Special			
	Street	Four Cent Gas Tax	UDAG	FEMA
Assets				
Cash and cash equivalents	\$ 550,586	\$ 68,882	\$ 14,014	\$ 6,507
Receivables	-	-	-	-
Due from other funds	-	-	-	-
Restricted cash and cash equivalents	-	-	-	-
Total assets	\$ 550,586	\$ 68,882	\$ 14,014	\$ 6,507
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-
Fund balances				
Restricted	550,586	68,882	14,014	6,507
Total liabilities and fund balances	\$ 550,586	\$ 68,882	\$ 14,014	\$ 6,507

Revenue

Wiregrass Violent Crime	Dept of Justice	Drug Forfeiture	Municipal Court/ Judicial Admin	CDBG	Alabama Trust Fund Improvements
\$ 3,870	\$ 1,989	\$ 5,115	\$ 37,676	\$ 5,611	\$ 13,613
9,068	-	1,814	-	-	-
-	-	-	1,817	-	-
-	-	-	-	-	-
\$ 12,938	\$ 1,989	\$ 6,929	\$ 39,493	\$ 5,611	\$ 13,613
\$ 7,080	\$ -	\$ -	\$ -	\$ -	\$ -
1,987	-	-	-	-	-
3,871	1,989	6,929	39,493	5,611	13,613
\$ 12,938	\$ 1,989	\$ 6,929	\$ 39,493	\$ 5,611	\$ 13,613

-Continued-

City of Ozark, Alabama
Combining Balance Sheet-Nonmajor Governmental Funds (Continued)
September 30, 2017

				<u>Debt Service</u>	
	<u>Corrections</u>	<u>Bond</u>	<u>2016 Bond</u>	<u>Debt Service</u>	<u>Total Nonmajor Governmental Funds</u>
Assets					
Cash and cash equivalents	\$ 13,348	\$ 155,540	112,408	\$ 44,674	\$ 1,033,833
Receivables	-	-	91,295	-	102,177
Due from other funds	5,524	-	-	-	7,341
Restricted cash and cash equivalents	-	-	-	334,258	334,258
Total assets	\$ 18,872	\$ 155,540	\$ 203,703	\$ 378,932	\$ 1,477,609
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ -	\$ 18,050	\$ -	\$ -	\$ 25,130
Due to other funds	-	57	-	-	2,044
Fund balances					
Restricted	18,872	137,433	203,703	378,932	1,450,435
Total liabilities and fund balances	\$ 18,872	\$ 155,540	\$ 203,703	\$ 378,932	\$ 1,477,609

City of Ozark, Alabama

**Combining Statement of Revenues, Expenditures and
Changes in Fund Balances-Nonmajor Governmental Funds
For the Year Ended September 30, 2017**

	Special			
	Street	Four Cent Gas Tax	UDAG	FEMA
Revenues				
Taxes	\$ 119,175	\$ 65,722	\$ -	\$ -
Intergovernmental	-	-	-	-
Investment earnings	-	5	-	-
Miscellaneous	-	-	-	-
Total revenues	119,175	65,727	-	-
Expenditures				
General government	-	-	-	-
Police department	-	-	-	-
Street	38,178	-	-	-
Judicial	-	-	-	-
Debt service				
Principal	-	-	-	-
Interest	-	-	-	-
Dues, fees and issuance costs	-	-	-	-
Capital outlay	46,910	28,289	-	-
Total expenditures	85,088	28,289	-	-
Excess (deficiency) of revenues over expenditures	34,087	37,438	-	-
Other Financing Sources (Uses)				
Transfers in (out)	356,937	-	-	-
Proceeds from long term debt	-	-	-	-
Bond refunding payments	-	-	-	-
Total other financing sources (uses)	356,937	-	-	-
Excess revenues and other sources over (under) expenditures and other (uses)	391,024	37,438	-	-
Fund Balances - beginning	159,562	31,444	14,014	6,507
Fund Balances - ending	\$ 550,586	\$ 68,882	\$ 14,014	\$ 6,507

Revenue

Wiregrass Violent Crime	Dept of Justice	Drug Forfeiture	Municipal Court/ Judicial Admin	CDBG	Alabama Trust Fund Improvements
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
49,763	-	7,336	-	56,857	128,559
-	-	-	44	-	14
-	-	-	-	8,554	-
49,763	-	7,336	44	65,411	128,573
-	-	-	-	79,936	-
37,640	-	2,824	-	-	-
-	-	-	-	-	-
-	-	-	16,034	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	4,000	-	-	-
37,640	-	6,824	16,034	79,936	-
12,123	-	512	(15,990)	(14,525)	128,573
(12,123)	-	(2,000)	19,292	7,859	(128,571)
-	-	-	-	-	-
-	-	-	-	-	-
(12,123)	-	(2,000)	19,292	7,859	(128,571)
-	-	(1,488)	3,302	(6,666)	2
3,871	1,989	8,417	36,191	12,277	13,611
\$ 3,871	\$ 1,989	\$ 6,929	\$ 39,493	\$ 5,611	\$ 13,613

-Continued-

City of Ozark, Alabama
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances-Nonmajor Governmental Funds
For the Year Ended September 30, 2017

				Debt Service	Total Nonmajor Governmental Funds
	Corrections	Bond	2016 Bond	Debt Service	Funds
Revenues					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 184,897
Intergovernmental	-	-	474,142	-	716,657
Investment earnings	14	1,974	-	558	2,609
Miscellaneous	-	-	-	-	8,554
Total revenues	14	1,974	474,142	558	912,717
Expenditures					
General government	-	-	-	-	79,936
Police department	-	-	-	-	40,464
Street	-	-	-	-	38,178
Judicial	2,400	-	-	-	18,434
Debt service					
Principal	-	-	-	667,630	667,630
Interest	-	-	-	281,338	281,338
Dues, fees and issuance costs	-	-	-	81,945	81,945
Capital outlay	-	19,308	1,315,785	-	1,414,292
Total expenditures	2,400	19,308	1,315,785	1,030,913	2,622,217
Excess (deficiency) of revenues over expenditures	(2,386)	(17,334)	(841,643)	(1,030,355)	(1,709,500)
Other Financing Sources (Uses)					
Transfers in (out)	6,030	(3,011,220)	-	4,073,172	1,309,376
Proceeds from long term debt	-	3,159,292	-	-	3,159,292
Bond refunding payments	-	-	-	(2,959,132)	(2,959,132)
Total other financing sources (uses)	6,030	148,072	-	1,114,040	1,509,536
Excess revenues and other sources over (under) expenditures and other (uses)	3,644	130,738	(841,643)	83,685	(199,964)
Fund Balances - beginning	15,228	6,695	1,045,346	295,247	1,650,399
Fund Balances - ending	\$ 18,872	\$ 137,433	\$ 203,703	\$ 378,932	\$ 1,450,435

City of Ozark
Schedules of Bond Amortization Requirements
September 30, 2017

\$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
9/30/2018	2.50%	\$ 350,000	\$ 14,275	\$ 364,275
9/30/2019	2.75%	360,000	4,950	364,950
Total		\$ 710,000	\$ 19,225	\$ 729,225

\$4,180,000 General Obligation Warrants, Series 2014, dated May 1, 2014 with interest payable on May 1 and November 1 of each year. Warrants mature on March 1, 2034.

Paying Agent: Regions Bank

Year Ending	Interest Rate	Principal	Interest	Total
9/30/2018	2.00%	\$ -	\$ 122,557	\$ 122,557
9/30/2019	2.00%	-	122,557	122,557
9/30/2020	2.00%	-	122,557	122,557
9/30/2021	2.00%	-	122,557	122,557
9/30/2022	2.00%	-	122,557	122,557
9/30/2023	2.00%	-	122,557	122,557
9/30/2024	2.00%	-	122,557	122,557
9/30/2025	2.00%	-	122,557	122,557
9/30/2026	2.00%	-	122,558	122,558
9/30/2027	2.80%	420,000	116,678	536,678
9/30/2028	3.00%	435,000	104,273	539,273
9/30/2029	3.00%	450,000	90,998	540,998
9/30/2030	3.15%	465,000	76,924	541,924
9/30/2031	3.30%	480,000	61,680	541,680
9/30/2032	3.40%	495,000	45,345	540,345
9/30/2033	3.50%	510,000	28,005	538,005
9/30/2034	3.60%	530,000	9,540	539,540
Total		\$ 3,785,000	\$ 1,636,457	\$ 5,421,457

\$2,695,000 General Obligation Warrants, Series 2016, dated May 1, 2016 with interest payable on March 1 and November 1 of each year. Warrants mature on May 1, 2031.

City of Ozark, Alabama
Schedules of Bond Amortization Requirements (Continued)
September 30, 2017

Paying Agent: Regions Bank

Year Ending	Interest Rate	Principal	Interest	Total
9/30/2018	1.00%	\$ 155,000	\$ 59,474	\$ 214,474
9/30/2019	1.25%	160,000	57,924	217,924
9/30/2020	1.25%	160,000	55,924	215,924
9/30/2021	1.40%	165,000	53,924	218,924
9/30/2022	4.00%	165,000	51,613	216,613
9/30/2023	4.00%	170,000	45,014	215,014
9/30/2024	4.00%	180,000	38,214	218,214
9/30/2025	2.00%	185,000	31,013	216,013
9/30/2026	2.00%	190,000	27,314	217,314
9/30/2027	2.13%	195,000	23,512	218,512
9/30/2028	2.25%	200,000	19,370	219,370
9/30/2029	2.35%	200,000	14,870	214,870
9/30/2030	2.40%	205,000	10,170	215,170
9/30/2031	2.50%	210,000	5,251	215,251
Total		\$ 2,540,000	\$ 493,587	\$ 3,033,587

\$3,140,000 General Obligation Warrants, Series 2017, dated June 1, 2017 with interest payable on March 1 and September 1 of each year. Warrants mature on March 1, 2026.

Paying Agent: Regions Bank

Year Ending	Interest Rate	Principal	Interest	Total
9/30/2018	1.20%	\$ 45,000	\$ 58,950	\$ 103,950
9/30/2019	1.20%	45,000	58,410	103,410
9/30/2020	1.20%	415,000	55,650	470,650
9/30/2021	2.00%	420,000	48,960	468,960
9/30/2022	2.00%	430,000	40,460	470,460
9/30/2023	2.00%	430,000	31,860	461,860
9/30/2024	2.00%	440,000	23,160	463,160
9/30/2025	2.00%	455,000	14,210	469,210
9/30/2026	2.10%	460,000	4,830	464,830
Total		\$3,140,000	\$ 336,490	\$3,476,490

**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
City of Ozark, Alabama

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, 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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 21, 2018. Our report includes a reference to other auditors who audited the financial statements of Ozark City Board of Education, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

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

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

Enterprise, Alabama

March 21, 2018