

The Water Works and Sewer Board of the City of Montevallo

Financial Report

September 30, 2024

Including Report of
Independent Auditors

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INDEPENDENT AUDITOR'S REPORT

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

Opinions

We have audited the accompanying financial statements of the Water Works and Sewer Board of the City of Montevallo, as of and for the fiscal year ended September 30, 2024 and the related notes to the financial statements, which collectively comprise the Water Works and Sewer Board of the City of Montevallo's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Water Works and Sewer Board of the City of Montevallo, as of September 30, 2024, and the respective changes in financial position and cash flows thereof for the fiscal 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 (GAAS). 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 Water Works and Sewer Board of the City of Montevallo, 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.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and 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.

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 Water Works and Sewer Board of the City of Montevallo's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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 opinions. 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 GAAS 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 from 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 judgment made by a reasonable user based on the financial statements.

Dent Moses, LLP

Lakeshore Park Plaza | 2204 Lakeshore Drive, Suite 300 | Birmingham, AL 35209 | T(205) 871-1880 | F(205) 871-1892

dentmoses.com

In performing an audit in accordance with generally accepted 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 Water Works and Sewer Board of the City of Montevallo'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 Water Works and Sewer Board of the City of Montevallo'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

Management has omitted 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 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. Our opinion on the basic financial statements is not affected by this omission.

Accounting principles generally accepted in the United States of America require that the schedule of changes in net pension liability, schedule of employer contributions, and schedule of changes in OPEB liability and related ratios to supplement the basic financial statements. Such information is the responsibility of management and, although not 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 information in an approximate 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 with management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the schedule of operating expenses and the information required by bond agreement but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do 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 basic 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 our report.

Dent Moses LLP

Birmingham, Alabama
September 2, 2025

THE WATER WORKS AND SEWER BOARD OF THE CITY OF MONTEVALLO
STATEMENT OF NET POSITION
SEPTEMBER 30, 2024

Assets

Current:

Nonrestricted Assets:

Cash and cash equivalents	\$ 4,289,933
Certificates of deposit	682,631
Accounts receivable, net	787,152
Inventory	199,685
Prepaid expenses	96,123

Total Current Assets	6,055,524
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Noncurrent:

Restricted cash and cash equivalents	4,516,093
Restricted certificates of deposit	185,470
Nondepreciable assets	9,510,875
Depreciable capital assets, net	14,609,748
Total Noncurrent Assets	28,822,186

Total Assets	34,877,710
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Deferred Outflows of Resources

Unamortized bond reacquisition costs	143,759
Pension	273,197

Total Deferred Outflows of Resources	416,956
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Liabilities

Current:

Accounts payable	77,915
Payable to the City of Montevallo	74,714
Utility tax payable	24,217
Accrued expenses	19,617
Current portion of revenue bonds payable	750,000
Payable from restricted assets:	
Customer deposits	429,147
Interest payable	33,017
Total Current Liabilities	1,408,627

Noncurrent:

Revenue bonds payable, net of current portion	15,374,465
OPEB obligation	11,969
Net pension obligation	1,112,569
Compensated absences	37,600
Total Noncurrent Liabilities	16,536,603

Total Liabilities	17,945,230
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Deferred Inflows of Resources

OPEB	10,995
Pension	50,643
Total Deferred Inflows of Resources	61,638

Net Position

Net investment in capital assets	10,386,937
Restricted for:	
Debt service	66,381
Capital projects	1,782,240
Unrestricted net assets	5,052,240
Total Net Position	\$ 17,287,798

The Notes to the Financial Statements 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 FISCAL YEAR ENDED SEPTEMBER 30, 2024**

Operating Revenues	
Commercial and residential water	\$ 2,734,781
Commercial and residential sewer	1,776,020
Service charge and other fees - water and sewer	821,910
	5,332,711
Operating Expenses	
Operating expenses	3,464,544
Operating Income	1,868,167
Non Operating Revenues (Expenses)	
Interest income	200,236
Gain on disposal of assets	7,172
Interest expense	(383,501)
Total Non Operating Revenues	(176,093)
Change in Net Position	1,692,074
Net Position, Beginning of Year	15,595,724
Net Position, End of Year	\$ 17,287,798

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

THE WATER WORKS AND SEWER BOARD OF THE CITY OF MONTEVALLO
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2024

Cash Flows from Operating Activities

Receipts from customers and users	\$ 5,366,677
Payments to suppliers	(1,959,542)
Payments to employees and related expenses	(1,107,029)
Net cash provided by operating activities	<u>2,300,106</u>

Cash Flows from Capital and Related Financing Activities

Purchase of property, plant, and equipment	(1,690,629)
Principal paid on bonds	(735,000)
Interest paid on bonds	(410,406)
Net cash used by Capital and Related Financing Activities	<u>(2,836,035)</u>

Cash Flows from Investing Activities

Interest received	<u>179,814</u>
Net cash provided by investing activities	<u>179,814</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(356,115)
Cash and Cash Equivalents, beginning of year	<u>9,162,141</u>
Cash and Cash Equivalents, end of year	<u><u>\$ 8,806,026</u></u>

Reconciliation of Operating Income to Net Cash Provided by Operating Activities

Operating Income (loss)	\$ 1,868,167
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	784,079
Changes in assets and liabilities:	
(Increase) decrease:	
Accounts receivable	27,612
Inventories	32,923
Prepaid expenses	3,423
Deferred outflows - pension	148,623
Deferred outflows - OPEB	282
Increase (decrease):	
Accounts payable	(380,589)
Compensated absences	2,831
Utility tax payable	3,297
Accrued expenses	(918)
Customer deposits	6,354
Deferred inflows - pension	(79,478)
Deferred inflows - OPEB	(5,528)
OPEB	1,741
Net pension obligation	<u>(112,713)</u>
Total adjustments	<u>431,939</u>
Net cash provided by operating activities	<u><u>\$ 2,300,106</u></u>

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

THE WATER WORKS AND SEWER BOARD OF THE CITY OF MONTEVALLO
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2024

Non-Cash Investing, Capital, and Financing Activities

The Board had amortization of bond premium of \$97,360 and amortization of bond reacquisition costs of \$71,680 for the year ended September 30, 2024.

Cash and cash equivalents on the statement of cash flows is comprised of the following balances from the Statement of Net Position:

Cash and cash equivalents	\$ 4,289,933
Restricted cash and cash equivalents	4,516,093
Total Cash and cash equivalents	<u>\$ 8,806,026</u>

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

THE WATER WORKS AND SEWER BOARD OF THE CITY OF MONTEVALLO
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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 (5) 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 (6) 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.

The financial statements of the Board have been prepared in conformity with U.S. generally accepted accounting principles as applied to governmental units. The Board's more significant accounting policies are described below.

Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The financial statements for the Board are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all transactions and events that affect the total economic resources during the period are reported. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time the liability is incurred, regardless of the timing of related cash inflows and outflows.

The Board distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering water service in connection with the Board principal ongoing operations. Operating expenses for the Board include the cost of personnel and contractual services, water production costs, supplies, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash and Investments

For the purpose of the Statement of Cash Flows, the Board considers all cash on hand, demand deposits, certificates of deposit with original maturities of three months or less, and money market funds to be cash and cash equivalents, without regard to restrictions.

The Board's 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.

Restricted Assets

Certain assets are segregated as to use and are therefore identified as restricted assets. Restricted assets, maintained by the Board, are restricted pursuant to legal requirements or restrictions imposed by external sources. When both restricted and unrestricted resources are available for use, it is the Board policy to use restricted resources first, then unrestricted resources as they are needed.

THE WATER WORKS AND SEWER BOARD OF THE CITY OF MONTEVALLO
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Allowance for Uncollectible Accounts

An allowance for uncollectible accounts is provided based on historical evidence.

Unbilled Services Receivable

Water revenue is recorded when earned. Customers are billed monthly. The estimated value of services provided, but unbilled at year end, has been included in the accompanying financial statements.

Inventory

Inventory consists of primarily supplies held for consumption and units are valued at the lower of cost or market. Cost of inventories are recorded as an expenditure/expense when consumed rather than when purchased.

Capital Assets

Capital assets are valued at historical costs. Donated assets are valued at their fair market value on the date donated. Routine repairs and maintenance are recorded as expenses.

Assets capitalized have an original cost of \$500 or more and a useful life of more than one year. Multiple like items purchased as part of a larger project (such as computers, water meters, etc.) with an individual value of less than \$500 may be grouped together and capitalized if the total value of the purchase is \$500 or more and if each item has a useful life of more than one year. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

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

Depreciation is provided in amounts sufficient to relate the cost of the depreciable assets to operations over their estimated service lives on the straight-line basis. Construction in progress represents costs accumulated for the replacement of water systems, plant expansions, and other projects not completed at year end.

Deferred Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Board currently reports deferred outflows of resources related to deferred charges on refunding and deferred charges related to the pension liability. Deferred charges on refunding result from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. A deferred outflow related to the pension liability results from differences between expected and actual experience, change of assumptions, the net difference between projected and actual earnings on plan investments, and pension contributions related to normal and accrued employer liability subsequent to the measurement date.

Noncurrent Liabilities

In the financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the bonds outstanding method. Bonds payable are presented net of bond premiums and discounts. Bond issuance costs are expensed when incurred.

THE WATER WORKS AND SEWER BOARD OF THE CITY OF MONTEVALLO
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Compensated Absences

It is the Board's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the Board does not have a policy to pay any amounts when employees separate from service. Accordingly, sick pay is charged to expense when taken. All vacation pay is accrued when incurred. The accrued amounts of vacation are recorded as noncurrent liabilities.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. The separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Board currently reports deferred inflows of resources related to the OPEB liability resulting from differences between expected and actual experience and changes in assumptions. The Board currently reports deferred inflows of resources related to the pension liability resulting from differences between expected and actual experience. The difference is amortized over five years beginning with the year in which the difference occurred.

Employees' Retirement System

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

Use of Estimates

In preparing these financial statements, management is required to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2: DEPOSITS IN FINANCIAL INSTITUTIONS

All of the Board's demand deposits, time deposits, and non-negotiable certificates of deposit are insured and collateralized in accordance with the Security for Alabama Funds Enhancement (SAFE) Program, which is encompassed in Section 41, Chapter 14A, Code of Alabama 1975, as amended, which is a multiple financial institutions collateral pool. The statute provides for assessments against the members of the pool on a pro rata basis in the event that the collateral pool is insufficient to cover the losses of a member financial institution that fails. As such, all deposits covered by this collateral pool are considered to be fully insured.

Debt service funds are invested by the bank's trust departments in U.S. Government Securities and are not subject to collateralization requirements.

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.

THE WATER WORKS AND SEWER BOARD OF THE CITY OF MONTEVALLO
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

NOTE 2: DEPOSITS IN FINANCIAL INSTITUTIONS – CONTINUED

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 overconcentration in certain types of investments.

Custodial Credit Risk

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. The Board does not have a written deposit policy for custodial credit risk.

Foreign Currency Risk

The Board is not authorized to invest in investments which have this type of risk.

NOTE 3: ACCOUNTS RECEIVABLE

Accounts receivable for the fiscal year ended September 30, 2024 were as follows:

Accounts receivable - customer	\$ 1,159,250
Accounts receivable - insurance	42,642
Allowance for doubtful accounts	<u>(414,740)</u>
Accounts receivable, net of allowance	<u><u>\$ 787,152</u></u>

NOTE 4: RESTRICTED ASSETS

Certain assets of the Board have been restricted for debt service, capital improvements, and customer deposits. At September 30, 2024, these assets were as follows:

	Cash	Certificates of Deposit	Total
Cash - customer deposits	\$ 243,677	\$ 185,470	\$ 429,147
Cash - bond and interest fund	99,398	-	99,398
Cash - capital improvement and extension	2,390,778	-	2,390,778
Cash - capital projects	<u>1,782,240</u>	<u>-</u>	<u>1,782,240</u>
Total restricted cash and cash equivalents	<u><u>\$ 4,516,093</u></u>	<u><u>\$ 185,470</u></u>	<u><u>\$ 4,701,563</u></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.

THE WATER WORKS AND SEWER BOARD OF THE CITY OF MONTEVALLO
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

NOTE 4: RESTRICTED ASSETS – CONTINUED

In connection with the Series 2021 Water Revenue Bonds, the Board is required to maintain a "Bond Fund" and a "Bond Reserve Fund" as long as any of the bonds remain outstanding. 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.

NOTE 5: CAPITAL ASSETS

The following summarizes the changes in the Board's fixed assets for the fiscal-year ended September 30, 2024:

	<u>2023</u>	<u>Additions/ Completions</u>	<u>Disposals/ Adjustments</u>	<u>2024</u>
Nondepreciable capital assets:				
Land	\$ 997,644	\$ -	\$ -	\$ 997,644
Construction in progress	7,014,309	1,498,922	-	8,513,231
Total nondepreciable capital assets	<u>8,011,953</u>	<u>1,498,922</u>	<u>-</u>	<u>9,510,875</u>
Depreciable capital assets:				
Automotive equipment	620,441	101,041	(39,412)	682,070
Buildings and building improvements	378,214	-	-	378,214
Computer Equipment	79,786	15,302	(7,368)	87,720
Machinery and equipment	603,741	75,364	(1,241)	677,864
Office furniture and equipment	51,865	-	-	51,865
Sewer system and lines	15,728,094	-	-	15,728,094
Water system and lines	10,986,345	-	-	10,986,345
Total depreciable capital assets	<u>28,448,486</u>	<u>191,707</u>	<u>(48,021)</u>	<u>28,592,172</u>
Less: accumulated depreciation for:				
Automotive equipment	382,243	87,366	(3,941)	465,668
Buildings and building improvements	224,940	9,893	-	234,833
Computer Equipment	35,152	11,950	(7,369)	39,733
Machinery and equipment	446,526	32,566	(1,241)	477,851
Office furniture and equipment	42,055	2,216	-	44,271
Sewer system and lines	5,621,603	406,165	-	6,027,768
Water system and lines	6,458,377	233,923	-	6,692,300
Total accumulated depreciation	<u>13,210,896</u>	<u>784,079</u>	<u>(12,551)</u>	<u>13,982,424</u>
Total depreciable capital assets, net	<u>15,237,590</u>	<u>(592,372)</u>	<u>(35,470)</u>	<u>14,609,748</u>
Capital assets, net	<u>\$ 23,249,543</u>	<u>\$ 906,550</u>	<u>\$ (35,470)</u>	<u>\$ 24,120,623</u>

Depreciation expense for the year ended September 30, 2024 was \$784,079.

THE WATER WORKS AND SEWER BOARD OF THE CITY OF MONTEVALLO
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

NOTE 6: LONG-TERM LIABILITIES

Long-term liabilities are comprised of the following for the fiscal year ended September 30, 2024:

	2023	Additions	Reductions	2024	Due Within One Year
2021 Revenue Bonds					
Series 2021-A	\$ 8,945,000	\$ -	\$ -	\$ 8,945,000	\$ -
Series 2021-B	7,110,000	-	(735,000)	6,375,000	750,000
Total Revenue Bonds	<u>16,055,000</u>	<u>-</u>	<u>(735,000)</u>	<u>15,320,000</u>	<u>750,000</u>
Add Deferred Amounts:					
Issuance Premium	901,825	-	(97,360)	804,465	-
OPEB obligation	10,228	1,776	(35)	11,969	-
Net pension liability	1,225,282	344,876	(457,589)	1,112,569	-
Compensated absences	34,769	42,884	(40,053)	37,600	-
Long-term liabilities	<u>\$ 16,956,825</u>	<u>\$ -</u>	<u>\$ (637,640)</u>	<u>\$ 16,124,465</u>	<u>\$ 750,000</u>

Water and Sewer Revenue Bonds Series 2021-A and 2021-B

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. The Series 2021-A bond issues are due in remaining annual installments of \$905,000 to \$1,110,000 beginning September 1, 2033 through September 1, 2041, with semi-annual interest payments due March 1 and September 1.

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, (2) advance refunding and redeeming, on a taxable basis, the Board's outstanding Water and Sewer Revenue Bonds, Series 2014, (3) refunding and redeeming the Board's 2009 and 2011 loans from the State Revolving Fund (SRF), (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. The Series 2021-B bond issues are due in remaining annual installments of \$750,000 to \$840,000 through September 1, 2032, with semi-annual interest payments due March 1 and September 1.

The annual requirements to service the Board's Water and Sewer Revenue Bonds at September 30, 2024, are as follows:

Fiscal Year	Principal Due	Interest Due	Total
2025	\$ 750,000	\$ 396,205	\$ 1,146,205
2026	765,000	381,205	1,146,205
2027	775,000	369,730	1,144,730
2028	795,000	354,230	1,149,230
2029	805,000	339,125	1,144,125
2030 - 2034	4,300,000	1,424,505	5,724,505
2035 - 2039	4,940,000	781,950	5,721,950
2040 - 2041	2,190,000	99,000	2,289,000
	<u>\$ 15,320,000</u>	<u>\$ 4,145,950</u>	<u>\$ 19,465,950</u>

THE WATER WORKS AND SEWER BOARD OF THE CITY OF MONTEVALLO
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

NOTE 6: LONG-TERM LIABILITIES – CONTINUED

The bonds are secured by an irrevocable pledge of all net systems revenues after the payment of operating expenses, money, and investments on deposit, and any and all property of every kind. The bond indenture contains various covenants, including a prohibition against providing free service, an agreement to maintain rates adequate to pay all operating expenses and to make the required payments to the Bond Fund, and to promptly discontinue service for nonpayment. The Bond indentures require that the Board charges rates for water, sewer, and other services provided by the Board sufficient to produce Annual Net Income during each fiscal year at least 1.20 times the Average Annual Net Debt Service Requirement (as defined in the agreement).

NOTE 7: RELATED PARTY TRANSACTIONS

The Board performs all billing and collection services for garbage and fire dues for the City of Montevallo and is responsible for remitting the service fees to the City. The Board also pays a monthly 3% franchise fee to the City of Montevallo for water and sewer collections. At September 30, 2024, the Board owed the City of Montevallo \$74,714 resulting from these services.

NOTE 8: EMPLOYEES' RETIREMENT SYSTEM

Plan Description

The Employees' Retirement System of Alabama (the Plan or ERS), an agent multiple-employer public employee retirement plan, was established as of October 1, 1945, pursuant to the *Code of Alabama 1975, Title 36, Chapter 27* (Act 515 of the Legislature of 1945). The purpose of the ERS is to provide retirement allowances and other specified benefits for state employees, State Police, and, on an elective basis, to all cities, counties, towns, and quasi-public organizations. The responsibility for the general administration and operation of ERS is vested in its Board of Control which consists of 15 trustees. Act 390 of the Legislature of 2021 created two additional representatives to the ERS Board of Control Effective October 1, 2021. The Plan is administered by the Retirement Systems of Alabama (RSA). *The Code of Alabama 1975, Title 36, Chapter 27* grants the authority to establish and amend the benefit terms to the ERS Board of Control. The Plan issues a publicly available financial report that can be obtained at www.rsa-al.gov.

The ERS Board of Control consists of 15 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:
 - a) Two retired members with one from the ranks of retired state employees and one from the ranks of retired employees of a city, county, or a public agency each of whom is an active beneficiary of ERS.
 - b) Two vested active state employees.
 - c) One vested active employee of a participating municipality or city in ERS pursuant to the *Code of Alabama 1975, Section 36-27-6*.
 - d) One vested active employee of a participating county in ERS pursuant to the *Code of Alabama 1975, Section 36-27-6*.
 - e) One vested active employee or retiree of a participating employer in ERS pursuant to the *Code of Alabama 1975, Section 36-27-6*.
 - f) One vested active employee of a participating employer other than a municipality, city or county in ERS pursuant to the *Code of Alabama 1975, Section 36-27-6*.

THE WATER WORKS AND SEWER BOARD OF THE CITY OF MONTEVALLO
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

NOTE 8: EMPLOYEES' RETIREMENT SYSTEM – CONTINUED

Benefits Provided

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

Act 377 of the Legislature of 2012 established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 ERS members are eligible for retirement after age 62 with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a formula method. Under the formula method, Tier 2 members of the ERS are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service up to 80% of their average final compensation.

Members are eligible for disability retirement if they have 10 years of credible service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits equal to the annual earnable compensation of the member as reported to the Plan for the preceding year ending September 30 are paid to the beneficiary.

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 618 employers adopted Act 2019-132 as of September 30, 2023.

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 partial lump sum distribution selected.

The ERS serves approximately 884 local participating employers and one state employer. The ERS membership includes approximately 113,079 participants. As of September 30, 2024, membership consisted of:

Retirees and beneficiaries currently receiving benefits	31,481
Terminated employees entitled to but not yet receiving benefits	2,350
Terminated employees not entitled to a benefit	20,556
Active Members	58,659
Post-DROP participants who are still active service	33
Total Members	<u>113,079</u>

THE WATER WORKS AND SEWER BOARD OF THE CITY OF MONTEVALLO
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

NOTE 8: EMPLOYEES' RETIREMENT SYSTEM – CONTINUED

Contributions

Tier 1 Board employees covered as members of the ERS contribute 5% of earnable compensation to the ERS as required by statute. Tier 2 covered members of the ERS contribute 6% of earnable compensation to the ERS as required by statute. Under Act 2011-676, employers may elect to increase contribution rates for Tier 1 regular members from 5% to 7.5% of earnable compensation.

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 preretirement death benefit, and administrative expenses of the Plan. For the year ended September 30, 2024, the Board's active employee contribution rate was 5% of covered employee payroll for Tier 1 employees and 7.5% of covered payroll for Tier 2 employees, and the Board's average contribution rate to fund the normal and accrued liability costs was 16.77% of covered payroll for Tier 1 employees and 14.24% of covered payroll for Tier 2 employees.

The Board's contractually required contribution rate for the year ended September 30, 2024, was 17.14% of pensionable pay for Tier 1 employees, and 14.61% of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation as of September 30, 2021, 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 Board were \$138,749 for the year ended September 30, 2024.

Net Pension Liability

The Board's net pension liability was measured as of September 30, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as September 30, 2022, rolled forward to September 30, 2023, using standard roll-forward techniques as shown in the following table:

Total Pension Liability as of September 30, 2022 (a)	\$ 3,428,515
Discount Rate (b)	7.45%
Entry Age Normal Cost for October 1, 2022 - September 30, 2023 (c)	61,006
Transfer Among Employers (d)	-
Actual Benefit Payments and Refunds for October 1, 2022 - September 30, 2023 (e)	(178,632)
Total Pension Liability as of September 30, 2023 (f)	
[(a) x (1 + (b))] + (c) + (d) + [(e) x (1 + .54*(b))]	\$ 3,559,659

Actuarial Assumptions

The total pension liability as of September 30, 2023 was determined based on the annual actuarial funding valuation report prepared as of September 30, 2022. The key actuarial assumptions are summarized below:

Inflation	2.50%
Projected salary increases:	3.25% - 6.00% for State and Local Employees
Investment rate of return:	7.45%, including inflation

THE WATER WORKS AND SEWER BOARD OF THE CITY OF MONTEVALLO
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

NOTE 8: EMPLOYEES' RETIREMENT SYSTEM – CONTINUED

Mortality rates are 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:

<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: none	None
Beneficiaries	Contingent Survivor Below Median	Male: +2, Female: +2	None
Non- FLC Disabled Retirees	General Disability	Male: +7, Female: +3	None
FLC/State Police Disabled Retirees	Public Safety Disability	Male: +7, Female: none	None

The actuarial assumptions used in the September 30, 2022 valuation were based on the results of an actuarial experience study for the period October 1, 2015 to 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 Equivalents	5.0%	1.5%
Total	100.00%	

*Includes assumed rate of inflation at 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.

THE WATER WORKS AND SEWER BOARD OF THE CITY OF MONTEVALLO
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

NOTE 8: EMPLOYEES' RETIREMENT SYSTEM – CONTINUED

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances at September 30, 2022	\$ 3,393,415	\$ 2,168,133	\$ 1,225,282
Changes for the year:			
Service cost	61,006	-	61,006
Interest	246,155	-	246,155
Changes of benefit terms	-	-	-
Changes of assumptions	-	-	-
Differences between expected and actual experience	37,715	-	37,715
Contributions - employer	-	128,059	(128,059)
Contributions - employee	-	48,206	(48,206)
Net investment income	-	281,324	(281,324)
Benefit payments, including refunds of employee contributions	(178,632)	(178,632)	-
Administrative expense	-	-	-
Transfers among employers	-	-	-
Net changes	166,244	278,957	(112,713)
Balances at September 30, 2023	\$ 3,559,659	\$ 2,447,090	\$ 1,112,569

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 Discount Rate (7.45%)	1% Increase (8.45%)
Board's Net Pension Liability	\$ 1,435,419	\$ 1,112,569	\$ 835,919

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, 2023. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2023. 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 www.rsa-al.gov.

THE WATER WORKS AND SEWER BOARD OF THE CITY OF MONTEVALLO
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

NOTE 8: EMPLOYEES' RETIREMENT SYSTEM – CONTINUED

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

For the year ended September 30, 2024, the Board recognized pension expense of \$95,180. At September 30, 2024, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions of the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 28,516	\$ (50,643)
Changes of assumptions	10,226	-
Net difference between projected and actual earnings on pension plan investments	95,706	-
Employer contributions subsequent to the measurement date	138,749	-
Total	<u>\$ 273,197</u>	<u>\$ (50,643)</u>

\$138,749 reported as deferred outflows of resources related to pensions resulting from Board's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2025.

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,	Deferred Outflows of Resources	Deferred Inflows of Resources
2025	\$ 183,025	\$ (46,393)
2026	26,508	(4,250)
2027	86,723	-
2028	(23,059)	-
2029	-	-
Thereafter	-	-
Total	<u>\$ 273,197</u>	<u>\$ (50,643)</u>

NOTE 9: POST-EMPLOYMENT HEALTH CARE PLAN

Plan Description

The Water Works and Sewer Board of the City of Montevallo (The Board) provides certain continuing health care and life insurance benefits for its retired employees. The Board's OPEB Plan (the OPEB plan) is a single-employer defined benefit OPEB plan administered by the Board. The authority to establish and/or amend the obligation of the employer, employees and retirees rests with the Board. No assets are accumulated in a trust that meets the criteria in Governmental Accounting Standards Board (GASB) Codification Section P52 *Postemployment Benefits Other Than Pensions—Reporting For Benefits Not Provided Through Trusts That Meet Specified Criteria—Defined Benefit*.

Benefits Provided

Medical benefits are provided through a comprehensive medical plan and are made available to employees upon actual retirement. A retired employee with either 1) at least 10 years of service with the Board and who is at least 60 years of age or 2) 25 years of creditable service, regardless of age, is eligible for health insurance through the Alabama Local Government Health Insurance Program. The Board will pay 75% of the premium up to a cap of \$270 per month for single coverage or 50% of the premium up to a cap of \$601 per month for family coverage. 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.

THE WATER WORKS AND SEWER BOARD OF THE CITY OF MONTEVALLO
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

NOTE 9: POST-EMPLOYMENT HEALTH CARE PLAN – CONTINUED

Employees covered by benefit terms

At September 30, 2024, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	-
Inactive employees entitled to but not yet receiving benefits	-
Active employees	14
Total	<u>14</u>

Total OPEB Liability

The Board's total OPEB Liability of \$11,969 was measured as of September 30, 2024 and was determined by an actuarial valuation as of that date.

Actuarial Assumptions and Other Inputs – The total OPEB liability in the September 30, 2024 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

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	4.02%
Measurement Date	4.09%

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 Below-Median 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 actuarial assumptions used in the September 30, 2024 valuation were based on the results of ongoing evaluations of the assumptions from October 1, 2015 to September 30, 2022.

Changes in the Total OPEB Liability

Beginning Net OPEB Obligation	\$ 10,228
Changes for the year:	
Service cost	1,365
Interest cost	411
Differences between expected and actual experience	-
Changes in assumptions	(35)
Benefit payments and net transfers	-
Net changes	<u>1,741</u>
Ending Net OPEB Obligation	<u>\$ 11,969</u>

THE WATER WORKS AND SEWER BOARD OF THE CITY OF MONTEVALLO
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

NOTE 9: POST-EMPLOYMENT HEALTH CARE PLAN – CONTINUED

Sensitivity of the OPEB Liability to Changes in the Discount Rate

The following present the total OPEB liability of the Board, as well as what the Board's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	1.0% Decrease (3.09%)	Current Discount Rate (4.09%)	1.0% Increase (5.09%)
Total OPEB Liability	\$ 12,468	\$ 11,969	\$ 11,498

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

The Board's OPEB liability of the plan is calculated using current health care cost trend rates. As the maximum amount paid by the Board is not expected to change, the Board has not calculated the plan's Total OPEB liability using health care cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current rate.

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources related to OPEB

For the year ended September 30, 2024, the Board recognized OPEB revenue of \$1,005. At September 30, 2024, the Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ (10,342)
Changes of assumptions or other inputs	-	(653)
Total	\$ -	\$ (10,995)

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

Year ending September 30,

2024	\$ (2,832)
2025	(1,533)
2026	(1,533)
2027	(1,533)
2028	(1,533)
Thereafter	(2,031)
Total	\$ (10,995)

NOTE 10: 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 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 is undeterminable.

THE WATER WORKS AND SEWER BOARD OF THE CITY OF MONTEVALLO
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

NOTE 11: 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.

NOTE 12: COMMITMENTS

Series 2021-A Improvement Project - Water Treatment Plant

The Board entered into an agreement with BH Craig Construction, LLC to construct a Water Treatment Plant. The total contract amount is \$9,262,285. The construction is expected to be funded from the bond proceeds of the Series 2021-A Water and Sewer Bond. As of September 30, 2024, the Board had incurred costs to date of \$7,445,743, leaving a remaining commitment of \$1,816,542.

REQUIRED SUPPLEMENTARY INFORMATION

THE WATER WORKS AND SEWER BOARD OF THE CITY OF MONTEVALLO
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY
SEPTEMBER 30, 2024

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Total Pension Liability										
Service Cost	\$ 61,006	\$ 46,322	\$ 42,379	\$ 39,093	\$ 38,770	\$ 36,570	\$ 47,738	\$ 50,509	\$ 53,076	\$ 52,779
Interest	246,155	241,502	250,727	229,327	220,340	205,734	202,721	185,463	168,967	163,479
Changes of benefit terms	-	-	-	6,885	-	-	-	-	-	-
Differences between expected actual experience	37,715	(46,736)	(213,663)	(18,785)	26,589	112,707	(51,585)	(173,080)	132,769	-
Changes of assumptions	-	-	71,579	-	-	11,905	-	389,170	-	-
Benefit payments, including employee contributions	(178,632)	(178,632)	(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 total pension	166,244	62,456	(1,483)	284,345	106,544	206,929	38,873	302,868	206,787	68,971
Total pension liability - beginning	3,393,415	3,330,959	3,332,442	3,048,097	2,941,553	2,734,624	2,695,751	2,392,883	2,186,096	2,117,125
Total pension liability - ending (a)	<u>\$ 3,559,659</u>	<u>\$ 3,393,415</u>	<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>
Plan Fiduciary Net Position										
Contributions - employer	\$ 128,059	\$ 105,447	\$ 98,570	\$ 93,803	\$ 85,796	\$ 78,407	\$ 75,404	\$ 69,366	\$ 58,333	\$ 63,241
Contributions - member	48,206	35,664	33,896	33,380	32,865	30,685	29,616	31,922	26,636	28,877
Net investment income	281,324	(320,694)	460,892	108,540	46,369	157,685	199,406	148,699	17,770	166,798
Benefit payments, including employee contributions	(178,632)	(178,632)	(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	\$ 278,957	\$ (358,215)	\$ 440,853	\$ 263,548	\$ (14,125)	\$ 106,790	\$ 144,425	\$ 100,793	\$ (45,286)	\$ 111,629
Plan net position - beginning	2,168,133	2,526,348	2,085,495	1,821,947	1,836,072	1,729,282	1,584,857	1,484,064	1,529,350	1,417,721
Plan net position - ending (b)	<u>\$ 2,447,090</u>	<u>\$ 2,168,133</u>	<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)	\$ 1,112,569	\$ 1,225,282	\$ 804,611	\$ 1,246,947	\$ 1,226,150	\$ 1,105,481	\$ 1,005,342	\$ 1,110,894	\$ 908,819	\$ 656,746
Plan fiduciary net position as a of the total pension liability	68.75%	63.89%	75.84%	62.58%	59.77%	62.42%	63.24%	58.79%	62.02%	69.96%
Covered payroll*	\$ 841,700	\$ 671,275	\$ 665,371	\$ 627,771	\$ 636,278	\$ 606,887	\$ 585,597	\$ 669,249	\$ 532,723	\$ 586,731
Net pension liability (asset) as a of covered payroll	132.18%	182.53%	120.93%	198.63%	192.71%	182.16%	171.68%	165.99%	170.60%	111.93%

There is a one year lag in reporting the schedule of changes in net pension liability.

See independent auditor's report.

THE WATER WORKS AND SEWER BOARD OF THE CITY OF MONTEVALLO
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
SEPTEMBER 30, 2024

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Actuarially determined contribution*	\$ 138,749	\$ 131,513	\$ 106,521	\$ 102,717	\$ 92,478	\$ 85,118	\$ 80,653	\$ 77,571	\$ 71,061	\$ 60,198
Contributions in relation to the actuarially determined contribution*	138,749	131,513	106,521	102,717	92,478	85,118	80,653	77,571	71,061	60,198
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll**	\$ 866,832	\$ 841,700	\$ 671,275	\$ 665,371	\$ 627,771	\$ 636,278	\$ 606,887	\$ 585,597	\$ 669,249	\$ 532,723
Contributions as a percentage of covered payroll	16.01%	15.62%	15.87%	15.44%	14.73%	13.38%	13.29%	13.25%	10.62%	11.30%

*Amount of employer contributions related to normal and accrued liability components of employer rate net of any refunds or error service payments. The Schedule of Employer Contributions is based on the 12 month period of the underlying financial statements.

**Employer's covered payroll for fiscal year 2024 is the total covered payroll for the 12 month period of the underlying financial statement.

Notes to Schedule

Actuarially determined contribution rates are calculated as of September 30, three years prior to the end of the fiscal year in which contributions are reported. Contributions for fiscal year 2024 were based on the September 30, 2021 actuarial valuation.

Methods and assumptions used to determine contribution rates for the period October 1, 2023 to September 30, 2024:

Actuarial Cost Method	Entry Age
Amortization method	Level percent closed
Remaining amortization period	22.9 years
Asset valuation method	Five year smoothed market
Inflation	2.50%
Salary increases	3.25 - 6.00%, including inflation
Investment rate of return	7.45%, net of pension plan investment expense, including inflation

See independent auditor's report.

THE WATER WORKS AND SEWER BOARD OF THE CITY OF MONTEVALLO
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
SEPTEMBER 30, 2024

	2023	2022	2021	2020	2019	2018	2017
Total OPEB Liability							
Service cost	1,365	1,122	1,109	912	741	1,252	1,303
Interest cost	411	482	601	670	1,250	934	800
Changes in benefit terms	-	-	-	3,848	-	-	-
Differences between expected and actual experience	-	(11,912)	(7,555)	(3,813)	(8,002)	2,065	(2,651)
Changes in assumptions	(35)	(811)	(23)	428	1,281	(509)	(603)
Net changes in total OPEB liability	<u>1,741</u>	<u>(11,119)</u>	<u>(5,868)</u>	<u>2,045</u>	<u>(4,730)</u>	<u>3,742</u>	<u>(1,151)</u>
Total OPEB liability - beginning	<u>10,228</u>	<u>21,347</u>	<u>27,215</u>	<u>25,170</u>	<u>29,900</u>	<u>26,158</u>	<u>27,309</u>
Total OPEB liability - ending	<u><u>11,969</u></u>	<u><u>10,228</u></u>	<u><u>21,347</u></u>	<u><u>27,215</u></u>	<u><u>25,170</u></u>	<u><u>29,900</u></u>	<u><u>26,158</u></u>
Covered payroll	841,700	671,275	665,371	627,771	636,278	606,887	585,597
Net OPEB liability as a percentage of covered-employee payroll	1.42%	1.52%	3.21%	4.34%	3.96%	4.93%	4.47%

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

OTHER INFORMATION - UNAUDITED

THE WATER WORKS AND SEWER BOARD OF THE CITY OF MONTEVALLO
SCHEDULE OF REVENUES AND EXPENSES (UNAUDITED)
SEPTEMBER 30, 2024

	Water	Sewer	Administrative	Total
Bank charges	\$ -	\$ -	\$ 3,433	\$ 3,433
Billing costs	-	-	36,081	36,081
Chemicals	19,589	-	-	19,589
Contract services	5,153	-	60,653	65,806
Conventions, seminars, other training	10,475	-	1,900	12,375
Credit card fees	-	-	12,720	12,720
Depreciation	291,287	460,112	32,680	784,079
Dues and publications	3,762	-	4,551	8,313
Engineering	28,060	1,500	-	29,560
Fiscal agent fees	-	-	7,500	7,500
Franchise fees	61,091	48,488	-	109,579
Gas and oil	-	-	30,758	30,758
Insurance - business	10,361	623	52,718	63,702
Insurance - employee health and life	33,538	17,727	41,413	92,678
Legal and accounting	-	-	39,843	39,843
Materials and supplies	308,502	60,397	680	369,579
Miscellaneous	28	160	3,881	4,069
Office supplies	-	-	34,056	34,056
Payroll taxes	28,649	15,911	25,011	69,571
Retiree benefits	-	-	(1,005)	(1,005)
Retirement	68,530	26,650	-	95,180
Repairs and maintenance	40,493	2,821	15,734	59,048
Salaries and wages	378,212	208,222	319,260	905,694
Samples and testing	33,761	31,901	-	65,662
Uniforms	-	-	4,030	4,030
Utilities	153,453	221,118	21,486	396,057
Water purchases	146,587	-	-	146,587
Total operating expenses	<u>\$ 1,621,531</u>	<u>\$ 1,095,630</u>	<u>\$ 747,383</u>	<u>\$ 3,464,544</u>

See independent auditor's report.

THE WATER WORKS AND SEWER BOARD OF THE CITY OF MONTEVALLO
INFORMATION REQUIRED BY BOND AGREEMENT (UNAUDITED)
SEPTEMBER 30, 2024

Number of Water Customers

<u>Fiscal Year</u>	<u>Customers</u>
2024	3,745
2023	3,745
2022	3,735
2021	3,701
2020	3,616

Largest Water Customers

Largest water users of the system and their billings for water services were as follows for September 30, 2024:

<u>Customers</u>	<u>Billing</u>
University of Montevallo	\$ 159,201
Argos RMX LLC	\$ 104,100
Chemical Lime Company #1797	\$ 87,094
Mississippi Lime Co.	\$ 79,673
Cobblestone Creek	\$ 58,784
Cobblestone Cove	\$ 32,191
Chemical Lime Company # 1798	\$ 27,573
Montevallo Authority	\$ 20,715
MES Shelby Co. Board of Education	\$ 15,842
Fresenius	\$ 6,949

Selected Water System Statistics

<u>Fiscal Year</u>	<u>Number of Metered Connections</u>	<u>Daily Production (1)</u>	<u>Average Peak Demand</u>	<u>Total Water Sold (1) (2)</u>	<u>Total Annual Production (1)</u>	<u>Water Loss Percentage</u>
2024	3,745	1,148,381	500,984	343,611,343	419,159,085	18.7%
2023	3,745	1,340,296	645,000	356,591,776	489,207,983	19.2%
2022	3,735	1,307,615	643,000	328,515,070	477,279,622	20.0%
2021	3,701	1,256,200	591,000	289,396,281	458,512,947	19.8%
2020	3,616	1,196,610	610,000	306,556,551	436,762,790	18.7%

(1) Expressed as MG (Million Gallons)

(2) Excludes water purchased for resale from Chilton Water Authority.

**THE WATER WORKS AND SEWER BOARD OF THE CITY OF MONTEVALLO
INFORMATION REQUIRED BY BOND AGREEMENT (UNAUDITED)
SEPTEMBER 30, 2024**

Number of Sewer Customers

<u>Fiscal Year</u>	<u>Customers</u>
2024	2,280
2023	2,328
2022	2,309
2021	2,212
2020	2,121

Largest Sewer Customers

Largest sewer users of the system and their billings for sewer services were as follows for September 30, 2024:

<u>Customers</u>	<u>Billing</u>
Cobblestone Creek	\$ 76,991
Cobblestone Cove	\$ 37,846
The Morrow Co.	\$ 33,934
Montevallo Authority	\$ 25,361
Montevallo Villas	\$ 23,214
Eads-Holly LLC	\$ 19,566
Salem Manor	\$ 16,988
Fresenius	\$ 7,801

Selected Sewer System Statistics

<u>Fiscal Year</u>	<u>Number of Metered Connections</u>	<u>Average Daily Flow</u>	<u>Total Annual Treated (1)</u>
2024	2,280	0.718	262,471,000
2023	2,328	0.789	347,317,000
2022	2,309	0.880	354,732,000
2021	2,212	0.852	311,600,000
2020	2,121	0.822	300,101,000

(1) Expressed as MG (Million Gallons)

THE WATER WORKS AND SEWER BOARD OF THE CITY OF MONTEVALLO
INFORMATION REQUIRED BY BOND AGREEMENT (UNAUDITED)
SEPTEMBER 30, 2024

Schedule of Water and Sewer System Rates and Fees

<u>Meter Size</u>	<u>Inside City Limits</u>	<u>Outside City Limits</u>
	(base, not including taxes)	(base, not including taxes)

Water Rates:

3/4" minimum bill	\$ 25.81	\$ 37.70
1" minimum bill	\$ 30.29	\$ 41.84
2" minimum bill	\$ 116.47	\$ 116.47
3" minimum bill	\$ 127.38	\$ 127.38
4" minimum bill	\$ 181.97	\$ 181.97
6" minimum bill	\$ 363.93	\$ 363.93
2,001 gallons and up	\$5.36 per thousand gallons	\$6.14 per thousand gallons

Sewer Rates:

Base minimum bill	\$ 28.97	\$ 36.67
2,001 gallons and up	\$7.56 per thousand gallons	\$9.54 per thousand gallons

Sewer System Development Charges

	<u>Single Family Residential</u>	<u>Multi-Family Residential</u>	<u>Commercial or Industrial</u>
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

Sewer Connection Fees

	<u>Single Family Subdivision</u>	<u>Multi-Family Subdivision</u>	<u>Commercial or Industrial</u>
Water	\$2,500	\$3,000	\$3,000
Sewer	\$3,000	\$3,500	\$3,500

Water Tap Fees

<u>Meter Size</u>	<u>Inside City Limits</u>	<u>Outside City Limits</u>
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)

See independent auditor's report.

THE WATER WORKS AND SEWER BOARD OF THE CITY OF MONTEVALLO
INFORMATION REQUIRED BY BOND AGREEMENT (UNAUDITED)
SEPTEMBER 30, 2024

Schedule of Water and Sewer System Rates and Fees – Continued

Other Fees and Charges	
Description	Fees
Road bore for long side service	Actual Cost
Sewer connection inspection fee	\$350
Security Deposit	\$125
Meter change out at customer request	\$50 + Cost of Meter
Service call after hours (turn service on/off)	\$25
Late fee penalty	10% of balance
Name or address change	\$5
Returned check fee (NSF)	\$40
Billing & payment history printout	\$5
Meter damage or tampering	\$1,000
Meter flow test	\$150
Reconnect/Disconnect fee (Lock Meters)	\$60

See independent auditor's report.

THE WATER WORKS AND SEWER BOARD OF THE CITY OF MONTEVALLO
INFORMATION REQUIRED BY BOND AGREEMENT (UNAUDITED)
SEPTEMBER 30, 2024

Schedule of Projected Debt Service Coverage

Operating revenues	\$	5,332,711
Less: Operating expenses		(3,464,544)
Operating Income		<u>1,868,167</u>
Add: Depreciation		784,079
Add: Interest income		<u>200,236</u>
Net System Revenues	\$	<u><u>2,852,482</u></u>
Maximum Annual Debt Service (Fiscal Year 2028):	\$	1,149,230
Debt Service Coverage by Net System Revenues:		2.48
Average Annual Fiscal Year Debt (Fiscal Years 2025 - 2041):	\$	1,145,056
Debt Service Coverage by Net System Revenues:		2.49
Required Debt Service Coverage ratio:		1.20

See independent auditor's report.