

City of Ozark, Alabama

FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

For The Year Ended September 30, 2016



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City of Ozark, Alabama
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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, 2016, 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, 2016, 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, Special Ad Valorem II, and Bond Fund, 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 63), schedule of changes in net pension liability (page 64), and schedule of employer contributions (page 65) 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 schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, schedules of bond amortization requirements and the schedule of expenditures of federal awards are the responsibility of management and was 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, the combining and individual nonmajor fund financial statements, schedules of bond amortization requirements, and the schedule of expenditures of federal awards 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 30, 2017, 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 30, 2017

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, 2015, and ending September 30, 2016. 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, 2016.

Financial Highlights

From the Government-Wide Financial Statements

- The City's combined governmental activities and business-type activities net position at September 30, 2016, was \$23,219,007. This represents an increase of \$978,594 from net position of September 30, 2015. Net investment in capital assets increased \$614,482. Restricted net position increased \$12,171. The total unrestricted net deficit decreased by \$351,941 over prior year. The decrease in unrestricted net deficit is comprised of a decrease in unrestricted net deficit related to governmental activities of \$98,758 and a decrease in unrestricted net deficit related to business-type activities of \$253,183.
- Revenues at September 30, 2016 from governmental activities were \$17,599,071 and revenues from business-type activities were \$1,354,549, for a combined total of \$18,953,620. This is an overall increase in revenues from prior year of \$780,742. Program revenues in governmental activities increased \$57,288 and in business-type activities increased \$142,835. General revenues in governmental activities increased \$604,444 and in business-type activities decreased \$23,825. The largest general revenue is sales and use taxes, and the increase was \$214,732 over prior year; motor fuel taxes increased by \$537,209. The increase in motor fuel taxes was attributable to the increase in the local option fuel tax increase from \$0.02 per gallon to \$0.06 per gallon approved by the City Council on December 1, 2015. The increase in the local option fuel tax was effective February 1, 2016, and the City began receiving the increase in March of 2016. The business-type activities revenues increased approximately \$119,010. The change reflects a \$100,000 decrease in the operating grant from the Ozark Square Shopping Center to the Emergency Medical Services (EMS) Fund; \$242,835 in improved collections on charges for services; and a decrease of \$23,825 in other revenues in the EMS Fund.

From the Fund Financial Statements

- Revenues reported in the governmental funds were \$17,518,416 at September 30, 2016 and are \$628,493 more than governmental funds revenues of \$16,889,923 reported last year. The total tax revenues increased \$854,900 over prior year. The majority of increase comes from the sales and use taxes increase of \$214,732, the local option fuel tax increase of \$537,209, the ad valorem taxes increase of \$37,427, and the cash in lieu of taxes increase of \$32,464. The decrease in fines and forfeitures of \$279,963 reflects a decrease in collections from defendants placed on payment plans administered by the municipal court and the termination of the contract with Judicial Corrections Services (JCS) who provided private probation services. The City required JCS to provide insurance and to defend and indemnify the City in case of any law suits. JCS did not sign the revised contract so on September 15,

Management's Discussion and Analysis

2015 the City Council authorized the Mayor to give 30 days' written notice to terminate the contract with JCS.

- The General Fund reported a total fund balance of \$2,304,806 at September 30, 2016. The spendable unassigned portion of total fund balance is \$1,270,189, the nonspendable portion is \$971,645, and the restricted portion is \$62,972. The net result of operations is a decrease of \$144,419. 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 10.0 percent of the total general fund operating expenditures of \$12,676,516 (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 \$2,112,750.

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, Special Ad Valorem II Fund, and the 2016 Bond 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 sixth year of operations, are as follows:

<i>Years ended September 30,</i>	2016	2015	Increase (Decrease)	% Increase (Decrease)
Number of patients transported	3,769	3,388	381	11.2%
Six year average:				
Gross charge per trip	\$ 668			
Net charge per trip	\$ 420			
Cash collection per trip	\$ 292			
Cash collection per trip as a percent of net charge per trip	69.5%			
Average cost per transport:				
FY2015-16	\$ 278			
FY2014-15	\$ 307			
FY2013-14	\$ 343			
FY2012-13	\$ 375			
FY2011-12	\$ 542			
FY2010-11	\$ 440			

Number of patients transported by payer type:

	FY2015-16	% of total	FY2014-15	% of total
Medicare	2,284	60.6%	2,047	60.4%
Medicaid	496	13.2%	433	14.4%
Other Insurance	523	16.0%	386	13.0%
Patient (no insurance)	339	10.2%	368	12.2%

The EMS program increased the net position by \$207,026 in fiscal year 2016, this increase was \$67,560 more than the prior year's increase in net position of \$139,466. The advance EMS owes to the General Fund at September 30, 2016 is \$472,667 and is \$209,243 less than the \$681,910 owed at September 30, 2015.

The basic proprietary fund financial statements can be found beginning on page 29 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 32 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 \$21,172,659 for fiscal year 2016, as compared to \$20,358,206 for fiscal year 2015.

Net Position, End of Year

September 30,	Governmental Activities		Business-type Activities		Primary Government Total	
	2016	2015	2016	2015	2016	2015
Assets						
Current and other assets	\$ 7,510,796	\$ 6,522,124	\$ 421,363	\$ 332,480	\$ 7,932,159	\$ 6,854,604
Capital assets	34,470,679	31,394,523	2,697,286	2,635,613	37,167,965	34,030,136
Total assets	41,981,475	37,916,647	3,118,649	2,968,093	45,100,124	40,884,740
Deferred outflows of resources						
	925,000	527,234	72,274	33,392	997,274	560,626
Liabilities						
Current liabilities	2,279,029	1,441,739	555,499	707,259	2,834,528	2,148,998
Long-term liabilities	17,388,677	14,346,399	570,668	373,885	17,959,345	14,720,284
Total liabilities	19,667,706	15,788,138	1,126,167	1,081,144	20,793,873	16,869,282
Deferred inflows of resources						
	2,066,110	2,297,537	18,408	38,134	2,084,518	2,335,671
Net Position (Deficit)						
Net investment in capital assets	23,449,124	22,745,600	2,546,571	2,635,613	25,995,695	25,381,213
Restricted	358,287	346,116	-	-	358,287	346,116
Unrestricted (deficit)	(2,634,752)	(2,733,510)	(500,223)	(753,406)	(3,134,975)	(3,486,916)
Total net position	\$ 21,172,659	\$ 20,358,206	\$ 2,046,348	\$ 1,882,207	\$ 23,219,007	\$ 22,240,413

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, 2016 and 2015, reported

Management's Discussion and Analysis

unrestricted deficits in governmental and business-type activities. The unrestricted deficit in governmental activities was the result of the implementation of GASB 68. The governmental activities unrestricted deficit decreased by \$98,758, net investment in capital assets increased by \$703,524, and restricted net position increased by \$12,171 over prior year. As noted previously, the City's governmental activities net position increased \$814,453 and the business-type activities increased \$164,141, for a net increase in total net position during fiscal year 2016 of \$978,594.

Operating Results for the Year

<i>Years ended September 30,</i>	Governmental Activities		Business-type Activities		Primary Government Total	
	2016	2015	2016	2015	2016	2015
Program Revenues:						
Charges for services	\$ 5,307,205	\$ 5,495,799	\$ 1,354,541	\$ 1,111,706	\$ 6,661,746	\$ 6,607,505
Operating grants and contributions	329,129	138,324	-	100,000	329,129	238,324
Capital grants and contributions	2,030,015	1,974,938	-	-	2,030,015	1,974,938
General Revenues:						
Property taxes	734,536	710,148	-	-	734,536	710,148
Sales tax	6,729,822	6,515,090	-	-	6,729,822	6,515,090
Motor fuel tax	1,031,932	494,723	-	-	1,031,932	494,723
Other taxes	1,004,759	988,945	-	-	1,004,759	988,945
Other	431,673	619,372	8	23,833	431,681	643,205
Total revenues	17,599,071	16,937,339	1,354,549	1,235,539	18,953,620	18,172,878
Functions/Program Expenses:						
General government	2,301,151	2,004,618	-	-	2,301,151	2,004,618
Police department	3,033,568	2,967,223	-	-	3,033,568	2,967,223
Fire department	2,653,947	2,631,299	1,048,527	998,149	3,702,474	3,629,448
Street	873,644	898,858	-	-	873,644	898,858
Sanitation	1,228,235	1,250,216	-	-	1,228,235	1,250,216
Leisure services	1,717,166	1,810,674	-	-	1,717,166	1,810,674
Engineering/inspections	129,088	127,522	-	-	129,088	127,522
Vehicle maintenace	201,635	196,293	-	-	201,635	196,293
Airport	110,289	80,002	-	-	110,289	80,002
Judicial	217,377	206,992	-	-	217,377	206,992
Appropriations	129,550	133,665	-	-	129,550	133,665
Education	2,335,916	2,270,800	-	-	2,335,916	2,270,800
Non-departmental	314,106	363,485	-	-	314,106	363,485
Economic development	815,695	648,312	141,881	190,818	957,576	839,130
Ozark technology center	120,691	56,519	-	-	120,691	56,519
Information techology	239,063	188,248	-	-	239,063	188,248
Interest and fees on long term debt	351,622	264,500	-	963	351,622	265,463
Amortization	11,875	14,616	-	-	11,875	14,616
Total functions/program expenses	16,784,618	16,113,842	1,190,408	1,189,930	17,975,026	17,303,772
Increase (Decrease) in Net Position	\$ 814,453	\$ 823,497	\$ 164,141	\$ 45,609	\$ 978,594	\$ 869,106

Management's Discussion and Analysis

Financial Analysis of the City's Funds

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

Governmental Funds

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

As of the end of the current fiscal year, the City's governmental funds report combined ending fund balances of \$3,955,274, an increase of \$348,310 in comparison with the prior year. Spendable unassigned fund balances of \$1,270,189 represents 32 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 \$971,645 and the restricted amount is \$1,713,440 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 \$1,270,189 while the total fund balance was \$2,304,806. The net result of General Fund operations is a decrease in the General Fund's fund balance of \$144,419. 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 10.0 percent of total General Fund operating expenditures of \$12,676,516, while total fund balance represents 18.1 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, totaling \$12,676,516) would be approximately \$2,112,750; the City is currently at \$1,270,189.

<i>September 30,</i>	Total Governmental Funds		
	2016	2015	Change
Assets			
Cash and cash equivalents	\$ 3,127,059	\$ 1,888,305	\$ 1,238,754
Receivables, net	3,540,745	3,742,926	(202,181)
Due from other funds	769,550	744,353	25,197
Other assets	16,985	18,703	(1,718)
Restricted cash and cash equivalents	353,340	190,280	163,060
Total assets	\$ 7,807,679	\$ 6,584,567	\$ 1,223,112

Management's Discussion and Analysis

Liabilities, Deferred Inflows of Resources, and Fund Balances

Liabilities			
Accounts payable	\$ 1,269,947	\$ 661,122	\$ 608,825
Due to other funds	296,883	62,443	234,440
Accrued payroll	239,001	207,085	31,916
Other accrued expenses	110,741	106,554	4,187
Total liabilities	1,916,572	1,037,204	879,368
Deferred inflows of resources	1,935,833	1,940,399	(4,566)
Fund balances			
Nonspendable	971,645	1,196,301	(224,656)
Restricted	1,713,440	1,306,884	406,556
Unassigned	1,270,189	1,103,779	166,410
Total fund balances	3,955,274	3,606,964	348,310
Total liabilities, deferred inflows of resources, and fund balances	\$ 7,807,679	\$ 6,584,567	\$ 1,223,112

<i>Years ended September 30,</i>	Total Governmental Funds		
	2016	2015	Changes
Revenues			
Taxes	\$ 10,804,655	\$ 9,949,755	\$ 854,900
Licenses and permits	1,747,111	1,698,270	48,841
Intergovernmental	2,195,210	2,193,803	1,407
Charges for services	1,550,395	1,636,268	(85,873)
Fines and forfeitures	542,751	822,714	(279,963)
Investment earnings	25,492	24,567	925
Miscellaneous	652,802	564,546	88,256
Total revenues	17,518,416	16,889,923	628,493

Revenues for FY 2016 from governmental funds were more than FY 2015 revenues by \$628,493. The majority of the increases came from tax collections of \$854,900 which came from sales and use taxes and the increase of the local option fuel tax; the majority of licenses and permits increase of \$48,841 was in business licenses; and reductions in fines and forfeitures of \$279,963 reflects a reduction in municipal court fines due to 30 days written notice to terminate the contract with JCS for probationary services in September 2015. The reason for contract termination was the failure of JCS to provide insurance and to defend and indemnify City in case of law suits in the amended contract.

Management's Discussion and Analysis

<i>Years ended September 30,</i>	Total Governmental Funds		Changes
	2016	2015	
Expenditures			
General government	\$ 1,372,542	\$ 1,212,361	\$ 160,181
Education	2,335,916	2,270,800	65,116
Vehicle maintenance	197,988	194,011	3,977
Police department	2,814,838	2,787,737	27,101
Information technology	208,251	165,718	42,533
Fire department	2,426,673	2,404,126	22,547
Airport	104,304	75,190	29,114
Sanitation	1,131,073	1,166,681	(35,608)
Street	821,489	853,043	(31,554)
Leisure services	1,534,265	1,603,132	(68,867)
Appropriations	129,550	133,665	(4,115)
Judicial	210,406	200,638	9,768
Economic development	739,961	574,411	165,550
Engineering/inspections	126,399	124,573	1,826
Ozark technology center	94,691	32,527	62,164
Non-departmental	314,076	363,453	(49,377)
Debt service			
Principal	474,429	322,565	151,864
Interest, fees and issuance costs	351,621	264,499	87,122
Capital outlay	4,693,667	3,895,505	798,162
Total expenditures	20,082,139	18,644,635	1,437,504
Excess (deficiency) of revenues over expenditures	(2,563,723)	(1,754,712)	(809,011)
Other Financing Sources (Uses)			
Transfers in (out), net	49,999	-	49,999
Net proceeds from long term debt	2,844,541	665,502	2,179,039
Proceeds from sale of capital assets and loss recoveries	17,493	67,575	(50,082)
Total other financing sources	2,912,033	733,077	2,178,956
Excess (deficiency) of revenues and other sources over expenditures	348,310	(1,021,635)	1,369,945
Fund Balances - beginning	3,606,964	4,628,599	(1,021,635)
Fund Balances - ending	\$ 3,955,274	\$ 3,606,964	\$ 348,310

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.

Management's Discussion and Analysis

General Fund revenues came in below budgeted amounts by \$411,862. This reduction is due to operating and/or capital grant projects that actual expenditures and the revenue collections may extend beyond a single fiscal year and reduction in fines and forfeitures due to impact of contract termination with JCS for probationary services and not providing insurance and to indemnify City in case of law suits.

General Fund operating expenditures were under the final amended budget by \$378,737. 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, 2016, amounts to \$34,470,679 (net of accumulated depreciation). The City's investment in capital assets for business-type activities as of September 30, 2016, amounts to \$2,697,286 (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 includes \$1,724,976 in street resurfacing from the GO Bonds, Series 2016 issued in May 2016 that will be completed next year. It also includes the Downtown ADA sidewalk project, the painting of the Holman House, and Steagall Park restrooms, which total \$514,092. Each of these projects are to be completed and reclassified during the next fiscal year. 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	
	9/30/2016	9/30/2015	9/30/2016	9/30/2015	9/30/2016	9/30/2015
Land	\$ 5,400,558	\$5,400,558	\$ 573,045	\$573,045	\$ 5,973,603	\$5,973,603
Construction in progress	2,239,068	622,689	-	-	2,239,068	622,689
Improvements/infrastructure	16,165,265	15,156,225	-	-	16,165,265	15,156,225
Buildings	7,621,552	6,896,089	1,909,127	1,961,458	9,530,679	8,857,547
Equipment	2,252,417	2,539,247	50,042	101,110	2,302,459	2,640,357
Property under capital lease	791,819	779,715	165,072	-	956,891	779,715
Total	\$34,470,679	\$31,394,523	\$2,697,286	\$2,635,613	\$ 37,167,965	\$34,030,136

Long-Term Debt

The City Council on March 15, 2016, approved a 48-month financing with Commercial Bank of Ozark in the amount of \$108,430: \$79,415 was for the City to acquire a dump truck for the sanitation department and \$29,015 was for the City to acquire an emergency backup generator. The City Council on December 1, 2015, approved a 48-month financing with Commercial Bank of Ozark in the amount of \$188,266. With the loans proceeds, the City acquired two new ambulances for the EMS program, which is accounted for as a business-type activity.

Management's Discussion and Analysis

The net pension liability reflects compliance with the implementation of two new GASB Statements: GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment to GASB Statement No. 27* 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 2016. 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	
	9/30/2016	9/30/2015	9/30/2016	9/30/2015	9/30/2016	9/30/2015
Capital leases	\$ 686,307	\$ 762,306	\$ 150,715	\$ -	\$ 837,022	\$ 762,306
Bonds payable, net	10,335,248	7,886,617	-	-	10,335,248	7,886,617
Compensated absences	296,029	322,187	16,107	13,007	312,136	335,194
Net pension liability	4,749,165	4,060,769	277,894	218,034	5,027,059	4,278,803
Other postemployment benefit obligation	1,981,268	1,781,498	171,488	142,844	2,152,756	1,924,342
Total	\$ 18,048,017	\$ 14,813,377	\$ 616,204	\$ 373,885	\$ 18,664,221	\$ 15,187,262

Significant Economic Factors

The Mayor and City Council considered many factors when developing the fiscal year 2016-17 budget. A budget of \$16.5 million was adopted for the General Fund, \$4.9 million in Special Revenue Funds and \$1.0 million in Enterprise Funds on October 16, 2016, for fiscal year 2016-17.

- 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 per employee per month. The City reached the required employee participation in 2016 and expects to meet that level of participation for 2017. The estimated savings in health insurance premiums is approximately \$19,500. The City did receive a health rate increase of 4.0 percent for 2017.
- The 2016-17 budget does not include a cost of living or step increase adjustment. The City Council plans to revisit a cost of living adjustment or step increase after the first quarter of the new fiscal year.
- Estimated expenditures for Troy University of \$7,000 will be the third 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 remaining two-thirds of the cost of the study are Dale Medical Center and Ozark City Schools.
- The City projected slight increases in revenues in sales and use tax due to the future opening of a Ford car dealership and half of a year from new retail establishments.

Management's Discussion and Analysis

- Dale County unemployment rate for September 2016 was 5.6 percent and the rate for September 2015 was 6.0 percent.

These factors were considered in preparing the City's budget for fiscal year 2016-17.

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, 2016

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Ozark City Board of Education
Assets				
Current assets				
Cash and cash equivalents	\$ 3,127,059	\$ 206,132	\$ 3,333,191	\$ 12,921,637
Investments	-	-	-	52,242
Receivables, net	3,540,745	215,231	3,755,976	3,002,883
Other assets	16,985	-	16,985	38,938
Due from other funds	472,667	-	472,667	-
Total current assets	7,157,456	421,363	7,578,819	16,015,700
Restricted cash and cash equivalents	353,340	-	353,340	-
Capital assets				
Capital assets, net of depreciation	26,831,053	2,124,241	28,955,294	25,339,591
Land and other nondepreciable capital assets	7,639,626	573,045	8,212,671	2,777,313
Total capital assets	34,470,679	2,697,286	37,167,965	28,116,904
Total assets	41,981,475	3,118,649	45,100,124	44,132,604
Deferred Outflows of Resources				
Deferred outflows related to pension	831,149	72,274	903,423	2,704,358
Deferred charge on debt refunding	93,851	-	93,851	-
Total deferred outflows of resources	925,000	72,274	997,274	2,704,358
Liabilities				
Current liabilities				
Accounts payable	1,269,947	12,930	1,282,877	18
Accrued payroll and other accrued expenses	349,742	24,366	374,108	1,422,270
Due to other funds	-	472,667	472,667	-
Unearned revenue	-	-	-	566
Notes payable	-	-	-	202,589
Amounts due under capital leases	211,860	45,536	257,396	-
Bonds payable	447,480	-	447,480	164,004
Total current liabilities	2,279,029	555,499	2,834,528	1,789,447

-Continued-

City of Ozark, Alabama
Statement of Net Position (Continued)
September 30, 2016

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Ozark City Board of Education
Noncurrent liabilities				
Notes payable	-	-	-	1,013,375
Amounts due under capital leases	474,447	105,179	579,626	-
Bonds payable, net	9,887,768	-	9,887,768	27,169,117
Compensated absences	296,029	16,107	312,136	-
Net pension liability	4,749,165	277,894	5,027,059	18,587,000
Other post-employment benefits obligation	1,981,268	171,488	2,152,756	-
Total noncurrent liabilities	17,388,677	570,668	17,959,345	46,769,492
Total liabilities	19,667,706	1,126,167	20,793,873	48,558,939
Deferred Inflows of Resources				
Deferred inflows related to pension	130,277	18,408	148,685	952,000
Unearned property taxes and grant receipts	1,935,833	-	1,935,833	1,011,017
Total deferred inflows of resources	2,066,110	18,408	2,084,518	1,963,017
Net Position (Deficit)				
Net investment in capital assets	23,449,124	2,546,571	25,995,695	(432,180)
Restricted for:				
Capital outlay	62,972	-	62,972	-
Debt service	295,246	-	295,246	-
Education	69	-	69	-
Unrestricted (deficit)	(2,634,752)	(500,223)	(3,134,975)	(3,252,814)
Total net position	\$ 21,172,659	\$ 2,046,348	\$ 23,219,007	(3,684,994)

See accompanying notes to the financial statements.

City of Ozark, Alabama
Statement of Activities
For the Year Ended September 30, 2016

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
General government	\$ 2,301,151	\$ 1,902,595	\$ 26,482	\$ 500,752
Police department	3,033,568	158,512	27,604	-
Fire department	2,653,947	184,131	-	-
Street	873,644	-	-	119,535
Sanitation	1,228,235	1,306,247	-	-
Leisure services	1,717,166	265,038	65,143	-
Engineering/inspections	129,088	-	-	-
Vehicle maintenance	201,635	-	-	-
Airport	110,289	7,858	-	1,409,728
Judicial	217,377	-	-	-
Appropriations	129,550	-	-	-
Non-departmental	314,106	-	-	-
Economic development	815,695	-	209,900	-
Ozark technology center	120,691	-	-	-
Information technology	239,063	-	-	-
Education	2,335,916	1,482,824	-	-
Interest	262,695	-	-	-
Fees on long term debt	88,927	-	-	-
Amortization	11,875	-	-	-
Total governmental activities	16,784,618	5,307,205	329,129	2,030,015
Business-type Activities:				
Emergency medical services	1,048,527	1,255,545	-	-
Ozark square shopping center	141,881	98,996	-	-
Total business-type activities	1,190,408	1,354,541	-	-
Total primary government	\$17,975,026	\$ 6,661,746	\$ 329,129	\$ 2,030,015
Component Unit				
Ozark City Board of Education	\$21,842,635	\$ 1,898,433	\$ 14,968,793	\$ 822,915

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	
\$ 128,678	\$ -	\$ 128,678	\$ -	-
(2,847,452)	-	(2,847,452)	-	-
(2,469,816)	-	(2,469,816)	-	-
(754,109)	-	(754,109)	-	-
78,012	-	78,012	-	-
(1,386,985)	-	(1,386,985)	-	-
(129,088)	-	(129,088)	-	-
(201,635)	-	(201,635)	-	-
1,307,297	-	1,307,297	-	-
(217,377)	-	(217,377)	-	-
(129,550)	-	(129,550)	-	-
(314,106)	-	(314,106)	-	-
(605,795)	-	(605,795)	-	-
(120,691)	-	(120,691)	-	-
(239,063)	-	(239,063)	-	-
(853,092)	-	(853,092)	-	-
(262,695)	-	(262,695)	-	-
(88,927)	-	(88,927)	-	-
(11,875)	-	(11,875)	-	-
(9,118,269)	-	(9,118,269)	-	-
-	207,018	207,018	-	-
-	(42,885)	(42,885)	-	-
-	164,133	164,133	-	-
(9,118,269)	164,133	(8,954,136)	-	-
-	-	-	(4,152,494)	-

-Continued-

City of Ozark, Alabama
Statement of Activities (Continued)
For the Year Ended September 30, 2016

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	\$ 6,729,822	\$ -	\$ 6,729,822	\$ 2,005,702
Motor fuel taxes	1,031,932	-	1,031,932	-
Property taxes	734,536	-	734,536	2,565,804
Alcoholic beverage taxes	153,976	-	153,976	-
Lodging taxes	129,443	-	129,443	-
Tobacco taxes	239,944	-	239,944	-
Other taxes	481,396	-	481,396	9,996
Miscellaneous	116,522	-	116,522	764,782
Rental income	85,814	-	85,814	-
Franchise fees	203,843	-	203,843	-
Investment earnings	25,494	8	25,502	183,684
Total general revenues	9,932,722	8	9,932,730	5,529,968
Change in net position	814,453	164,141	978,594	1,377,474
Net Position - beginning	20,358,206	1,882,207	22,240,413	(5,062,468)
Net Position - ending	\$ 21,172,659	\$ 2,046,348	\$ 23,219,007	\$ (3,684,994)

See accompanying notes to the financial statements.

City of Ozark, Alabama
Balance Sheet-Governmental Funds
September 30, 2016

	General Fund	Special Ad Valorem I	Special Ad Valorem II
Assets			
Cash and cash equivalents	\$ 830,662	\$ 24	\$ 45
Receivables	2,155,469	663,477	663,477
Due from other funds	717,049	-	-
Prepays	14,952	-	-
Inventory	2,033	-	-
Restricted cash and cash equivalents	69,009	-	-
Total assets	\$ 3,789,174	\$ 663,501	\$ 663,522
Liabilities, Deferred Inflows of Resources and Fund Balances			
Liabilities			
Accounts payable	\$ 293,510	\$ 17,608	\$ 17,608
Due to other funds	197,021	-	-
Accrued payroll	239,001	-	-
Other accrued expenses	110,741	-	-
Total liabilities	840,273	17,608	17,608
Deferred inflows of resources			
Unearned property taxes	641,167	645,869	645,869
Unearned grant revenue	2,928	-	-
Total deferred inflows of resources	644,095	645,869	645,869
Fund balances			
Nonspendable	971,645	-	-
Restricted	62,972	24	45
Unassigned	1,270,189	-	-
Total fund balances	2,304,806	24	45
Total liabilities, deferred inflows of resources, and fund balances	\$ 3,789,174	\$ 663,501	\$ 663,522

See accompanying notes to the financial statements.

2016 Bond Fund	Other Governmental Funds	Total Governmental Funds
\$ 1,801,722	\$ 494,606	\$ 3,127,059
-	58,322	3,540,745
-	52,501	769,550
-	-	14,952
-	-	2,033
-	284,331	353,340
\$ 1,801,722	\$ 889,760	\$ 7,807,679
\$ 756,376	\$ 184,845	\$ 1,269,947
-	99,862	296,883
-	-	239,001
-	-	110,741
756,376	284,707	1,916,572
-	-	1,932,905
-	-	2,928
-	-	1,935,833
-	-	971,645
1,045,346	605,053	1,713,440
-	-	1,270,189
1,045,346	605,053	3,955,274
\$ 1,801,722	\$ 889,760	\$ 7,807,679

City of Ozark, Alabama
Reconciliation of the Balance Sheet-Governmental Funds
to the Statement of Net Position
September 30, 2016

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

Total fund balance - governmental funds	\$ 3,955,274
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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.	34,470,679
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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	(686,307)
Bonds payable, net	(10,335,248)
Deferred charges on debt refunding (amortized as interest expense)	93,851
Net pension liability	(4,749,165)
Deferred outflows related to pension	831,149
Deferred inflows related to pension	(130,277)
Accrued compensated absences	(296,029)
Accrued other post-employment benefits	(1,981,268)

Net position of governmental activities in the statement of net position	\$ 21,172,659
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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, 2016

	General Fund	Special Ad Valorem I	Special Ad Valorem II
Revenues			
Taxes	\$ 9,138,851	\$ 741,412	\$ 741,412
Licenses and permits	1,747,111	-	-
Intergovernmental	1,749,321	-	-
Charges for services	1,550,395	-	-
Fines and forfeitures	542,751	-	-
Investment earnings	23,844	-	-
Miscellaneous	591,761	-	-
Total revenues	15,344,034	741,412	741,412
Expenditures			
General government	1,018,601	-	-
Education	853,092	741,412	741,412
Vehicle maintenance	197,988	-	-
Police department	2,808,514	-	-
Information technology	208,251	-	-
Fire department	2,426,673	-	-
Airport	104,304	-	-
Sanitation	1,131,073	-	-
Street	796,316	-	-
Leisure services	1,534,265	-	-
Appropriations	129,550	-	-
Judicial	192,792	-	-
Economic development	739,931	-	-
Engineering/inspections	126,399	-	-
Ozark technology center	94,691	-	-
Non-departmental	314,076	-	-
Debt service			
Principal	-	-	-
Interest	-	-	-
Dues, fees and issuance costs	-	-	-
Capital outlay	2,510,405	-	-
Total expenditures	15,186,921	741,412	741,412
Excess (deficiency) of revenues over expenditures	157,113	-	-

See accompanying notes to the financial statements.

2016 Bond Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 182,980	\$ 10,804,655
-	-	1,747,111
-	445,889	2,195,210
-	-	1,550,395
-	-	542,751
1,526	122	25,492
-	61,041	652,802
1,526	690,032	17,518,416
-	353,941	1,372,542
-	-	2,335,916
-	-	197,988
-	6,324	2,814,838
-	-	208,251
-	-	2,426,673
-	-	104,304
-	-	1,131,073
-	25,173	821,489
-	-	1,534,265
-	-	129,550
-	17,614	210,406
-	30	739,961
-	-	126,399
-	-	94,691
-	-	314,076
-	474,429	474,429
-	262,695	262,695
-	88,926	88,926
1,600,580	582,682	4,693,667
1,600,580	1,811,814	20,082,139
(1,599,054)	(1,121,782)	(2,563,723)

-Continued-

City of Ozark, Alabama

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

For the Year Ended September 30, 2016

	General Fund	Special Ad Valorem I	Special Ad Valorem II
Other Financing Sources (Uses)			
Proceeds from long term debt, net	108,430	-	-
Proceeds from sale of capital assets	13,715	-	-
Loss recoveries	2,743	-	-
Transfers in (out), net	(426,420)	-	-
Total other financing sources (uses)	(301,532)	-	-
Excess revenues and other financing sources over expenditures and other (uses)	(144,419)	-	-
Fund Balances - beginning	2,449,225	24	45
Fund Balances - ending	\$ 2,304,806	\$ 24	\$ 45

See accompanying notes to the financial statements.

2016 Bond Fund	Other Governmental Funds	Total Governmental Funds
2,722,684	13,427	2,844,541
-	1,034	14,749
-	-	2,744
<u>(78,284)</u>	<u>554,704</u>	<u>49,999</u>
<u>2,644,400</u>	<u>569,165</u>	<u>2,912,033</u>
1,045,346	(552,617)	348,310
-	1,157,670	3,606,964
<u>\$ 1,045,346</u>	<u>\$ 605,053</u>	<u>\$ 3,955,274</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, 2016**

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

Net change in fund balances - total governmental funds: \$ 333,849

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. 4,706,813

Depreciation expense on governmental capital assets is included in the governmental activities in the Statement of Net Position. (1,630,657)

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. 474,429

Net proceeds from the issuance of long-term debt recorded as other financing source in governmental funds. (2,844,541)

Additional interest expense due to deferred charges on refunding and issuance discounts. (11,875)

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	(54,415)
Other post employment health benefits liability	(199,770)
Compensated absences	26,158

Change in net position of governmental activities \$ 799,991

City of Ozark, Alabama

**Statement of Revenues, Expenditures and Changes in Fund Balance-
Budget and Actual – General Fund
For the Year Ended September 30, 2016**

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues				
Taxes	\$ 8,450,897	\$ 9,132,832	\$ 9,138,851	\$ 6,019
Licenses and permits	1,605,809	1,724,817	1,747,111	22,294
Intergovernmental	2,186,576	1,807,721	1,749,321	(58,400)
Charges for services	1,594,602	1,623,722	1,550,395	(73,327)
Fines and forfeitures	854,398	859,004	542,751	(316,253)
Investment earnings	23,848	23,848	23,844	(4)
Miscellaneous	530,772	583,952	591,761	7,809
Total revenues	15,246,902	15,755,896	15,344,034	(411,862)
Expenditures				
General government	1,129,155	1,161,039	1,018,601	142,438
Education	845,025	853,093	853,092	1
Vehicle maintenance	202,350	202,855	197,988	4,867
Police department	2,801,648	2,831,800	2,808,514	23,286
Information technology	251,790	275,682	208,251	67,431
Fire department	2,463,057	2,464,495	2,426,673	37,822
Airport	86,097	118,621	104,304	14,317
Sanitation	1,158,128	1,145,016	1,131,073	13,943
Street	762,487	799,884	796,316	3,568
Leisure services	1,512,069	1,549,493	1,534,265	15,228
Appropriations	129,550	129,550	129,550	-
Judicial	175,266	189,192	192,792	(3,600)
Economic development	637,543	744,761	739,931	4,830
Engineering/inspections	128,685	129,096	126,399	2,697
Ozark Technology Center	35,008	110,780	94,691	16,089
Non-departmental	307,698	344,394	314,076	30,318
Capital outlay	2,778,682	2,515,907	2,510,405	5,502
Total expenditures	15,404,238	15,565,658	15,186,921	378,737
Excess (deficiency) of revenues over expenditures	(157,336)	190,238	157,113	(33,125)
Other Financing Sources (Uses)				
Proceeds from long-term debt, net	-	108,390	108,430	40
Proceeds from insurance	1,000	1,000	-	(1,000)
Proceeds from the sale of capital assets	5,000	5,000	13,715	8,715
Loss recoveries	1,000	1,000	2,743	1,743
Transfers in (out), net	(347,043)	65,493	(426,420)	(491,913)
Total other financing sources (uses)	(340,043)	180,883	(301,532)	(482,415)
Excess (deficiency) of revenues and other sources (uses) over expenditures	(497,379)	371,121	(144,419)	(515,540)
Fund Balance - beginning	2,449,225	2,449,225	2,449,225	-
Fund Balance - ending	\$ 1,951,846	\$ 2,820,346	\$ 2,304,806	\$ (515,540)

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, 2016**

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues				
Taxes	\$ 731,542	\$ 741,412	\$ 741,412	\$ -
Expenditures				
Education	731,542	741,412	741,412	-
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, 2016**

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues				
Taxes	\$ 731,542	\$ 741,412	\$ 741,412	\$ -
Expenditures				
Education	731,542	741,412	741,412	-
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 Revenues, Expenditures and Changes in Fund Balance-
Budget and Actual-2016 Bond Fund
For the Year Ended September 30, 2016**

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues				
Investment earnings	\$ -	\$ 1,526	\$ 1,526	\$ -
Expenditures				
Capital outlay	-	2,615,926	1,600,580	1,015,346
Excess (deficiency) of revenues over expenditures	-	(2,614,400)	(1,599,054)	1,015,346
Other Financing Sources (Uses)				
Proceeds from long-term debt, net	-	2,722,684	2,722,684	-
Transfers in (out), net	-	(78,284)	(78,284)	-
Total other financing sources	-	2,644,400	2,644,400	-
Excess (deficiency) of revenues and other sources over expenditures	-	30,000	1,045,346	1,015,346
Fund Balance - beginning	-	-	-	-
Fund Balance - ending	\$ -	\$ 30,000	\$ 1,045,346	\$ 1,015,346

See accompanying notes to the financial statements.

City of Ozark, Alabama
Statement of Net Position
Proprietary Fund
For the Year Ended September 30, 2016

	Emergency Medical Services	Ozark Square Shopping Center	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 41,234	\$ 164,898	\$ 206,132
Receivables, net	215,231	-	215,231
Total current assets	256,465	164,898	421,363
Noncurrent assets			
Land	-	573,045	573,045
Capital assets, net of depreciation	215,113	1,909,128	2,124,241
Total noncurrent assets	215,113	2,482,173	2,697,286
Total assets	471,578	2,647,071	3,118,649
Deferred Outflows of Resources			
Deferred outflows related to pension	72,274	-	72,274
Liabilities			
Current liabilities			
Accounts payable	11,456	1,474	12,930
Due to other funds	472,667	-	472,667
Accrued payroll	24,366	-	24,366
Amount due under capital lease	45,536	-	45,536
Total current liabilities	554,025	1,474	555,499
Noncurrent liabilities			
Amount due under capital lease	105,179	-	105,179
Compensated absences	16,107	-	16,107
Net pension liability	277,894	-	277,894
Other post-employment benefits obligation	171,488	-	171,488
Total noncurrent liabilities	570,668	-	570,668
Total liabilities	1,124,693	1,474	1,126,167
Deferred Inflows of Resources			
Deferred inflows related to pension	18,408	-	18,408
Net Position (Deficit)			
Net investment in capital assets	64,398	2,482,173	2,546,571
Unrestricted (deficit)	(663,647)	163,424	(500,223)
Total net position (deficit)	\$ (599,249)	\$ 2,645,597	\$ 2,046,348

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, 2016

	Emergency Medical Services	Ozark Square Shopping Center	Total
Operating Revenues			
Charges for services (net of provision for bad debts of \$368,015)	\$ 1,255,545	\$ -	\$ 1,255,545
Rental income	-	98,996	98,996
Total operating revenues	1,255,545	98,996	1,354,541
Operating Expenses			
Salaries and benefits	799,644	-	799,644
Repairs and maintenance	31,228	16,313	47,541
Utilities	6,502	16,711	23,213
Insurance	5,742	6,376	12,118
Legal	900	150	1,050
Depreciation	60,816	52,331	113,147
Other operating expenses	132,077	-	132,077
Total operating expenses	1,036,909	91,881	1,128,790
Operating income	218,636	7,115	225,751
Non-Operating Revenues (Expenses)			
Loss on disposition of capital assets	(9,446)	-	(9,446)
Interest income (expense)	(2,164)	-	(2,164)
Total non-operating revenues (expenses)	(11,610)	-	(11,610)
Income before transfers	207,026	7,115	214,141
Transfers In (Out)	-	(50,000)	(50,000)
Change in net position	207,026	(42,885)	164,141
Total Net Position (Deficit) - beginning	(806,275)	2,688,482	1,882,207
Total Net Position (Deficit) - ending	\$ (599,249)	\$ 2,645,597	\$ 2,046,348

See accompanying notes to the financial statements.

City of Ozark, Alabama
Statement of Cash Flows-Proprietary Funds
For the Year Ended September 30, 2016

	Emergency Medical Services	Ozark Square Shopping Center	Total
Cash Flows From Operating Activities			
Receipts from customers and users	\$ 1,195,710	\$ 98,996	\$ 1,294,706
Payments to suppliers	(158,632)	(38,524)	(197,156)
Payments to employees	(762,102)	-	(762,102)
Net cash provided by operating activities	274,976	60,472	335,448
Cash Flows From Noncapital and Related Financing Activities			
Net loans from (to) other funds	(209,243)	(50,000)	(259,243)
Cash Flows From Capital and Related Financing Activities			
Interest payments on long-term debt	(2,172)	-	(2,172)
Principal payments on long-term debt	(33,551)	-	(33,551)
Net cash used in capital and related financing activities	(35,723)	-	(35,723)
Cash Flows From Investing Activities			
Interest received	8	-	8
Net increase in cash and cash equivalents	30,018	10,472	40,490
Cash and Cash Equivalents - beginning	11,216	154,426	165,642
Cash and Cash Equivalents - ending	\$ 41,234	\$ 164,898	\$ 206,132
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating income	\$ 218,636	\$ 7,115	\$ 225,751
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	60,816	52,331	113,147
Provision for bad debts	368,015	-	368,015
Changes in operating assets and liabilities:			
Increase in receivables	(416,408)	-	(416,408)
Increase in accounts payable	5,603	1,026	6,629
Decrease in deferred inflows related to pension	(19,726)	-	(19,726)
Increase in deferred outflows related to pension	(38,882)	-	(38,882)
Increase in net pension liability	59,860	-	59,860
Increase in salaries and benefits payable	37,062	-	37,062
Net cash provided by operating activities	\$ 274,976	\$ 60,472	\$ 335,448

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

2016 Bond Fund – This fund accounts for the expenditures and distribution of the Series 2016 General Obligation Bonds.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interfund Loans and Transfers

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

Restricted Assets

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

Capital Assets

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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:

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2016 is comprised of the following:

City of Ozark, Alabama
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

	Nonspendable	Restricted	Unassigned
General Fund	\$ 971,645	\$ 62,972	\$ 1,270,189
Special Ad Valorem I	-	24	-
Special Ad Valorem II	-	45	-
Bond Fund	-	1,045,346	-
Nonmajor governmental funds	-	605,053	-
	\$ 971,645	\$ 1,713,440	\$ 1,270,189

Nonspendable fund balances include gas and diesel inventory of \$2,033, prepaid expenditures of \$14,952, long-term note receivable due from the Utilities Board of \$481,993, and amounts due from the EMS fund of \$472,667.

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 Wiregrass Violent Crime and Drug Task Force; costs and charges fixed by law for municipal court violation; grant funds available for capital improvements; bond proceeds for repairs; and debt service principal and interest payments.

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

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.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impact of Recently Issued Accounting Pronouncements

The accounting policies of the Board are based upon GAAP as prescribed by the GASB. Effective October 1, 2015 the Board adopted the following GASB Statements:

GASB Statement No. 72, *Fair Value Measurement and Application* (“GASB 72”), addresses accounting and financial reporting issues related to fair value measurements. GASB 72 will be effective for the City beginning with its year ending September 30, 2016. This Statement provides guidance for determining a fair value measurement for financial reporting purposes and the related disclosures. This Statement requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. This Statement establishes a hierarchy of inputs to valuation techniques used to measure fair value. This Statement also requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* (“GASB 73”), extends the approach to accounting and financial reporting established in Statement 68 to all pensions. It establishes requirements for defined contribution pensions that are not within the scope of Statement 68. Requirements of this Statement for pension plans that are within the scopes of Statement No. 67 or Statement 68, are effective for fiscal years beginning after June 15, 2015. Thus, these requirements of GASB 73 will be effective for the City beginning with its year ending September 30, 2016. GASB 73 clarifies the application of certain provisions of Statements 67 and 68 with regard to: (1) Information that is required to be presented as notes, (2) Accounting and financial reporting for separately financed specific liabilities, and (3) Timing of employer recognition of revenue.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (“GASB 76”), supersedes GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. GASB 76 will be effective for the City beginning with its year ending September 30, 2016.

Other accounting standards that the City is currently reviewing for applicability and potential impact on the financial statements include:

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (“GASB 74”), replaces GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and GASB Statement No. 57, *OPEB (Other Postemployment Benefits) Measurement by Agent Employers and Agent Multiple-Employer Plans*. GASB 74 will be effective for fiscal years beginning after June 15, 2016. Included are requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GASB 74 also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (“GASB 75”), replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. GASB 75 will be effective for fiscal years beginning after June 15, 2017. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB.

GASB Statement No. 77, *Tax Abatement Disclosures* (“GASB 77”), requires governments that enter into tax abatement agreements to disclose: (1) Brief descriptive information concerning the agreement; (2) The gross dollar amount of taxes abated during the period; and 3) Commitments made by government, other than to abate taxes, that are part of the tax abatement agreement. GASB 77 will be effective for fiscal years beginning after December 15, 2015.

GASB Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans* (“GASB 78”), amends the scope and applicability of GASB Statement No. 68. It excludes pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local government pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local government employers, and (3) has no predominate state or local government employer. This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosure; and required supplementary information for pensions that have the characteristics described above. GASB 78 will be effective for fiscal years beginning after December 15, 2015.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants* (“GASB 79”), addresses accounting and financial reporting for certain external investment pools and pool participants. It establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. GASB 79 establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized costs for financial reporting purposes and for governments that participate in those pools. GASB 79 will be effective for fiscal years beginning after June 15, 2015.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GASB Statement No. 80, *Blending Requirements for Certain Component Units*, an amendment of GASB Statement No. 14 (“GASB 80”), amends the blending requirements for the financial statement presentation of component units of all state and local governments. GASB 80 will be effective for fiscal years beginning after June 15, 2016.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements* (“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 will be effective for the fiscal years beginning after December 15, 2016.

GASB Statement No. 82, *Pension Issues*, an amendment of GASB Statements No. 67, No. 68, and No. 73 (“GASB 82”), addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (Plan member) contribution requirements. GASB 82 will be effective for fiscal years beginning after June 15, 2016.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

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

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

Net Deficit

As of September 30, 2016, the EMS Proprietary Fund reported unrestricted deficit of \$663,647 and total net deficit of \$599,249, which is expected to be funded by future revenues.

NOTE 3 – CASH AND CASH EQUIVALENTS

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

City of Ozark, Alabama
Notes to Financial Statements

NOTE 3 – CASH AND CASH EQUIVALENTS (Continued)

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, 2016 consist of the following:

	Accounts Receivable	Property Taxes Receivable	Note Receivable - Utilities Board	Total
General Fund	\$ 1,031,149	\$ 642,326	\$ 481,994	\$ 2,155,469
Special Ad Valorem I	17,608	645,869	-	663,477
Special Ad Valorem II	17,608	645,869	-	663,477
Nonmajor governmental funds	58,322	-	-	58,322
	<u>\$ 1,124,687</u>	<u>\$ 1,934,064</u>	<u>\$ 481,994</u>	<u>\$ 3,540,745</u>

Proprietary Funds

Patient transport accounts receivable, net reported in the EMS Fund at September 30, 2016 consists of these amounts:

Medicare	\$ 94,724
Medicaid	33,245
Insurance providers	90,655
Patients	125,475
Accounts remitted to collection agency	1,909,295
	<u>2,253,394</u>
Less: allowance for doubtful accounts	<u>(2,038,163)</u>
Patient transport accounts receivable, net	<u>\$ 215,231</u>

City of Ozark, Alabama
Notes to Financial Statements

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, 2016 consist of the following:

	Due From	Due To
General fund	\$ 717,049	\$ 197,021
Nonmajor governmental funds	52,501	99,862
Enterprise funds	-	472,667
	<u>\$ 769,550</u>	<u>\$ 769,550</u>

Transfers to/from other funds for the year ending September 30, 2016 consist of the following:

	Transfers In	Transfers Out	Net
General fund	\$ 618,935	\$ (1,045,355)	\$ (426,420)
2016 Bond fund	-	(78,284)	(78,284)
Nonmajor governmental funds	1,402,053	(847,349)	554,704
Enterprise funds	-	(50,000)	(50,000)
	<u>\$ 2,020,988</u>	<u>\$ (2,020,988)</u>	<u>\$ -</u>

NOTE 6 – RESTRICTED ASSETS

Restricted cash in the governmental funds is comprised of \$284,331 from the debt service fund restricted for debt service and \$69,009 from the general fund for capital projects.

NOTE 7 – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2016 was as follows:

	Beginning Balance 10/1/2015	Increases	Decreases	Ending Balance 9/30/2016
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 5,400,558	\$ -	\$ -	\$ 5,400,558
Construction in progress	622,689	4,447,688	2,831,309	2,239,068
	<u>\$ 6,023,247</u>	<u>\$ 4,447,688</u>	<u>\$ 2,831,309</u>	<u>\$ 7,639,626</u>

City of Ozark, Alabama
Notes to Financial Statements

NOTE 7 – CAPITAL ASSETS (Continued)

	Beginning Balance 10/1/2015	Increases	Decreases	Ending Balance 9/30/2016
Capital assets being depreciated:				
Buildings	\$ 12,754,345	\$ 1,011,274	\$ -	\$ 13,765,619
Improvements and infrastructure	38,310,546	1,839,406	-	40,149,952
Equipment	7,538,081	131,324	253,604	7,415,801
Property under capital leases	825,444	108,430	-	933,874
Total capital assets being depreciated	59,428,416	3,090,434	253,604	62,265,246
Less accumulated depreciation for:				
Buildings	5,858,256	285,811	-	6,144,067
Improvements and infrastructure	23,154,321	830,366	-	23,984,687
Equipment	4,998,834	418,154	253,604	5,163,384
Property under capital leases	45,729	96,326	-	142,055
Total accumulated depreciation	34,057,140	1,630,657	253,604	35,434,193
Total capital assets being depreciated, net	\$ 25,371,276	\$ 1,459,777	\$ -	\$ 26,831,053
Governmental activities capital assets, net	\$ 31,394,523	\$ 5,907,465	\$ 2,831,309	\$ 34,470,679
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	393,061	-	13,142	379,919
Property under capital lease	-	184,266	-	184,266
Total capital assets being depreciated	2,706,959	184,266	13,142	2,878,083
Less accumulated depreciation for:				
Buildings	352,440	52,331	-	404,771
Equipment	291,951	41,622	3,696	329,877
Property under capital lease	-	19,194	-	19,194
Total accumulated depreciation	644,391	113,147	3,696	753,842
Total capital assets being depreciated, net	\$ 2,062,568	\$ 71,119	\$ 9,446	\$ 2,124,241
Business-type activities capital assets, net	\$ 2,635,613	\$ 71,119	\$ 9,446	\$ 2,697,286

City of Ozark, Alabama
Notes to Financial Statements

NOTE 7 – CAPITAL ASSETS (Continued)

Construction in progress for governmental activities at September 30, 2016, is comprised of the amounts relating to street resurfacing, the Downtown ADA sidewalk project, the painting of the Holman House, and Steagall Park restrooms. Each of these projects will be completed and reclassified during the next fiscal year. The estimated costs to complete the largest ongoing project, street resurfacing, are \$1,045,000.

Depreciation expense was charged to functions/programs as follows:

Governmental Activities	
General government	\$ 855,231
Vehicle maintenance	1,236
Police department	183,307
Information technology	30,341
Fire department	187,063
Airport	4,892
Sanitation department	85,475
Street department	33,860
Leisure services	146,233
Judicial	3,190
Economic development	73,181
Engineering/inspections	1,848
Ozark Technology Center	24,800
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Total depreciation expense – Governmental Activities	\$ 1,630,657
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Business-type Activities	
Emergency Medical Services	\$ 60,816
Ozark Square Shopping Center	52,331
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Total depreciation expense – Business-type Activities	\$ 113,147
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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.	\$ 641,167	\$ 645,869	\$ 645,869	\$ 1,932,905
Pensions – Net difference between projected and actual earnings on pension plan investments.	-	-	-	130,277
Grant Revenues - Grant revenues received from various agencies to be spent in accordance with the respective grant agreement.	2,928	-	-	2,928
	<u>\$ 644,095</u>	<u>\$ 645,869</u>	<u>\$ 645,869</u>	<u>\$ 2,066,110</u>

Business-type Activities:	Emergency Medical Services	Total
Pensions – Net difference between projected and actual earnings on pension plan investments	\$ 18,408	\$ 18,408

NOTE 9 – LONG-TERM DEBT

Changes in long-term debt for the year ended September 30, 2016 were as follows:

	Beginning Balance 10/1/2015	Additions	Reductions	Ending Balance 9/30/2016	Due Within One Year
Governmental Activities					
Capital leases	\$ 762,306	\$ 108,430	\$ 184,429	\$ 686,307	\$ 211,860
Bonds payable	7,960,000	2,695,000	290,000	10,365,000	450,000
Unamortized discount	(73,383)	2,520	(41,111)	(29,752)	(2,520)
Compensated absences	322,187	-	26,158	296,029	-
Net pension liability	4,060,769	688,396	-	4,749,165	-
Other postemployment benefits	1,781,498	399,997	200,227	1,981,268	-
Governmental activities long-term liabilities	<u>\$ 14,813,377</u>	<u>\$ 3,894,343</u>	<u>\$ 659,703</u>	<u>\$ 18,048,017</u>	<u>\$ 659,340</u>

City of Ozark, Alabama
Notes to Financial Statements

NOTE 9 – LONG-TERM DEBT (Continued)

	Beginning Balance 10/1/2015	Additions	Reductions	Ending Balance 9/30/2016	Due Within One Year
Business-type Activities					
Capital lease	\$ -	\$ 184,266	\$ 33,551	\$ 150,715	\$ 45,536
Compensated absences	13,007	3,100	-	16,107	-
Net pension liability	218,034	59,860	-	277,894	-
Other postemployment benefits	142,844	28,644	-	171,488	-
Business-type activities long-term liabilities	\$ 373,885	\$ 275,870	\$ 33,551	\$ 616,204	\$ 45,536
Component Unit					
Bonds payable	\$ 23,059,000	\$ 4,107,046	\$ 255,000	\$ 26,911,046	\$ 142,542
Bond premium	-	427,440	5,365	422,075	21,462
Notes payable	1,095,397	292,000	171,433	1,215,964	202,589
Net pension liability	17,116,000	1,471,000	-	18,587,000	-
Component unit long- term liabilities	\$ 41,270,397	\$ 6,297,486	\$ 431,798	\$ 47,136,085	\$ 366,593

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, 2016 are as follows:

	Principal Balance
\$4,425,000 General Obligation Warrants, Series 2011 , dated July 1, 2011, payable in annual installments from 2012 through 2026, interest rates range from 2 to 3.75 percent.	\$ 3,740,000
\$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.	3,930,000
\$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.	2,695,000
	\$ 10,365,000

NOTE 9 – LONG-TERM DEBT (Continued)

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 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, 2016 was \$9,316. The balance on the deferred refunding cost at September 30, 2016 is \$93,154 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, 2016 is \$3,321. Remaining original issue discount to be deferred to future periods is \$33,209.

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

City of Ozark, Alabama
Notes to Financial Statements

NOTE 9 – LONG-TERM DEBT (Continued)

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, 2016 was \$39. The balance on the deferred refunding cost at September 30, 2016 is \$697 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 part of the interest expense. The total amount expensed related to the Series 2014 bonds for the year ended September 30, 2016 is \$1,940. Remaining original issue discount to be deferred to future periods is \$34,913.

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 part of miscellaneous revenue. The total amount of revenue recognized related to the Series 2016 bonds for the year ended September 30, 2016 is \$2,741. Remaining original issue premium to be recognized in future periods is \$38,370.

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

Year Ending September 30,	Principal	Interest	Total
2017	\$ 450,000	\$ 305,585	\$ 755,585
2018	505,000	296,334	801,334
2019	520,000	285,459	805,459
2020	535,000	272,884	807,884
2021	550,000	259,099	809,099
2022-2026	3,010,000	1,006,347	4,016,347
2027-2031	3,260,000	523,726	3,783,726
2032-2034	1,535,000	82,890	1,617,890
	\$ 10,365,000	\$ 3,032,324	\$ 13,397,324

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) and for financing 13 police vehicles.

City of Ozark, Alabama
Notes to Financial Statements

NOTE 9 – LONG-TERM DEBT (Continued)

In the current fiscal year, the City entered into two separate additional lease agreements as lessee for financing the acquisition of two ambulances and a dump truck and emergency generator.

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
Total equipment under capital lease	933,874	184,266
Accumulated depreciation	(142,055)	(19,194)
Total equipment under capital lease, net	\$ 791,819	\$ 165,072

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, 2016:

September 30,	Governmental Activities	Business-type Activities
2017	\$ 221,914	\$ 47,630
2018	273,510	47,630
2019	182,803	47,630
2020	25,674	11,906
Total minimum lease payments	703,901	154,796
Less: amount representing interest	(17,594)	(4,081)
Present value of future minimum lease payments	\$ 686,307	\$ 150,715

The interest rates range from 1.59 to 2.24 percent.

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

NOTE 9 – LONG-TERM DEBT (Continued)

warrants was to retire the Capital Outlay School Warrants, Series 1995 on their ten year call date, which occurred during the year ending September 30, 2005. These warrants are secured by the proceeds of the Special City School Ad Valorem Tax, which is levied and collected by the City. For the current year, principal and interest and revenue from the pledged sources were \$252,405 and \$724,639. 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 audit period.

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
2017	5.15%	\$ 983,715	\$ 94,918	\$ 1,078,633
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 - 2026	5.15%	4,918,572	474,590	5,393,162
		\$ 9,837,147	\$ 949,180	\$ 10,786,327

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. 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.

City of Ozark, Alabama
Notes to Financial Statements

NOTE 9 – LONG-TERM DEBT (Continued)

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
2017	4.60%	\$ 36,750	\$ 16,790	\$ 53,540
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 - 2027	4.60%	218,337	100,740	319,077
		<u>\$ 402,087</u>	<u>\$ 184,690</u>	<u>\$ 586,777</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 statement presentation is required.

NOTE 11 – RETIREMENT PLAN

Summary of Significant Accounting Policies for the Pension Plan

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.

NOTE 11 – RETIREMENT PLAN (Continued)

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 Board of Control. The ERS Board of Control consists of 13 trustees. The Plan is administered by 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

NOTE 11 – RETIREMENT PLAN (Continued)

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.

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 876 local participating employers. These participating employers include 294 cities, 65 counties, and 517 other public entities. The ERS membership includes approximately 84,393 participants. As of September 30, 2015, membership consisted of:

Retirees and beneficiaries currently receiving benefits	22,211
Terminated employees entitled to but not yet receiving benefits	1,353
Terminated employees not entitled to a benefit	5,451
<u>Active members</u>	<u>55,378</u>
 <u>Total</u>	 <u>84,393</u>

As of September 30, 2015, the City’s membership consisted of:

Retirees and beneficiaries currently receiving benefits	60
Terminated employees entitled to but not yet receiving benefits	2
Terminated employees not entitled to a benefit	4
<u>Active members</u>	<u>162</u>
 <u>Total</u>	 <u>228</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.

NOTE 11 – RETIREMENT PLAN (Continued)

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.

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 8.8% of covered employee payroll for Tier 1 employees and 5.7% for Tier 2 employees.

The City’s contractually required contribution rate for the year ended September 30, 2016 was 9.19% of pensionable pay for Tier 1 employees, and 6.09% of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation dated September 30, 2013, 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 \$467,660 for the year ended September 30, 2016.

Net Pension Liability

The City’s net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as September 30, 2014 rolled forward to September 30, 2015 using standard roll-forward techniques as shown in the following table:

	Expected	Actual
Total pension liability		
As of September 30, 2014 (a)	\$ 18,023,443	\$ 17,862,036
Entry age normal cost for		
October 1, 2014 – September 30, 2015 (b)	444,431	444,431
Actual benefit payments and refunds for		
October 1, 2014 – September 30, 2015 (c)	(1,372,821)	(1,372,821)
Total pension liability as of September 30, 2015 (d)		
[(a) x (1.08)] + (b) – [(c) x (1.04)]	\$ 18,482,016	\$ 18,307,696

City of Ozark, Alabama
Notes to Financial Statements

NOTE 11 – RETIREMENT PLAN (Continued)

Difference between expected and actual experience (gain)/loss (e) \$ (174,320)

Actuarial assumptions. The total pension liability in the September 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	3.75% - 7.25%
Investment rate of return*	8.00%

* Net of pension plan investment expense

Mortality rates for ERS were based on the RP-2000 Combined Mortality Table Projected with Scale AA to 2015 set forward three years for males and two years for females. The rates of mortality for the period after disability retirement are according to the sex distinct RP-2000 Disability Mortality Table.

The actuarial assumptions used in the September 30, 2014 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.

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 summarized in the following table:

	Target Allocation	Long-Term Expected Rate of Return[^]
Fixed income	25.00%	5.00%
Domestic large cap equity	34.00%	9.00%
Domestic mid cap equity	8.00%	12.00%
Domestic small cap equity	3.00%	15.00%
International developed equity	15.00%	11.00%
Emerging market equity	3.00%	16.00%
Real estate	10.00%	7.50%
Cash equivalents	2.00%	1.50%
Total	100.00%	

[^] Includes assumed rate of inflation of 2.5%

City of Ozark, Alabama
Notes to Financial Statements

NOTE 11 – RETIREMENT PLAN (Continued)

Discount rate. The discount rate used to measure the total pension liability was the long-term rate of return, 8%. 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.

Schedule of Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at September 30, 2014	\$ 18,023,443	\$ 13,744,640	\$ 4,278,803
Changes for the year:			
Service cost	444,431	-	444,431
Interest	1,386,963	-	1,386,963
Differences between expected and actual experience	(174,320)	-	(174,320)
Contributions - employer	-	457,419	(457,419)
Contributions - employee	-	301,942	(301,942)
Net investment income	-	159,366	(159,366)
Benefit payments, including refunds of employee contributions	(1,372,821)	(1,372,821)	-
Administrative expense	-	-	-
Transfers among employers	-	(9,909)	9,909
Net changes	284,253	(464,003)	748,256
Balances at September 30, 2015	\$ 18,307,696	\$ 13,280,637	\$ 5,027,059

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 8%, 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 (7%) or 1-percentage point higher (9%) than the current rate:

	1% Decrease (7.00%)	Current Rate (8.00%)	1% Increase (9.00%)
City's net pension liability	\$ 7,204,130	\$ 5,027,059	\$ 3,199,478

City of Ozark, Alabama
Notes to Financial Statements

NOTE 11 – RETIREMENT PLAN (Continued)

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, 2015. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2015. The auditor’s report dated October 17, 2016 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.

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

For the year ended September 30, 2016, the City recognized pension expense of \$523,326. At September 30, 2016, 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	\$ -	\$ 148,685
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	435,763	-
Employer contributions subsequent to the measurement date	467,660	-
Total	\$ 903,423	\$ 148,685

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

Year ended September 30:		
2017	\$	58,601
2018		58,601
2019		58,602
2020		157,419
2021		(25,635)
Thereafter		(20,510)

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-five years of age shall be provided the same health insurance coverage as regular employees based on a minimum contribution by the City of fifty percent (50%) for retirement at age fifty-five (55) and ten percent (10%) for each additional year of age upon retirement for a maximum of 100 percent (100%) at age sixty (60) thru age sixty-four (64) until age sixty-five (65) at which time Medicare Supplemental coverage will be provided at an amount not to exceed the City's then current insurance carrier's premium for Medicare Supplemental coverage.

Actuarial Valuation as of September 30, 2015

Summary of Employer Census Data

Number of active members	149
Number of retired members	34
Number of disabled members	3

Funded Status and Funding Progress As of October 1, 2014, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$5,976,936, and the actuarial value of present assets was \$0, resulting in an unfunded actuarial accrued liability of \$5,976,936. The covered payroll (annual payroll of active participating employees) was \$6,008,072 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 99.48%.

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.

City of Ozark, Alabama
Notes to Financial Statements

NOTE 12 – POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

<i>Fiscal Year Ending September 30, 2016</i>	Amount
Service cost	\$ 188,386
Amortization of unfunded actuarial accrued liability	237,529
Annual required contribution	425,915
Plus interest on prior year net OPEB obligation	76,974
Less prior year net OPEB obligation amortization	(74,248)
Annual OPEB cost	428,641
Contribution toward the OPEB cost in fiscal year 2015	(200,227)
Increase in Net OPEB obligation	228,414
Net OPEB obligation, beginning of year	1,924,342
Net OPEB obligation, end of year	\$ 2,152,756

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, 2016 is as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed
9/30/2014	\$ 479,672	36.88%
9/30/2015	426,780	46.26%
9/30/2016	428,641	46.71%

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, 2015 and to estimate the City’s 2015 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

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

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

On November 19, 2013, the City Council adopted a resolution to enter into an agreement to rebate no more than \$2,200,000 of City diesel and gasoline tax to a commercial business to promote economic development. The agreement expires the sooner of 15 years from the date of opening or when rebates to the commercial business total \$2,200,000.

On 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.

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.

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 15 – RELATED PARTY TRANSACTIONS (Continued)

note receivable due from the Utilities Board with a principal balance of \$481,994 as of September 30, 2016. The note is due in monthly installments through February 2026 with interest ranging from 3.35% to 5%. During 2016, the City recorded total payments from the Utilities Board of \$37,483, which includes \$13,694 principal and \$23,789 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 30, 2017, 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)
9/30/2010	\$ -	\$ 4,694,895	\$ 4,694,895	0.00%	\$ 5,123,773	91.63%
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%

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

September 30,	2015	2014
Total Pension Liability		
Service cost	\$ 444,431	\$ 486,720
Interest	1,386,963	1,334,762
Changes of benefit terms	-	-
Differences between expected and actual experience	(174,320)	-
Changes of assumptions	-	-
Benefit payments, including refunds of employee contributions	(1,372,821)	(965,131)
Net change in total pension liability	284,253	856,351
Total pension liability - beginning	18,023,443	17,167,092
Total pension liability - ending (a)	\$ 18,307,696	\$ 18,023,443
Plan Fiduciary Net Position		
Contributions - employer	\$ 457,419	\$ 463,937
Contributions - member	301,942	298,308
Net investment income	159,366	1,482,615
Benefit payments, including refunds of employee contributions	(1,372,821)	(965,131)
Transfers among employers	(9,909)	13,776
Net change in plan fiduciary net position	(464,003)	1,293,505
Plan net position - beginning	13,744,640	12,451,135
Plan net position - ending (b)	\$ 13,280,637	\$ 13,744,640
Net pension liability (asset) - ending (a) - (b)	\$ 5,027,059	\$ 4,278,803
Plan fiduciary net position as a percentage of the total pension liability	72.54%	76.26%
Covered-employee payroll*	\$ 5,609,577	\$ 5,749,664
Net pension liability (asset) as a percentage of covered-employee payroll	89.62%	74.42%

*Employer's covered-payroll during the measurement period is the total covered payroll. For FY 2016, the measurement period is October 1, 2014 - September 2015. GASB issued a statement "Pension Issues" in March 2016 to redefine covered payroll for FY2016.

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

September 30,	2016	2015
Actuarially determined contribution*	\$ 444,431	\$ 486,720
Contributions in relation to the actuarially determined contribution*	467,660	457,419
Contribution deficiency (excess)	\$ (23,229)	\$ 29,301
Covered-employee payroll**	\$ 5,749,664	\$ 5,609,577
Contributions as a percentage of covered-employee payroll	8.13%	8.15%

*Amount of employer contributions related to normal and accrued liability components of employer rate net of any refunds or error service payments. For FY2016, the fiscal year is the twelve month period of the underlying financial statement.

**Employer's covered-payroll during fiscal year is the total payroll paid to covered employees (not just pensionable payroll). For FY 2016, the fiscal year is the twelve month period of the underlying financial statement.

Notes to Schedule

Actuarially determined contribution rates are calculated as of September 30, two years prior to the end of the fiscal year in which contributions are reported. Contributions for fiscal year 2016 were based on the September 30, 2013 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, maintenance of highways, bridges and street.

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

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

Wiregrass Violent Crime – Accounts for federal grant to fund the Wiregrass Violent Crime and Drug Task Force. 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.

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, 2016

	Special			
	Street	Four Cent Gas Tax	UDAG	FEMA
Assets				
Cash and cash equivalents	\$ 111,028	\$ 81,394	\$ 14,014	\$ 6,507
Receivables	-	-	-	-
Due from other funds	48,534	-	-	-
Restricted cash and cash equivalents	-	-	-	-
Total assets	\$ 159,562	\$ 81,394	\$ 14,014	\$ 6,507
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	49,950	-	-
Fund balances				
Restricted	159,562	31,444	14,014	6,507
Total liabilities and fund balances	\$ 159,562	\$ 81,394	\$ 14,014	\$ 6,507

Revenue

Wiregrass Violent Crime	Dept of Justice	Drug Forfeiture	Municipal Court/ Judicial Admin	CDBG
\$ 3,871	\$ 1,989	\$ 8,417	\$ 35,071	\$ 66,853
-	-	-	-	58,322
-	-	-	1,120	-
-	-	-	-	-
\$ 3,871	\$ 1,989	\$ 8,417	\$ 36,191	\$ 125,175
\$ -	\$ -	\$ -	\$ -	\$ 63,043
-	-	-	-	49,855
3,871	1,989	8,417	36,191	12,277
\$ 3,871	\$ 1,989	\$ 8,417	\$ 36,191	\$ 125,175

-Continued-

City of Ozark, Alabama
Combining Balance Sheet-Nonmajor Governmental Funds (Continued)
September 30, 2016

	Alabama Trust Fund			Debt Service	Total Nonmajor Governmental Funds	
	Improvements	Corrections	Bond	Debt Service		
Assets						
Cash and cash equivalents	\$ 13,611	\$ 12,381	\$ 128,554	\$ 10,916	\$ 494,606	
Receivables	-	-	-	-	58,322	
Due from other funds	-	2,847	-	-	52,501	
Restricted cash and cash equivalents	-	-	-	284,331	284,331	
Total assets	\$ 13,611	\$ 15,228	\$ 128,554	\$ 295,247	\$ 889,760	
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ -	\$ -	\$ 121,802	\$ -	\$ 184,845	
Due to other funds	-	-	57	-	99,862	
Fund balances						
Restricted	13,611	15,228	6,695	295,247	605,053	
Total liabilities and fund balances	\$ 13,611	\$ 15,228	\$ 128,554	\$ 295,247	\$ 889,760	

City of Ozark, Alabama
**Combining Statement of Revenues, Expenditures and
 Changes in Fund Balances-Nonmajor Governmental Funds
 For the Year Ended September 30, 2016**

	Special			
	Street	Four Cent Gas Tax	UDAG	FEMA
Revenues				
Taxes	\$ 117,618	\$ 65,362	\$ -	\$ -
Intergovernmental	-	-	-	-
Investment earnings	-	3	-	-
Miscellaneous	-	7,085	-	-
Total revenues	117,618	72,450	-	-
Expenditures				
General government	-	-	-	-
Police department	-	-	-	-
Street	25,173	-	-	-
Judicial	-	-	-	-
Economic development	-	-	-	-
Debt service				
Principal	-	-	-	-
Interest	-	-	-	-
Dues, fees and issuance costs	-	-	-	-
Capital outlay	134,183	117,211	-	-
Total expenditures	159,356	117,211	-	-
Excess (deficiency) of revenues over expenditures	(41,738)	(44,761)	-	-
Other Financing Sources (Uses)				
Proceeds from long term debt, net	-	-	-	-
Proceeds from sale of capital assets	-	-	-	-
Transfers in (out)	164,932	45,259	-	-
Total other financing sources (uses)	164,932	45,259	-	-
Excess revenues and other sources over (under) expenditures and other (uses)	123,194	498	-	-
Fund Balances - beginning	36,368	30,946	14,014	6,507
Fund Balances - ending	\$ 159,562	\$ 31,444	\$ 14,014	\$ 6,507

Revenue

Wiregrass Violent Crime	Dept of Justice	Drug Forfeiture	Municipal Court/ Judicial Admin	CDBG	Alabama Trust Fund Improvements
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	3,694	9,981	-	300,079	132,135
-	-	-	45	-	14
-	-	-	-	53,956	-
-	3,694	9,981	45	354,035	132,149
-	-	-	-	353,941	-
16	3,710	2,598	-	-	-
-	-	-	-	-	-
-	-	-	14,379	-	-
-	-	-	-	-	30
-	-	-	-	-	-
-	-	-	-	-	-
-	-	3,388	10,789	-	-
16	3,710	5,986	25,168	353,941	30
(16)	(16)	3,995	(25,123)	94	132,119
-	-	-	-	-	-
-	-	1,034	-	-	-
-	-	-	7,442	-	(128,478)
-	-	-	7,442	-	(128,478)
(16)	(16)	3,995	(17,681)	94	3,641
3,887	2,005	3,388	53,872	12,183	9,970
\$ 3,871	\$ 1,989	\$ 7,383	\$ 36,191	\$ 12,277	\$ 13,611

-Continued-

City of Ozark, Alabama
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances-Nonmajor Governmental Funds (Continued)
For the Year Ended September 30, 2016

			Debt Service	Total Nonmajor Governmental Funds
	Corrections	Bond	Debt Service	
Revenues				
Taxes	\$ -	\$ -	\$ -	\$ 182,980
Intergovernmental	-	-	-	445,889
Investment earnings	9	-	51	122
Miscellaneous	-	-	-	61,041
Total revenues	9	-	51	690,032
Expenditures				
General government	-	-		353,941
Police department	-	-	-	6,324
Street	-	-	-	25,173
Judicial	3,235	-	-	17,614
Economic development	-	-	-	30
Debt service				
Principal	-	-	474,429	474,429
Interest	-	-	262,695	262,695
Dues, fees and issuance costs	-	-	88,926	88,926
Capital outlay	-	317,111	-	582,682
Total expenditures	3,235	317,111	826,050	1,811,814
Excess (deficiency) of revenues over expenditures	(3,226)	(317,111)	(825,999)	(1,121,782)
Other Financing Sources (Uses)				
Proceeds from long term debt, net	-	13,427	-	13,427
Proceeds from sale of capital assets	-	-	-	1,034
Transfers in (out)	6,012	(464,807)	924,344	554,704
Total other financing sources (uses)	6,012	(464,807)	924,344	554,704
Excess revenues and other sources over (under) expenditures and other (uses)	2,786	(781,918)	98,345	(567,078)
Fund Balances - beginning	12,442	775,186	196,902	1,157,670
Fund Balances - ending	\$ 15,228	\$ (6,732)	\$ 295,247	\$ 590,592

City of Ozark, Alabama
Schedules of Bond Amortization Requirements
September 30, 2016

\$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
9/30/2017	2.50%	\$ 150,000	\$ 120,553	\$ 270,553
9/30/2018	2.50%	350,000	114,303	464,303
9/30/2019	2.75%	360,000	104,978	464,978
9/30/2020	3.00%	375,000	94,403	469,403
9/30/2021	3.20%	385,000	82,618	467,618
9/30/2022	3.40%	400,000	69,658	469,658
9/30/2023	3.50%	405,000	55,770	460,770
9/30/2024	3.60%	420,000	41,122	461,122
9/30/2025	3.75%	440,000	25,312	465,312
9/30/2026	3.75%	455,000	8,531	463,531
Total		\$ 3,740,000	\$ 717,248	\$ 4,457,248

-Continued-

City of Ozark, Alabama
Schedules of Bond Amortization Requirements (Continued)
September 30, 2016

\$4,180,000 General Obligation Warrants, Series 2014, dated May 15, 2014 with interest payable on March 1 and September 1 in each year. Warrants mature on March 1, 2034.

Paying Agent: Regions Bank

Year Ending	Interest Rate	Principal	Interest	Total
9/30/2017	2.00%	\$ 145,000	\$ 124,008	\$ 269,008
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		\$ 3,930,000	\$ 1,760,465	\$ 5,690,465

-Continued-

City of Ozark, Alabama
Schedules of Bond Amortization Requirements (Continued)
September 30, 2016

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

Paying Agent: Regions Bank

Year Ending	Interest Rate	Principal	Interest	Total
9/30/2017	1.00%	\$ 155,000	\$ 61,024	\$ 216,024
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		\$ 2,695,000	\$ 554,611	\$ 3,249,611

City of Ozark, Alabama
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended September 30, 2016

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA #	Program Number	Federal Expenditures
U.S. Department of Transportation			
Pass-through Alabama Department of Transportation:			
Airport Improvements	20.106	3-01-0056-016-2015	\$ 186,491
Airport Improvements	20.106	3-01-0056-017-2016	911,820
			1,098,311
Highway Planning and Construction Cluster			
Highway Planning and Construction	20.205	TAPOA-TA15(923)	112,450
Pass-through Southeast Alabama Highway Safety Office, Enterprise State Community College:			
Highway Safety Cluster			
Selective Traffic	20.600	15-SP-PT-007	229
Click It or Ticket	20.600	16-H7-M2-002	1,765
Impaired Driving Hotspot	20.600	16-HF-M5-002	3,629
			5,623
Total U.S. Department of Transportation			1,216,384
U.S. Department of Housing and Urban Development			
Pass-through Alabama Department of Economic and Community Affairs:			
Community Block Development Grant	14.228	LR-CM-RR-14-017	300,079
U.S. Department of Agriculture			
Pass-through Alabama Department of Education:			
Child Nutrition Cluster			
Summer Food Service Program for Children	10.559	N/A	49,783
U.S. Department of Justice			
Pass-through Alabama Department of Economic and Community Affairs:			
Bulletproof Vest Partnership Grant Act P.L. 105-181 & P.L. 106-517			
Edward Byrne Memorial Justice Assistance Grant Program/Grants to States and Territories	16.607	2015BUBX15075715	3,694
	16.738	15-DJ-LC-006	8,307
Total U.S. Department of Justice			12,001

-Continued-

City of Ozark, Alabama
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended September 30, 2016

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA #	Program Number	Federal Expenditures
U.S. Department of Health and Human Services			
Pass-through Southern Alabama Regional Council on Aging:			
Aging Cluster			
Special Programs for Aging Title III Part B	93.044	N/A	7,920
Special Programs for Aging Title III Part C	93.045	N/A	3,240
Total U.S. Department of Health and Human Services			11,160
General Services Administration			
Pass-through Alabama Department of Economic and Community Affairs:			
Donation of Federal Surplus Personal Property	39.003	N/A	956
Total Expenditures of Federal Awards			\$ 1,590,363

See the accompanying notes to the schedule of expenditures of federal awards.

City of Ozark, Alabama
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2016

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) summarizes the federal expenditures of the City of Ozark, Alabama (the “City”) under programs of the federal government for the year ended September 30, 2016. The amounts reported as federal expenditures were obtained from the City’s general ledger. Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position and cash flows of the City.

For purposes of the Schedule, federal awards include all grants, contracts, and similar agreements entered into directly with the federal government and other pass-through entities. The City has obtained Catalog of Federal Domestic Assistance (“CFDA”) numbers to ensure that all programs have been identified in the Schedule. CFDA numbers have been appropriately listed by applicable programs. The revenues and expenditures for the grants are accounted for in several different funds on the modified accrual basis.

Federal programs with different CFDA numbers that are closely related because they share common compliance requirements are defined as a cluster by the Uniform Guidance. Clusters are separately identified in the Schedule.

NOTE 2 – RELATIONSHIP OF THE SCHEDULE TO PROGRAM FINANCIAL REPORTS

The amounts reflected in the financial reports submitted to the awarding federal and/or pass-through agencies and the Schedule may differ. Some of the factors that may account for any difference include the following:

- The City’s fiscal year end may differ from the program’s year end.
- Accruals recognized in the Schedule, because of year end procedures, may not be reported in the program financial reports until the next program reporting period.
- Fixed asset purchases and the resultant depreciation charges are recognized as fixed assets in the City’s financial statements and as expenditures in the program financial reports.

NOTE 3 – FEDERAL PASS-THROUGH FUNDS

The City is the sub-recipient of federal funds from various state and local agencies. These amounts are reported as federal pass-through expenditures on the Schedule. Federal awards other than those considered “pass-through” are considered direct.

NOTE 4 – BASIS OF ACCOUNTING

This Schedule was prepared on the modified accrual basis of accounting. The modified accrual basis differs from the full accrual basis of accounting in that expenditures for property, and equipment are expensed when incurred, rather than being capitalized and depreciated over their useful lives, and expenditures for the principal portion of debt service are expensed when incurred rather than being applied to reduce the outstanding principal portion of debt which conforms to the basis of reporting to grantors for reimbursement under the terms of the City’s federal grants.

City of Ozark, Alabama
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2016

NOTE 5 – CONTINGENCIES

Grant monies received and disbursed by the City are for specific purposes and are subject to review by the grantor agencies. Such audits may result in requests for reimbursement due to disallowed expenditures. Based upon prior experience, the City does not believe that such disallowance, if any, would have a material effect on the financial position of the City. As of September 30, 2016, there were no material questioned or disallowed costs as a result of grant audits in process or completed.

NOTE 6 – FACILITIES AND ADMINISTRATIVE COSTS

There were no facilities or administrative costs charged to federal awards programs for the year ended September 30, 2016.

NOTE 7 – NONCASH ASSISTANCE

The City received no noncash assistance for the year ended September 30, 2016.

NOTE 8 – INDIRECT COSTS

The City has not elected to use the 10% de minimis indirect cost rate.

**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, 2016, 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 30, 2017. 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 30, 2017

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

We have audited City of Ozark, Alabama's (the "City") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2016. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2016.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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

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

Enterprise, Alabama
March 30, 2017

City of Ozark, Alabama
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2016

Section I - Summary of Auditors' Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified _____ yes X no
- Significant deficiencies identified? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Significant deficiencies identified? _____ yes X none reported

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a) _____ yes X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
-----------------------	---

20.106	Airport Improvement Program
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Dollar threshold used to distinguish between type A and type B programs? \$ 750,000

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

Section II – Financial Statements Findings

None.

Section III – Federal Award Findings and Questioned Costs

None.

City of Ozark, Alabama
Summary Schedule of Prior Audit Findings
For the Year Ended September 30, 2016

<u>Finding</u>	<u>Description</u>
2015-001	Segregation of Duties (Financial Statement Finding)
<i>Condition:</i>	Many journal entries are prepared and posted to the general ledger without review and approval. Further, these same entries are posted by an individual who also has user access and administration duties. While there are some mitigating controls in place, most are detective rather than preventive and do not provide adequate controls to mitigate all risks of material misstatement.
<i>Current Status:</i>	Fully corrected in current year. No similar findings were noted in the 2016 audit.
2015-002	Compliance requirement – Davis Bacon Act (Highway Planning and Construction Program – CFDA 20.205)
<i>Condition:</i>	Obtaining and reviewing certified payrolls from construction contractors for compliance with Davis Bacon prevailing wage rate requirements was not performed.
<i>Current Status:</i>	Fully corrected in current year. No similar findings were noted in the 2016 audit.
2015-003	Compliance requirement – Suspension and Debarment (Highway Planning and Construction Program – CFDA 20.205 & Airport Improvement Program – CFDA 20.106)
<i>Condition:</i>	No procedures to check for suspension/debarment of vendors were performed and documented for both vendors paid under the Highway and Planning Construction Program. One vendor included in our testing of the Airport Improvement Program was not checked for suspension/debarment.
<i>Current Status:</i>	Fully corrected in current year. No similar findings were noted in the 2016 audit.