

CITY OF BOAZ  
Boaz, Alabama

AUDITED FINANCIAL STATEMENTS  
AND OTHER INFORMATION  
September 30, 2017

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# MDA PROFESSIONAL GROUP, P.C.

*Certified Public Accountants and Business Consultants*

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## INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Council  
City of Boaz  
Boaz, Alabama

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Boaz, Alabama, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Boaz City Board of Education, which represents total assets of \$34,162,374 as of September 30, 2017, and total revenues of \$23,794,140 for the year then ended. 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 Boaz 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.

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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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Boaz, Alabama as of September 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis; the schedule of funding progress – retiree health plan; the schedules of net pension liability, changes in the net pension liability, employer contributions, and pension investment returns; and the budgetary comparison information on pages i through ix, page 47, pages 48 through 51, and pages 52 through 53, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We 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 method of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Boaz, Alabama's basic financial statements. The accompanying schedule of Debt Service Requirements to Maturity is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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The schedule of Debt Service Requirements to Maturity is the responsibility of management and was derived from and relates 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 by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, the schedule of Debt Service Requirements to Maturity is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Governmental Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 15, 2018, on our consideration of the City of Boaz, Alabama's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Boaz, Alabama's internal control over financial reporting and compliance.

*MDA Professional Group, P.C.*

Albertville, Alabama  
August 15, 2018

## **CITY OF BOAZ, ALABAMA MANAGEMENT'S DISCUSSION AND ANALYSIS**

The City of Boaz's discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the City's financial activity, (c) identify changes in the City's financial position (its ability to address the next and subsequent year challenges), (d) identify any material deviations from the financial plan (the approved budget), and (e) identify individual fund issues or concerns.

We offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2017. We encourage readers to consider the information presented here in conjunction with the City's financial statements, which follow this section.

### **Financial Highlights**

- The City's governmental net position increased \$652,921 in 2017 as a result of increased revenues.
- As of September 30, 2017, the City's governmental funds reported a combined ending fund balance of \$3,322,713, an increase of \$460,463 from the prior year.
- The City's total long-term debt had a net decrease of \$374,053 during 2017, due to a combination of maturing debt and an increase of the Net Pension Liability.
- The City's total governmental capital assets decreased by \$112,913 compared to the prior year due to depreciation of the assets.

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to financial statements. This report also contains other supplementary information in addition to the basic 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 private-sector business.

The *statement of net position* presents information on all of the City's assets and liabilities, with the difference between the two reported as 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, respectively.

The *statement of activities* presents information showing how the government's net position changed during the most recent 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 cash flows. Thus, revenue and expenses reported in this statement for some items will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused annual 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 or charges (business-type activities). The governmental activities of the City include general government, public safety related departments, public service departments, recreational activities, and intergovernmental functions. The intergovernmental functions of the City are those in which the City provides financial resources to other governmental entities, primarily the Boaz City Board of Education for support of the City school system. The business-type activities of the City include leasing activities of the City at the Boaz Outlet Center.

As described in the notes to the financial statements, the Boaz City School Board's financial statements are included in this report because of the relationship of this legally separate entity to the City. The complete financial statements (including MD&A) of the Boaz City Board of Education may be obtained from the Boaz City Board of Education.

Other component units which normally may be included as part of the City's financial reporting entity include the Industrial Development Board, Library Board, Zoning Board of Adjustments, and Planning Commission. However, they are not included because they have insignificant or no assets and fund balances.

This discussion and analysis focuses on the primary government.

The government-wide financial statements can be found on pages 5 through 7 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 considered 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 fund financial statements focus on the 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, the reader may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund 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 14 individual governmental funds:

- The General fund and the Combined Debt Service fund are considered to be *major funds*. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for these funds.
- The 12 other governmental funds are considered to be *nonmajor governmental funds* and they are combined into a single, aggregated presentation in the basic financial statements.

The basic governmental fund financial statements can be found on pages 8 and 10 of this report.

*Proprietary funds* (or *enterprise funds*) are used to account for activities where the emphasis is placed on net income determination. Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses proprietary funds to account for its ownership and leasing of the Boaz Outlet Center.

The proprietary fund, which is considered to be a major fund of the City, is reported separately as proprietary fund financial statements in the basic financial statements. The proprietary fund financial statements can be found on pages 12 through 15 in the basic financial statements.

NOTES TO FINANCIAL STATEMENTS - The notes to financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements can be found on pages 16 through 46 of this report.

REQUIRED SUPPLEMENTARY INFORMATION – In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information. Because the City adopts an annual operating budget for its general fund, a comparison of budget to actual results is provided for this fund to demonstrate compliance with the budget. Also, required schedules of funding progress for the Employees' Retirement System of Alabama and the Retiree Health Plan are presented.

OTHER INFORMATION – A schedule of Debt Service Requirements to Maturity is presented here.

### **Government-wide Financial Analysis**

As noted earlier, net position may serve as a useful indicator of a government's financial position. Overall, the City's assets exceeded liabilities by \$8,992,457 at the close of the most recent fiscal year.

The largest portion of the City's net position reflects its investment in capital assets (e.g. land, buildings, improvements other than buildings, machinery and equipment, vehicles, infrastructure, and construction in progress) less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay debt must be provided from other sources, since 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 restrictions as to how they may be used. Such restrictions are imposed by legal requirements or sources other than those imposed by the City Council (e.g. state or federal law).

The remaining balance of the City's net position is unrestricted. Unrestricted net position represent the fact that non-capital assets of the City exceed the unrestricted debt and are available to fund governmental activities as deemed necessary by the City Council.

Revenues from governmental activities decreased during 2017 by \$376,469.

Expenses of governmental activities decreased approximately \$263,703 from 2016.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Table 1  
Summary of Net Position  
September 30, 2017 and 2016

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Cash and Investments	\$ 3,292,422	\$ 2,734,346	\$ 306,425	\$ 113,684	\$ 3,598,847	\$ 2,848,030
Other Assets	1,219,820	1,369,467	-	-	1,219,820	1,369,467
Capital Assets	14,219,003	14,331,916	2,486,056	2,592,535	16,705,059	16,924,451
Deferred Outflows of Resources	1,443,986	1,345,421	-	-	1,443,986	1,345,421
<b>Total Assets</b>	<b>\$ 20,175,231</b>	<b>\$ 19,781,150</b>	<b>\$ 2,792,481</b>	<b>\$ 2,706,219</b>	<b>\$ 22,967,712</b>	<b>\$ 22,487,369</b>
Other Liabilities	\$ 704,287	\$ 726,284	\$ 30,963	\$ 35,450	\$ 735,250	\$ 761,734
Long-Term Liabilities	10,341,277	10,715,330	1,913,598	2,139,290	12,254,875	12,854,620
Deferred Inflows of Resources	137,210	-	-	-	137,210	-
<b>Total Liabilities</b>	<b>11,182,774</b>	<b>11,441,614</b>	<b>1,944,561</b>	<b>2,174,740</b>	<b>13,127,335</b>	<b>13,616,354</b>
<b>Net Position:</b>						
Invested in Capital Assets, Net of Debt	8,785,476	8,297,917	543,099	419,815	9,328,575	8,717,732
Restricted	1,390,912	1,305,779	-	-	1,390,912	1,305,779
Unrestricted	(1,183,931)	(1,264,160)	304,821	111,664	(879,110)	(1,152,496)
<b>Total Net Position</b>	<b>8,992,457</b>	<b>8,339,536</b>	<b>847,920</b>	<b>531,479</b>	<b>9,840,377</b>	<b>8,871,015</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 20,175,231</b>	<b>\$ 19,781,150</b>	<b>\$ 2,792,481</b>	<b>\$ 2,706,219</b>	<b>\$ 22,967,712</b>	<b>\$ 22,487,369</b>

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Table 2  
Summary of Changes in Net Position  
September 30, 2017 and 2016

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
<b>Revenues</b>						
<i>Program Revenues:</i>						
Charges for Services	\$ 1,150,645	\$ 1,350,299	\$ 354,253	\$ 419,349	\$ 1,504,898	\$ 1,769,648
Operating Grants and Contributions	335,384	487,491	-	-	335,384	487,491
Capital Grants and Contributions	274,414	-	-	-	274,414	-
<i>General Revenues:</i>						
Taxes	10,191,579	10,371,768	-	-	10,191,579	10,371,768
Contributions From Component Units	-	-	-	-	-	-
Interest	5,980	4,984	875	549	6,855	5,533
Other Revenues	58,761	183,865	210,315	316	269,076	184,181
<b>Total Revenues</b>	<u>12,016,763</u>	<u>12,398,407</u>	<u>565,443</u>	<u>420,214</u>	<u>12,582,206</u>	<u>12,818,621</u>
<b>Expenses</b>						
Governmental Activities	<u>11,363,842</u>	<u>11,607,937</u>	<u>249,002</u>	<u>421,557</u>	<u>11,612,844</u>	<u>12,029,494</u>
<b>Increase in Net Position</b>	652,921	790,470	316,441	(1,343)	969,362	789,127
<b>Beginning Net Position (Deficit)</b>	<u>8,339,536</u>	<u>7,549,066</u>	<u>531,479</u>	<u>532,822</u>	<u>8,871,015</u>	<u>8,081,888</u>
<b>Ending Net Position (Deficit)</b>	<u>\$ 8,992,457</u>	<u>\$ 8,339,536</u>	<u>\$ 847,920</u>	<u>\$ 531,479</u>	<u>\$ 9,840,377</u>	<u>\$ 8,871,015</u>

## **Financial Analysis of the Governmental Funds**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. 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, the unreserved fund balances may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The combined fund balances of the City's governmental funds increased to \$3,322,713 at September 30, 2017, an increase of \$460,463 over the prior fiscal year. Of this amount, \$1,294,328 constitutes the unassigned fund balance, which is generally available for spending at the City's discretion, although it is subject to certain limitation inherent in the funds where the balances are retained. The remainder of the total fund balance, or \$2,028,385, is reserved to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders, pay debt service, or has generally been committed for other purposes.

The increase in the combined fund balance of the City's governmental funds was mostly attributable to the changes in the individual funds as follows:

- The fund balance for the General Fund increased \$316,971. Total expenses decreased by \$263,703 from the prior year.
- Combined Debt Service Fund decreased \$86,220 due to normal debt service activities.

## **Governmental Funds Budgetary Highlights**

General Fund – There was no difference between the original and final General Fund budgets.

- Total actual revenues exceeded budgeted amounts by \$175,443.
- Total expenses exceeded the budget by \$92,374.
- Capital outlay expenses were \$349,689 over budget due to the purchase of a new vehicles for the police department.

## Capital Assets and Debt Administration

CAPITAL ASSETS – The City’s investment in capital assets for governmental activities and enterprise activities as of September 30, 2017, totaled \$16,705,059 net of accumulated depreciation. This investment in capital assets includes land, buildings, improvements other than buildings, machinery and equipment, infrastructure, vehicles, and construction in progress. Net capital assets decreased approximately \$219,392 in 2017.

### City of Boaz's Net Capital Assets

	Governmental Funds	Proprietary Funds
	<u>                    </u>	<u>                    </u>
Land and Land Improvements	\$ 4,574,052	\$ 5,750
Buildings	5,398,918	2,162,030
Infrastructure	2,271,046	-
Heavy Equipment	803,649	318,276
Furniture and Fixtures	44,545	-
Vehicles	988,757	-
Computer Equipment	138,036	-
	<u>\$ 14,219,003</u>	<u>\$ 2,486,056</u>

LONG-TERM DEBT – As of September 30, 2017, the City had \$12,254,875 of long-term debt outstanding. Of this amount, \$5,433,525 is general obligation warrants backed by the full faith and credit of the City, \$4,472,301 is the Net Pension Liability, and \$1,913,598 is comprised of a note payable for the Boaz Outlet Center.

The City’s general obligation bond rating by Standard and Poor’s is AA.

New debt was issued during the year for the purchase of police vehicles.

### City of Boaz's Outstanding Debt

	Governmental Funds	Proprietary Funds
General Obligation Warrants	\$ 5,433,525	\$ -
Notes Payable	-	1,913,598
Other Post Employment Benefit Obligations	284,889	-
Net Pension Liability	4,472,301	-
Compensated Absences	150,562	-
	\$ 10,341,277	\$ 1,913,598

#### **Requests for Information**

This financial report is designed to present a general overview of the City's finances and to demonstrate accountability for the money it receives from taxpayers, customers, and creditors. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Clerk, P.O. Box 537, Boaz, AL 35957 or by calling (256) 593-9537.

BASIC FINANCIAL STATEMENTS



STATEMENT OF NET POSITION

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2017

ASSETS	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
Cash	\$ 2,147,660	\$ 306,425	\$ 2,454,085	\$ 6,226,051
Investments	-	-	-	3,509
Receivables, net				
Tax and Tax Equivalents	1,117,533	-	1,117,533	2,970,185
Refuse Collections	37,192	-	37,192	-
Prepaid Expenses	65,095	-	65,095	-
Inventory	-	-	-	56,356
Restricted Assets:				
Cash	1,144,762	-	1,144,762	-
Capital Assets (net of accumulated depreciation)				
Land and Land Improvements	4,574,052	5,750	4,579,802	1,350,126
Buildings and Improvements	5,398,918	2,162,030	7,560,948	22,879,653
Infrastructure	2,271,046	-	2,271,046	-
Equipment	803,649	318,276	1,121,925	205,454
Furniture and Fixtures	44,545	-	44,545	-
Motor Vehicles	988,757	-	988,757	471,040
Computer Equipment	138,036	-	138,036	-
Construction in Progress	-	-	-	-
	<u>18,731,245</u>	<u>2,792,481</u>	<u>21,523,726</u>	<u>34,162,374</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Charges on Refundings	93,996	-	93,996	-
Employer Pension Contribution	-	-	-	1,397,822
Pension Earnings on Plan Investments	970,518	-	837,011	1,992,000
Contributions to Pension Plan in Current Fiscal Year	<u>379,472</u>	<u>-</u>	<u>379,472</u>	<u>-</u>
	1,443,986	-	1,310,479	3,389,822
Total Assets and Deferred Outflows of Resources	<u>\$ 20,175,231</u>	<u>\$ 2,792,481</u>	<u>\$ 22,834,205</u>	<u>\$ 37,552,196</u>

The accompanying Notes to Financial Statements are an integral part of these financial statements.

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
<b>LIABILITIES</b>				
Accounts Payable and Accrued				
Liabilities	\$ 532,218	\$ 1,604	\$ 533,822	\$ 1,421,667
Due to State of Alabama	134,244	-	134,244	-
Interest Payable	37,825	29,359	67,184	83,821
Deferred Revenue	-	-	-	12,596
<b>Non-Current Liabilities</b>				
Net Pension Liabilities	4,472,301	-	4,472,301	-
Due within one year	1,178,694	1,913,598	3,092,292	759,150
Due in more than one year	4,690,282	-	4,690,282	32,570,127
	11,045,564	1,944,561	12,990,125	34,847,361
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable Revenue - Property Taxes	-	-	-	2,300,000
Revenue Received in Advance -				
Motor Vehicle Taxes	-	-	-	94,420
Pension Deferrals	137,210	-	137,210	494,000
	137,210	-	137,210	2,888,420
<b>NET POSITION</b>				
Invested in Capital Assets, Net of				
Related Debt	8,785,476	543,099	9,328,575	10,877,927
Restricted For:				
Highways, Streets, and Other				
Purposes	1,235,316	-	1,235,316	497,304
Debt Service	-	-	-	1,670,440
Capital Projects	155,596	-	155,596	270,928
Unrestricted Net Position	(1,183,931)	304,821	(879,110)	(13,500,184)
	8,992,457	847,920	9,840,377	(183,585)
<b>Total Liabilities, Deferred Inflows of Resources, and Net Position</b>				
	<u>\$ 20,175,231</u>	<u>\$ 2,792,481</u>	<u>\$ 22,967,712</u>	<u>\$ 37,552,196</u>

STATEMENT OF ACTIVITIES

CITY OF BOAZ, ALABAMA

FOR THE YEAR ENDED SEPTEMBER 30, 2017

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Position			Component Unit
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
<b>Primary Government</b>								
Governmental Activities:								
General Government and Administrative	\$ 2,677,216	\$ -	\$ 83,266	\$ -	\$ (2,593,950)	\$ -	\$ (2,593,950)	\$ -
Police	2,455,247	24,223	39,779	-	(2,391,245)	-	(2,391,245)	-
Fire	1,650,407	205,023	-	188,310	(1,257,074)	-	(1,257,074)	-
Street	1,801,096	255,716	203,814	86,104	(1,255,462)	-	(1,255,462)	-
Park and Recreation	924,586	270,397	-	-	(654,189)	-	(654,189)	-
Library	460,552	42,297	8,525	-	(409,730)	-	(409,730)	-
Municipal Court	189,331	352,989	-	-	163,658	-	163,658	-
Senior Center	254,225	-	-	-	(254,225)	-	(254,225)	-
Education (payment to school board)	743,200	-	-	-	(743,200)	-	(743,200)	-
Interest, Fiscal Charges, and Amortization of Bond Costs	207,982	-	-	-	(207,982)	(80,563)	(288,545)	-
Total Governmental Activities	\$ 11,363,842	\$ 1,150,645	\$ 335,384	\$ 274,414	(9,603,399)	(80,563)	(9,683,962)	-
Business-Type Activities:								
Boaz Outlet Center	168,439	354,253	-	-	-	185,814	185,814	-
Total Business-Type Activities	168,439	354,253	-	-	-	185,814	185,814	-
Total Primary Government	\$ 11,532,281	\$ 1,504,898	\$ 335,384	\$ 274,414	\$ (9,603,399)	\$ 105,251	\$ (9,498,148)	\$ -
<b>Component Unit</b>								
Boaz City Board of Education	\$ 24,074,670	\$ 2,300,042	\$ 15,167,612	\$ 666,054	\$ -	\$ -	\$ -	\$ (5,940,962)
Taxes:								
Property Taxes and Payments in Lieu of Taxes					1,560,800	-	1,560,800	2,535,544
Local Sales Tax					6,931,184	-	6,931,184	2,088,923
Alcohol Taxes					159,982	-	159,982	-
Tobacco Taxes					39,892	-	39,892	-
Motor Fuel Taxes					171,182	-	171,182	-
Licenses, Permits, and Other Revenue					1,328,539	-	1,328,539	17,143
Investment Income					5,980	875	6,855	83,768
Miscellaneous					58,761	210,315	269,076	935,056
Total General Revenues and Transfers					10,256,320	211,190	10,467,510	5,660,434
Change in Net Position					652,921	316,441	969,362	(280,528)
Net Position - Beginning of Year					8,339,536	531,479	8,871,015	96,943
Net Position - End of Year					\$ 8,992,457	\$ 847,920	\$ 9,840,377	\$ (183,585)

The accompanying Notes to Financial Statements are an integral part of these financial statements.

## BALANCE SHEET - GOVERNMENTAL FUNDS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2017

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Totals Governmental Funds
<b>ASSETS</b>				
Cash	\$ 1,967,712	\$ -	\$ 179,948	\$ 2,147,660
Receivables, Net				
Tax and Tax Equivalents	1,117,533	-	-	1,117,533
Refuse Collection	37,192	-	-	37,192
Restricted Cash	-	745,785	398,975	1,144,760
Prepaid Expenses	65,095	-	-	65,095
Due From Other City Funds	40,333	43,763	-	84,096
	<u>40,333</u>	<u>43,763</u>	<u>-</u>	<u>84,096</u>
Total Assets	<u>\$ 3,227,865</u>	<u>\$ 789,548</u>	<u>\$ 578,923</u>	<u>\$ 4,596,336</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE</b>				
Liabilities:				
Accounts Payable	\$ 239,697	\$ -	\$ 221	\$ 239,918
Accrued Payroll and Other Withholdings	193,421	-	-	193,421
Due to Other City Funds	43,763	-	40,333	84,096
Other Liabilities	118,972	-	163,216	282,188
	<u>118,972</u>	<u>-</u>	<u>163,216</u>	<u>282,188</u>
Total Liabilities	<u>595,853</u>	<u>-</u>	<u>203,770</u>	<u>799,623</u>
Deferred Inflows of Resources:				
Property Tax Revenue	474,000	-	-	474,000
	<u>474,000</u>	<u>-</u>	<u>-</u>	<u>474,000</u>
Fund Balances:				
Nonspendable	65,095	-	-	65,095
Restricted	-	-	135,994	135,994
Assigned	706,713	789,548	331,035	1,827,296
Unassigned	1,386,204	-	(91,876)	1,294,328
	<u>1,386,204</u>	<u>-</u>	<u>(91,876)</u>	<u>1,294,328</u>
	<u>2,158,012</u>	<u>789,548</u>	<u>375,153</u>	<u>3,322,713</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<u>\$ 3,227,865</u>	<u>\$ 789,548</u>	<u>\$ 578,923</u>	<u>\$ 4,596,336</u>

The accompanying Notes to Financial Statements are an integral part of these financial statements.

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2017

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Amounts reported for governmental activities in the Statement of Net Position (pages 5 and 6) are different because:

Total Fund Balances - Governmental Funds	\$	3,322,713
Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.		14,219,003
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		474,000
Refundings on bonds that are deferred and amortized in the Statement of Net Position are expensed when issued and, therefore, not reported in the funds.		93,996
Pension related deferrals are deferred outflows and inflows of resources on the statement of net position.		1,212,780
Long-term liabilities, including bonds payable, the related accrued interest payable, and the net pension liability are not due and payable in the current period and, therefore, not reported in the funds.		<u>(10,330,035)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	<u><u>8,992,457</u></u>

The accompanying Notes to Financial Statements are an integral part of these financial statements.

## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

## -ALL GOVERNMENTAL FUNDS

CITY OF BOAZ, ALABAMA

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Taxes				
Property and Payments in Lieu of Taxes	\$ 831,216	\$ -	\$ 752,514	\$ 1,583,730
Sales and Use	6,931,184	-	-	6,931,184
Rental	29,550	-	-	29,550
Motor Fuel	93,631	-	77,551	171,182
Tobacco	39,892	-	-	39,892
Alcohol	-	-	113,675	113,675
Licenses and Permits	1,151,320	-	-	1,151,320
Charges for Services	879,793	-	59,934	939,727
Fines and Costs	293,029	-	-	293,029
Intergovernmental Revenues	356,545	-	83,266	439,811
Other Revenues	414,033	-	713	414,746
	<u>11,020,193</u>	<u>-</u>	<u>1,087,653</u>	<u>12,107,846</u>
<b>EXPENDITURES</b>				
General Government and Administrative	2,389,374	-	-	2,389,374
Police	2,129,777	-	-	2,129,777
Fire	1,444,435	-	-	1,444,435
Street	1,619,708	-	-	1,619,708
Senior Center	221,197	-	-	221,197
Park and Recreation	821,357	-	-	821,357
Library	341,460	-	-	341,460
Municipal Court	176,361	-	50,741	227,102
Principal Retirements on Long-Term Debt	25,380	1,010,458	-	1,035,838
Interest and Fiscal Agents Fees	2,536	5,214	-	7,750
Capital Outlay	921,445	-	-	921,445
Education	-	-	743,200	743,200
	<u>10,093,030</u>	<u>1,015,672</u>	<u>793,941</u>	<u>11,902,643</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>927,163</u>	<u>(1,015,672)</u>	<u>293,712</u>	<u>205,203</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds From Debt Issuance	255,260	-	-	255,260
Transfers from Other Funds	208,294	929,452	-	1,137,746
Transfers to Other Funds	(1,073,746)	-	(64,000)	(1,137,746)
	<u>(610,192)</u>	<u>929,452</u>	<u>(64,000)</u>	<u>255,260</u>
Net Change in Fund Balances	316,971	(86,220)	229,712	460,463
FUND BALANCES - Beginning of Year	<u>1,841,041</u>	<u>875,768</u>	<u>145,441</u>	<u>2,862,250</u>
FUND BALANCES - End of Year	<u>\$ 2,158,012</u>	<u>\$ 789,548</u>	<u>\$ 375,153</u>	<u>\$ 3,322,713</u>

The accompanying Notes to Financial Statements are an integral part of these financial statements.

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
 CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT  
 OF ACTIVITIES

CITY OF BOAZ, ALABAMA

FOR THE YEAR ENDED SEPTEMBER 30, 2017

Amounts reported for governmental activities in the Statement of Activities  
 (page 7) are different because:

Net Change in fund balances - total governmental funds (page 10) \$ 460,463

Governmental funds report capital outlays as expenditures. However,  
 in the statement of activities, the cost of those assets is allocated over their  
 estimated useful lives and reported as depreciation expense. This is the  
 amount by which depreciation was exceeded by capital outlays in the current  
 period. 92,248

Contributions to the pension plan in the current fiscal year are not included  
 in the statement of activities.

Contributions in Current Fiscal Year	379,472	
Contributions in Prior Fiscal Year	<u>(391,750)</u>	(12,278)

The issuance of long-term debt (e.g., bonds, leases) provides current  
 financial resources to governmental funds, while the repayment of the  
 principal of long-term debt consumes the current financial resources of  
 governmental funds. Neither transaction, however, has any effect on net  
 assets. Also, governmental funds report the effect of issuance costs,  
 premiums, discounts, and similar items when debt is first issued, whereas  
 these amounts are deferred and amortized in the statement of activities.  
 This amount is the net effect of these differences in the treatment of long-  
 term debt and related items. 581,865

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. (469,377)

Change in Net Position - Governmental Activities \$ 652,921

The accompanying Notes to Financial Statements are an integral part of these financial statements.

STATEMENT OF NET POSITION - PROPRIETARY FUNDS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2017

	<u>Boaz Outlet Center</u>
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 306,425
Total Current Assets	<u>306,425</u>
Noncurrent Assets:	
Capital Assets:	
Land	5,750
Buildings and Improvements	2,422,725
Equipment	<u>473,960</u>
Total Capital Assets	<u>2,902,435</u>
Less Accumulated Depreciation	<u>416,379</u>
Total Noncurrent Assets	<u>2,486,056</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 2,792,481</u></u>
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts Payable	1,604
Interest Payable	29,359
Short-Term Note Payable	<u>1,913,598</u>
Total Current Liabilities	<u>1,944,561</u>
<b>TOTAL LIABILITIES</b>	<u><u>\$ 1,944,561</u></u>
<b>NET POSITION</b>	
Invested in Capital Assets, Net of Related Debt	543,099
Unrestricted	<u>304,821</u>
<b>TOTAL NET POSITION</b>	<u><u>\$ 847,920</u></u>

The accompanying Notes to Financial Statements are an integral part of these financial statements.



STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
- PROPRIETARY FUNDS

CITY OF BOAZ, ALABAMA

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	<u>Boaz Outlet Center</u>
OPERATING REVENUES	
Facility Lease Revenue	\$ 354,253
OPERATING EXPENSES	
Depreciation	106,479
Repairs and Maintenance	39,022
Utilities	22,753
Materials and Supplies	<u>185</u>
Total Expenses	<u>168,439</u>
OPERATING INCOME	<u>185,814</u>
NONOPERATING REVENUES (EXPENSES)	
Transfer from City Reserve Fund	210,315
Interest Income	875
Interest Expense	<u>(80,563)</u>
Total Nonoperating Revenues (Expenses)	<u>130,627</u>
CHANGES IN NET POSITION	316,441
TOTAL NET POSITION - BEGINNING	<u>531,479</u>
TOTAL NET POSITION - ENDING	<u><u>\$ 847,920</u></u>

The accompanying Notes to Financial Statements are an integral part of these financial statements.

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

CITY OF BOAZ, ALABAMA

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	<u>Boaz Outlet Center</u>
Cash Flows from Operating Activities:	
Receipts from Lease Revenue	\$ 354,253
Payments to Suppliers	<u>(62,375)</u>
Net Cash Provided by Operating Activities	<u>291,878</u>
Cash Flows From Capital and Related Financing Activities:	
Contribution From City Reserve Fund	210,315
Principal Payments on Short-Term Note Payable	(225,692)
Interest Payments on Short-Term Note Payable	<u>(84,635)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(100,012)</u>
Cash Flows from Investing Activities:	
Interest Received	<u>875</u>
Net Cash Provided by Investing Activities	<u>875</u>
Net Increase in Cash and Cash Equivalents	192,741
Beginning Cash and Cash Equivalents	<u>113,684</u>
Ending Cash and Cash Equivalents	<u><u>\$ 306,425</u></u>

(Continued)

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	<u>Boaz Outlet Center</u>
Reconciliation of Operating Income to Net Cash From Operating Activities:	
Operating Income	<u>\$ 185,814</u>
Adjustment to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation	106,479
Decrease in Accounts Payable	<u>(415)</u>
Total Adjustments	<u>106,064</u>
Net Cash Provided by Operating Activities	<u><u>\$ 291,878</u></u>

The accompanying Notes to Financial Statements are an integral part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2017

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## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Reporting Entity

The City of Boaz, Alabama (the City) is a chartered municipality organized under the laws of the State of Alabama. The City is governed by a Mayor and a City Council consisting of five members elected to terms of four years. The City complies with accounting principles generally accepted in the United States of America (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

Accounting principles generally accepted in the United States of America require that the City report the entire reporting entity, which consists of the City (the primary government) and its component units, entities for which the City is considered to be financially accountable. Each component unit of the City is discretely presented in a separate column in the basic financial statements to emphasize the fact that it is legally separate from the City. The discretely presented component units have a September 30 year end.

### Discretely Presented Component Units

*Boaz City Board of Education* – The Boaz City Board of Education's five member governing body is appointed by the City.

Complete financial statements for the Boaz City Board of Education, a discretely presented component unit, may be obtained at the administrative office of the entity.

### Government -Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund 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 on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

(Continued)

# NOTES TO THE FINANCIAL STATEMENTS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2017

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## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Government -Wide and Fund Financial Statements (Continued)

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter is excluded from the government-wide financial statements. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum funds are maintained consistent with legal and managerial requirements. The City of Boaz currently has no fiduciary to report.

### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental funds are used to account for the City's general governmental activities. Governmental fund financial statements use the *current financial resource measurement focus* and the *modified accrual basis of accounting*. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within forty-five (45) days of the end of the fiscal period. Expenditures generally are recorded when the related fund liability is incurred, as in accrual accounting. However, debt service expenditures are recognized only when payment is due. Certain compensated absences, claims, and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Property taxes, sales and use taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual. Other taxes and receipts become measurable when cash is received by the City and are recognized as revenue at that time. Shared revenues and entitlements are recorded at the time of receipt or earlier if the accrual criteria are met.

Payments in lieu of taxes are revenues from other governmental entities paid in lieu of property taxes.

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

(Continued)

NOTES TO THE FINANCIAL STATEMENTS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2017

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

The City reports the following major governmental funds:

General Fund - The General Fund accounts for all of the revenues and expenditures of the City, except those which must be accounted for in other funds, and it is the largest and most important accounting activity for the City. General Fund revenues finance all of the current operations of governmental units which basically benefit the citizenry as a whole.

Combined Debt Service Fund - The Debt Service Fund is used to account for the accumulation of resources and the payment of general long-term debt, including capital lease obligations, principal, interest, and related costs.

The City reports the following major proprietary fund:

Boaz Outlet Center - The Boaz Outlet Center accounts for the activities of the City's lease revenue and maintenance expenses related to the facility management of the Boaz Outlets.

Additionally, the government reports the following fund types:

Special Revenue Funds - A Special Revenue Fund accounts for the proceeds of specific revenue sources (other than those derived from expendable trusts or dedicated for major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action. Special Revenue Funds consist of the various state shared gasoline taxes.

Capital Projects Funds - A Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary and trust funds).

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Auditing Standards Board (GASB).

During the course of normal operations, the City has numerous transactions between funds to provide services, to pay debt, etc. These transactions are generally reflected as operating transfers except for transactions reimbursing a fund for expenditures made by it for the benefit of another fund. These transactions are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund reimbursed. As a general rule, the effects of interfund activity have been eliminated from the government-wide financial statements.

(Continued)

# NOTES TO THE FINANCIAL STATEMENTS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2017

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## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

In the government-wide financial statements, amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating 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 Boaz Outlet Center are rental income from outlet facilities.

Operating expenses for proprietary funds include the administrative expenses and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use unrestricted resources first, then restricted resources as they are needed, except in the case of grant monies which are used for their required purpose.

### ASSETS, LIABILITIES, AND NET POSITION

#### Cash

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

#### Receivables and Payables

All outstanding balances between funds are reported as "due to/from other funds".

All trade and property tax receivables are shown net of an allowance for uncollectibles.

#### Property Taxes

Property taxes are levied on October 1 for the prior fiscal year beginning October 1, at which time a lien is attached. These taxes are due and payable October 1 and delinquent after December 31 each year after which a penalty and interest are required to be charged. Revenue is recognized in the year when the taxes are levied and collected at the fund level and in the year for which they are levied at the government-wide level. The taxes are collected by the Marshall County tax collector and remitted to the City.

(Continued)

NOTES TO THE FINANCIAL STATEMENTS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2017

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES, AND NET POSITION (Continued)

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items on both the government-wide and fund financial statements.

Restricted Assets

Cash accounts and other assets restricted for specific purposes are classified as restricted assets on the balance sheet and statement of net position.

Capital Assets

Capital assets of the City, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed, or if inadequate records were available to determine the actual cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of governmental-type activities is not capitalized.

It is the City's policy not to depreciate historical objects and museum exhibits that are held for public exhibition. These objects are maintained by the City at a reasonable level and, if sold, proceeds are used to purchase more historical objects for public display.

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

<u>Assets</u>	<u>Years</u>
Buildings and infrastructure	40-60
Building improvements	15-40
Machinery, equipment, and vehicles	5-25
Books	3

Capital assets of the Boaz City Board of Education are defined as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. Depreciation is calculated using the straight-line method over estimated useful lives ranging from 5 to 50 years.

(Continued)



NOTES TO THE FINANCIAL STATEMENTS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2017

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES, AND NET POSITION (Continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and/or balance sheet – governmental funds will sometimes report 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(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has three items that qualifies for reporting in this category. One item is the deferred charges on refundings reported in the government-wide statement of net position. A deferred charge on refunded debt results from the difference in carrying value of the refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The other two items that qualify for reporting in this category is the pension earnings on plan investments and the contributions to the pension plan subsequent to the plan measurement date, and is reported only in the governmental activities statement of net position.

In addition to liabilities, the statement of financial position and/or balance sheet – governmental funds will sometimes report 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(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has two items that qualifies for reporting in this category. One item, which arises only under a modified accrual basis of accounting, is the unavailable property tax revenue and is reported only in the governmental funds balance sheet. The other item is the excess of actual earnings over projected earnings on pension plan investments and is reported only in the governmental activities statement of net position. The amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Risk Management

The City is exposed to normal business risk in the course of operations. Commercial insurance is purchased by the City to cover any normal, insurable loss up to policy limits. During the past three years, there have been no losses which exceeded insured amounts.

Compensated Absences

Employees can earn vested annual vacation leave based on years of service as follows:

0-2 years	6 days
3-10 years	12 days
11-20 years	18 days
21 years and over	24 days

Unused vacation leave not exceeding one year's annual vacation can be carried over to succeeding years. Excess unused vacation is converted into sick leave. The City has accrued a liability for vacation pay which has been earned but not taken by City employees. Vacation leave that is expected to be liquidated with expendable available resources is reported as an expenditure and a fund liability

(Continued)

# NOTES TO THE FINANCIAL STATEMENTS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2017

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## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### ASSETS, LIABILITIES, AND NET POSITION (Continued)

#### Compensated Absences (Continued)

of the governmental fund that will pay it. All unused annual leave is accrued when earned by the employees in the government-wide financial statements. Vacation leave that is expected to be liquidated during the next twelve months is considered a current liability on the government-wide financial statements.

Sick leave is earned at the rate of eight hours per month. Sick leave liability has not been accrued because of the uncertainty of the expense during the succeeding years.

#### Long-Term Obligations

In the government-wide financial statements and proprietary fund, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Bond premiums and discounts, as well as gains/losses on refundings, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium, discount, or gains/losses on refundings.

In the fund financial statements, long-term debt is not reported as a liability and 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.

#### 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 the requirements of the Governmental Accounting Standards Board (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.

#### Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles 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 differ from those estimates.

(Continued)

NOTES TO THE FINANCIAL STATEMENTS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2017

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES, AND NET POSITION (Continued)

Equity Classifications

Government-Wide statements - Equity is classified as net position and displayed in three components:

- a) Invested in capital assets, net of related debt - consists of capital assets including restricted capital assets, net of accumulated depreciation and outstanding balances of any bonds, mortgages, notes, or other debt attributable to the acquisition, construction, or improvement of those assets.
- b) Restricted net position - consists of net position with constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
- c) Unrestricted net position - all other net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

Fund equity is reported in the fund financial statements as fund balances. The following classifications of fund balances are reported in the fund financial statements:

- a) Nonspendable - This classification includes amounts that cannot be spent because they are either (1) not in spendable form; or (2) legally or contractually required to be maintained intact.
- b) Restricted - This classification includes amounts that have constraints placed on the use of resources imposed either (1) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (2) by law through constitutional provisions or enabling legislation.
- c) Committed - This classification includes amounts that can only be used for specific purposes. It is the practice of the City to present assets in this classification pursuant to constraints imposed by formal action of the Council before the end of the fiscal year, and require the same level of formal action to remove the constraint. However, no formal policy regarding this action has been approved by the City. No amounts were reported as committed as of September 30, 2017.
- d) Assigned - This classification includes amounts that are intended to be used for specific purposes, but are neither restricted nor committed. It is the practice of the City to allow the City Council to make a determination of the assigned amounts of fund balance, and also to allow the City Council to remove the constraints. Such assignments may not exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund. No formal policy regarding the assignment of fund balances to this classification has been approved by the City.

(Continued)

NOTES TO THE FINANCIAL STATEMENTS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2017

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES, AND NET POSITION (Continued)

Equity Classifications (Continued)

- e) Unassigned - This classification is the residual classification for the general fund, and represents fund balances that have not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

For the classification of Governmental Fund balances, the City considers an expenditure to be made from the most restrictive first, when more than one classification is available.

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Position

The governmental fund balance sheet includes a reconciliation between *fund balances - total governmental funds* and *net position - governmental activities* as reported in the government-wide statement of net position. One element of the reconciliation explains the "long-term liabilities, including bonds payable, that are not due and payable in the current period and, therefore, are not reported in the funds." The details of this difference are as follows:

Bonds and Notes Payable	\$ 5,433,527
Accrued Interest Payable	37,825
Other Post Employment Benefits Payable	262,990
Net Pension Liability	4,472,301
Compensated Absences	<u>123,392</u>
Net adjustment to reduce <i>fund balances - total governmental funds</i> to arrive at <i>net position - governmental activities</i>	<u><u>\$ 10,330,035</u></u>

(Continued)

NOTES TO THE FINANCIAL STATEMENTS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2017

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities (Continued)

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net change in fund balances - total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this difference are as follows:

Capital Outlay	\$ 921,445
Depreciation Expense	<u>(829,197)</u>
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities	<u>\$ 92,248</u>

Another element of that reconciliation states that "the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this difference are as follows:

Payment of Debt	\$ 860,380
Proceeds from Debt Issuance	(255,260)
Bond Defeasement costs	(22,664)
Change in Accrued Interest	4,056
Amortization of original issue discounts and premiums	<u>(4,647)</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities	<u>\$ 581,865</u>

(Continued)

NOTES TO THE FINANCIAL STATEMENTS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2017

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NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities (Continued)

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment is a combination of the following items:

Gain on Disposal of Fixed Assets	\$ (205,160)
Deferred Ad Valorem Tax	(23,000)
Pension Expense	(224,453)
Compensated Absences	<u>(16,764)</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities	<u>\$ (469,377)</u>

NOTE 3 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY INFORMATION

An annual budget is prepared for the City's general fund and is adopted on the modified accrual basis. All annual appropriations lapse at the fiscal year end. The City is authorized to transfer budget amounts between departments within the general fund; however, any revisions that alter the total appropriations of any fund must be approved by the Council.

(Continued)

NOTES TO THE FINANCIAL STATEMENTS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2017

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NOTE 3 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

**B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

The City maintains a level of control at the department level. The following departments had expenditures exceeding appropriations as of September 30, 2017.

<u>Fund</u>	<u>Department</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Negative Variance</u>
General	General Government and Administrative	\$ 2,119,000	\$ 2,183,759	\$ (64,759)
	Police	2,100,400	2,183,891	(83,491)
	Library	338,915	341,460	(2,545)
	Municipal Court	171,600	176,361	(4,761)
	Capital Outlay	567,056	916,745	(349,689)

The City's general fund total expenditures exceeded total appropriations by \$92,374. The City does not adopt a budget for the special revenue, capital project, or debt service funds.

NOTE 4 - DEPOSITS AND INVESTMENTS

At September 30, 2017, the carrying amounts of the City's deposits with three financial institutions were \$2,883,090.

Deposits at year-end were held by financial institutions in the State of Alabama's Security of Alabama Funds Enhancement (SAFE) Program. The SAFE Program was established by the Alabama Legislature and is governed by the provisions contained in the Code of Alabama 1974, Sections 41-14A-1 through 41-14A-14. Under the SAFE Program all public funds are protected through a collateral pool administered by the Alabama State Treasurer's Office. Under this program, financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of a failure of a financial institution, securities pledged by that financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation (FDIC). If the securities pledged fail to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance.

(Continued)

NOTES TO THE FINANCIAL STATEMENTS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2017

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

At September 30, 2017, the City had the following investments held by a trustee:

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
Federated U.S. Treasury Cash Reserves	706,313	22 days

*Interest rate risk* - The City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than one year.

*Credit risk* - State statutes limit the City's investments to U.S. Treasury obligations, State of Alabama and Alabama County obligations, and general obligations of Alabama municipalities. September 30, 2017, the City's investments consisted of Federated U.S. Treasury Cash Reserves Fund. This money market fund seeks current income consistent with stability of principal and liquidity by investing only in a portfolio of short-term U.S. Treasury securities. The Fund seeks to maintain a stable net position value of \$1.00 per share.

*Custodial credit risk* - This is the risk that in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At September 30, 2017, the City's investments consisted solely of U.S. Treasury Bills held by one financial institution.

NOTE 5 – RECEIVABLES

Receivables at September 30, 2017, consist of the following:

	<u>General Fund</u>	<u>Total</u>
Sales Tax	\$ 548,818	\$ 548,818
Garbage Collection Fees	37,192	37,192
Returned Checks	1,449	1,449
Ad Valorem Tax	567,266	567,266
	<u>\$ 1,154,725</u>	<u>\$ 1,154,725</u>



NOTES TO THE FINANCIAL STATEMENTS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2017

NOTE 6 - CAPITAL ASSETS

The following is a summary of changes in the City's Governmental Activities capital asset activity for the fiscal year:

	Balance October 1, 2016	Additions	Disposals	Balance September 30, 2017
<u>Governmental Activities:</u>				
Land and Land Improvements	\$ 4,574,052	\$ -	\$ -	\$ 4,574,052
Total Capital Assets not Being Depreciated	4,574,052	-	-	4,574,052
Building and Improvements	9,230,284	107,737	317,388	9,020,633
Computer Equipment	581,407	9,784	-	591,191
Equipment	3,421,997	498,823	-	3,920,820
Furniture and Fixtures	486,874	6,156	-	493,030
Infrastructure	3,262,552	-	-	3,262,552
Motor Vehicles	4,161,462	298,945	264,870	4,195,537
Total Capital Assets Being Depreciated	21,144,576	921,445	582,258	21,483,763
Less Accumulated Depreciation for:				
Building and Improvements	3,511,300	222,643	112,228	3,621,715
Computer Equipment	382,411	70,744	-	453,155
Equipment	2,852,641	264,530	-	3,117,171
Furniture and Fixtures	431,901	16,584	-	448,485
Infrastructure	914,683	76,823	-	991,506
Motor Vehicles	3,293,776	177,874	264,870	3,206,780
	11,386,712	829,198	377,098	11,838,812
Total Capital Assets Being Depreciated, Net	9,757,864	92,247	205,160	9,644,951
Governmental Activities, Capital Assets, Net	\$ 14,331,916	\$ 92,247	\$ 205,160	\$ 14,219,003

(Continued)

NOTES TO THE FINANCIAL STATEMENTS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2017

NOTE 6 - CAPITAL ASSETS (Continued)

The following is a summary of changes in the City's Business-Type Activities capital asset activity for the fiscal year:

	Balance October 1, 2016	Additions	Disposals	Balance September 30, 2017
<u>Business-Type Activities:</u>				
Land and Land Improvements	\$ 5,750	\$ -	\$ -	\$ 5,750
Total Capital Assets not Being Depreciated	5,750	-	-	5,750
Buildings and Improvements	\$ 2,422,725	\$ -	\$ -	\$ 2,422,725
Equipment	473,959	-	-	473,959
Total Capital Assets Being Depreciated	2,896,684	-	-	2,896,684
Less Accumulated Depreciation for:				
Building and Improvements	192,032	68,663	-	260,695
Equipment	117,867	37,816	-	155,683
	309,899	106,479	-	416,378
Total Capital Assets Being Depreciated, Net	2,592,535	(106,479)	-	2,486,056
Business-Type Activities, Capital Assets, Net	\$ 2,592,535	\$ (106,479)	\$ -	\$ 2,486,056

(Continued)

NOTES TO THE FINANCIAL STATEMENTS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2017

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NOTE 6 - CAPITAL ASSETS (Continued)

Depreciation expense is charged to functions of the primary government as follows:

Governmental Activities:

Police	\$	201,469
Fire		150,389
Street		117,743
Library		111,744
General Government		106,010
Parks and Recreation		85,015
Administration		26,829
Senior Center		26,699
Municipal Court		<u>3,299</u>

Total depreciation expense - governmental activities \$ 829,197

Business-Type Activities:

Boaz Outlet Center	\$	<u>106,479</u>
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(Continued)

NOTES TO THE FINANCIAL STATEMENTS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2017

NOTE 6 - CAPITAL ASSETS (Continued)

Activity for the discretely presented component unit, the Boaz City Board of Education, for the year ended September 30, 2017, was as follows:

	Balance October 1, 2016	Additions	Disposals	Balance September 30, 2017
<u>Component Unit:</u>				
Construction in Progress	\$ -	\$ -	\$ -	\$ -
Total Capital Assets not Being Depreciated	-	-	-	-
Land and Land Improvements	1,711,307	-	-	1,711,307
Building	32,385,637	-	-	32,385,637
Equipment	653,930	87,024	-	740,954
Vehicles	1,183,932	248,823	-	1,432,755
Total Capital Assets Being Depreciated	35,934,806	335,847	-	36,270,653
Less Accumulated Depreciation for:				
Land Improvements	329,410	31,771	-	361,181
Building	8,616,334	889,650	-	9,505,984
Equipment	483,091	52,409	-	535,500
Vehicles	858,459	103,256	-	961,715
	10,287,294	1,077,086	-	11,364,380
Total Capital Assets Being Depreciated, Net	25,647,512	(741,239)	-	24,906,273
Governmental Activities, Capital Assets, Net	\$ 25,647,512	\$ (741,239)	\$ -	\$ 24,906,273

(Continued)

NOTES TO THE FINANCIAL STATEMENTS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2017

NOTE 6 - CAPITAL ASSETS (Continued)

Depreciation expense is charged to functions of the component unit as follows:

Component Unit:

Instructional Services	\$	732,191
Instructional Support Services		15,325
Operational and Maintenance Services		17,675
Student Transportation Services		103,348
Food Services		81,634
General Administrative Services		14,000
Other Expenditures		<u>112,913</u>
Total depreciation expense - governmental activities	\$	<u><u>1,077,086</u></u>

NOTE 7 - INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of September 30, 2017, is as follows:

<u>Payable Fund</u>		<u>Receivable Fund</u>	
General Fund	\$ 43,763	Debt Service Fund	\$ 43,763
Nonmajor Funds	<u>40,333</u>	General Fund	<u>40,333</u>
	<u><u>\$ 84,096</u></u>		<u><u>\$ 84,096</u></u>

Interfund transfers to/from for the year ended September 30, 2017, are as follows:

<u>Transfer From</u>		<u>Transfer To</u>	
General Fund		Debt Service Fund	\$ 929,452
Nonmajor Funds		General Fund	<u>208,294</u>
			<u><u>\$ 1,137,746</u></u>

Interfund balances are used to: (1) supply funds from a fund that has current resources to a fund that needs current resources and (2) facilitate transactions that are made by one fund for the benefit of more than one fund.

NOTES TO THE FINANCIAL STATEMENTS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2017

NOTE 8 - SHORT-TERM NOTE PAYABLE

The City of Boaz entered into short-term note payables at the First Bank of Boaz and the People's Independent Bank for the purchase of the Boaz Outlet Center and equipment. The notes bear interest at 4.00%. The notes are payable in one lump sum of outstanding principal and interest on May 13, 2018.

NOTE 9 - LONG-TERM DEBT

The government issues general obligation warrants to provide funds for the acquisition and construction of major capital facilities. General obligation warrants have been issued for general government activities. In addition, general obligation warrants have been issued to refund general obligation warrants.

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

	Interest Rate	Beginning Balance Outstanding	Additions	Reductions	Ending Balance Outstanding	Amounts Due Within One Year
General Obligation Warrants:						
Dated November 1, 2009	3.00 - 4.50%	\$ 2,330,000	\$ -	\$ 130,000	\$ 2,200,000	\$ 130,000
Dated October 1, 2010	2.00 - 2.875%	2,180,000	-	435,000	1,745,000	445,000
Dated June 1, 2012	0.80 - 3.00%	1,185,000	-	80,000	1,105,000	80,000
Dated January 1, 2013	2.00%	380,000	-	190,000	190,000	190,000
First Bank of Boaz	2.39%	-	255,260	25,380	229,880	62,183
Less, Unamortized Bond Discount		(41,002)	-	(4,647)	(36,355)	-
		<u>6,033,998</u>	<u>255,260</u>	<u>855,733</u>	<u>5,433,525</u>	<u>907,183</u>
Other Liabilities:						
Compensated Absences		148,589	1,973	-	150,562	144,893
Other Post Employment Benefit Obligations		284,888	-	-	284,888	126,618
		<u>\$ 6,467,475</u>	<u>\$ 257,233</u>	<u>\$ 855,733</u>	<u>\$ 5,868,975</u>	<u>\$ 1,178,694</u>

(Continued)

NOTES TO THE FINANCIAL STATEMENTS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2017

NOTE 9 - LONG-TERM DEBT (Continued)

Fiscal Years Ending September 30	Principal	Interest	Totals
2018	907,183	161,962	1,069,145
2019	738,685	141,993	880,678
2020	750,224	122,043	872,267
2021	653,788	101,497	755,285
2022	245,000	87,925	332,925
2023 - 2027	1,345,000	305,073	1,650,073
2028 - 2030	830,000	51,771	881,771
	<u>\$ 5,469,880</u>	<u>\$ 972,264</u>	<u>\$ 6,442,144</u>

Interest expense charged to functions of the primary government for the year ended September 30, 2017, totaled \$177,994.

The City utilizes the General Fund and the Debt Service Fund to liquidate the annual principal and interest payments on the outstanding obligations for the Governmental Activities.

NOTE 10 - PENSION PLAN

Plan Description

The Employees' Retirement System of Alabama, 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 operation of ERS is vested in its Board of Control. The ERS Board of Control consists of 13 trustees. The Plan is administered by the Retirement Systems of Alabama (RSA). Title 36-Chapter 27 of the Code of Alabama grants the authority to establish and amend the benefit terms to the ERS Board of Control. The Plan issues a publicly available financial report that can be obtained at [www.rsa-al.gov](http://www.rsa-al.gov).

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 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

(Continued)

# NOTES TO THE FINANCIAL STATEMENTS

## CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2017

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### NOTE 10 - PENSION PLAN (Continued)

#### Benefits Provided (Continued)

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 are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service.

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 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 are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service.

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.

#### 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 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. Tier 2 covered members of the ERS contribute 6% of earnable compensation to the ERS as required by statute.

The ERS established rates based upon an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance 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, 2017, the City's active employee contribution rate was 5% of covered employee payroll for Tier 1 Employees (6% for Tier 2 Employees), and the City's average contribution rate to fund the normal and accrued liability costs was 3.26% and 6.93%, respectively, of covered employee payroll for Tier 1 Employees [(0.05%) and 6.93%, respectively, for Tier 2 Employees].

The City's contractually required contribution rate for the year ended September 30, 2017 was 10.56% of pensionable pay for Tier 1 employees, and 7.25% for Tier 2 employees. These required contribution rates are based upon the actuarial valuation dated September 30, 2014, a percent of annual pensionable payroll, and actuarially determined as an amount that, when combined with

(Continued)



NOTES TO THE FINANCIAL STATEMENTS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2017

NOTE 10 - PENSION PLAN (Continued)

Contributions (Continued)

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 \$391,750 for the year ended September 30, 2017.

**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 of September 30, 2014 rolled forward to September 30, 2015 using standard roll-forward techniques as shown the following table:

	<u>Expected</u>	<u>Valuation Assumptions</u>	<u>Valuation Assumptions</u>
(a) Total Pension Liability as of September 30, 2015	\$ 15,083,377	\$ 13,877,214	\$ 14,415,607
(b) Discount Rate	8.00%	8.00%	7.75%
(c) Entry Age Normal Cost for October 1, 2015 – September 30, 2016	314,256	314,256	317,258
(d) Transfers Among Employers:		24,666	24,666
(e) Actual Benefit Payments and Refund for October 1, 2015 – September 30, 2016	<u>(830,228)</u>	<u>(830,228)</u>	<u>(830,228)</u>
(f) Total Pension Liability as of September 30, 2016 [(a) x (1 + (b))] + (c) + (d) + [(e) x ((1.05*(b)))]	<u>\$ 15,740,866</u>	<u>\$ 15,602,433</u>	<u>\$ 16,182,681</u>
(g) Difference between Expected and Actual Experience (Gain)/Loss		\$ (138,433)	
(h) Less Liability Transferred for Immediate Recognition:		24,666	
(i) Experience (Gain)/Loss = (g) - (h)		\$ (163,099)	
(j) Difference between Actual (2015 Assumptions) and Actual (2016 Assumptions): Assumption Change (Gain)/Loss			\$ 580,248

(Continued)

NOTES TO THE FINANCIAL STATEMENTS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2017

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NOTE 10 - PENSION PLAN (Continued)

Actuarial Assumptions

The total pension liability in the September 30, 2013 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 2016 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, 2013 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.

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 current contribution rate and that the 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 pan 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.

(Continued)

NOTES TO THE FINANCIAL STATEMENTS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2017

NOTE 10 - PENSION PLAN (Continued)

**Changes in Net Pension Liability**

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at September 30, 2015	\$ 15,083,377	\$ 10,831,826	\$ 4,251,551
Changes for the year:			
Service Cost	314,256	-	314,256
Interest	1,173,461	-	1,173,461
Changes of assumptions	580,248		580,248
Difference between expected and actual experience	(163,099)	-	(163,099)
Contributions - employer	-	377,551	(377,551)
Contributions - employee	-	214,320	(214,320)
Net Investment Income	-	1,092,245	(1,092,245)
Benefit payments, including refunds of employee contributions	(830,228)	(830,228)	-
Administrative expense	-	-	-
Transfers Among Employers	24,666	24,666	-
Net Changes	<u>1,099,304</u>	<u>878,554</u>	<u>220,750</u>
Balances at September 30, 2016	<u>\$ 16,182,681</u>	<u>\$ 11,710,380</u>	<u>\$ 4,472,301</u>

(Continued)

NOTES TO THE FINANCIAL STATEMENTS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2017

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NOTE 10 - PENSION PLAN (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

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

	<u>Decrease (6.75%)</u>	<u>Discount Rate (7.75%)</u>	<u>Increase (8.75%)</u>
City's Net Pension Liability	\$ 6,296,555	\$ 4,472,301	\$ 2,934,208

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2016. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2016. The auditor's report dated January 31, 2018 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](http://www.rsa-al.gov).

(Continued)

NOTES TO THE FINANCIAL STATEMENTS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2017

NOTE 10 - PENSION PLAN (Continued)

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

For the year ended September 30, 2017, the City recognized pension expense of \$602,004 as follows:

Interest on the total pension liability	1,173,461
Expensed portion of current-period difference between expected and actual experience in the total pension liability	(25,889)
Expensed portion of current-period changes of assumptions	92,103
Member contributions	(214,320)
Projected earnings on plan investments	(857,998)
Expensed portion of current-period differences between actual and projected earnings on plan investments	(46,849)
Transfers among employers	-
Recognition of beginning deferred outflows of resources as pension expense	167,240
Recognition of beginning deferred inflows of resources as pension expense	-
Pension Expense	<u>\$ 602,004</u>

	<u>Resources</u>	<u>Resources</u>
Differences between expected and actual experience	\$ 384,358	\$ 137,210
Changes of assumptions	488,145	-
Net difference between projected and actual earnings on plan investments	98,015	-
Employer contributions subsequent to the Measurement Date	<u>379,472</u>	<u>-</u>
	<u>\$ 1,349,990</u>	<u>\$ 137,210</u>

NOTES TO THE FINANCIAL STATEMENTS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2017

NOTE 11 - RESTRICTED NET POSITION AND RESERVED FUND BALANCES

The statement of net position shows certain amounts as restricted net position. These amounts are restricted in their use by parties outside the Cit such as creditors, grantors, or contributors, or are restricted by law or regulation. Components of restricted net position include:

<u>Activity</u>	<u>Restricted By</u>		
Reserve	Council Resolution	\$	706,713
Road Surface and Repairs	Law		116,774
School Ad Valorem	Law		19,220
Capital Projects	Law		155,596
Special Revenues	Council Resolution		175,438

The balance sheet shows certain amounts as nonspendable, restricted, assigned, or unassigned fund balances. Restricted amounts are restricted by either federal or state law; assigned amounts are designated by the City leaders to use for a specific purpose; and unassigned amounts are to use in any City function. Components of fund balances are:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Fund Balances:				
Nonspendable:				
Prepaid Items	\$ 65,095	\$ -	\$ -	\$ 65,095
Restricted for:				
Road Surface and Repairs	-	-	116,774	116,774
Education	-	-	19,220	19,220
Assigned to:				
Reserve	706,713	-	-	706,713
Special Revenues	-	-	175,438	175,438
Debt Service	-	789,548	-	789,548
Capital Improvement	-	-	155,597	155,597
Unassigned:				
General	1,386,204	-	-	1,386,204
Corrections	-	-	(91,876)	(91,876)
<b>Total Fund Balances</b>	<b>\$ 2,158,012</b>	<b>\$ 789,548</b>	<b>\$ 375,153</b>	<b>\$ 3,322,713</b>

## NOTES TO THE FINANCIAL STATEMENTS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2017

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### NOTE 12 - EMPLOYEE BENEFITS

The City pays for certain health, dental, and life insurance benefits for its employees. All full-time employees are eligible for these benefits. The City pays for 100% of single coverage health and dental benefits and 78% of family coverage health and dental benefits. In addition, the City pays for a \$25,000 life insurance policy for all full-time employees. During the year ended September 30, 2017, the City paid \$907,456 for insurance premiums under the employee benefit program.

### NOTE 13 - OTHER POST EMPLOYMENT BENEFITS

#### Plan Description

The City administers a single-employer defined benefit healthcare plan ("the Retiree Health Plan"). In May 2000, the City adopted a policy regarding postretirement employee benefits. Once employees are fully vested in the City's Retirement Plan and have completed a minimum of twenty-five years of service with the City, the City will pay one hundred percent of the cost of a single individual and seventy percent of family coverage continuing the employees' enrollment in the City's Group Health Insurance Plan that is in effect at the time of retirement for a period of three years or until the employee reaches the age of sixty-five. The Retiree Health Plan does not issue a publicly available financial report.

#### Funding Policy

In order to receive this postretirement benefit, the employee must remain enrolled in the health insurance plan in effect at the time of retirement. The City contributions are financed on the pay-as-you-go basis. The City made contributions of \$53,529 during 2017 for employees who were retired during the year.

#### Annual OPEB Cost and Net OPEB Obligation

The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer. The City has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Board's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Board's net OPEB obligation for the Retiree Health Plan:

NOTES TO THE FINANCIAL STATEMENTS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2017

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NOTE 13 - OTHER POST EMPLOYMENT BENEFITS (Continued)

Annual required contribution	\$	-
Adjustment to annual required contribution		
Annual OPEB cost (expense)		149,947
Contributions made		<u>53,529</u>
Increase in net OPEB Obligation		203,476
Net OPEB obligation - beginning of year		<u>81,412</u>
Net OPEB obligation - end of year	\$	<u><u>284,888</u></u>

Funded Status and Funding Progress

As of September 30, 2017, the actuarial liability for benefits is \$284,888, all of which is unfunded.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities benefits.

Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan 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 plan members to that point. The 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 simplifying assumptions made in the calculation of the accrued liability are as follows:

Health Insurance Premiums - The current year health insurance premiums at the members' current coverage status were used as the basis for calculation of the present value of total benefits to be paid.

Retirement Age for Active Employees - Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 62.



NOTES TO THE FINANCIAL STATEMENTS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2017

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NOTE 13 - OTHER POST EMPLOYMENT BENEFITS (Continued)

Marital Status - Marital status of members at the calculation date was assumed to continue throughout retirement.

Turnover - Based on historical turnover rate, the probability of members not remaining employed until the defined retirement age was considered low.

Amortization Period - The remaining amortization period at September 30, 2017 is three years.

NOTE 14 – LEASES

During the year ended September 30, 2017, the City leased real property on a cancelable month-to-month basis, with monthly rental payments ranging from \$400 to \$2,000 at the Boaz Outlet Center. Rental revenues of \$70,770 were collected during the year ended September 30, 2017.

During the year ended September 30, 2017, the City leased real property under noncancelable operating leases, with monthly rental payments ranging from \$600 to \$23,300 and expiration dates through 2018. Rental revenues of \$348,579 were collected during the year ended September 30, 2017.

The cost of leased Buildings, Improvements, and Equipment at the Boaz Outlet Center associated with lease cancelable and noncancelable leases is \$2,902,435 with \$309,900 of accumulated depreciation as of September 30, 2017.

Future minimum lease revenues under these lease agreements are:

Fiscal Years	
<u>Ending September 30</u>	
2018	<u>85,900</u>
	<u>\$ 85,900</u>

## NOTES TO THE FINANCIAL STATEMENTS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2017

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### NOTE 15 - CONTINGENT LIABILITIES

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

Litigation - In addition to those suits in which claims for liability are adequately covered by insurance, the City is defendant in various suits arising in the normal course of business. Management is unable to predict the outcome of the litigation but believes it has strong grounds upon which to defend these proceedings and will vigorously oppose the asserted claims. Accordingly, no provision for possible loss, if any, is included in the financial statements.

### NOTE 16 - COMMITMENTS

The City acts as guarantee for the Boaz Industrial Development Board on two notes at the First Bank of Boaz and two notes at People's Independent Bank. At September 30, 2017, the balances of the notes were \$315,993 and \$325,722 at First Bank of Boaz and \$315,993 and \$325,722 at People's Independent Bank.

### NOTE 17 - SUBSEQUENT EVENTS

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through August 15, 2018, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS - RETIREE HEALTH PLAN

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2017

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)
09/30/13	-	11,108	11,108	0.0%
09/30/14	-	29,520	29,520	0.0%
09/30/15	-	81,412	81,412	0.0%
09/30/16	-	284,888	284,888	0.0%
09/30/17	-	284,888	284,888	0.0%

The accompanying Notes to Financial Statements are an integral part of these financial statements.

SCHEDULE OF NET PENSION LIABILITY

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2017

Actuarial Valuation Date	Actuarial Value of Assets* (a)	Actuarial Accrued Liability (AAL) Entry Age (b)1	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
09/30/10 (2)	8,949,368	11,914,687	2,965,319	75.1%	3,136,915	94.5%
09/30/11 (4)	8,883,496	12,052,760	3,169,264	73.7%	3,527,579	89.8%
09/30/12 (5)	8,839,389	11,305,741	2,466,352	78.2%	3,095,499	79.7%
09/30/13 (6)	9,541,098	12,765,847	3,224,749	74.7%	3,365,949	95.8%
09/30/14	10,364,214	14,052,180	3,687,966	73.8%	3,486,834	105.8%
09/30/15	10,957,610	14,737,069	3,779,459	74.4%	3,526,710	107.2%
09/30/15 (3)	10,957,610	14,772,884	3,815,274	74.2%	3,526,710	108.2%

1 - Reflects liability for cost of living benefit increases granted on or after October 1, 1978.

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

3 - Reflects the impact of Act 2011-676, which increases the member contribution rates by 2.25% beginning

October 1, 2011 and by an additional 0.25% beginning October 1, 2012.

4 - Reflects changes in actuarial assumptions.

5 - Reflects changes to interest smoothing methodology.

6 - Reflects implementation of Board Funding Policy.

The accompanying Notes to Financial Statements are an integral part of these financial statements.

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2017

	Actuarial Valuation as of September 30, 2016	Actuarial Valuation as of September 30, 2015	Actuarial Valuation as of September 30, 2014
<b>Total pension liability</b>			
Service cost	\$ 314,256	\$ 309,995	\$ 299,712
Interest	1,173,461	1,079,582	1,032,631
Difference between expected and actual experience	(163,099)	581,464	-
Changes of assumptions	580,248	-	-
Benefit payments, including refunds of employee contributions	(830,228)	(764,878)	(726,022)
Transfers among employers	24,666	-	-
Net change in total pension liability	1,099,304	1,206,163	606,321
Total pension liability - beginning	15,083,377	13,877,214	13,270,893
Total pension liability - ending (a)	16,182,681	15,083,377	13,877,214
<b>Plan fiduciary net position</b>			
Contributions - employer	377,551	312,479	316,761
Contributions - member	214,320	197,228	198,529
Net investment income	1,092,245	128,883	1,190,577
Benefit payments, including refunds of employee contributions	(830,228)	(764,878)	(726,022)
Transfer among employers	24,666	(65,986)	32,482
Net change in plan fiduciary net position	878,554	(192,274)	1,012,327
Plan net position - beginning	10,831,826	11,024,100	10,011,773
Plan net position - ending (b)	11,710,380	10,831,826	11,024,100
<b>Net pension liability - ending (a) - (b)</b>	<u>\$ 4,472,301</u>	<u>\$ 4,251,551</u>	<u>\$ 2,853,114</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>72.36%</u>	<u>71.81%</u>	<u>79.44%</u>
Covered-employee payroll*	<u>3,678,590</u>	<u>\$ 3,526,710</u>	<u>\$ 3,486,834</u>
Net pension liability as a percentage of covered-employee payroll	<u>121.58%</u>	<u>120.55%</u>	<u>81.83%</u>

\* Employer's covered-payroll during the measurement period is the total payroll paid to covered employees (not just pensionable payroll). The measurement period is October 1, 2014 through September 30, 2015.

SCHEDULE OF EMPLOYER CONTRIBUTIONS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2017

	Actuarial Valuation as of September 30, 2016	Actuarial Valuation as of September 30, 2015	Actuarial Valuation as of September 30, 2014
Actuarially determined contribution	\$ 379,472	\$ 377,551	\$ 316,761
Contributions in relation to the actuarially determined contribution	<u>379,472</u>	<u>377,551</u>	<u>316,761</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	<u>\$ 3,678,590</u>	<u>\$ 3,526,710</u>	<u>\$ 3,486,834</u>
Contributions as a percentage of covered- employee payroll	<u>10.32%</u>	<u>10.71%</u>	<u>9.08%</u>

**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 2017 were based on the September 30, 2014 actuarial valuation.

Methods and assumptions used to determine contribution rates for the period October 1, 2016 to September 30, 2017:

Actuarial cost method	Entry Age
Amortization method	Level percent closed
Remaining amortization period	25 years
Asset valuation method	Five year 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

SCHEDULE OF PENSION INVESTMENT RETURNS

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2017

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	Actuarial Valuation as of September 30, 2016	Actuarial Valuation as of September 30, 2015	Actuarial Valuation as of September 30, 2014
Investment rate of return, net of pension plan investment expense, including inflation	8.00%	8.00%	8.00%



SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCES - BUDGET AND ACTUAL - GENERAL FUND

CITY OF BOAZ, ALABAMA

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive/(Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes				
Property and Payments in Lieu of Taxes	\$ 881,500	\$ 881,500	\$ 831,216	\$ (50,284)
Sales and Use	7,000,000	7,000,000	6,931,184	(68,816)
Rental	58,800	58,800	29,550	(29,250)
Motor Fuel	90,000	90,000	93,631	3,631
Tobacco	41,200	41,200	39,892	(1,308)
Alcohol	42,140	42,140	46,308	4,168
Licenses and Permits	1,123,600	1,123,600	1,151,320	27,720
Charges for Services	725,750	725,750	879,793	154,043
Fines and Costs	275,100	275,100	293,029	17,929
Intergovernmental Revenues	9,000	9,000	356,545	347,545
Other Revenues	597,660	597,660	367,725	(229,935)
	<u>10,844,750</u>	<u>10,844,750</u>	<u>11,020,193</u>	<u>175,443</u>
<b>EXPENDITURES</b>				
General Government and Administrative	2,119,000	2,119,000	2,183,759	(64,759)
Police	2,226,049	2,226,049	2,129,777	96,272
Fire	1,476,405	1,476,405	1,444,435	31,970
Street	1,690,200	1,690,200	1,619,708	70,492
Senior Center	236,400	236,400	221,197	15,203
Park and Recreation	936,800	936,800	821,357	115,443
Library	338,915	338,915	341,460	(2,545)
Municipal Court	171,600	171,600	176,361	(4,761)
Capital Outlay	567,056	567,056	916,745	(349,689)
	<u>9,762,425</u>	<u>9,762,425</u>	<u>9,854,799</u>	<u>(92,374)</u>
Excess of Revenues				
Over Expenditures	<u>1,082,325</u>	<u>1,082,325</u>	<u>1,165,394</u>	<u>83,069</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
10% Surplus	1,084,475	1,084,475	-	(1,084,475)
Transfers From Other Funds	-	-	255,260	255,260
Transfers to Debt Service	-	-	208,294	208,294
	<u>1,084,475</u>	<u>1,084,475</u>	<u>463,554</u>	<u>(620,921)</u>
Net Change in Fund Balance	2,166,800	2,166,800	1,628,948	(537,852)
FUND BALANCES - Beginning of Year	<u>1,841,041</u>	<u>1,841,041</u>	<u>1,841,041</u>	<u>-</u>
FUND BALANCES - End of Year	<u>\$ 4,007,841</u>	<u>\$ 4,007,841</u>	<u>\$ 3,469,989</u>	<u>\$ (537,852)</u>

## NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2017

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An annual budget is prepared for the City's general fund and adopted on the modified accrual basis. All annual appropriations lapse at fiscal year end. Accounting principles generally accepted in the United States of America require that budget comparisons be presented for special revenue funds if a budget is adopted. Such a presentation has not been made because the City does not adopt budgets for these funds. The Mayor and City Council approve, by ordinance, total general fund budget appropriations only. The City is authorized to transfer budget amounts between departments within any fund; however, any revisions that alter the total appropriations of any fund must be approved by the Council. The Council did not make any budgetary amendments during the year. Also, there was an unfavorable variance between the budgeted and actual expenditures of approximately \$92,000.

OTHER FINANCIAL INFORMATION

# MDA PROFESSIONAL GROUP, P.C.

*Certified Public Accountants and Business Consultants*

203 SOUTH HAMBRICK STREET, P.O. BOX 1188, ALBERTVILLE, AL 35950 • PHONE 256.878.5548 • FAX 256.878.8474

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*

Mayor and City Council  
City of Boaz  
Boaz, Alabama

We have audited, in accordance with auditing standards general accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Boaz, Alabama, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Boaz, Alabama's basic financial statements, and have issued our report thereon dated August 15, 2018.

## **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of Boaz, Alabama'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Boaz, Alabama's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Boaz, Alabama'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. Given these limitations, during our audit we did not identify any

City of Boaz  
Boaz, Alabama

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

### **Purpose of this Report**

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

*MDA Professional Group, P.C.*

Albertville, Alabama  
August 15, 2018

DEBT SERVICE REQUIREMENTS TO MATURITY -  
GENERAL LONG-TERM DEBT OBLIGATIONS AND NOTES PAYABLE

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2017

Maturity Date	General Obligation Warrants Dated November 1, 2009			General Obligation Warrants Dated October 1, 2010			General Obligation Warrants Dated June 1, 2012		
	Interest Rate	Principal	Interest	Interest Rate	Principal	Interest	Interest Rate	Principal	Interest
2018	3.25	130,000	88,615	2.00	445,000	40,094	1.00	80,000	27,338
2019	3.45	135,000	83,942	2.25	455,000	29,400	1.50	85,000	26,537
2020	3.60	140,000	78,888	2.50	465,000	17,319	1.50	80,000	25,338
2021	3.75	150,000	73,263	2.75	380,000	5,462	2.00	85,000	24,062
2022	3.75	155,000	67,162				2.00	90,000	22,463
2023	3.75	160,000	60,863				2.40	85,000	20,763
2024	3.75	165,000	54,362				2.40	90,000	18,602
2025	3.75	175,000	47,388				2.50	95,000	16,563
2026	3.75	180,000	39,932				2.50	100,000	14,312
2027	3.75	190,000	31,925				2.75	105,000	11,938
2028	3.75	200,000	23,248				2.75	105,000	9,187
2029	3.75	205,000	14,236				3.00	105,000	6,300
2030	3.75	215,000	4,838						3,150
		<u>\$ 2,200,000</u>	<u>\$ 668,662</u>		<u>\$ 1,745,000</u>	<u>\$ 92,275</u>		<u>\$ 1,105,000</u>	<u>\$ 226,553</u>

The accompanying Notes to Financial Statements are an integral part of these financial statements.

DEBT SERVICE REQUIREMENTS TO MATURITY -  
 GENERAL LONG-TERM DEBT OBLIGATIONS AND NOTES PAYABLE (Continued)

CITY OF BOAZ, ALABAMA

SEPTEMBER 30, 2017

Maturity Date	General Obligation Warrants Dated January 1, 2013			Note Payable - First Bank of Boaz			Totals	
	Interest Rate	Principal	Interest	Interest Rate	Principal	Interest	Principal	Interest
2018	2.00	190,000	1,900	2.39	62,183	4,815	907,183	161,961
2019				2.39	63,685	3,313	738,685	141,993
2020				2.39	65,224	1,774	750,224	122,043
2021				2.39	38,788	309	653,788	101,497
2022							245,000	87,925
2023							245,000	79,465
2024							255,000	70,925
2025							270,000	61,700
2026							280,000	51,870
2027							295,000	41,112
2028							305,000	29,548
2029							310,000	17,386
2030							215,000	4,838
		<u>\$ 190,000</u>	<u>\$ 1,900</u>		<u>\$ 229,880</u>	<u>\$ 10,211</u>	<u>\$ 5,469,880</u>	<u>972,263</u>

The accompanying Notes to Financial Statements are an integral part of these financial statements.