

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

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DeLOACH, BARBER & CASPERS, P.C.

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INDEPENDENT AUDITOR'S REPORT

Members of the Board
Water Works and Sewer Board of the
City of Montevallo

Report on the Financial Statements

We have audited the accompanying financial statements of the Water Works and Sewer Board of the City of Montevallo, a component unit of the City of Montevallo, Alabama, as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the Water Works and Sewer Board of the City of Montevallo's basic financial statement 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of the Water Works and Sewer Board of the City of Montevallo, as of September 30, 2020, and the changes in financial position and its 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 supplementary information (pages 51-55) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America required to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Government 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information (page 57) and additional information (pages 59-62) is presented for purposes of additional analysis and is not a required part of the financial statements.

The supplementary information and additional information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with ***Government Auditing Standards***, we have also issued our report dated January 11, 2021, on our consideration of the Water Works and Sewer Board of the City of Montevallo'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 Water Works and Sewer Board of the City of Montevallo's internal control over financial reporting and compliance.

DeLoach, Barber & Caspers, P. C.

January 11, 2021

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

STATEMENT OF NET POSITION
SEPTEMBER 30, 2020

ASSETS

Current Assets

Nonrestricted Assets:

Cash and cash equivalents	\$ 3,325,881
Accounts receivable, net of allowance for doubtful accounts of \$349,203	534,216
Interest receivable	472
Inventory	78,033
Prepaid expenses	30,392

Restricted Assets:

Cash - customer deposits	790,245
Cash - bond funds	1,242,156
Cash - capital reserve funds	<u>1,544,430</u>

Total Current Assets	<u>7,545,825</u>
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Noncurrent Assets

Capital Assets, at cost:

Automotive equipment	470,615
Buildings and building improvements	363,185
Computer equipment	48,830
Construction in progress	75,473
Land	347,115
Machinery and equipment	478,310
Office furniture and equipment	49,112
Sewer system and lines	15,683,964
Water system and lines	<u>10,896,559</u>
	28,413,163
Allowance for depreciation	<u>(11,080,440)</u>

Capital Assets - Net	<u>17,332,723</u>
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DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows of Resources

Deferred amounts from refunding of debt, net of accumulated amortization	117,687
Deferred outflows - Pension	256,686
Deferred outflows - OPEB	<u>2,222</u>

Total Deferred Outflows of Resources	<u>376,595</u>
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Total Assets and Deferred Outflows of Resources	\$ <u>25,255,143</u>
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The accompanying notes are an integral part of these statements.

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

STATEMENT OF NET POSITION
SEPTEMBER 30, 2020

LIABILITIES

Current Liabilities

Current portion of revenue bonds payable	\$ 794,000
Accounts payable	119,976
Accounts payable - City of Montevallo	46,913
Utility tax payable	21,478
Payroll taxes payable	2,045
Accrued salaries and compensated absences	62,917

Current Liabilities (Payable from Restricted Assets)

Customer deposits	378,993
Interest payable	<u>30,357</u>

Total Current Liabilities 1,456,679

Noncurrent Liabilities

Unfunded OPEB obligation	25,170
Revenue bonds payable, net	8,762,751
Net pension obligation	<u>1,226,150</u>

Total Noncurrent Liabilities 10,014,071

Total Liabilities 11,470,750

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows of Resources

Deferred Inflows - OPEB	7,456
Deferred Inflows - Pension	<u>36,428</u>
Total Deferred Inflows of Resources	<u>43,884</u>

Total Liabilities and Deferred Inflows of Resources 11,514,634

NET POSITION

Net Position

Invested in capital assets, net of related debt	7,775,972
Restricted for:	
Customer deposits	411,252
Debt service	1,211,799
Capital improvements and extension	1,544,430
Unrestricted	<u>2,797,056</u>

Total Net Position \$ 13,740,509

The accompanying notes are an integral part of these statements.

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2020

Operating Revenues

Commercial and residential water sales	\$ 1,985,819
Commercial and residential sewer sales	1,271,271
Service charges and other fees - water	344,871
Service charges and other fees - sewer	291,301
Miscellaneous income	<u>7,484</u>

Total Operating Revenues	<u>3,900,746</u>
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Operating Expenses

Water	1,290,309
Sewer	1,008,780
Joint costs	<u>528,662</u>

Total Operating Expenses	<u>2,827,751</u>
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Operating Income	<u>1,072,995</u>
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Non-Operating Revenues (Expenses)

Interest income	13,772
Interest expense	<u>(319,942)</u>

Total Non-Operating Revenues (Expenses)	<u>(306,170)</u>
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Change in Net Position	766,825
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Net Position - Beginning of Year	<u>12,973,684</u>
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Net Position - End of Year	\$ <u><u>13,740,509</u></u>
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The accompanying notes are an integral part of these statements.

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

Cash Flows From Operating Activities

Receipts from customers and users	\$ 3,889,383
Payments to suppliers	(955,297)
Payments to employees and payroll related items	<u>(890,282)</u>

Net cash provided by operating activities 2,043,804

Cash Flows From Capital and Related Financing Activities

Payments for capital acquisitions	(102,926)
Principal payments on long-term debt	(767,000)
Interest payments on long-term debt	<u>(310,621)</u>

Net cash used by capital and related financing activities (1,180,547)

Cash Flows From Investing Activities

Interest received	<u>13,900</u>
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Net cash provided by investing activities 13,900

Net increase in cash and equivalents 877,157

Cash and equivalents, beginning of year (restricted and nonrestricted) 6,025,555

Cash and equivalents, end of year (restricted and nonrestricted) \$ 6,902,712

(Continued)

The accompanying notes are an integral part of these statements.

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

STATEMENT OF CASH FLOWS (Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2020

Reconciliation of Operating Income to Net Cash

Provided by Operating Activities:

Operating Income	\$ <u>1,072,995</u>
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	728,868
Allowance for doubtful accounts	40,138
Changes in assets and liabilities:	
(Increase) decrease:	
Accounts receivable	(79,447)
Inventories	(5,779)
Prepaid expenses	(838)
Deferred outflows	87,623
Increase (decrease):	
Accounts payable and accounts payable - City of Montevallo	143,908
Utility tax payable	6,916
Payroll taxes payable	(471)
Accrued expenses	17,506
Customer deposit liability	21,030
Deferred inflows	(104,584)
Unfunded OPEB obligation	(4,730)
Net pension obligation	<u>120,669</u>
Total adjustments	<u>970,809</u>
Net cash provided by operating activities	\$ <u><u>2,043,804</u></u>

Reconciliation of Cash Per Statements of Cash Flows
to the Balance Sheet

Current Assets	\$ 3,325,881
Restricted Assets	
Cash-customer deposits	790,245
Cash-bond funds	1,242,156
Cash - capital reserve funds	<u>1,544,430</u>
Total Cash and Equivalents	\$ <u><u>6,902,712</u></u>

The accompanying notes are an integral part of these statements.

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

History and Organization

Water Works and Sewer Board of the City of Montevallo, Alabama (the "Board") provides water and sewer services to the City of Montevallo, Alabama and the surrounding areas.

The Board is incorporated under the laws of Alabama and exists under the provisions of the Title 11, Chapter 50, Article 9 and the provisions of 11-50-324 of the Code of Alabama 1975, as amended. The Board was incorporated pursuant to the authority granted by the governing body of the City of Montevallo, Alabama. Under its certificate of incorporation, the Board has corporate power to acquire and operate the water and sewer system and to issue bonds payable from the revenues derived therefrom for any of its corporate purposes.

The board of directors of the corporation shall consist of five members who shall be elected by the City Council of the City of Montevallo, and they shall be elected to hold office for staggered terms of six years. Two of the directors may be members of the City Council, who shall serve for the term for which he or she is appointed or during his or her tenure as a municipal officer, whichever expires first. No other officer of the municipality shall serve on the board of directors.

Reporting Entity

In evaluating how to define the Board, for financial reporting purposes, management has considered all potential component units. The decision of whether or not to include a potential component unit in the reporting entity was made by applying the criteria set forth in generally accepted accounting principles (GAAP). The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Board is able to exercise oversight responsibilities. Based upon the application of these criteria, there are no other entities that are considered component unit's of the Board.

(Continued)

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basic Financial Statements

Basic financial statements include both government-wide, based on the Board as a whole, and fund financial statements. While the previous model emphasized fund types, the total of all funds of a particular type, in the new reporting model the focus is either on the Board as a whole or major individual funds within the fund financial statements. Both the governmental-wide and fund financial statements categorize activities as either governmental or business-type. The Board is engaged in only providing business-type activities, which are reported as an enterprise fund. These activities are financed by charges to external parties for sale of goods and services. The Board does not engage in governmental activities, the Business-Type Activity (BTA) model is used. This model presents only the financial statements required for enterprise funds.

Fund financial statements report detailed information about the Board. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a single column. The Board's one enterprise fund is considered major. The Board has no nonmajor funds. The Board's enterprise fund reports all activities of the Board.

Measurement Focus, Basis and Method of Accounting

The Board is accounted for within a single proprietary (enterprise) fund. Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows. Proprietary funds are accounted for using the economic resources measurement and the accrual basis of accounting. Accordingly all assets and liabilities (whether current or noncurrent) are included in the Statement of Net Position. The Statement of Revenues, Expenses, and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues in the proprietary fund are those revenues that are generated from the principal ongoing operations of the Board. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the Board, and include administrative expenses and depreciation on capital assets. All other expenses are reported as non-operating expenses.

(Continued)

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Equivalents

For purposes of the statement of cash flows, the Board considers all short-term debt securities purchased with a maturity of three months or less to be cash equivalents. Restricted assets are considered to be cash equivalents.

At September 30, 2020 the carrying amount of the Board's deposits (cash and certificates of deposits) was \$6,902,712 and the bank balances were \$6,946,430. Of the bank balances, \$1,250,000 was covered by either federal depository insurance or federal savings and loan insurance. Deposits with Alabama financial institutions that are in excess of FDIC insurance are secured under the Security for Alabama Funds Enhancement Act (SAFE Program). Alabama public funds are protected through a collateral pool administered by the Alabama State Treasurer. The Board had \$5,395,718 of Category 1 deposits covered by the SAFE Program at September 30, 2020. The Board had \$300,712 of Category 3 deposits that were uninsured at September 30, 2020.

Investments

The Board's cash and investments are reported at cost which approximates the fair value in accordance with GASB Standards. The Board invests in government bonds, certificates of deposit, and short-term money market investments.

Inventory

Inventory consists of primarily supplies valued at the lower of cost (first-in, first-out) or market value. The consumption method is used to account for inventories. Under the consumption method, inventories are recorded as expenditures on acquisition and significant inventories on hand at year-end are reflected as assets.

Receivables

Trade receivables are accounted for at their outstanding principal less accounts written off as uncollectable. No current receivables are being held for resale. No interest is charged on delinquent receivables but late fees are charged. Allowances are provided for estimated uncollectable accounts. Accounts are considered past due when they are more than 30 days beyond the date payment was due and payments are not being received on a monthly basis. Management determines which delinquent accounts should be reserved as uncollectable based on prior experience with the given customer, historical losses, and knowledge of the industry and its current market conditions. The Board collects customer deposits to be held as collateral to secure its receivables.

(Continued)

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Prepaid Items

Payments made to vendors for goods or services that will benefit beyond September 30, 2020 are reported as prepaid items. These prepayments are recognized as expenses ratably over the related underlying period.

Restricted Assets

Certain assets of the Board have been restricted because their use is limited by applicable bond covenants or by specified purpose. These assets consist of the following.

Cash-customer deposits	\$ 790,245
Cash-bond reserve - Series 2006	673,548
Cash-bond fund - Series 2014	28,705
Cash-capital reserve	1,465,937
Cash- replacement reserve fund -	78,493
Cash-bond fund - SFR Series 2009	174,154
Cash-bond fund- SFR Series 2011	126,558
Cash-bond fund - SFR Series 2012	<u>239,191</u>
Restricted Assets	<u>\$ 3,576,831</u>

When both restricted and unrestricted resources are available for use, it is the Board's policy to use restricted resources first, and then unrestricted resources as they are needed.

In connection with the Water Revenue Bonds - Series 2006, 2009, 2011, 2012, and 2014 - the Board is required to maintain a "Bond Fund", a "Bond Reserve Fund", and a "Replacement Fund". The Bond Fund and the Bond Reserve Fund are restricted to the payment of principal and interest on the bonds. The Replacement Fund is restricted to maintenance and improvement of the water and sewer systems.

In connection with meter deposits received from customers, the Board is required to maintain separate "Meter Deposit Accounts", which are restricted to customer reimbursement and payment of outstanding customer balances.

(Continued)

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets, Depreciation, and Amortization

Capital assets are defined by the Board as assets with an initial individual cost of more than \$500 and have an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life 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 business-type activities is included as part of the capitalized value of the assets. The capitalized interest included in construction costs for year end September 30, 2020 is \$-0-.

Capital assets are depreciated over their estimated useful lives using the straight-line method. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the statement of net assets. The range of estimated useful lives used for depreciation purposes for each capital asset class are as follows:

<u>Description</u>	<u>Life</u>
Buildings	29-50 years
Equipment	3 - 31 years
Furniture and fixtures	3 - 7 years
Sewer plant, lines and improvements	30 - 50 years
Water plant, lines and improvements	30 - 50 years

Compensated Absences

For vacation and other compensated absences with similar characteristics, Governmental Accounting Standards Board Standards requires the accrual of a liability as the benefits are earned by the employees if both of the following conditions are met:

- a. The employees' right to receive compensation is attributable to services already rendered.
- b. It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

(Continued)

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences (Continued)

An accrual for earned sick leave should be made only to the extent it is probable that the benefits will result in termination payments, rather than be taken as absences due to illness or other contingencies, such as medical appointments and funerals.

The annual leave period is January 1 through December 31. Leave may be accumulated and carried over to the next leave year up to a maximum of 160 hours. Accumulated annual leave hours in excess of 160 at the end of the calendar (leave) year will be transferred to accumulated sick leave. Unused annual leave is paid upon termination of employment. At September 30, 2020 the Board had recorded a liability of \$40,946 for accrued vacation leave.

Full-time employees are provided vacation (annual) leave as follows:

After one year employment	40 hours
After 3 years employment	80 hours
After 10 years employment	120 hours
After 20 years employment	160 hours

Sick leave is earned by full time employees after one month of service at a rate of 8 hours per month and may be accumulated. Upon termination, sick leave is canceled and no compensation is paid. Because employees do not receive compensation for unused sick leave at termination, no liability is recorded on these financial statements.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of resources that applies to a future period and therefore will not be recognized as an outflow of resources until then. The Board had the following items that qualified for reporting in this category for the year ended September 30, 2020:

Deferred outflows of resources - pension plan	\$ 256,686
Deferred outflows of resources - OPEB	2,222
Deferred refunding of debt, net of accumulated amortization	<u>117,687</u>
Total Deferred Outflows	<u>\$ 376,595</u>

(Continued)

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of resources that applies to a future period and therefore will not be recognized as an inflow of resources until that time. The Board had the following items that qualified for reporting in this category for the year ended September 30, 2020:

Deferred inflows of resources - OPEB	\$ 7,456
Deferred inflows of resources - pension plan	<u>36,428</u>
Total Deferred Inflows	\$ <u>43,884</u>

Net Position

In accordance with GASB Standards, the Board classified net position into three components - invested in capital assets, net of related debt; restricted; and unrestricted. There classifications are defined as follows:

Invested in capital assets, net of related debt - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted net position - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position - This component of net position consist of net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

(Continued)

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Operating Revenues and Expenses

Operating revenues and expenses result from providing water and sewer services, which are the Board's principal ongoing operation. The Board also recognizes late charges, disconnect fees, bad check charges and tap-on charges to connect to the system as operating revenues. Operating expenses include the costs to provide these services, administrative costs, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

Interfund Balances

During the course of operation, transactions occur which result in amounts owed to a particular fund by another fund, other than for goods provided or services rendered. These receivables and payables are due within a year and are classified as "interfund receivable/ interfund payable to other funds" on the balance sheet.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Advertising

The Board expenses the cost of advertising the first time the advertising takes place.

Pension

The Employees' Retirement System of Alabama (the Plan or ERS) financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to the plan requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. Investments are reported at fair value. Financial statements are prepared in accordance with requirements of the 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.

(Continued)

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Postemployment Benefits Other Than Pensions (OPEB)

The Health Care Plan of the Montevallo Water Works and Sewer Board (the Plan) financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Accounting Changes and Accounting Standards

In fiscal year ending September 30, 2020, the Board adopted new statements of financial accounting standards issued by the Governmental Accounting Standards Board (GASB):

The Governmental Accounting Standards Board (GASB) issued Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance. The Statement is intended to provide relief to governments and other stakeholders in light of the COVID-19 pandemic. The guidance postpones by one year to eighteen months the effective dates of certain provisions in the following pronouncements:

Pronouncements Issued But Not Yet Effective

GASB has issued the following pronouncements that may affect future financial position, results of operations, cash flows, or financial presentation of the District upon implementation. Management is currently evaluating the effect of implementation of these standards. (Effective dates are shown as reflected in GASB Statement No. 95 Postponement of the Effective Dates of Certain Authoritative Guidance.)

(Continued)

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Changes and Accounting Standards (Continued)

GASB Statement No.	GASB Accounting Standard	Effective Fiscal Year
84	Fiduciary Activities	Fiscal years beginning after June 15, 2021
87	Leases	Fiscal years beginning after June 15, 2021
89	Accounting for Interest Cost Incurred Before the End of a Construction Period	Fiscal years beginning after Dec 15, 2020
91	Conduit Debt Obligations	Fiscal years beginning after Dec 15, 2021
92	Omnibus 2020	Fiscal years beginning after June 15, 2021
93	Replacement of Interbank Offered Rates	Fiscal years beginning after June 15, 2021

The GASB issued Statement No. 84, Fiduciary Activities to establish criteria for identifying fiduciary activities of all state and local governments. The requirements of GASB 84 are effective for fiscal years beginning after June 15, 2021. The Board is currently evaluating the impact GASB 84 may have on its financial statements.

The GASB issued Statement No. 87, Leases to increase the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The requirements of GASB 87 are effective for fiscal years beginning after June 15, 2021. The Board is currently evaluating the impact GASB 87 may have on its financial statements.

The GASB issued Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period to (1) enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period, and (2) simplify accounting for interest cost incurred before the end of a construction period. The requirements of GASB 89 are effective for fiscal years beginning after December 15, 2020. The Board is currently evaluating the impact GASB 89 may have on its financial statements.

(Continued)

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Changes and Accounting Standards (Continued)

The GASB Issued Statement No. 91, Conduit Debt Obligations for the primary objectives to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The Board is currently evaluating the impact GASB 91 may have on its financial statements.

The GASB Issued Statement No. 92, Omnibus for the primary objectives to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following:

The effective date of Statement No. 87, Leases, and Implementation Guide No. 2019-3, Leases, for interim financial reports.

Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan.

The applicability of Statements No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, as amended, and No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, to reporting assets accumulated for postemployment benefits.

The applicability of certain requirements of Statement No. 84, Fiduciary Activities, to postemployment benefit arrangements Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition.

Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers.

Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature.

(Continued)

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Changes and Accounting Standards (Continued)

Terminology used to refer to derivative instruments.

The Board is currently evaluating the impact GASB 92 may have on its financial statements.

The GASB Issued Statement No. 93, Replacement of Interbank Offered Rates for the primary objectives to address those and other accounting and financial reporting implications that result from the replacement of an IBOR. This Statement achieves that objective by:

Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment.

Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate.

Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable.

Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap.

Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap

Clarifying the definition of reference rate, as it is used in Statement 53, as amended.

Providing an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend.

The Board is currently evaluating the impact GASB 93 may have on its financial statements.

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 2: CASH AND INVESTMENTS

As of September 30, 2020, the Board had the following cash and investments:

Cash and cash equivalents	\$ 6,069,328
Certificates of deposit	<u>833,384</u>
	\$ <u>6,902,712</u>

Credit Risk

The Board has not adopted a formal written deposit and investment policy. The Board's informal investment policy permits investments in direct obligations of agencies of the United States of America, obligations in which the principal and interest are unconditionally guaranteed by the United States of America, certificates of deposits, with FDIC insurance, or money market funds of financial and brokerage institutions which the Board has the power to invest directly in governmental securities or bonds which are qualified by the Board. Investments in U.S. government securities must be rated by Standard and Poor's or Moody's Investment Services as one of their four highest rated categories.

Interest Rate Risk

The Board has not adopted a formal written policy in regards to interest rate risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the Board held less than two percent of the Board's total investments outstanding at year end in investments with maturities longer than one year.

Concentration Credit Risk

The Board does not have a formal written investment policy that limits the amount invested into certain types of investments as a means of managing its exposure to losses arising from over concentration in certain types of investments.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Board will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. In regards to investments, the Board does not have a deposit policy for custodial credit risk. As of September 30, 2020, the Board had \$300,712 in cash and cash equivalents exposed to custodial credit risk as Category 3 unsecured and uncollateralized deposits.

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 3: ACCOUNTS RECEIVABLE

Accounts receivables net of allowances were as follows for September 30, 2020:

Accounts receivable - customer	\$ 883,419
Allowance for doubtful accounts	<u>(349,203)</u>
Accounts receivable - customers net of allowance	\$ <u>534,216</u>

The Board expects that a portion of the customer accounts receivables will not be collected within one year.

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 4: CAPITAL ASSET ACTIVITY

A summary of changes in capital assets is as follows:

	Balance 10/01/19	Additions	Deletions	Balance 9/30/20
Capital assets, not being depreciated:				
Land	\$ 347,115	\$	\$	\$ 347,115
Construction in process	<u>75,473</u>	<u> </u>	<u> </u>	<u>75,473</u>
Total capital assets, not being depreciated	<u>422,588</u>	<u>0</u>	<u>0</u>	<u>422,588</u>
Capital assets, being depreciated				
Automotive equipment	391,511	79,104		470,615
Building and building improvements	352,193	10,992		363,185
Computer equipment	42,997	6,503	(670)	48,830
Machinery and equipment	478,483	1,527	(1,700)	478,310
Office furniture and equipment	45,359	4,800	(1,047)	49,112
Sewer system and lines	15,683,964			15,683,964
Water system and lines	<u>10,907,189</u>	<u> </u>	<u>(10,630)</u>	<u>10,896,559</u>
Total capital assets being depreciated	<u>27,901,696</u>	<u>102,926</u>	<u>(14,047)</u>	<u>27,990,575</u>
Less accumulated depreciation for:				
Automotive equipment	237,953	38,337		276,290
Building and building improvements	164,143	12,965		177,108
Computer equipment	34,546	3,211	(670)	37,087
Machinery and equipment	350,519	34,594	(1,700)	383,413
Office furniture and equipment	36,345	1,789	(1,047)	37,087
Sewer system and lines	4,012,702	401,927		4,414,629
Water system and lines	<u>5,529,412</u>	<u>236,044</u>	<u>(10,630)</u>	<u>5,754,826</u>
Total accumulated depreciation	<u>10,365,620</u>	<u>728,867</u>	<u>(14,047)</u>	<u>11,080,440</u>
Total capital assets, being depreciated net	<u>17,536,076</u>	<u>(625,941)</u>	<u>0</u>	<u>16,910,135</u>
Total capital assets, net	<u>\$ 17,958,664</u>	<u>\$ (625,941)</u>	<u>\$ 0</u>	<u>\$ 17,332,723</u>

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 5: REVENUE BONDS PAYABLE

Water revenue bonds, secured by the fixed assets in service and all revenues and income derived from the system including all subsequent improvements, extensions, and additions, are summarized as follows:

	Balance 10/01/19	Additions	Reductions	Balance 9/30/20	Due Within One Year
Revenue Bonds					
2009 Revenue Bonds	\$ 3,340,000 \$	\$	255,000 \$	3,085,000 \$	265,000
2011 Revenue Bonds	1,020,000		70,000	950,000	75,000
2012 Revenue Bonds	1,855,000		395,000	1,460,000	405,000
2014 Revenue Bonds	<u>4,110,000</u>		<u>47,000</u>	<u>4,063,000</u>	<u>49,000</u>
Subtotal	10,325,000	0	767,000	9,558,000	794,000
Less deferred amounts					
Bond premium (discount)	<u>(1,526)</u>		<u>277</u>	<u>(1,249)</u>	
	<u>\$ 10,323,474 \$</u>	<u>0 \$</u>	<u>767,277 \$</u>	<u>9,556,751 \$</u>	<u>794,000</u>

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 5: REVENUE BONDS PAYABLE (Continued)

Series 2009 CWSRF/ARRA-DL Water and Sewer Bonds

On September 15, 2009 the Board issued \$5,265,000 in Water and Sewer Revenue Bonds with interest rate of 3.50% for the purpose of constructing a Wastewater Systems Treatment plant and for additional capital improvements to the wastewater system. In conjunction with these bonds the Board signed a special authority loan conditions agreement with Alabama Water Pollution Control Authority (the Authority) and Alabama Department of Environmental Management, for an additional loan to be contemporaneously made with the execution and delivery of the issue of the \$5,265,000 Water and Sewer Revenue Bonds Series 2009-CWSRF/ARRA-DL. The additional loan proceeds were for the purpose to pay costs of planning, designing, acquiring, constructing, and equipping certain wastewater treatment and related facilities in connection with the sanitary sewer system. The initial sum of \$5,365,901 was made available from American Recovery and Reinvestment Act of 2009 (ARRA) funds as part of the Loan agreement. Under this agreement pursuant to compliance with all requirements, the Authority forgave the repayment of the ARRA Principal Forgiveness Portion of the loan in the amount of \$2,961,607, which left a remaining \$2,404,294 subject to repayment. See the schedule below for a recap of costs and repayment amount:

Loan Proceeds

Projected Fund Deposit	\$ 2,637,090
Capitalized interest	223,616
American Recovery and Reinvestment Act Funds (ARRA)	<u>5,365,901</u>
Total Loan Amounts	8,226,607
Less: ARRA Principal Forgiveness	<u>(2,961,607)</u>
Net Loan Repayment Amount	\$ <u>5,265,000</u>

(Continued)

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 5: REVENUE BONDS PAYABLE (Continued)

Series 2009 CWSRF/ARRA-DL Water and Sewer Bonds (Continued)

Maturities of the Series 2009 CWSRF/ARRA-DL Water and Sewer Revenue Bonds payable are as follows:

<u>Year Ended September 30,</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2021	3.50%	\$ 265,000	\$ 107,975	\$ 372,975
2022	3.50%	270,000	98,700	368,700
2023	3.50%	280,000	89,250	369,250
2024	3.50%	290,000	79,450	369,450
2025	3.50%	300,000	69,300	369,300
2026-2030	3.50%	<u>1,680,000</u>	<u>180,250</u>	<u>1,860,250</u>
		<u>\$ 3,085,000</u>	<u>\$ 624,925</u>	<u>\$ 3,709,925</u>

Series 2011 CWSRF-DL Water and Sewer Bonds

On February 1, 2011 the Board issued \$1,520,000 in Water and Sewer Revenue Bonds with interest rate of 3.10% for the purpose of constructing a Wastewater Systems Treatment plant and for additional capital improvements to the wastewater system. In conjunction with these bonds the Board signed a special authority loan conditions agreement with Alabama Water Pollution Control Authority (the Authority) and Alabama Department of Environmental Management, for an additional loan to be contemporaneously made with the execution and delivery of the issue of the \$1,520,000 Water and Sewer Revenue Bonds Series 2011-CWSRF-DL. The additional loan proceeds were for the purpose to pay costs of planning, designing, acquiring, constructing, and equipping certain wastewater treatment and related facilities in connection with the sanitary sewer system.

(Continued)

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 5: REVENUE BONDS PAYABLE (Continued)

Series 2011 CWSRF-DL Water and Sewer Bonds (Continued)

Maturities of the Series 2011 CWSRF-DL Water and Sewer Revenue Bonds payable are as follows:

<u>Year Ended</u> <u>September 30,</u>	<u>Interest</u> <u>Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2021	3.10%	\$ 75,000	\$ 28,288	\$ 103,288
2022	3.10%	75,000	25,962	100,962
2023	3.10%	80,000	23,560	103,560
2024	3.10%	80,000	21,080	101,080
2025	3.10%	85,000	18,522	103,522
2026-2030	3.10%	455,000	51,538	506,538
2031	3.10%	<u>100,000</u>	<u>1,550</u>	<u>101,550</u>
		<u>\$ 950,000</u>	<u>\$ 170,500</u>	<u>\$ 1,120,500</u>

Series 2012 Water and Sewer Bonds

On February 1, 2012 the Board issued \$2,930,000 in Series 2012 Water and Sewer Revenue Bonds with a variable interest rate for the purpose of refunding \$2,775,000 of the outstanding Series 2001 Water and Sewer Revenue Bonds. The Series 2001 Water and Sewer Revenue Bonds were called and net proceeds of \$2,926,392 were used to pay in full the 2001 bonds plus interest and issuance costs. As a result of these payments, the Series 2001 Water and Sewer Revenue Bonds are considered to be paid off and the liability for those bonds has been removed from the liabilities of the Board.

(Continued)

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 5: REVENUE BONDS PAYABLE (Continued)

Series 2012 Water and Sewer Bonds (Continued)

Maturities of the Series 2012 Water and Sewer Revenue Bonds payable are as follows:

<u>Year Ended</u> <u>September 30,</u>	<u>Interest</u> <u>Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2021	2.125%	\$ 405,000	\$ 29,109	\$ 434,109
2022	2.250%	415,000	20,138	435,138
2023	2.375%	425,000	10,422	435,422
2024	2.500%	<u>215,000</u>	<u>2,688</u>	<u>2,024</u>
		<u>\$ 1,460,000</u>	<u>\$ 62,357</u>	<u>\$ 1,522,357</u>

2014 Water and Sewer Refunding Revenue Bonds

On July 1, 2014, the Board issued \$4,920,000 in Water and Sewer Refunding Revenue Bonds - Series 2014 - with interest rate at 3.07% to refund the Board's outstanding Water and Sewer Revenue Bonds - Series 2006 remaining outstanding balance. The 2006 Series bonds were called and net proceeds of \$4,894,791 along with the balance of \$218,038 that was in the 2006 Bond Fund were used to pay in full the 2006 Series bonds. As a result, the 2006 Series bonds are considered to be paid off and the liability for those bonds has been removed from the liabilities of the Board.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$186,805. The difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2031 using the straight-line method. Amortization of \$11,208 was recognized in 2020 and is reported in interest expense for the period.

(Continued)

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 5: REVENUE BONDS PAYABLE (Continued)

Series 2014 Water and Sewer Refunding Revenue Bonds (Continued)

Maturities of the Series 2014 Water and Sewer Revenue Bonds payable are as follows:

<u>Year Ended</u> <u>September 30,</u>	<u>Interest</u> <u>Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2021	3.07%	\$ 49,000	\$ 124,366	\$ 173,366
2022	3.07%	50,000	122,846	172,846
2023	3.07%	132,000	121,296	253,296
2024	3.07%	347,000	116,000	463,000
2025	3.07%	490,000	103,259	593,259
2026-2030	3.07%	2,700,000	278,603	2,978,603
2031	3.07%	<u>295,000</u>	<u>4,528</u>	<u>299,528</u>
		<u>\$ 4,063,000</u>	<u>\$ 870,898</u>	<u>\$ 4,933,898</u>

Recap of Total Bond Debt Service Requirements

<u>Year Ended</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2021	\$ 794,000	\$ 289,738	\$ 1,083,738
2022	810,000	267,646	1,077,646
2023	917,000	244,528	1,161,528
2024	932,000	219,218	1,151,218
2025	875,000	191,081	1,066,081
2026-2030	4,835,000	510,391	5,345,391
2031	<u>395,000</u>	<u>6,078</u>	<u>401,078</u>
	<u>\$ 9,558,000</u>	<u>\$ 1,728,680</u>	<u>\$ 11,286,680</u>

(Continued)

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 5: REVENUE BONDS PAYABLE (Continued)

Bond Compliance Requirements

The following is a recap of certain key requirements of the Bond Covenants:

1. The Board must establish, maintain and make required transfers to following restricted accounts:

- a. **Bond Funds:**

2009 Bond Fund - On or before August 15, 2011 and on or before each February 15 and August 15 thereafter until the principal of and interest on the Series 2009-CWSRF/AARA-DL Bond shall have been paid in full, the Board will pay into the Bond Fund an amount equal to the sum of (i) the interest that will mature on such August 15 or February 15, as the case may be, plus (ii) the principal installment that will mature on such August 15.

2012 Bond Fund - On or prior to the last day of each month the Board is required to transfer from the Revenue Account to the Bond Fund an amount equal to one-sixth of the semiannual installment of interest that will mature with respect to the Bonds on the then next succeeding interest payment date plus one-twelfth of the principal, if any, on the Bonds that will mature or that are subject to mandatory redemption on the then next succeeding March 1. Moneys on deposit in the Bond Fund are to be used only for the payment of the principal of and interest on the Bonds.

2014 Bond Fund - On or prior to the last day of each month the Board is required to transfer from the revenue account to the bond fund an amount equal to one-sixth of the semiannual installment of principle and one-sixth of the semiannual installment interest that will mature with respect to the bonds on the next succeeding principle and interest payment date: March 1 or September 1 as appropriate. Moneys on deposit in the bond fund are to be used only for the payment of the principal of and interest on the bonds.

(Continued)

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 5: REVENUE BONDS PAYABLE (Continued)

b. Reserve Funds:

Joint 2011 and 2012 Reserve Fund - Contemporaneously with the delivery of the Series 2012 Bonds, the Board will deposit into the Reserve Fund an amount equal to the maximum Annual Debt Service Requirement applicable to the Series 2006 Bonds and the Series 2012 Bonds. In the event Additional Bonds are issued, the Board is required, to the extent the Reserve Fund is not funded at the time of the issuance of Additional Bonds, to make monthly payments into the Reserve Fund for sixty (60) consecutive months in an amount equal to the difference between the maximum Annual Debt Service Requirement before and after issuance of such Additional Bonds are required. Moneys forming a part of the Reserve Fund are to be held as a reserve for the payment of the principal of and interest on the Bonds, but shall be used for such purpose only when necessary to prevent a default. Whenever the Reserve Fund balance exceeds the maximum Annual Debt Service Requirement in the then current and any subsequent fiscal year, the Trustee shall, on each March 1 and September 1, transfer such excess amounts to the Board for deposit in the Bond Fund.

c. Replacement Funds:

Joint 2011 and 2012 Reserve Replacement Funds - There is on deposit in the replacement fund the sum of \$50,000. After the required monthly deposits shall have been made into the bond fund and the reserve fund, there shall be deposited each month into the replacement fund the sum of \$833.33 until the money in such fund equals \$50,000. Once the money in the replacement fund equals \$50,000, no further deposits need be made unless the amount in any month falls below \$50,000.

2. Investment of Funds. Any or all of the moneys on deposit in the Bond Fund, the Reserve Fund and the Replacement Fund that the Board determines shall not be needed for the purpose for which such funds were respectively created may be invested in direct general obligations of the United States of America, obligations guaranteed by the United States of America, or bank certificates of deposit with banks having a combined capital and surplus of \$10,000,000 ("Eligible Investments"). Interest earned on investments in the Bond Fund, Reserve Fund and Replacement Fund will be retained in the respective funds except that interest earnings in the Reserve Fund shall be transferred (on each March 1 and September 1) to the Bond Fund if the Reserve Fund is at the time fully funded and interest earnings in the Replacement Fund shall be paid to the Board if there is on deposit in the Replacement Fund the sum of \$50,000.

(Continued)

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 5: REVENUE BONDS PAYABLE (Continued)

3. Annual Audits. The Board will within ninety days following the close of each Fiscal Year cause an audit of its books for such Fiscal Year to be made by an Independent Auditor. Within ten days following the receipt of such audit, the Board will furnish a copy thereof to the Trustee, to the holder of any of the Bonds who makes written request therefore, and to the original purchaser or purchasers of each series of the Bonds. In the event the audit required is not furnished within 120 days following the close of any Fiscal Year, the Trustee may, at the expiration of such period, employ an Independent Auditor to make the audit for such Fiscal Year.
4. No Free Service. The Board will not furnish or permit to be furnished by or from the System any free service of any kind to the City or to any county or incorporated municipality or to any person whatsoever. All service furnished from the System will be charged for at the rates at the time established therefore.
5. Maintenance of Rates. The Board will make and maintain such rates and charges for the water and sanitary sewer service supplied by the System and make collections from the users thereof in such manner as shall produce amounts sufficient to pay expenses and to produce annual net income during each fiscal year at least equal to 120% of the Annual Debt Service Requirement during such fiscal year. The Board will, from time to time, make such increases and other changes in such rates and charges as may be necessary to produce said amounts.
6. Priority of Pledge. The pledge of revenues from the operation of the System shall be prior and superior to any pledge thereof hereafter made for the benefit of any securities hereafter issued or any contract hereafter made by the Board other than any of the Additional Bonds.
7. Continued Operation of the System. The Board will not sell or lease the whole or any integral part of the System, will continuously operate the System in or cause the same to be operated, in an economical and efficient manner, and will keep the System in good repair and efficient operating conditions. The Board may however consolidate with or merge into any public corporation, or transfer the System as an entirety to the City or to another public corporation if the property or income of such other public corporation is not subject to taxation and, upon such consolidation, merger or transfer, the due and punctual payment of the principal of and interest on the Bonds and the observance of the agreements of the Indenture are expressly assumed in writing by the corporation formed by such consolidation or into which such merger shall be made or to which the System shall be transferred as an entirety.

(Continued)

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 5: REVENUE BONDS PAYABLE (Continued)

8. Insurance Required. The Board will keep all portions of the System that are of the character and type customarily insured by organizations operating a business similar to the System insured against loss by fire, including extended coverage, tornado and windstorm, to the extent of the full insurable value thereof. The Board will also carry workmen's compensation insurance and public liability insurance in such amounts and to such extent as is customarily carried by like organizations engaged in like businesses of comparable size.
9. Disposition of Insurance Proceeds. Insurance proceeds on physical properties coming into the hands of the Trustee shall be applied by the Trustee, at the direction of the Board, for one of the following purposes: (a) purchase or construction of additional property of utility equal to that destroyed; or (b) the repairing or the renewing of the property damaged or destroyed; provided, that the Trustee may pay such proceeds to the Board upon being furnished with certificates of an Independent Engineer stating (1) that additional property described in the certificate has been purchased or constructed by the Board and is of equal utility in the operation of the System or (2) that the property damaged or destroyed has been repaired in a workmanlike manner satisfactory to such engineer.

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 6: PENSION PLAN

Plan Description

The ERS, an agent multiple-employer public employee retirement plan, was established October 1, 1945, pursuant to the Code of Alabama 1975, Title 36, Chapter 27 (Act 515 of the Legislature of 1945). The purpose of the ERS is to provide 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 which consists of 13 trustees. The Plan is administered by the Retirement Systems of Alabama (RSA). Title 36, Chapter 27 grants the authority to establish and amend the benefit terms to the ERS Board of Control. The Plan issues a publicly available financial report that can be obtained at www.rsa-al.gov.

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

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

(Continued)

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 6: PENSION PLAN (Continued)

Benefits Provided

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

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

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 equal to the annual earnable compensation of the member as reported to the Plan for the preceding year ending September 30 are paid to the beneficiary..

The ERS serves approximately 907 local participating employers. The ERS membership includes approximately 93,986 participants. As of September 30, 2019 membership consisted of:

Retirees and beneficiaries currently receiving benefits	25,871
Terminated employees entitled to but not yet receiving benefits	1,794
Terminated employees not entitled to a benefit	11,001
Active Members	55,222
Post-DROP participants who are still in active service	<u>98</u>
Total Members	<u>93,986</u>

(Continued)

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 6: PENSION PLAN (Continued)

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

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

The ERS establishes rates based upon an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with additional amounts to finance any unfunded accrued liability, the pre-retirement death benefit and administrative expenses of the Plan. For the year ended September 30, 2020, the Board's active employee contribution rate was 5.21% of covered employee payroll, and the Board's average contribution rate to fund the normal and accrued liability costs was 14.73% of pensionable payroll.

Board's contractually required contribution rate for the year ended September 30, 2020 was 14.98% of pensionable pay for Tier 1 employees, and 12.74% of pensionable pay for Tier 2 employees,. These required contribution rates are based upon the actuarial valuation dated September 30, 2017, a percent of annual pensionable payroll, and actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the System were \$92,478 for the year ended September 30, 2020.

(Continued)

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 6: PENSION PLAN (Continued)

Net Pension Liability

The Board's net pension liability was measured as of September 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as September 30, 2018 rolled forward to September 30, 2019 using standard roll-forward techniques as shown in the following:

	<u>Expected</u>	<u>Actual</u>
Total Pension Liability as of September 30, 2018	\$ <u>2,941,553</u> (a)	\$ <u>2,966,241</u>
Entry Age Normal Cost for October 1, 2018 thru September 30, 2019	\$ <u>38,770</u> (b)	\$ <u>38,770</u>
Transfers Among Employers	\$ <u>0</u>	\$ <u>(19,168)</u>
Actual Benefit Payments and Refunds for October 1, 2018 thru September 30, 2019	\$ <u>(159,987)</u> (c)	\$ <u>(159,987)</u>
Total Pension Liability as of September 30, 2019	\$ <u>3,040,676</u> (d)	\$ <u>3,048,097</u>
Difference between Expected and Actual Experience (Gain)/Loss		\$ <u>7,421</u>
Less Liability Transferred for Immediate Recognition		\$ <u>(19,168)</u>
Experience (Gain)/Loss		\$ <u>26,589</u>

Actuarial Assumptions

The total pension liability as of September 30, 2019 was determined based on the annual actuarial funding valuation report prepared as of September 30, 2018. The key actuarial assumptions are summarized below:

Inflation:	2.75%
Salary increases:	3.25% - 5.00%
Investment rate of return*:	7.70%

* Net of pension plan investment expense.

(Continued)

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 6: PENSION PLAN (Continued)

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

The actuarial assumptions used in the September 30, 2017 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, 2015. The Board of Control accepted and approved these changes in September 2016, which became effective at the beginning of fiscal year 2016.

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

	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return*</u>
Fixed Income	17.0%	4.4%
U.S. Large Stocks	32.0%	8.0%
U.S. Mid Stocks	9.0%	10.0%
U.S. Small Stocks	4.0%	11.0%
International Developed Market Stocks	12.0%	9.5%
International Emerging Market Stocks	3.0%	11.0%
Alternatives	10.0%	10.1%
Real Estate	10.0%	7.5%
Cash	<u>3.0%</u>	1.5%
Total	<u><u>100.00%</u></u>	

* Includes assumed rate of inflation of 2.50%.

(Continued)

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 6: PENSION PLAN (Continued)

Discount Rate

The discount rate used to measure the total pension liability was the long term rate of return, 7.70%. 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 plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Schedule of Changes in the Net Pension Liability

	<u>Total Pension Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net Pension Liability (Asset) (a)-(b)</u>
Balances at September 30, 2018	\$ 2,941,553	\$ 1,836,072	\$ 1,105,481
Changes for the year:			
Service Cost	38,770		38,770
Interest	220,340		220,340
Changes of assumptions:			0
Difference between expected and actual experience	26,589		26,589
Contributions - employer		85,796	(85,796)
Contributions - employee		32,865	(32,865)
Net Investment income		46,369	(46,369)
Benefit payments, including refunds of employee contributions	(159,987)	(159,987)	0
Administrative expense			0
Transfers Among Employers	<u>(19,168)</u>	<u>(19,168)</u>	<u>0</u>
Net Changes	<u>106,544</u>	<u>(14,125)</u>	<u>120,669</u>
Balances at September 30, 2019	\$ <u>3,048,097</u>	\$ <u>1,821,947</u>	\$ <u>1,226,150</u>

(Continued)

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 6: PENSION PLAN (Continued)

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

The following table presents the Board's net pension liability calculated using the discount rate of 7.70%, 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 (6.70%) or 1-percentage-point higher (8.70%) than the current rate:

	1% Decrease (6.70%)	Current Rate (7.70%)	1% Increase (8.70%)
Board's Net Pension Liability (Asset)	\$ <u>1,498,429</u>	\$ <u>1,226,150</u>	\$ <u>992,205</u>

(Dollar amounts in thousands)

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, 2019. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2019. The auditor's report on the Schedule of Changes in Fiduciary Net Position by Employer and accompanying notes detail by employer and in aggregate additional information needed to comply with GASB 68. The additional financial and actuarial information is available at <http://www.rsa-al.gov/index.php/employers/financial-reports/gasb-68-reports/>.

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 6: PENSION PLAN (Continued)

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

For the year ended September 30, 2020, the Board recognized pension expense of \$197,432. At September 30, 2020, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions of the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 90,223	\$ 36,428
Changes of assumptions	49,609	0
Net difference between projected and actual earnings on plan investments	20,900	0
Employer contributions subsequent to the Measurement Date	<u>95,954</u>	<u>0</u>
Total	\$ <u>256,686</u>	\$ <u>36,428</u>

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

Year Ended September 30:

2021	\$ 49,134
2022	27,398
2023	28,587
2024	19,185
2025	0
Thereafter	<u>0</u>
Total	\$ <u>124,304</u>

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 7: SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Interest Paid

Total interest paid on debt	\$ <u>310,621</u>
Total interest expensed	\$ <u>308,456</u>
Total interest capitalized	\$ <u>0</u>

NOTE 8: ASSET RETIREMENT OBLIGATIONS

The GASB issued Statement No. 83, Certain Asset Retirement Obligations to establish criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. The requirements of GASB 83 are effective for fiscal years beginning after June 15, 2018.

The Board determined that the financial statements were subject to recognition of an Asset Retirement Obligation in accordance with GASB Statement No. 83. The Board operates a sewer system treatment facility that would be subject to recognition as an asset retirement obligation. However, at this time the Board has determined that the amount of the related asset retirement obligation was undeterminable.

NOTE 9: CONTINGENCIES

Risk Financing

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from those risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance coverage in the prior year.

Grants

In the normal course of operations the Board may receive funds from various governmental agencies. The grant programs are subject to audit by agents of the granting authorities, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

(Continued)

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 9: CONTINGENCIES (Continued)

COVID-19 Outbreak

Public health epidemics or outbreaks could adversely impact the world economy and the economies of the United States, the State of Alabama and the Board. In December 2019, a novel strain of coronavirus (COVID-19) emerged in Wuhan, Hubei Province, China. While initially the outbreak was largely concentrated in China and caused significant disruptions to its economy, it has now spread to many other countries and infections have been reported globally, including in the United States, where the virus has caused infections in each state, including the State of Alabama. The continued spread of the coronavirus in the United States and the State of Alabama could have a material adverse effect on the Board's operations and its financial condition, including a negative impact on the Board's collections of water sale revenues and other fees necessary for the operation of the Board. Like other water boards in the State of Alabama, a large portion of the annual revenues of the Board comes from the collection of water sales and a reduction in the collection of these fees could have a material adverse effect on the financial condition of the Board and could impact the Board's ability to pay the principal of and interest on the Board's debt obligations. The extent to which the coronavirus impacts the Board's operations and its financial condition will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the duration of the outbreak, new information which may emerge concerning the severity of the coronavirus and the actions to contain the coronavirus or treat its impact, among others. Therefore, it is currently impossible to accurately predict what the long term effects of the coronavirus will be on our operations.

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 10: POST-EMPLOYMENT HEALTH CARE PLAN

Plan Administration:

The Water Works and Sewer Board of the City of Montevallo administers a single-employer, defined benefit post-employment health insurance plan. This plan does not include the pension benefits discussed in Note 5. The plan is funded on a pay-as-you-go basis and there is no irrevocable trust established for the plan. The Board has not accumulated assets for the future payment of OPEB benefit payments.

Plan Membership:

The plan provides medical insurance for eligible retirees and their dependents through the Board's group health insurance plan, which covers both active and retired members. Benefit provisions are established and amended by the Board.

The following table summarizes the membership of the Plan as of September 30, 2018, the Valuation Date:

Inactive Members or Beneficiaries Currently Receiving Benefits	0
Inactive Members Entitled to But Not Yet Receiving Benefits	0
Active Members	<u>12</u>
Total Membership	<u><u>12</u></u>

Benefits Provided:

A retired employee with at least 10 years of service with the Board or at least 25 years of service with the Alabama Employees Retirement System, and who is at least 60 years of age is eligible for health insurance through the Alabama Local Government Health Insurance Program in one of the following tiers:

Tier I (for those hired before 1/1/2013)

Retiree has 25 years of creditable service, regardless of age or,
Retiree has 10 years of service and is 60 years old or is determined disabled by the Social Security Administration or the Retirement Systems of Alabama's Medical Board

Tier II (for those hired on or after 1/1/2013)

Retiree has 10 years of service and is 62 years old or is determined disabled by the Social Security Administration or the Retirement Systems of Alabama's Medical Board

(Continued)

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 10: POST-EMPLOYMENT HEALTH CARE PLAN (Continued)

Benefits Provided: (Continued)

The Board will pay 75% of single coverage, limited to \$270 per month for single coverage, or 50% of the premium for family coverage, limited to \$601 per month. A surviving spouse shall be eligible to continue the existing coverage or, in the event of not dependent children, shall have the option to revert to single member coverage for a period of 36 months under the Cobra Plan.

Upon Medicare eligibility the retiree may continue in the health insurance plan but is responsible for the full premium.

Health care, prescription drugs, and dental are provided in the health care plan.

Representative Monthly Retiree Premium Amounts: Effective 1/1/2018

	<u>Pre-65</u> <u>Medical & Dental</u>	<u>Post 65</u> <u>Medical & Dental</u>
Retiree	\$974.00	\$469.00
Retiree + Spouse	\$1,794.00	\$949.00

Actuarial Assumptions

The total OPEB liability was determined based on the actuarial valuation as of September 30, 2018, rolled forward to September 30, 2019, the measurement date. . The following actuarial assumptions applied to all periods in the measurement, unless otherwise specified:

Actuarial Cost Method:	Entry Age Normal Cost Method
Inflation:	2.75%
Real Wage Growth	0.25%
Wage inflation	3.00%
Salary increases, including wage inflation:	3.25% - 5.00%
Municipal Bond Index Rate	
Prior Measurement Date	4.18%
Measurement Date	2.66

(Continued)

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 10: POST-EMPLOYMENT HEALTH CARE PLAN (Continued)

Actuarial Assumptions (Continued)

The discount rate used to measure the total OPEB Liability (TOL) was based on the September average of the Bond Buyer General Obligation 20-year Municipal Bond Index published weekly by The Bond Buyer.

Mortality rates for active employees were based on the sex distinct RP-2000 Employee Mortality Table Projected with Scale BB to 2020 with an adjustment of 70% for males and 50% for females. Post-retirement mortality rates on the sex distinct RP 2000 Blue Collar Mortality Table projected with Scale BB to 2020. An adjustment of 125% at all ages for males and 120% for females beginning at age 78 was made for service retirements and beneficiaries. An adjustment of 130% for females at all ages was made for disability retirements.

The demographic actuarial assumptions for retirement, disability incidence, withdrawal, and salary increases used in the September 30, 2018 valuation were based on the results of an actuarial experience study for the period October 1, 2010 through September 30, 2015 and were submitted to and adopted by the Board of the Employee's Retirement System of Alabama on September 29, 2016.

The remaining actuarial assumptions (e.g. initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the September 30, 2018 valuation were based on a review of recent plan experience done concurrently with the September 30, 2018 valuation.

Discount Rate

The discount rate used to measure the OPEB liability was 2.66% for the plan. No assets have been accumulated in an irrevocable trust, so the municipal rate has been applied to all periods. The discount rate changed from the prior measurement date. The discount rate was 4.18% on the previous measurement date.

(Continued)

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 10: POST-EMPLOYMENT HEALTH CARE PLAN (Continued)

Schedule of Changes in the OPEB Liability

	Total OPEB Liability (Asset)
Balance at September 30, 2018	\$ 29,900
Changes for the year:	
Service Cost	741
Interest	1,250
Changes of assumptions:	1,281
Difference between expected and actual experience	(8,002)
Benefit payments, including refunds of employee contributions	0
Administrative expense	<u>0</u>
Net Changes	<u>(4,730)</u>
Balance at September 30, 2019	\$ <u>25,170</u>

Sensitivity of the OPEB Liability to Changes in the Discount Rate

The following table presents the Board's OPEB Liability calculated using the discount rate of 2.66%, as well as what the Board's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (1.66%) or 1-percentage-point higher (3.66%) than the current rate:

	1% Decrease (1.66%)	Current Rate (2.66%)	1% Increase (3.66%)
Board's Net OPEB Liability (Asset)	\$ <u>26,064</u>	\$ <u>25,170</u>	\$ <u>24,317</u>

(Dollar amounts in thousands)

(Continued)

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 10: POST-EMPLOYMENT HEALTH CARE PLAN (Continued)

Sensitivity of the OPEB Liability to Changes in the Health Care Cost Trend Rate

The following table presents the Board's OPEB Liability sensitivity to changes in the health care cost trend rates, as well as what the Board's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage-point higher than the current rate:

	1% Decrease	Current Rate	1% Increase
Board's Net OPEB Liability (Asset)	\$ <u>25,170</u>	\$ <u>25,170</u>	\$ <u>25,170</u>

(Dollar amounts in thousands)

OPEB Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to OPEB

For the year ended September 30, 2020, the Board recognized OPEB expense of \$2,605. At September 30, 2020, the Board reported deferred outflows of resources and deferred inflows of resources related to OPEB of the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 1,207	\$ 7,006
Changes of assumptions	1,015	450
Net difference between projected and actual earnings on plan investments	0	0
Employer contributions subsequent to the Measurement Date	<u>0</u>	<u>0</u>
Total	\$ <u>2,222</u>	\$ <u>7,456</u>

(Continued)

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 10: POST-EMPLOYMENT HEALTH CARE PLAN (Continued)

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

Year Ended September 30:

2020	\$ (1,886)
2021	(1,085)
2022	(1,134)
2023	(1,129)
2024	0
Thereafter	<u>0</u>
Total	\$ <u>(5,234)</u>

NOTE 11: SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 11, 2021, which is the date the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements for the year ended September 30, 2020. There were no items requiring disclosure noted.

The accompanying notes are an integral part of these statements.

REQUIRED SUPPLEMENTARY INFORMATION

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY
FOR THE YEAR ENDED SEPTEMBER 30,

	2019	2018	2017	2016	2015	2014
Total Pension Liability						
Service Cost	\$ 38,770	\$ 36,570	\$ 47,738	\$ 50,509	\$ 53,076	\$ 52,779
Interest	220,340	205,734	202,721	185,463	168,967	163,479
Changes of benefit terms	0	0	0	0	0	0
Differences between expected and actual experience	26,589	112,707	(51,585)	(173,080)	132,769	0
Changes of assumptions	0	11,905	0	389,170	0	0
Transfers among employers	(19,168)					
Benefit payments, including refunds of employee contributions	<u>(159,987)</u>	<u>(159,987)</u>	<u>(160,001)</u>	<u>(149,194)</u>	<u>(148,025)</u>	<u>(147,287)</u>
Net change in total pension liability	106,544	206,929	38,873	302,868	206,787	68,971
Total pension liability - beginning	<u>2,941,553</u>	<u>2,734,624</u>	<u>2,695,751</u>	<u>2,392,883</u>	<u>2,186,096</u>	<u>2,117,125</u>
Total pension liability ending (a)	<u>\$ 3,048,097</u>	<u>\$ 2,941,553</u>	<u>\$ 2,734,624</u>	<u>\$ 2,695,751</u>	<u>\$ 2,392,883</u>	<u>\$ 2,186,096</u>

See notes to required supplementary information.

(Continued)

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY (Continued)
FOR THE YEAR ENDED SEPTEMBER 30,

	2019	2018	2017	2016	2015	2014
Plan Fiduciary Net Position						
Contributions - employer	\$ 85,796	\$ 78,407	\$ 75,404	\$ 69,366	\$ 58,333	\$ 63,241
Contributions - member	32,865	30,685	29,616	31,922	26,636	28,877
Net investment income	46,369	157,685	199,406	148,699	17,770	166,798
Benefit payments, including refunds of employee contributions	(159,987)	(159,987)	(160,001)	(149,194)	(148,025)	(147,287)
Transfers among employers	(19,168)					
Net change in plan fiduciary net position	(14,125)	106,790	144,425	100,793	(45,286)	111,629
Plan net position - beginning	<u>1,836,072</u>	<u>1,729,282</u>	<u>1,584,857</u>	<u>1,484,064</u>	<u>1,529,350</u>	<u>1,417,721</u>
Plan net position - ending (b)	<u>\$ 1,821,947</u>	<u>\$ 1,836,072</u>	<u>\$ 1,729,282</u>	<u>\$ 1,584,857</u>	<u>\$ 1,484,064</u>	<u>\$ 1,529,350</u>
Net pension liability (asset) - ending (a) - (b)	<u>\$ 1,226,150</u>	<u>\$ 1,105,481</u>	<u>\$ 1,005,342</u>	<u>\$ 1,110,894</u>	<u>\$ 908,819</u>	<u>\$ 656,746</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>59.77%</u>	<u>62.42%</u>	<u>63.24%</u>	<u>58.79%</u>	<u>62.02%</u>	<u>69.96%</u>
Covered-employee payroll	<u>\$ 636,278</u>	<u>\$ 606,887</u>	<u>\$ 585,597</u>	<u>\$ 669,249</u>	<u>\$ 532,723</u>	<u>\$ 586,731</u>
Net pension liability (asset) as a percentage of covered-employee payroll	<u>192.71%</u>	<u>182.46%</u>	<u>171.68%</u>	<u>165.99%</u>	<u>170.60%</u>	<u>111.93%</u>

This schedule is presented to illustrate the requirement to show information for 10 years. Until a full 10-year trend is compiled the Board will only present information for those years for which information is available.

See notes to required supplementary information.

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS
FOR THE YEAR ENDED SEPTEMBER 30,

	2020	2019	2018	2017	2016	2015
Actuarially determined contributions	92,478	85,118	80,653	77,571	71,061	60,198
Contributions in relation to the actuarially determined contribution	<u>92,478</u>	<u>85,118</u>	<u>80,653</u>	<u>77,571</u>	<u>71,061</u>	<u>60,198</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered - employee payroll	<u>\$ 627,771</u>	<u>\$ 636,278</u>	<u>\$ 606,887</u>	<u>\$ 585,597</u>	<u>\$ 669,249</u>	<u>\$ 532,723</u>
Contributions as a percentage of covered-employee payroll	<u>14.73%</u>	<u>13.38%</u>	<u>13.29%</u>	<u>13.25%</u>	<u>10.62%</u>	<u>11.30%</u>

This schedule is presented to illustrate the requirement to show information for 10 years. Until a full 10-year trend is compiled the Board will only present information for those years for which information is available.

See notes to required supplementary information.

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY
FOR THE YEAR ENDED SEPTEMBER 30,

	2019	2018	2017
Total OPEB Liability			
Service Cost	\$ 741	\$ 1,252	\$ 1,303
Interest	1,250	934	800
Changes of benefit terms	0	0	0
Differences between expected and actual experience	(8,002)	2,065	(2,651)
Changes of assumptions	<u>1,281</u>	<u>(509)</u>	<u>(603)</u>
Net change in total OPEB Liability	(4,730)	3,742	(1,151)
Total OPEB Liability - beginning	<u>29,900</u>	<u>26,158</u>	<u>27,309</u>
Total OPEB Liability ending	\$ <u>25,170</u>	\$ <u>29,900</u>	\$ <u>26,158</u>
Covered-employee payroll	\$ <u>606,887</u>	\$ <u>606,887</u>	\$ <u>569,957</u>
Net OPEB Liability (asset) as a percentage of covered-employee payroll	<u>4.15%</u>	<u>4.93%</u>	<u>4.59%</u>

This schedule is presented to illustrate the requirement to show information for 10 years. Until a full 10-year trend is compiled the Board will only present information for those years for which information is available.

See independent auditor's report.

THE WATER WORKS AND SEWER BOARD OF THE CITY OF MONTEVALLO

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION SEPTEMBER 30, 2020

NOTE 1: SUMMARY OF SIGNIFICANT PENSION PLAN PRACTICES

Actuarially determined contribution rates are calculated as of September 30, three years prior to the end of the fiscal year in which contributions are reported. Contributions for fiscal year 2020 were based on the September 30, 2017 actuarial valuation.

Methods and assumptions used to determine contribution rates for the period October 1, 2019 to September 30, 2020:

Actuarial cost method:	Entry Age
Amortization method:	Level percent closed
Remaining amortization period:	25.3 years
Asset valuation method:	Five year smoothed market
Inflation:	2.75%
Salary increases:	3.25 -5.00% including inflation
Investment rate of return:	7.75%, net of pension plan investment expense, including inflation

NOTE 2: SUMMARY OF SIGNIFICANT OPEB PLAN PRACTICES

The total OPEB liability amount presented for each fiscal year was determined as of the fiscal year-end. No assets have been accumulated in a trust that meets the criteria in GASB's No. 75, paragraph 4, to pay related benefits. The schedules are intended to present ten years of data. Additional years of data will be presented as they become available.

Actuarial Assumptions - The total OPEB liability was determined by an actuarial valuation as of September 30, 2018 rolled forward to September 30, 2019, the measurement date. The following actuarial assumptions applied to all periods in the measurement, unless otherwise specified.

Actuarial Cost Method:	Entry Age Normal Cost Method
Salary increases, including wage inflation:	3.25% - 5.00%
Inflation:	2.75%
Municipal Bond Index Rate	
Prior Measurement Date	4.18%
Measurement Date	2.66%
Real Wage Growth	0.25%
Wage inflation	3.00%

The Board is not accumulating assets in a trust fund that meets the criteria in paragraph 4 of GASB Statement No. 75 for payment of future benefits.

See independent auditor's report.

SUPPLEMENTARY INFORMATION

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

SCHEDULE OF OPERATING EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2020

	Water	Sewer	Joint Costs	Total
Bad debt expense	\$ 24,043	\$ 16,095	\$	\$ 40,138
Billing costs			25,132	25,132
Chemicals	6,015	8,342		14,357
Contract services	1,427	5,097	29,757	36,281
Conventions, seminars, other training	1,020		2,400	3,420
Credit card fees			12,618	12,618
Depreciation	283,076	426,322	19,469	728,867
Dues and publications	3,442		225	3,667
Engineering	53,366			53,366
Fiscal agent fees			5,000	5,000
Franchise fees	58,986	37,381		96,367
Gas and oil			13,382	13,382
Insurance - business	1,311		30,306	31,617
Insurance - employee health and life	21,888	15,169	36,187	73,244
Insurance - workman's compensation	18,311	3,231		21,542
Legal and accounting			39,214	39,214
Materials and supplies	104,962	9,997		114,959
Miscellaneous			3,720	3,720
Office supplies			17,018	17,018
Payroll taxes	22,876	12,408	16,359	51,643
Retirement	147,703	47,124	2,605	197,432
Postage and printing			5,188	5,188
Repairs and maintenance - tank and system	81,300	68,427		149,727
Repairs and maintenance - equipment	987			987
Repairs and maintenance - other	7,152	2,068	12,348	21,568
Salaries and wages	317,567	175,497	236,523	729,587
Samples and testing	8,609	28,740		37,349
Uniforms			3,334	3,334
Utility expense - electricity	102,824	142,672	7,356	252,852
Utility expense - gas			725	725
Utility expense - radio and telephone			9,228	9,228
Utility expenses - water and sewer		801	568	1,369
Utility expense - waste disposal		9,409		9,409
Water purchases	<u>23,444</u>			<u>23,444</u>
	<u>\$ 1,290,309</u>	<u>\$ 1,008,780</u>	<u>\$ 528,662</u>	<u>\$ 2,827,751</u>

See independent auditor's report.

ADDITIONAL INFORMATION

WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

INFORMATION REQUIRED BY BOND AGREEMENT
SEPTEMBER 30, 2020

Schedule of Insurance Policies

<u>Type of Coverage</u>	<u>Amount</u>	<u>Expiration Date</u>
Workers' Compensation	Statutory	January 2021
Automobile:		
Liability	\$2,000,000	March 2021
Auto Medical Payments	\$ 5,000	March 2021
Uninsured Motorists	\$ 25,000	March 2021
Underinsured Motorists	\$ 50,000	March 2021
Collision	Replacement	March 2021
Comprehensive	Replacement	March 2021
Property:		
General Liability:		
Bodily Injury & Property	\$2,000,000	March 2021
Products	\$2,000,000	March 2021
Personal and Advertising	\$2,000,000	March 2021
Each Occurrence	\$2,000,000	March 2021
Damage to Rented Premises	\$ 100,000	March 2021
Medical Expense	\$ 5,000	March 2021
Professional Errors and Omissions:		
Each loss	\$2,000,000	March 2021
Aggregate	\$3,000,000	March 2021
Right of Way Bond	\$ 10,000	September 2021
Public Employee Dishonesty		
Employees (each)	\$ 100,000	March 2021
Officers (each)	\$ 100,000	March 2021
Employee Benefits Liability:		
Each claim	\$2,000,000	March 2021
Aggregate	\$2,000,000	March 2021

(Continued)

See independent auditor's report.

WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

INFORMATION REQUIRED BY BOND AGREEMENT (Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2020

Number of Customers

Water system customers	<u>3,571</u>
Sewer system customers	<u>2,147</u>

System Improvements

During fiscal year ended September 30, 2020 capital additions and improvements were made to the water and sewer systems of \$-0- and \$ -0- , respectively.

Schedule of Bank Activity - Reserve Fund - Series 2006

Balance at 10/01/19	\$ 672,805
Add: Deposits	
Interest income	<u>743</u>
Balance at 9/30/20	\$ <u>673,548</u>

Schedule of Bank Activity - Replacement Fund

Balance at 10/01/19	\$ 78,414
Add: Deposits	
Interest income	<u>79</u>
Balance at 9/30/20	\$ <u>78,493</u>

See independent auditor's report.

(Continued)

WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

INFORMATION REQUIRED BY BOND AGREEMENT (Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2020

Schedule of Bank Activity -Series 2009 CWSSFR Bond Fund

Balance at 10/01/19	\$ 140,263
Add: Deposits	
12 monthly deposits of \$33,815.91	405,791
Less: Payments	
Principal paid to bondholders	(255,000)
Interest paid to bondholders	<u>(116,900)</u>
Balance at 9/30/20	\$ <u>174,154</u>

Schedule of Bank Activity -Series 2011 CWSSFR Bond Fund

Balance at 10/01/19	\$ 113,826
Add: Deposits	
12 monthly deposits of \$9,438.90	113,267
Less: Payments	
Principal paid to bondholders	(70,000)
Interest paid to bondholders	<u>(30,535)</u>
Balance at 9/30/20	\$ <u>126,558</u>

(Continued)

See independent auditor's report.

WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

INFORMATION REQUIRED BY BOND AGREEMENT (Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2020

Schedule of Bank Activity - Series 2012 Bond Fund

Balance at 10/01/19	\$ 234,061
Add: Deposits	
5 monthly deposits of \$36,337.00	181,685
7 monthly deposits of \$36,520.00	255,640
Interest income	167
Less: Payments	
Principal paid to bondholders	(395,000)
Interest paid to bondholders	<u>(37,362)</u>
Balance at 9/30/20	\$ <u>239,191</u>

Schedule of Bank Activity - Series 2014 Bond Fund

Balance at 10/01/19	\$ 28,642
Add: Deposits	
5 monthly deposits of \$14,369.00	66,845
7 monthly deposits of \$14,430.00	101,010
Interest income	5,032
Less: Payments	
Principal paid to bondholders	(47,000)
Interest paid to bondholders	<u>(125,824)</u>
Balance at 9/30/20	\$ <u>28,705</u>

See independent auditor's report.

OTHER REPORTS

DeLOACH, BARBER & CASPERS, P.C.

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INDEPENDENT AUDITOR'S 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

Members of the Board
Water and Sewer Board of the
City of Montevallo, Alabama

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Water Works and Sewer Board of the City of Montevallo, as of and for the year ended September 30, 2020, and the related notes to the financial statements, and have issued our report thereon dated January 11, 2021.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control described in the accompanying schedule of findings and responses as item 2020-1, 2020-2, and 2020-3 that we consider to be significant deficiencies.

Compliance and Other Matters

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

We noted certain other matters that we reported to management of Water Works and Sewer Board of the City of Montevallo in a separate letter dated January 11, 2021.

Water Works and Sewer Board of the City of Montevallo's Response to Findings

Water Works and Sewer Board of the City of Montevallo's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Water Works and Sewer Board of the City of Montevallo's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

DeLoach, Barber & Caspers, P. C.

January 11, 2021

WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

SCHEDULE OF FINDINGS AND RESPONSES

Findings and Response for the Year Ended September 30, 2020:

Significant Deficiencies

2020-01 Segregation of Duties (Repeat Finding):

Criteria: Management is responsible for 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.

Condition: The Board's accounting employees perform numerous functions that result in a lack of segregation of duties. There is an absence of appropriate segregation of duties consistent with appropriate control objectives, which allows the same individual to bill, collect, receipt, and record water and sewer sale transactions. This is a repeat finding.

Cause: Due to the limited number of people working in the accounting department, certain critical duties are combined and assigned to the available employees. The absence of appropriate segregation of duties is a result of having insufficient personnel due to the nature of being a small government entity.

Effect: To the extent possible, duties should be segregated to serve as a check and balance on the execution and recording of transactions. Lack of segregation of duties may result in the misuse of assets or misstatement of financial information.

Recommendation:

We suggest that the segregation of duties be reviewed and adjusted where possible to strengthen the system of internal control.

Management's response:

The Board agrees with the finding. Although complete segregation of duties is not feasible for the Board, we will continue to review our operations to determine the most efficient and effective solutions to properly segregate duties, and the Board will continue to review accounting information regularly.

WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

SCHEDULE OF FINDINGS AND RESPONSES

Significant Deficiencies (Continued)

2020-02 Preparation of the Financial Statements (Repeat Finding):

Criteria: Management is responsible for the preparation and fair presentation of financial statements in accordance with generally accepted accounting principles (GAAP).

Condition: Personnel are not currently available to prepare the financial statements in conformity with GAAP.

Cause: The Board lacks personnel with adequate training to prepare the complete governmental financial statements in accordance with GAAP and has requested DeLoach, Barber and Caspers, P.C. to prepare the financial statements on the Board's behalf.

Effect: AU-C 265 indicates that a weakness in internal control is present when personnel are not available to apply GAAP in preparing the financial statements.

Recommendation:

We recommend, when feasible, to have a member of management who is qualified to prepare or review the financial statements to ensure no material errors exist in the financial statements. We recognize that the cost of hiring accounting personnel may inhibit the Board from addressing this finding.

Management's response:

Management recognizes that a control weakness exists when management lacks the training required to apply GAAP in financial statement presentation; however, obtaining adequate training to prepare the financial statements internally would not be practical at this time.

WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

SCHEDULE OF FINDINGS AND RESPONSES

Significant Deficiencies (Continued)

2020-03 Material Audit Adjustments (Repeat Finding):

Criteria: Management is responsible for developing controls for financial reporting, which would avoid material audit adjustments.

Condition: During the course of our audit, there were audit adjustments that were material in nature to the financial statements as a whole.

Cause: Audit adjustments are generally indicative of a weakness in the internal control structure within an organization and could be prevented by strengthening the Board's account reconciliation procedures.

Effect: Material audit adjustments indicate inaccuracies in the interim financial reporting.

Recommendation:

We recommend that the Board evaluate and strengthen the accounting and financial reporting control procedures to improve completeness and accuracy.

Management's response:

The Board agrees with the finding. The Board will review the adjustments provided by the auditors to determine how to reduce the number of adjustments in the future.