

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

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

Opinion

We have audited the accompanying financial statements of the Water Works and Sewer Board of the City of Montevallo, as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the Water and Sewer Board of the City of Montevallo, Alabama's basic financial statements as listed in the table of contents.

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, 2022, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Board and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Board's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may arise substantial doubt shortly thereafter.

Auditor's Responsibility

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting in error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Board's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Board's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require certain supplementary information (pages 51-55) be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 not presented the Management Discussion and Analysis that accounting principles generally accepted in the United States of America require 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

Management is responsible for the other information included in the annual report. The other information is comprised of the supplementary information (page 57) and additional information (pages 59-66) but does not include the basic financial statements, and our auditor's report thereon. Our opinions on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basis financial statements, or the other information otherwise appears to be materially misstated. If based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2023, 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 23, 2023

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

STATEMENT OF NET POSITION
SEPTEMBER 30, 2022

ASSETS

Current Assets

Nonrestricted Assets:

| | |
|-----------------------------------------------------------------------------|--------------|
| Cash and cash equivalents | \$ 3,585,819 |
| Accounts receivable, net of allowance for doubtful accounts of \$366,279 | 635,125 |
| Interest receivable | 151 |
| Inventory | 103,680 |
| Prepaid expenses | 96,233 |

Restricted Assets:

| | |
|------------------------------|------------------|
| Cash - bond proceeds | 8,966,760 |
| Cash - customer deposits | 574,754 |
| Cash - debt service | 482,530 |
| Cash - capital reserve funds | <u>1,629,281</u> |

| | |
|----------------------|-------------------|
| Total Current Assets | <u>16,074,333</u> |
|----------------------|-------------------|

Noncurrent Assets

Capital Assets, at cost:

| | |
|-------------------------------------|---------------------|
| Automotive equipment | 601,441 |
| Buildings and building improvements | 391,471 |
| Computer equipment | 49,342 |
| Construction in progress | 1,954,451 |
| Land | 997,644 |
| Machinery and equipment | 503,738 |
| Office furniture and equipment | 51,865 |
| Sewer system and lines | 15,683,964 |
| Water system and lines | <u>10,910,872</u> |
| | 31,144,788 |
| Allowance for depreciation | <u>(12,470,493)</u> |

| | |
|----------------------|-------------------|
| Capital Assets - Net | <u>18,674,295</u> |
|----------------------|-------------------|

DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows of Resources

| | |
|-----------------------------------------------|----------------|
| Deferred unamortized bond reacquisition costs | 242,368 |
| Deferred outflows - Pension | 174,751 |
| Deferred outflows - OPEB | <u>1,018</u> |
| Total Deferred Outflows of Resources | <u>418,137</u> |

| | |
|-------------------------------------------------|----------------------|
| Total Assets and Deferred Outflows of Resources | \$ <u>35,166,765</u> |
|-------------------------------------------------|----------------------|

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, 2022

LIABILITIES

Current Liabilities

| | |
|-------------------------------------------|------------|
| Current portion of revenue bonds payable | \$ 720,000 |
| Accounts payable | 793,343 |
| Accounts payable - City of Montevallo | 51,058 |
| Utility tax payable | 19,016 |
| Payroll taxes payable | 2,890 |
| Accrued salaries and compensated absences | 47,226 |

Current Liabilities (Payable from Restricted Assets)

| | |
|-------------------|---------------|
| Customer deposits | 417,893 |
| Interest payable | <u>35,442</u> |

Total Current Liabilities 2,086,868

Noncurrent Liabilities

| | |
|----------------------------|----------------|
| Unfunded OPEB obligation | 21,347 |
| Revenue bonds payable, net | 17,010,417 |
| Net pension obligation | <u>804,611</u> |

Total Noncurrent Liabilities 17,836,375

Total Liabilities 19,923,243

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows of Resources

| | |
|-------------------------------------|----------------|
| Deferred Inflows - OPEB | 10,245 |
| Deferred Inflows - Pension | <u>349,151</u> |
| Total Deferred Inflows of Resources | <u>359,396</u> |

Total Liabilities and Deferred Inflows of Resources 20,282,639

NET POSITION

Net Position

| | |
|-------------------------------------------------|------------------|
| Invested in capital assets, net of related debt | 9,910,638 |
| Restricted for: | |
| Customer deposits | 156,861 |
| Debt service | 447,088 |
| Capital improvements and extension | 1,629,281 |
| Unrestricted | <u>2,740,258</u> |

Total Net Position \$ 14,884,126

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, 2022

Operating Revenues

| | |
|----------------------------------------|------------------|
| Commercial and residential water sales | \$ 2,243,331 |
| Commercial and residential sewer sales | 1,465,318 |
| Service charges and other fees - water | 114,460 |
| Service charges and other fees - sewer | 38,650 |
| Miscellaneous income | <u>13,977</u> |
| Total Operating Revenues | <u>3,875,736</u> |

Operating Expenses

| | |
|--------------------------|------------------|
| Water | 1,218,357 |
| Sewer | 1,041,414 |
| Joint costs | <u>782,349</u> |
| Total Operating Expenses | <u>3,042,120</u> |

| | |
|------------------|----------------|
| Operating Income | <u>833,616</u> |
|------------------|----------------|

Non-Operating Revenues (Expenses)

| | |
|-----------------------------------------|------------------|
| Interest income | 38,025 |
| Gain on sale of assets | 24,747 |
| Interest expense | <u>(506,533)</u> |
| Total Non-Operating Revenues (Expenses) | <u>(443,761)</u> |

| | |
|------------------------|---------|
| Change in Net Position | 389,855 |
|------------------------|---------|

| | |
|----------------------------------|-------------------|
| Net Position - Beginning of Year | <u>14,494,271</u> |
|----------------------------------|-------------------|

| | |
|----------------------------|-----------------------------|
| Net Position - End of Year | \$ <u><u>14,884,126</u></u> |
|----------------------------|-----------------------------|

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, 2022

Cash Flows From Operating Activities

| | |
|-------------------------------------------------|------------------|
| Receipts from customers and users | \$ 3,737,037 |
| Payments to suppliers | (1,452,004) |
| Payments to employees and payroll related items | <u>(880,919)</u> |

| | |
|-------------------------------------------|------------------|
| Net cash provided by operating activities | <u>1,404,114</u> |
|-------------------------------------------|------------------|

Cash Flows From Capital and Related Financing Activities

| | |
|----------------------------------------------|------------------|
| Payments for capital acquisitions | (1,171,828) |
| Proceeds from sale of capital assets | 30,650 |
| Net proceeds from issuance of long-term debt | 18,064,338 |
| Principal payments on long-term debt | (9,294,000) |
| Interest payments on long-term debt | <u>(520,381)</u> |

| | |
|---------------------------------------------------------------|------------------|
| Net cash provided by capital and related financing activities | <u>7,108,779</u> |
|---------------------------------------------------------------|------------------|

Cash Flows From Investing Activities

| | |
|-------------------|---------------|
| Interest received | <u>37,993</u> |
|-------------------|---------------|

| | |
|-------------------------------------------|---------------|
| Net cash provided by investing activities | <u>37,993</u> |
|-------------------------------------------|---------------|

| | |
|--------------------------------------|-----------|
| Net increase in cash and equivalents | 8,550,886 |
|--------------------------------------|-----------|

| | |
|------------------------------------------------------------------------|------------------|
| Cash and equivalents, beginning of year (restricted and nonrestricted) | <u>6,688,258</u> |
|------------------------------------------------------------------------|------------------|

| | |
|------------------------------------------------------------------|----------------------|
| Cash and equivalents, end of year (restricted and nonrestricted) | <u>\$ 15,239,144</u> |
|------------------------------------------------------------------|----------------------|

(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, 2022

Reconciliation of Operating Income to Net Cash

Provided by Operating Activities:

| | |
|--------------------------------------------------------------------------------------|----------------------------|
| Operating Income | \$ <u>833,616</u> |
| Adjustments to reconcile net income to net cash provided by operating activities: | |
| Depreciation and amortization | 734,814 |
| Bond issuance costs | 214,748 |
| Allowance for doubtful accounts | 15,005 |
| Changes in assets and liabilities: | |
| (Increase) decrease: | |
| Accounts receivable | (151,497) |
| Inventories | (9,224) |
| Prepaid expenses | (70,010) |
| Deferred outflows | (95,704) |
| Increase (decrease): | |
| Accounts payable and accounts payable - City of Montevallo | 23,836 |
| Utility tax payable | (2,449) |
| Payroll taxes payable | 349 |
| Accrued expenses | 15,401 |
| Customer deposit liability | 11,900 |
| Deferred inflows | 331,533 |
| Unfunded OPEB obligation | (5,868) |
| Net pension obligation | <u>(442,336)</u> |
| Total adjustments | <u>570,498</u> |
| Net cash provided by operating activities | \$ <u><u>1,404,114</u></u> |

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

| | |
|------------------------------|-----------------------------|
| Current Assets | \$ 3,585,819 |
| Restricted Assets | |
| Cash - bond proceeds | 8,966,760 |
| Cash - customer deposits | 574,754 |
| Cash - debt service | 482,530 |
| Cash - capital reserve funds | <u>1,629,281</u> |
| Total Cash and Equivalents | \$ <u><u>15,239,144</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, 2022

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

History and Organization

The 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, 2022

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, 2022

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, 2022 the carrying amount of the Board's deposits (cash and certificates of deposits) was \$15,239,144 and the bank balances were \$15,285,070. 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 \$4,586,106 of Category 1 deposits covered by the SAFE Program at September 30, 2022. The Board had \$9,448,964 of Category 3 deposits that were uninsured at September 30, 2022.

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, 2022

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Prepaid Items

Payments made to vendors for goods or services that will benefit beyond September 30, 2022 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-bond proceeds - 2021 bond | \$ 8,966,760 |
| Cash - debt service - 2021 bond | 95,442 |
| Cash-customer deposits | 574,754 |
| Cash-bond fund - Series 2014 | 326 |
| Cash-capital projects | 1,629,281 |
| Cash-bond fund - SFR Series 2009 | 240,786 |
| Cash-bond fund- SFR Series 2011 | <u>145,976</u> |
| Restricted Assets | <u>\$ 11,653,325</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 2021 A & B - the Board is required to maintain a "Bond Fund" and a "Bond Reserve Fund". The Bond Fund and the Bond Reserve Fund are restricted to the payment of principal and interest on the bonds.

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, 2022

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.

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, 2022

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, 2022, the Board had recorded a liability of \$30,326 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, 2022:

| | |
|--------------------------------------------------------------------------|-------------------|
| Deferred outflows of resources - pension plan | \$ 174,751 |
| Deferred outflows of resources - OPEB | 1,018 |
| Unamortized bond reacquisition costs, net of accumulated amortization | <u>242,368</u> |
| Total Deferred Outflows | <u>\$ 418,137</u> |

(Continued)

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

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, 2022:

| | |
|----------------------------------------------|-------------------|
| Deferred inflows of resources - OPEB | \$ 10,245 |
| Deferred inflows of resources - pension plan | <u>349,151</u> |
| Total Deferred Inflows | \$ <u>359,396</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. These 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, 2022

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, 2022

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, 2022, the Board adopted new statements of financial accounting standards issued by the Governmental Accounting Standards Board (GASB):

| <u>GASB Statement No.</u> | <u>GASB Accounting Standard</u> | <u>Effective Fiscal Year</u> |
|-------------------------------|-------------------------------------------------------------------------------------|--------------------------------------------|
| 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 |

(Continued)

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Changes and Accounting Standards (Continued)

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 implemented GASB 84 in fiscal year ended September 30, 2022. The standard had minimal to no impact on the Board's 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 implemented GASB 87 in fiscal year ended September 30, 2022. The standard had minimal to no impact on the Board's 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 implemented GASB 89 in fiscal year ended September 30, 2022. The standard had minimal to no impact on the Board's financial statements.

(Continued)

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

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 requirements of GASB 91 are effective for fiscal years beginning after December 15, 2021. The Board implemented GASB 91 in fiscal year ended September 30, 2022. The standard had minimal to no impact on the Board's 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.

(Continued)

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Changes and Accounting Standards (Continued)

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

Terminology used to refer to derivative instruments.

The requirements of GASB 92 are effective for fiscal years beginning after June 15, 2021. The Board implemented GASB 92 in fiscal year ended September 30, 2022. The standard had minimal to no impact on the Board's 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 requirements of GASB 93 are effective for fiscal years beginning after June 15, 2021. The Board implemented GASB 93 in fiscal year ended September 30, 2022. The standard had minimal to no impact on the Board's financial statements.

(Continued)

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Changes and Accounting Standards (Continued)

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 Board upon implementation. Management is currently evaluating the effect of implementation of these standards.

The GASB issued Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements, to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). The requirements of GASB 94 will take effect for financial statements starting with the fiscal year that ends June 30, 2023. The Board is currently evaluating the impact GASB 94 may have on its financial statements.

The GASB issued Statement No. 96, Subscription-Based Information Technology Arrangements, to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users. The requirements of GASB 96 will take effect for financial statements starting with the fiscal year that ends June 30, 2023. The Board is currently evaluating the impact GASB 96 may have on its financial statements.

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

NOTE 2: CASH AND INVESTMENTS

As of September 30, 2022, the Board had the following cash and investments:

| | |
|---------------------------|----------------------|
| Cash and cash equivalents | \$ 14,397,709 |
| Certificates of deposit | <u>841,435</u> |
| | \$ <u>15,239,144</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, 2022, the Board had \$9,448,964 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, 2022

NOTE 3: ACCOUNTS RECEIVABLE

Accounts receivables net of allowances were as follows for September 30, 2022:

| | |
|--------------------------------------------------|-------------------|
| Accounts receivable - customer | \$ 1,001,404 |
| Allowance for doubtful accounts | <u>(366,279)</u> |
| Accounts receivable - customers net of allowance | \$ <u>635,125</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, 2022

NOTE 4: CAPITAL ASSET ACTIVITY

A summary of changes in capital assets is as follows:

| | Balance 10/01/21 | Additions | Deletions | Balance 9/30/22 |
|---------------------------------------------|----------------------|---------------------|-------------------|----------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 997,644 | \$ | \$ | \$ 997,644 |
| Construction in process | <u>260,422</u> | <u>1,694,029</u> | <u></u> | <u>1,954,451</u> |
| Total capital assets, not being depreciated | <u>1,258,066</u> | <u>1,694,029</u> | <u>0</u> | <u>2,952,095</u> |
| Capital assets, being depreciated | | | | |
| Automotive equipment | 484,762 | 157,896 | (41,217) | 601,441 |
| Building and building improvements | 367,586 | 23,885 | | 391,471 |
| Computer equipment | 48,257 | 8,281 | (7,196) | 49,342 |
| Machinery and equipment | 480,164 | 23,574 | | 503,738 |
| Office furniture and equipment | 52,681 | | (816) | 51,865 |
| Sewer system and lines | 15,683,964 | | | 15,683,964 |
| Water system and lines | <u>10,901,108</u> | <u>9,764</u> | <u></u> | <u>10,910,872</u> |
| Total capital assets being depreciated | <u>28,018,522</u> | <u>223,400</u> | <u>(49,229)</u> | <u>28,192,693</u> |
| Less accumulated depreciation for: | | | | |
| Automotive equipment | 322,507 | 45,444 | (41,217) | 326,734 |
| Building and building improvements | 190,331 | 16,126 | | 206,457 |
| Computer equipment | 30,773 | 4,323 | (1,292) | 33,804 |
| Machinery and equipment | 403,395 | 21,090 | | 424,485 |
| Office furniture and equipment | 38,270 | 2,366 | (817) | 39,819 |
| Sewer system and lines | 4,816,556 | 401,733 | | 5,218,289 |
| Water system and lines | <u>5,980,701</u> | <u>240,204</u> | <u></u> | <u>6,220,905</u> |
| Total accumulated depreciation | <u>11,782,533</u> | <u>731,286</u> | <u>(43,326)</u> | <u>12,470,493</u> |
| Total capital assets, being depreciated net | <u>16,235,989</u> | <u>(507,886)</u> | <u>(5,903)</u> | <u>15,722,200</u> |
| Total capital assets, net | <u>\$ 17,494,055</u> | <u>\$ 1,186,143</u> | <u>\$ (5,903)</u> | <u>\$ 18,674,295</u> |

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

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 10/01/21 | Additions | Reductions | Balance 9/30/22 | Due Within One Year |
|-------------------------|---------------------|----------------------|---------------------|----------------------|------------------------|
| <u>Revenue Bonds</u> | | | | | |
| 2009 Revenue Bonds | \$ 2,820,000 | \$ | 2,820,000 | \$ | |
| 2011 Revenue Bonds | 875,000 | | 875,000 | | |
| 2012 Revenue Bonds | 1,055,000 | | 1,055,000 | | |
| 2014 Revenue Bonds | 4,014,000 | | 4,014,000 | | |
| 2021 Series A Bonds | | 8,945,000 | | 8,945,000 | |
| 2021 Series B Bonds | | 8,360,000 | 530,000 | 7,830,000 | 720,000 |
| Subtotal | 8,764,000 | 17,305,000 | 8,764,000 | 16,775,000 | 720,000 |
| Less deferred amounts | | | | | |
| Bond premium (discount) | (971) | 1,004,543 | (48,155) | 955,417 | |
| | <u>\$ 8,763,029</u> | <u>\$ 18,309,543</u> | <u>\$ 8,715,845</u> | <u>\$ 17,730,417</u> | <u>\$ 720,000</u> |

Note the 2009, 2011, and 2012 Water and Sewer Bonds were currently refunded by portions of the issuance of the Water and Sewer Revenue Taxable Bonds Series 2021-B issued in October 2021 by the Board. The 2014 Water and Sewer Bonds were advance refunded by a portion of the Water and Sewer Revenue Taxable Bonds Series 2021-B issued in October 2021 by the Board

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

NOTE 5: REVENUE BONDS PAYABLE (Continued)

Water and Sewer Revenue Bonds Series 2021-A

On October 20, 2021 the Board issued Water and Sewer Revenue Bonds Series 2021-A in the amount of \$8,945,000 for the purpose of (1) acquiring, constructing, and equipping certain capital improvements to the system (the "Series 2021-A Improvements", (2) purchasing a municipal bond insurance policy, (3) purchasing a debt service reserve insurance policy, and (4) paying issuance costs. The Series 2021-A bonds are limited obligations of the Board payable solely out and secured by a pledge of the Net System revenues.

Series 2021-A Water and Sewer Revenue Bonds (Continued)

Maturities of the Series 2021-A Water and Sewer Revenue Bonds payable are as follows:

| <u>Year Ended</u> <u>September 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Totals</u> |
|-------------------------------------------|---------------------|---------------------|----------------------|
| 2023 | \$ | \$ 268,350 | \$ 268,350 |
| 2024 | | 268,350 | 268,350 |
| 2025 | | 268,350 | 268,350 |
| 2026 | | 268,350 | 268,350 |
| 2027 | | 268,350 | 268,350 |
| 2028-2032 | | 1,376,750 | 1,376,750 |
| 2033-2037 | 4,690,000 | 1,030,450 | 5,720,450 |
| 2038-2041 | <u>4,255,000</u> | <u>323,850</u> | <u>4,578,850</u> |
| | <u>\$ 8,945,000</u> | <u>\$ 4,072,800</u> | <u>\$ 13,017,800</u> |

(Continued)

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, 2022

NOTE 5: REVENUE BONDS PAYABLE (Continued)

Water and Sewer Revenue Bonds Series 2021-B

On October 20, 2021 the Board issued Water and Sewer Revenue Taxable Bonds Series 2021-B in the amount of \$8,360,000 for the purpose of (1) currently refunding and redeeming the Board's outstanding Water and Sewer Revenue Bonds, Series 2012, dated February 1, 2012 (the "Series 2012 Bonds"), on or about November 28, 2021, (2) advance refunding and redeeming, on a taxable basis, the Board's outstanding Water and Sewer Revenue Bonds, Series 2014 (the "Series 2014 Bond"), on July 30, 2024, (3) refunding and redeeming the Board's 2009 and 2011 loans from the State Revolving Fund (SRF) (collectively the "SRF Bonds") on October 29, 2021, (4) purchasing a municipal bond insurance policy, (5) purchasing a debt service insurance policy, and (6) paying issuance expenses. The Series 2021-B bonds are limited obligations of the Board payable solely out of and secured by a pledge of the Net System revenues.

Sources of Funding:

| | |
|-----------------------------------|---------------------|
| Par Amount of Series 2021-B Bonds | \$ 8,360,000 |
| Series 2012 Bond Fund | 280,945 |
| Series 2012 Reserve Fund | 474,251 |
| Series 2014 Bond Fund | 43,282 |
| Net Original Issue Premium | <u>70,260</u> |
| Total Sources | \$ <u>9,228,738</u> |

Uses of Funding:

| | |
|-------------------------------------------|---------------------|
| Advance refunding of Series 2014 Bond | \$ 4,299,554 |
| Current refunding of Series 2012 Bond | 1,060,995 |
| Current refunding of Series 2009 SRF Bond | 2,840,288 |
| Current refunding of Series 2011 SRF Bond | 880,576 |
| Issuance expenses | <u>147,325</u> |
| Total Uses | \$ <u>9,228,738</u> |

(Continued)

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, 2022

NOTE 5: REVENUE BONDS PAYABLE (Continued)

Current Refunding Portion of Bond Issue:

The Board used \$4,781,859 of the proceeds from the Series 2021-B Water and Sewer Bonds to currently refund the Boards outstanding Bonds as listed above.

Advanced Refunding Portion of Bond Issue:

The Board used \$4,299,554 of the proceeds from the General Obligation Warrants, Series 2021-B to advance refund the Board's Water and Sewer Revenue Bonds, Series 2014. T

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$269,298. The difference, reported in the accompanying financial statements as a deferred outflow of resources is being amortized over the shorter of the old loan or the life of the new loan and is being charged to operations through the year 2031 using the straight-line method. Amortization of \$26,930 is recognized in 2022 and is reported in interest expense for the period.

The Board completed the current refunding and advanced refunding for the purpose of decreasing its total debt service over the next 20 years by \$281,821 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$1,094,401.

Maturities of the Series 2021-B Water and Sewer Revenue Bonds payable are as follows:

| <u>Year Ended</u> <u>September 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Totals</u> |
|-------------------------------------------|---------------------|-------------------|---------------------|
| 2023 | \$ 720,000 | \$ 156,955 | \$ 876,955 |
| 2024 | 735,000 | 142,555 | 877,555 |
| 2025 | 750,000 | 127,855 | 877,855 |
| 2026 | 765,000 | 112,855 | 877,855 |
| 2027 | 775,000 | 99,380 | 874,380 |
| 2028-2032 | <u>4,085,000</u> | <u>267,760</u> | <u>4,352,760</u> |
| | <u>\$ 7,830,000</u> | <u>\$ 907,360</u> | <u>\$ 8,737,360</u> |

(Continued)

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, 2022

NOTE 5: REVENUE BONDS PAYABLE (Continued)

Bond Compliance Requirements

The following is a recap of certain key requirements of the Bond Covenants for the Series 2021-A & B Water and Sewer Revenue Bonds:

1. The Board must establish, maintain and make required transfers to following restricted accounts:
 - a. **Bond Principal and Interest Funds** - On or prior to the 25th day of each month the Board is required to transfer the bond funds an amount equal to 1/6 of the semiannual installment interest that will mature with respect to the bonds on the next succeeding interest payment date and 1/12 of the principal maturing on the next ensuing principal payment date. Money in the Principle and Interest Accounts of the bond fund is to be applied solely for the payment of the principal of and interest on the bonds as they respectively mature and come due.
 - b. **Reserve Fund** - The bond indenture requires the Board create a special trust fund in the name of the Board which shall be titled the "Debt Service Reserve Fund" which trust fund shall be held by the Trustee until the principal of, premium, if any, and interest on the Bonds shall have been paid in full. The funds on deposit in the Reserve Fund, including any investment income therefrom, shall be held and applied for the benefit of the Bonds.
2. **Investment of Money in Special Funds:** Money in the Revenue Fund, the Bond Fund, and the Construction Fund may be invested at the direction of the Board in Federal Securities, money market funds invested solely in Federal Securities or Secured Deposits. All income derived from the investment of money on deposit in any such funds shall remain in the fund where earned.
3. **Maintenance of Books and Records and Annual Audits.** The Board will maintain complete and accurate books and records respecting the operation of the System and will cause such book and records to be audited annually by an independent certified public accountant, whose report is required to be furnished to the registered owner of any of the Bonds who makes a request in writing thereof to the Board.

(Continued)

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, 2022

NOTE 5: REVENUE BONDS PAYABLE (Continued)

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 including fire departments. All water and services 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/or sewer service supplied by the System as shall produce revenues sufficient to pay all operating expenses when due and to produce Annual Net Income at least equal to 1.2 times greater than the maximum Annual Net Debt Service Requirement.
6. Priority of Pledge. The pledge of revenues made by the Indenture shall be prior and superior to any pledge hereafter made for the benefit of any securities issued or any contract made by the Board other than any Additional Bonds.
7. The Board will take out and continuously maintain, to the extent reasonably obtainable in the opinion of the board, insurance with respect to the System against such risks as are customarily insured against by water systems similar in size and character to the System.

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 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. Effective October 1, 2021 Act 390 of the Legislature of 2021 will create two additional representatives and change the composure of representatives within the ERS Board of Control. 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.

(Continued)

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, 2022

NOTE 6: PENSION PLAN (Continued)

Plan Description (Continued)

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. Eight 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.
 - ◆ One full time employee of a participating municipality or city in ERS pursuant to the Code of Alabama 197, Section 36-27-6.
 - ◆ One full time employee of a participating county in ERS pursuant to the Code of Alabama 1975, Section 36-27-6.
 - ◆ One full time employee or retiree of a participating employer in ERS pursuant to the Code of Alabama 1975, Section 36-27-6.
 - ◆ One full time employee of a participating employer other than a municipality, city or county in ERS pursuant to the Code of Alabama 1975, 36-27-6.

(Continued)

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, 2022

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 are calculated and paid to the beneficiary on the member's age, service credit, employment status and eligibility for retirement.

Act 132 of the Legislature of 2019 allowed employers who participate in the ERS pursuant to Code of Alabama 1975, Section 36-27-6 to provide Tier 1 retirement benefits to their Tier 2 members. Tier 2 members of employers adopting Act 2019-132 will contribute 7.5% of earnable compensation for regular employees and 8.5% for firefighters and law enforcement officers. A total of 590 employers adopted Act 2019-132.

(Continued)

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, 2022

NOTE 6: PENSION PLAN (Continued)

Benefits Provided (Continued)

Act 316 of the Legislature of 2019 allows employees at the time of retirement to receive a partial lump sum (PLOP) distribution as a single payment not to exceed the sum of 24 months of the maximum monthly retirement allowance the member could receive. This option may be selected in addition to the election of another retirement allowance option at a reduced amount based upon the amount of the partial lump sum distribution selected.

The ERS serves approximately 879 local participating employers. The ERS membership includes approximately 104,510 participants. As of September 30, 2021 membership consisted of:

| | |
|-----------------------------------------------------------------|-----------------------|
| Retirees and beneficiaries currently receiving benefits | 29,727 |
| Terminated employees entitled to but not yet receiving benefits | 2,130 |
| Terminated employees not entitled to a benefit | 16,415 |
| Active Members | 56,184 |
| Post-DROP participants who are still in active service | <u>54</u> |
| Total Members | <u><u>104,510</u></u> |

Contributions

Covered members of the ERS contributed 5% of earnable compensation to the ERS as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, covered members of the ERS were required by 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.

(Continued)

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, 2022

NOTE 6: PENSION PLAN (Continued)

Contributions (Continued)

Employers participating in the ERS pursuant to Code of Alabama 1975, Section 36-27-6 were not required by statute to increase covered member contributions rates but were provided the opportunity to do so through Act 2011-676. By adopting 2011-676 Tier 1 regular members contribution rates increased from 5% to 7.5% of earnable compensation and Tier 1 firefighters and law enforcement officers increased from 6% to 8.5% of earnable compensation.

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, 2022, the Board's active employee contribution rate was 5.26% of covered employee payroll, and the Board's average contribution rate to fund the normal and accrued liability costs was 15.87% of pensionable payroll.

Board's contractually required contribution rate for the year ended September 30, 2022 was 17.05% of pensionable pay for Tier 1 employees, and 14.59% of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation dated September 30, 2019, 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 \$107,798 for the year ended September 30, 2022.

(Continued)

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, 2022

NOTE 6: PENSION PLAN (Continued)

Net Pension Liability

The Board's net pension liability was measured as of September 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as September 30, 2020 rolled forward to September 30, 2021 using standard roll-forward techniques as shown in the following:

| | <u>Expected</u> | <u>Actual</u> |
|------------------------------------------------------------------------------------|-------------------------|---------------------|
| Total Pension Liability as of September 30, 2020 | \$ <u>3,332,442</u> (a) | \$ <u>3,134,056</u> |
| Entry Age Normal Cost for October 1, 2020 thru September 30, 2021 | \$ <u>42,379</u> (b) | \$ <u>42,379</u> |
| Transfers Among Employers | \$ <u>0</u> | \$ <u>0</u> |
| Actual Benefit Payments and Refunds for October 1, 2020 thru September 30, 2021 | \$ <u>(152,505)</u> (c) | \$ <u>(152,505)</u> |
| Total Pension Liability as of September 30, 2021 | \$ <u>3,473,043</u> (d) | \$ <u>3,259,380</u> |
| Difference between Expected and Actual Experience (Gain)/Loss | | \$ <u>(213,663)</u> |
| Less Liability Transferred for Immediate Recognition | | \$ <u>0</u> |
| Experience (Gain)/Loss | | \$ <u>(213,663)</u> |

(Continued)

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, 2022

NOTE 6: PENSION PLAN (Continued)

Actuarial Assumptions

The total pension liability as of September 30, 2021 was determined based on the annual actuarial funding valuation report prepared as of September 30, 2020. The key actuarial assumptions are summarized below:

| | |
|-----------------------------|--------------------------------------------------------------------------------------------------|
| Inflation: | 2.50% |
| Salary increases: | 3.25% - 6.00% for State and Local Employees 4.00%-7.75% for State Police, including inflation |
| Investment rate of return*: | 7.45%, including inflation |

Mortality rates were based on the Pub-2010 Below-Median Tables, projected generationally using the MP-2020 scale, which is adjusted by 66-2/3% beginning with year 2019:

The actuarial assumptions used in the September 30, 2018 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.

| <u>Group</u> | <u>Membership Table</u> | <u>Set Forward(+)/ Setback (-)</u> | <u>Adjustment to Rates</u> |
|------------------------------------|------------------------------------|----------------------------------------|---------------------------------------------------------------|
| Non-FLC Service Retirees | General Healthy Below Median | Male +2, Female +2 | Male: 90% ages < 65, 96% ages >=65 Female: 96% all ages |
| FLC/State Police Service Retirees | Public Safety Healthy Below Median | Male +1, Female +2 | None |
| Beneficiaries | Contingent Survivor Below Median | Male +7, Female +3 | None |
| Non-FLC Disable Retirees | General Disability | Male +7, Female +3 | None |
| FLC/State Police Disabled Retirees | Public Safety Disability | Male +7, Female none | None |

(Continued)

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, 2022

NOTE 6: PENSION PLAN (Continued)

Actuarial Assumptions (Continued)

The actuarial assumptions used in the September 30, 2020 valuation were based on the results of an actuarial experience study for the period October 1, 2015 - September 30, 2020.

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 | 15.0% | 2.8% |
| 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% | 9.0% |
| Real Estate | 10.0% | 6.5% |
| Cash | <u>5.0%</u> | 1.5% |
| Total | <u><u>100.00%</u></u> | |

* Includes assumed rate of inflation of 2.00%.

Discount Rate

The discount rate used to measure the total pension liability was the long term rate of return, 7.45%. 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.

(Continued)

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, 2022

NOTE 6: PENSION PLAN (Continued)

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, 2020 | \$ 3,332,442 | \$ 2,085,495 | \$ 1,246,947 |
| Changes for the year: | | | |
| Service Cost | 42,379 | | 42,379 |
| Interest | 250,727 | | 250,727 |
| Changes of benefit terms | 0 | | 0 |
| Changes of assumptions | 71,579 | | 71,579 |
| Difference between expected and actual experience | (213,663) | | (213,663) |
| Contributions - employer | | 98,570 | (98,570) |
| Contributions - employee | | 33,896 | (33,896) |
| Net Investment income | | 460,892 | (460,892) |
| Benefit payments, including refunds of employee contributions | (152,505) | (152,505) | 0 |
| Administrative expense | | 0 | 0 |
| Transfers Among Employers | <u>0</u> | <u>0</u> | <u>0</u> |
| Net Changes | <u>(1,483)</u> | <u>440,853</u> | <u>(442,336)</u> |
| Balances at September 30, 2021 | \$ <u>3,330,959</u> | \$ <u>2,526,348</u> | \$ <u>804,611</u> |

(Continued)

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, 2022

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 7.45%, 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 (6.45%) or 1-percentage-point higher (8.45%) than the current rate:

| | 1% Decrease (6.45%) | Current Rate (7.45%) | 1% Increase (8.45%) |
|------------------------------------------|------------------------|-------------------------|------------------------|
| Board's Net Pension Liability (Asset) | \$ <u>1,102,910</u> | \$ <u>804,611</u> | \$ <u>548,629</u> |

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, 2021. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2021. The auditor's report on the Schedule of Changes in Fiduciary Net Position by Employer and accompanying notes is also available. The additional financial and actuarial information is available at <http://www.rsa-al.gov/index.php/employers/financial-reports/gasb-68-reports/>.

(Continued)

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, 2022

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, 2022, the Board recognized pension expense of \$76,162. At September 30, 2022, 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 | \$ 14,997 | \$ 162,863 |
| Changes of assumptions | 51,957 | 0 |
| Net difference between projected and actual earnings on plan investments | 0 | 186,288 |
| Employer contributions subsequent to the Measurement Date | <u>107,797</u> | <u>0</u> |
| Total | \$ <u>174,751</u> | \$ <u>349,151</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:

| | |
|------------|---------------------|
| 2023 | \$ (68,950) |
| 2024 | (78,352) |
| 2025 | (74,679) |
| 2026 | (60,216) |
| 2027 | 0 |
| Thereafter | <u>0</u> |
| Total | \$ <u>(282,197)</u> |

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

NOTE 7: SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Interest Paid

| | |
|-----------------------------|-------------------|
| Total interest paid on debt | \$ <u>520,381</u> |
| Total interest expensed | \$ <u>506,533</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, 2022

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, 2022

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 6. 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, 2020, the Valuation Date:

| | |
|----------------------------------------------------------------|----------------------|
| Inactive Members or Beneficiaries Currently Receiving Benefits | 0 |
| Inactive Members Entitled to But Not Yet Receiving Benefits | 0 |
| Active Members | <u>13</u> |
| Total Membership | <u><u>13</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, 2022

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 no 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, 2021, 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: | 2.50% |
| Real Wage Growth | 0.25% |
| Wage inflation | 2.75% |
| Salary increases, including wage inflation: | 3.25% - 6.00% |
| Municipal Bond Index Rate | |
| Prior Measurement Date | 2.21% |
| Measurement Date | 2.26% |

(Continued)

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

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

Actuarial Assumptions (Continued)

The Board selected a Municipal Bond Index Rate equal to the Bond Buyer 20 year General Obligation Bond Index published at the last Thursday of September by the Bond Buyer, and the Municipal Bond Index Rate as of the measurement date as the discount rate used to measure the TOL.

Mortality rates were based on the Pub-2010 Public Mortality Plans Mortality Tables, with adjustments for AL ERS experience and generational mortality improvements using Scale MP-2020, with an adjustment of 66-2/3% to the table beginning in year 2019.

The demographic actuarial assumptions for retirement, disability incidence, withdrawal, and salary increases used in the September 30, 2020 valuation were based on the results of an actuarial experience study for the period October 1, 2015 through September 30, 2020, and were submitted to and adopted by the Board of the Employee's Retirement System of Alabama on September 14, 2021.

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, 2020 valuation were based on a review of recent plan experience done concurrently with the September 30, 2020 valuation.

Discount Rate

The discount rate used to measure the OPEB liability was 2.26% per annum, compounded annually 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 2.21% on the previous measurement date.

(Continued)

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

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

Schedule of Changes in the OPEB Liability

| | Total OPEB <u>Liability (Asset)</u> |
|------------------------------------------------------------------|-------------------------------------------|
| Balance at September 30, 2020 | \$ 27,215 |
| Changes for the year: | |
| Service Cost | 1,109 |
| Interest | 601 |
| Changes of assumptions: | (23) |
| Change in benefit terms | - |
| Difference between expected and actual experience | (7,555) |
| Benefit payments, including refunds of employee contributions | 0 |
| Administrative expense | <u>0</u> |
| Net Changes | <u>(5,868)</u> |
| Balance at September 30, 2021 | \$ <u>21,347</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 2.26%, 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 (1.26%) or 1-percentage-point higher (3.26%) than the current rate:

| | 1% Decrease <u>(1.26%)</u> | Current Rate <u>(2.26%)</u> | 1% Increase <u>(3.26%)</u> |
|---------------------------------------|-------------------------------|--------------------------------|-------------------------------|
| Board's Net OPEB Liability (Asset) | \$ <u>22,241</u> | \$ <u>21,347</u> | \$ <u>20,493</u> |

(Dollar amounts in thousands)

(Continued)

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

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

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

The Board's OPEB Liability sensitivity to changes in the health care cost trend rates is anticipated not to vary due to the maximum premium amount paid by the Board is not expected to change. Therefore the calculation of the plan's total OPEB Liability using health care cost trend rates that are 1% lower or 1% higher than the current rate is not calculated and no change is expected.

| | 1% Decrease | Current Rate | 1% Increase |
|---------------------------------------|-------------|------------------|-------------|
| Board's Net OPEB Liability (Asset) | <u>N/A</u> | \$ <u>27,215</u> | <u>N/A</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, 2022, the Board recognized OPEB expense of \$79. At September 30, 2022, 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 | \$ 349 | \$ 10,143 |
| Changes of assumptions | 669 | 102 |
| 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>1,018</u> | \$ <u>10,245</u> |

(Continued)

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

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:

| | |
|------------|-------------------|
| 2023 | \$ (4,180) |
| 2024 | (3,748) |
| 2025 | (1,299) |
| 2026 | 0 |
| 2027 | 0 |
| Thereafter | <u>0</u> |
| Total | \$ <u>(9,227)</u> |

NOTE 11: COMMITMENTS

Series 2021-A Improvement Project - Water Treatment Plant

The Board entered into an agreement with with BH Craig Construction, LLC to construct a Water Treatment Plant. The total contract amount was \$7,998,400. The construction was expected to be funded from the bond proceeds of the Series 2021-A Water and Sewer Bond. As of September 30, 2022 the Board had incurred costs to date of \$1,443,567, leaving a remaining commitment of \$6,554,833.

NOTE 12: SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 23, 2023, 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, 2022 there were no subsequent events requiring disclosure.

(Continued)

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,

| | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---------------------------------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Total Pension Liability | | | | | | | | |
| Service Cost | \$ 42,379 | \$ 39,093 | \$ 38,770 | \$ 36,570 | \$ 47,738 | \$ 50,509 | \$ 53,076 | \$ 52,779 |
| Interest | 250,727 | 229,327 | 220,340 | 205,734 | 202,721 | 185,463 | 168,967 | 163,479 |
| Changes of benefit terms | 0 | 6,885 | 0 | 0 | 0 | 0 | 0 | 0 |
| Differences between expected and actual experience | (213,663) | (18,785) | 26,589 | 112,707 | (51,585) | (173,080) | 132,769 | 0 |
| Changes of assumptions | 71,579 | 0 | 0 | 11,905 | 0 | 389,170 | 0 | 0 |
| Transfers among employers | | 167,46 | (19,16 | | | | | |
| Benefit payments, including refunds of employee contributions | <u>(152,505)</u> | <u>(139,640)</u> | <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 | (1,483) | 284,345 | 106,544 | 206,929 | 38,873 | 302,868 | 206,787 | 68,971 |
| Total pension liability - beginning | <u>3,332,442</u> | <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> | <u>2,117,125</u> |
| Total pension liability ending (a) | <u>\$3,330,959</u> | <u>\$3,332,442</u> | <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> |

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.

(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,

| | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|----------------------------------------------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Plan Fiduciary Net Position | | | | | | | | |
| Contributions - employer | \$ 98,570 | \$ 93,803 | \$ 85,796 | \$ 78,407 | \$ 75,404 | \$ 69,366 | \$ 58,333 | \$ 63,241 |
| Contributions - member | 33,896 | 33,380 | 32,865 | 30,685 | 29,616 | 31,922 | 26,636 | 28,877 |
| Net investment income | 460,892 | 108,540 | 46,369 | 157,685 | 199,406 | 148,699 | 17,770 | 166,798 |
| Benefit payments, including refunds of employee contributions | (152,505) | (139,640) | (159,987) | (159,987) | (160,001) | (149,194) | (148,025) | (147,287) |
| Transfers among employers | — | 167,465 | (19,168) | — | — | — | — | — |
| Net change in plan fiduciary net position | 440,853 | 263,548 | (14,125) | 106,790 | 144,425 | 100,793 | (45,286) | 111,629 |
| Plan net position - beginning | <u>2,085,495</u> | <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> | <u>1,417,721</u> |
| Plan net position - ending (b) | <u>\$2,526,348</u> | <u>\$2,085,495</u> | <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>\$ 804,611</u> | <u>\$1,246,947</u> | <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>75.84%</u> | <u>62.58%</u> | <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>\$ 665,371</u> | <u>\$ 627,771</u> | <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>120.93%</u> | <u>198.63%</u> | <u>192.71%</u> | <u>182.46%</u> | <u>171.68%</u> | <u>165.99%</u> | <u>170.60%</u> | <u>111.93%</u> |

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.

| | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|----------------------------------------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Actuarially determined contributions | \$ 106,521 | \$ 102,717 | \$ 92,478 | \$ 85,118 | \$ 80,653 | \$ 77,571 | \$ 71,061 | \$ 60,198 |
| Contributions in relation to the actuarially determined contribution | <u>106,521</u> | <u>102,717</u> | <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> | \$ <u>0</u> | \$ <u>0</u> |
| Covered - employee payroll | \$ <u>671,275</u> | \$ <u>665,371</u> | \$ <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>15.87%</u> | <u>15.44%</u> | <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,

| | 2021 | 2020 | 2019 | 2018 | 2017 |
|------------------------------------------------------------------------|------------|------------|------------|------------|------------|
| Total OPEB Liability | | | | | |
| Service Cost | \$ 1,109 | \$ 912 | \$ 741 | \$ 1,252 | \$ 1,303 |
| Interest | 601 | 670 | 1,250 | 934 | 800 |
| Changes of benefit terms | 0 | 3,848 | 0 | 0 | 0 |
| Differences between expected and actual experience | (7,555) | (3,813) | (8,002) | 2,065 | (2,651) |
| Changes of assumptions | (23) | 428 | 1,281 | (509) | (603) |
| Net change in total OPEB Liability | (5,868) | 2,045 | (4,730) | 3,742 | (1,151) |
| Total OPEB Liability - beginning | 27,215 | 25,170 | 29,900 | 26,158 | 27,309 |
| Total OPEB Liability ending | \$ 21,347 | \$ 27,215 | \$ 25,170 | \$ 29,900 | \$ 26,158 |
| Covered-employee payroll | \$ 673,110 | \$ 673,110 | \$ 606,887 | \$ 604,887 | \$ 585,597 |
| Net OPEB Liability (asset) as a percentage of covered-employee payroll | 3.17% | 4.04% | 4.15% | 4.93% | 4.59% |

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, 2022

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 2022 were based on the September 30, 2019 actuarial valuation.

Methods and assumptions used to determine contribution rates for the period October 1, 2021 to September 30, 2022:

| | |
|--------------------------------|-----------------------------------------------------------------------|
| Actuarial cost method: | Entry Age |
| Amortization method: | Level percent closed |
| Remaining amortization period: | 24.5 years |
| Asset valuation method: | Five year smoothed market |
| Inflation: | 2.75% |
| Salary increases: | 3.25 -5.00% including inflation |
| Investment rate of return: | 7.70%, 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, 2020 rolled forward to September 30, 2021, 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: | 2.50% |
| Real Wage Growth | 0.25% |
| Wage inflation | 2.75% |
| Salary increases, including wage inflation: | 3.25% -65.00% |
| Municipal Bond Index Rate | |
| Prior Measurement Date | 2.21% |
| Measurement Date | 2.26% |

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, 2022

| | Water | Sewer | Joint Costs | Total |
|-------------------------------------------|---------------------|---------------------|-------------------|---------------------|
| Bad debt expense | \$ 9,078 | \$ 5,927 | \$ | \$ 15,005 |
| Bond issuance costs | | | 214,748 | 214,748 |
| Bond amortized insurance | | | 3,528 | 3,528 |
| Billing costs | | | 25,117 | 25,117 |
| Chemicals | 16,774 | | | 16,774 |
| Contract services | 1,409 | 8,285 | 21,248 | 30,942 |
| Conventions, seminars, other training | 4,738 | 231 | 2,100 | 7,069 |
| Credit card fees | | | 8,454 | 8,454 |
| Depreciation | 283,317 | 424,495 | 23,474 | 731,286 |
| Dues and publications | 4,779 | | 1,485 | 6,264 |
| Engineering | 41,244 | | | 41,244 |
| Fiscal agent fees | | | 9,000 | 9,000 |
| Franchise fees | 54,081 | 42,182 | | 96,263 |
| Gas and oil | | | 24,846 | 24,846 |
| Insurance - business | | | 34,090 | 34,090 |
| Insurance - employee health and life | 30,943 | 12,878 | 33,633 | 77,454 |
| Insurance - workman's compensation | 7,639 | 1,348 | | 8,987 |
| Legal and accounting | | | 51,447 | 51,447 |
| Materials and supplies | 191,813 | 81,261 | | 273,074 |
| Miscellaneous | 2,972 | | 5,925 | 8,897 |
| Office supplies | | | 13,118 | 13,118 |
| Payroll taxes | 13,078 | 15,164 | 21,317 | 49,559 |
| Permits | 2,250 | | | 2,250 |
| Retirement | 25,592 | 8,141 | | 33,733 |
| Retirement health insurance | | | 79 | 79 |
| Postage and printing | | | 958 | 958 |
| Repairs and maintenance - tank and system | 105,008 | 25,193 | | 130,201 |
| Repairs and maintenance - equipment | 4,378 | | | 4,378 |
| Repairs and maintenance - other | 5,808 | 26,733 | 7,348 | 39,889 |
| Salaries and wages | 254,530 | 182,250 | 258,711 | 695,491 |
| Samples and testing | 18,664 | 28,336 | | 47,000 |
| Uniforms | | | 2,268 | 2,268 |
| Utility expense - electricity | 105,422 | 165,963 | 7,423 | 278,808 |
| Utility expense - gas | | | 922 | 922 |
| Utility expense - radio and telephone | | | 10,542 | 10,542 |
| Utility expenses - water and sewer | | 810 | 568 | 1,378 |
| Utility expense - waste disposal | | 12,217 | | 12,217 |
| Water purchases | <u>34,840</u> | | | <u>34,840</u> |
| | <u>\$ 1,218,357</u> | <u>\$ 1,041,414</u> | <u>\$ 782,349</u> | <u>\$ 3,042,120</u> |

See independent auditor's report.

ADDITIONAL INFORMATION

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

INFORMATION REQUIRED BY BOND AGREEMENT
SEPTEMBER 30, 2022

Number of Water Customers

| | |
|-------------------------------|--------------|
| Water system customers - 2022 | <u>3,735</u> |
| Water system customers - 2021 | <u>3,701</u> |
| Water system customers - 2020 | <u>3,616</u> |
| Water system customers - 2019 | <u>3,515</u> |
| Water system customers - 2018 | <u>3,403</u> |

Largest Water Customers

Largest water users of the System during fiscal year September 30, 2022 and their billing for water services were as follows:

| | |
|----------------------------------|-------------------|
| University of Montevallo | \$ <u>110,830</u> |
| Chemical Lime Company | \$ <u>96,384</u> |
| Cobblestone Cove-Property #478 | \$ <u>67,505</u> |
| Montevallo Authority | \$ <u>66,869</u> |
| Chemical Lime Company | \$ <u>66,599</u> |
| Argos RMX, LLC | \$ <u>53,868</u> |
| Mississippi Lime Co | \$ <u>46,372</u> |
| Cobblestone Cove - Property #478 | \$ <u>25,344</u> |
| MES Shelby Co Bd of Education | \$ <u>10,650</u> |
| 445500 Fresenius Montevallo | \$ <u>9,466</u> |

(Continued)

See independent auditor's report.

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

INFORMATION REQUIRED BY BOND AGREEMENT (Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2022

Selected Water System Statistics

| Fiscal Year | Number of | | Daily Production (1) | Average | | Total Water Sold (1) (2) | Total Annual Production (1) | Water Loss Percentage |
|-----------------------------------------------------------------------|-------------------|--|-------------------------|-----------------|--|-----------------------------|--------------------------------|--------------------------|
| | Metered Customers | | | Peak Demand (1) | | | | |
| 2022 | 3,735 | | 39,773,302 | 643,000 | | 328,515,070 | 477,279,622 | 20.0% |
| 2021 | 3,701 | | 36,575,036 | 591,000 | | 289,396,281 | 458,512,947 | 19.8% |
| 2020 | 3,616 | | 36,396,899 | 610,000 | | 306,556,551 | 436,762,790 | 18.7% |
| 2019 | 3,515 | | 34,258,470 | 605,000 | | 294,074,607 | 411,101,640 | 23.9% |
| 2018 | 3,403 | | 36,577,222 | 621,000 | | 294,557,600 | 438,926,663 | 21.1% |
| (1) Expressed as MG (million gallons) | | | | | | | | |
| (2) Excludes water purchased for resale from Chilton Water Authority. | | | | | | | | |

See independent auditor's report.

(Continued)

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

INFORMATION REQUIRED BY BOND AGREEMENT (Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2022

Number of Sewer Customers

| | |
|-------------------------------|--------------|
| Sewer system customers - 2022 | <u>2,309</u> |
| Sewer system customers - 2021 | <u>2,212</u> |
| Sewer system customers - 2020 | <u>2,121</u> |
| Sewer system customers - 2019 | <u>1,958</u> |
| Sewer system customers - 2018 | <u>1,905</u> |

Largest Sewer Customers

Largest sewer users of the System during fiscal year September 30, 2022 and their billing for sewer services were as follows:

| | |
|-----------------------------------|------------------|
| Montevallo Authority (Scott) | \$ <u>60,604</u> |
| Cobblestone Cove - Property #478 | \$ <u>42,754</u> |
| Cobblestone Cove - Property #478 | \$ <u>32,287</u> |
| Montevallo Authority (Crowe) | \$ <u>25,953</u> |
| The Morrow Co. | \$ <u>19,954</u> |
| Salem Manor | \$ <u>15,395</u> |
| EADS - Holly | \$ <u>15,045</u> |
| MES Shelby County Bd of Education | \$ <u>13,195</u> |
| 445500 Fresenius Montevallo | \$ <u>11,586</u> |
| Montevallo Villas | \$ <u>10,482</u> |

(Continued)

See independent auditor's report.

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

INFORMATION REQUIRED BY BOND AGREEMENT (Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2022

Selected Sewer System Statistics

| <u>Fiscal</u> <u>Year</u> | <u>Number of</u> <u>Metered Connections</u> | <u>Average</u> <u>Daily Flow (1)</u> | <u>Total Annual</u> <u>Treated (1)</u> |
|---------------------------------------|------------------------------------------------|-----------------------------------------|-------------------------------------------|
| 2022 | 2,309 | .880 | 354,732,000 |
| 2021 | 2,212 | .852 | 311,600,000 |
| 2020 | 2,121 | .822 | 300,101,000 |
| 2019 | 1,958 | .795 | 289,177,000 |
| 2017 | 1,905 | .777 | 282,993,000 |
| (1) Expressed as MG (million gallons) | | | |

See independent auditor's report.

(Continued)

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

INFORMATION REQUIRED BY BOND AGREEMENT (Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2022

Schedule of Water and Sewer System Rates and Fees

| | | |
|----------------------|---------------------------------|---------------------------------|
| Water Rates: | | |
| | | |
| <u>Meter Size</u> | <u>Inside City Limits</u> | <u>Outside City Limits</u> |
| | (base bill not including taxes) | (base bill not including taxes) |
| 3/4 minimum bill | \$20.21 | \$29.53 |
| 1" minimum bill | \$23.72 | \$32.77 |
| 2" minimum bill | \$91.21 | \$91.21 |
| 3" minimum bill | \$99.76 | \$99.76 |
| 4" minimum bill | \$142.52 | \$142.52 |
| 6" minimum bill | \$285.02 | \$285.02 |
| | | |
| 2,001 gallons and up | \$4.19 per thousand gallons | \$4.80 per thousand gallons |
| | | |
| Sewer Rates: | | |
| | | |
| Base minimum bill | \$22.69 | \$28.71 |
| | | |
| 2,001 gallons and up | \$5.92 per thousand gallons | \$7.46 per thousand gallons |

(Continued)

See independent auditor's report.

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

INFORMATION REQUIRED BY BOND AGREEMENT (Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2022

Schedule of Water and Sewer System Rates and Fees (Continued)

| <u>System Development Charges</u> | | | |
|----------------------------------------------------------------------|---------------------------|--------------------------|--------------------------|
| | Single Family Residential | Multi-Family Residential | Commercial or Industrial |
| Water | \$2,000 (1) | (1) x # of units | (1) x # of ERU's |
| Sewer | \$2,000 (1) | (1) x # of units | (1) x # of ERU's |
| *ERU = Equivalent Residential Unit, based on 3,600 gallons per month | | | |

| <u>Sewer Connection Fees</u> | | | |
|------------------------------|---------------------------|--------------------------|--------------------------|
| | Single Family Subdivision | Multi-Family Subdivision | Commercial or Industrial |
| Inside City Limits | \$2,500 | \$3,000 | \$3,000 |
| Outside City Limits | \$3,000 | \$3,500 | \$3,500 |

| <u>Water Tap Fees</u> | | |
|-----------------------|-----------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|
| Meter Size | Inside City Limits | Outside City Limits |
| 3/4" | \$450 | \$550 |
| 1" | \$550 | \$625 |
| 2" and up | \$300 plus developer furnishes and installs the meter vault, etc at their expense | \$300 plus developer furnishes and installs the meter vault, etc at their expense |

(Continued)

See independent auditor's report.

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

INFORMATION REQUIRED BY BOND AGREEMENT (Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2022

Schedule of Water and Sewer System Rates and Fees (Continued)

| <u>Other Fees and Charges</u> | |
|------------------------------------------|-----------------------------|
| | |
| Description | Fees |
| | |
| Road bore for long side service | \$200+ |
| Sewer connection inspection fee | \$350 |
| Meter change out at customer request | \$50 plus cost of new meter |
| Service call after hours | \$25 |
| Late fee penalty (on current bill) | 10% of balance |
| Name or address change | \$5 |
| Return Check fee (nsf) | \$40 |
| Billing & payment history printout | \$5 |
| Meter damage or tampering | \$1,000 |
| Reconnect/disconnect fee (locked meters) | \$60 |

See independent auditor's report.

(Continued)

**THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO**

**INFORMATION REQUIRED BY BOND AGREEMENT (Continued)
9/30/2022**

PROJECTED DEBT SERVICE COVERAGE BASED ON FYE 2022

| | |
|---------------------------------------------------------------|---------------------|
| NET INCOME | \$ 389,855 |
| ADD BACK: | |
| DEPRECIATION - WATER | 283,317 |
| DEPRECIATION - SEWER | 424,495 |
| DEPRECIATION - JOINT | 23,474 |
| BOND PRINCIPLE & INTEREST 2021A (FYE 2022) | 204,297 |
| BOND PRINCIPLE & INTEREST 2021B (FYE 2022) | 677,694 |
| | <hr/> |
| ANNUAL NET INCOME ADJUSTED | \$ <u>2,003,132</u> |
| MAX ANNUAL DEBT SERVICE (FYE 2028) | \$ 1,149,230 |
| PERCENTAGE REQUIRED BY BOND AGREEMENTS | 120.00% |
| RATIO OF ANNUAL NET INCOME TO DEBT SERVICE REQUIREMENT | 174.30% |
| | <hr/> |
| NET INCOME IN EXCESS OF MAX DEBT SERVICE REQUIREMENT | \$ <u>853,902</u> |
| AVERAGE ANNUAL DEBT SERVICE (FYE 2023-2041) | \$ 1,208,620 |
| PERCENTAGE REQUIRED BY BOND AGREEMENTS | 120.00% |
| RATIO OF ANNUAL NET INCOME TO DEBT SERVICE REQUIREMENT | 165.74% |
| | <hr/> |
| NET INCOME IN EXCESS OF AVERAGE DEBT SERVICE REQUIREMENT | \$ <u>794,512</u> |

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
The 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, 2022, and the related notes to the financial statements, and have issued our report thereon dated January 23, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Water and Sewer Board of the City of Montevallo, Alabama's internal control over financial reporting (internal control) as a basis for designing 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 and Sewer Board of the City of Montevallo, Alabama's internal control. Accordingly, we do not express an opinion on the effectiveness of the Water and Sewer Board of the City of Montevallo, Alabama's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control described in the accompanying schedule of findings and responses as items 2022-01, 2022-02, and 2022-03 to be significant deficiencies

Report on Compliance and Other Matters

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

The Water and Sewer Board of the City of Montevallo, Alabama's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Water and Sewer Board of the City of Montevallo, Alabama's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Water and Sewer Board of the City of Montevallo, Alabama's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 23, 2023

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

SCHEDULE OF FINDINGS AND RESPONSES

Findings and Responses for the Year Ended September 30, 2022:

Significant Deficiencies

2022-01 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.

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

SCHEDULE OF FINDINGS AND RESPONSES

Significant Deficiencies (Continued)

2022-02 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.

THE WATER WORKS AND SEWER BOARD
OF THE CITY OF MONTEVALLO

SCHEDULE OF FINDINGS AND RESPONSES

Significant Deficiencies (Continued)

2022-03 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.