



City of Talladega, Alabama

FINANCIAL STATEMENTS

September 30, 2020



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Carr, Riggs & Ingram, LLC
1117 Boll Weevil Circle
Enterprise, AL 36330

Mailing Address:
PO Box 311070
Enterprise, AL 36331

334.347.0088
334.347.7650 (fax)
CRlcpa.com

INDEPENDENT AUDITORS' REPORT

To the Manager and City Council
City of Talladega
Talladega, Alabama

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Talladega, Alabama (the "City"), as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Talladega City Board of Education or the Talladega Municipal Airport Board, which represent all of the assets, net position, and revenues of the aggregate discretely presented component units. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Talladega City Board of Education and the Talladega Municipal Airport Board, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of September 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion on pages 4 - 13 and the schedules listed in the table of contents as required supplementary information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The budgetary comparison schedule for the proprietary fund and combining non-major fund financial statements are presented for

purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The budgetary comparison schedule for the proprietary fund, combining non-major fund financial statements, and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedule for the proprietary fund, combining non-major fund financial statements, and schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2022 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

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

Enterprise, Alabama
January 26, 2022

City of Talladega, Alabama Management's Discussion and Analysis

CITY OF TALLADEGA

255 South Street W.

P.O. Box 498

Talladega, AL 35161

(256) 362-8186

CITY OF TALLADEGA, ALABAMA MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2020

This section of the City of Talladega (the "City"), Alabama's annual financial statement is intended to provide readers a general overview of the financial activities during the fiscal year that ended September 30, 2020. The material presented in this section should be read in conjunction with the independent auditors' report and the additional information provided in this financial report.

Financial Highlights – Governmental Activities

- The primary government assets and deferred outflows of resources of the City of Talladega exceeded its liabilities and deferred inflows of resources by \$29,552,242 as of September 30, 2020. However, \$20,130,040 (68%) reflects the City's investment in capital assets, less any related debt still outstanding that was issued to acquire those items. The City of Talladega uses these capital assets to provide services to citizens; consequently, those assets are not available for future spending. Although the City of Talladega's investment in its capital assets is reported net of the outstanding debt, the resources needed to repay the debt must be provided by other sources since the capital assets cannot be used to liquidate these liabilities. An additional total of \$4,565,990 represents assets that are subject to external restrictions on how they may be used. The remaining balance, totaling \$4,856,212, is unrestricted.
- The total net position of the City of Talladega increased by approximately \$302,559 during fiscal year 2020; resulting in a net position of \$29,552,242.
- At the close of the fiscal year, the City's governmental funds reported a combined ending fund balance of \$11.8 million. The combined governmental funds' fund balances increased by \$884,694 during the fiscal year, primarily due to the budget surplus.
- The General Fund balance increased by \$1,438,132 to a total of \$8.8 million at year end. The city considers \$2.643 million of this balance to be emergency reserves; this amount represents just over 21.8% of annual expenditures, or 78 days of operations. General Fund revenues were \$16.1 million, which exceeded the previous fiscal year by \$1 million and \$1 million more than anticipated in the budget. The overall financial position of the City remains stable.
- The Capital Projects Trust Fund closed with a fund balance of \$1,316,776, a 46% increase from the prior year balance. Capital funds expenditures were \$939,377 for fiscal year 2020 and consisted of building and park improvements, software upgrades, as well as equipment and fleet replacement. The City invested approximately \$2 million in construction projects during fiscal 2020.

City of Talladega, Alabama Management's Discussion and Analysis

- The Special Revenue Funds include nine funds which receive restricted, committed or assigned funds and include the following: 2.5 Mil Property Tax Fund, 4 Cent Gas Tax Fund, 7 Cent Gas Tax Fund, Corrections Fund, Oil Trust Fund, Police Grants Fund, Cemetery Fund, Library Fund and Rebuild Alabama Gas Tax Fund. The Special Revenue Funds closed with a combined fund balance of \$1,711,804, a \$971,567 decrease from the prior year.
- The CDBG (Community Development Block Grant) fund comprise the Capital Projects Funds. Projects partially funded with this grant were completed during fiscal 2018 and excess fund balances were transferred back to the General Fund.

Financial Highlights – Business-type Activities

- The assets and deferred outflows of resources of the Talladega Water and Sewer Department of the City of Talladega, Alabama, exceeded its liabilities and deferred inflows or resources at September 30, 2020, by \$15,620,351 (total net position) up from \$15,544,415 in FY 2019. Of the total net position, \$2,966,855 or 19% (unrestricted net position) may be used to meet the Department's ongoing obligations. Current liabilities were about \$29,000 lower than the previous fiscal year due to decreased outstanding payables at year end. The City's noncurrent liabilities decreased about \$465,000 primarily due to the repayment of long term debt. Other changes in the balance sheet were not significant.
- The Water and Sewer department required the use of unrestricted resources to fund expenditures. Operating expenses during the year, which increased \$766,078 for a total of \$8,304,406 for FY 2020 exceeded operating revenues of \$8,316,333, an increase of \$111,884 from 2019. This net decrease combined with increases in nonoperating revenues and transfers in, caused a slight increase of \$75,936 in net position.
- During this time period, proceeds from the 2010 and 2015 Capital Improvement Warrants continued to be utilized on a number of system improvement projects.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Talladega's basic financial statements. The basic financial statements consist of three components: (1) government-wide financial statements, (2) fund financial statements and (3) notes to the financial statements. The basic financial statements present two different views of the City through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the City of Talladega.

Government-wide Financial Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes

City of Talladega, Alabama Management's Discussion and Analysis

all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The government-wide financial statements are divided into two categories:

- **Governmental Activities** - Most of the City's basic services are included here, such as police, fire, public works, recreation and general administration. Sales and use tax, property taxes, business licenses and other state-shared revenues finance most of these activities.
- **Business-type Activities** – The costs and revenues of the City's Water and Sewer Department are reported here.
- **Discretely Presented Component Units** - The City includes other legally separate entities in its report including the Talladega Municipal Airport Board and the Talladega City Board of Education. The City is financially accountable for these entities.

The Statement of Activities presents information showing how the government's net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.

Fund Financial Statements

The Fund Financial Statements provide more detailed information about the City's most significant funds - not the City as a whole. Funds are accounting groups that the City uses to keep track of specific sources of funds and expenditures. Some funds are required by federal or state law while others are required by grant agreements. Other funds are established to control and manage City resources designated for specific purposes. The City uses three types of funds:

- **Governmental Funds** - Most of the City's basic services are included in governmental funds which focus on (1) how cash and other financial assets can be converted to cash flows into and out of the funds, and (2) balances left at year-end that are available to be spent. Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decision.
 - The City of Talladega adopts an annual appropriated budget for the General Fund. A budgetary comparison statement has been provided in the supplementary information for the General Fund to demonstrate compliance with this budget.
- **Enterprise funds** are used to report the same functions presented as business-type activities in the government-wide financial statements. The Water and Sewer Department has one enterprise fund to account for its business-type activities. The separate enterprise fund financial statements provide the same type of information as the government-wide financial statements, only in more detail.

City of Talladega, Alabama Management's Discussion and Analysis

- Fiduciary funds allow the government to summarize trust funds by type, such as other post-employment benefit obligations. While these funds represent trust responsibilities, fund assets are restricted in purpose and may not be expended for governmental activities. Therefore, these assets are not presented as part of the government-wide financial statements.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements follow the basic financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information that should be considered in the evaluation of the City's financial position.

**City of Talladega, Alabama
Management's Discussion and Analysis**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

**Statement of Net Position
September 30, 2020**

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 10,247,505	\$ 5,114,511	\$ 15,362,016
Investments	1,100,457	-	1,100,457
Receivables, net	984,994	1,145,672	2,130,666
Unbilled revenue	-	955,615	955,615
Internal balances	106,739	(106,739)	-
Inventories	-	259,761	259,761
Restricted assets	-	2,879,722	2,879,722
Other assets	93,940	29,722	123,662
Capital assets, not being depreciated	3,977,041	1,572,038	5,549,079
Capital assets, net of accumulated depreciation	12,414,371	26,484,247	38,898,618
Total assets	28,925,047	38,334,549	67,259,596
Deferred Outflows of Resources			
Deferred outflows related to pension	1,977,972	525,790	2,503,762
Deferred outflows related to OPEB	767,578	204,040	971,618
Deferred outflows on refunding	315,013	64,152	379,165
Total deferred outflows of resources	3,060,563	793,982	3,854,545
Liabilities			
Accounts payable and accrued liabilities	659,482	605,869	1,265,351
Other liabilities	54,571	-	54,571
Accrued interest	28,312	-	28,312
Non-current liabilities:			
Due within one year:			
Warrants payable	580,000	480,000	1,060,000
Capital leases	79,028	-	79,028
Due in more than one year:			
Warrants payable	5,388,871	19,205,172	24,594,043
Capital leases	374,148	-	374,148
Net pension liability	6,780,679	1,892,666	8,673,345
Net OPEB liability	3,313,674	880,850	4,194,524
Customer meter deposits	-	214,380	214,380
Compensated absences	400,390	124,359	524,749
Total liabilities	17,659,155	23,403,296	41,062,451
Deferred Inflows of Resources			
Deferred inflows related to pension	256,348	68,143	324,491
Deferred inflows related to OPEB	138,216	36,741	174,957
Total deferred inflows of resources	394,564	104,884	499,448
Net position			
Net investment in capital assets	10,284,378	9,845,662	20,130,040
Restricted for:			
Capital improvements	1,316,776	2,767,282	4,084,058
Special revenues (gas tax and road projects)	318,324	-	318,324
Special revenues (ad valorem tax for schools)	30,266	-	30,266
Special revenues (public safety)	92,790	-	92,790
Debt service	-	40,552	40,552
Unrestricted	1,889,357	2,966,855	4,856,212
Total net position	\$ 13,931,891	\$ 15,620,351	\$ 29,552,242

City of Talladega, Alabama
Management's Discussion and Analysis

Statement of Net Position
September 30, 2019

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 9,483,466	\$ 6,025,457	\$ 15,508,923
Investments	1,077,567	-	1,077,567
Receivables, net	865,192	664,137	1,529,329
Unbilled revenue	-	888,985	888,985
Internal balances	104,917	(104,917)	-
Inventories	-	256,466	256,466
Restricted assets	-	4,336,194	4,336,194
Other assets	66,608	19,068	85,676
Capital assets not being depreciated	5,892,225	1,455,433	7,347,658
Capital assets, net of accumulated depreciation	11,499,257	25,130,003	36,629,260
Total assets	28,989,232	38,670,826	67,660,058
Deferred Outflows of Resources			
Deferred outflows related to pension	1,249,090	332,036	1,581,126
Deferred outflows related to OPEB	615,403	163,588	778,991
Deferred outflows on refunding	345,095	106,434	451,529
Total deferred outflows of resources	2,209,588	602,058	2,811,646
Liabilities			
Accounts payable and accrued liabilities	608,291	634,797	1,243,088
Customer meter deposits	-	230,867	230,867
Other liabilities	54,571	-	54,571
Accrued interest	31,164	-	31,164
Noncurrent liabilities:			
Due within one year:			
Warrants payable	570,000	465,000	1,035,000
Capital leases	73,745	-	73,745
Compensated absences	-	-	-
Due in more than one year:			
Warrants payable	5,999,590	19,710,389	25,709,979
Capital leases	453,176	-	453,176
Net pension liability	5,157,811	1,461,271	6,619,082
Net OPEB liability	3,110,148	826,748	3,936,896
Compensated absences	400,390	124,359	524,749
Total liabilities	16,458,886	23,453,431	39,912,317
Deferred inflows of resources			
Deferred inflows related to pension	883,844	234,946	1,118,790
Deferred inflows related to OPEB	150,822	40,092	190,914
Total deferred inflows of resources	1,034,666	275,038	1,309,704
Net position			
Net investment in capital assets	9,949,876	9,383,351	19,333,227
Restricted for:			
Capital improvements	898,647	4,222,379	5,121,026
Special revenues (gas tax and road projects)	1,377,003	-	1,377,003
Special revenues (ad valorem tax for schools)	35,436	-	35,436
Special revenues (public safety)	55,378	-	55,378
Debt service	-	37,049	37,049
Unrestricted	1,388,928	1,901,636	3,290,564
Total net position	\$ 13,705,268	\$ 15,544,415	\$ 29,249,683

City of Talladega, Alabama
Management's Discussion and Analysis

Statement of Activities
For the Year Ended September 30, 2020

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Primary Government							
Governmental activities							
General government administrative	\$ 5,781,129	\$ 2,608,357	\$ 410,067	\$ 193,854	\$ (2,568,851)	\$ -	\$ (2,568,851)
Public safety	7,456,243	506,452	17,734	-	(6,932,057)	-	(6,932,057)
Public works	2,973,007	306,831	-	-	(2,666,176)	-	(2,666,176)
Parks and recreation	1,150,336	32,587	18,152	-	(1,099,597)	-	(1,099,597)
Interest on long-term debt	201,814	-	-	-	(201,814)	-	(201,814)
Total governmental activities	17,562,529	3,454,227	445,953	193,854	(13,468,495)	-	(13,468,495)
Business-type activities							
Water and sewer	9,202,343	8,316,333	-	-	-	(886,010)	(886,010)
Total primary government	\$ 26,764,872	\$ 11,770,560	\$ 445,953	\$ 193,854	(13,468,495)	(886,010)	(14,354,505)
General revenues and transfers							
Taxes							
Property taxes, levied for general purposes					1,240,256	-	1,240,256
Sales and use taxes					11,012,582	-	11,012,582
Other taxes					1,008,443	-	1,008,443
Grants not restricted to specific programs					-	1,090,875	1,090,875
Miscellaneous					160,012	36,681	196,693
Investment earnings					74,737	33,478	108,215
Transfers, net					199,088	(199,088)	-
Total general revenues and transfers					13,695,118	961,946	14,657,064
Change in net position					226,623	75,936	302,559
Net position, beginning of year					13,705,268	15,544,415	29,249,683
Net position, end of year					\$ 13,931,891	\$ 15,620,351	\$ 29,552,242

City of Talladega, Alabama
Management's Discussion and Analysis

Statement of Activities
For the Year Ended September 30, 2019

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Primary Government							
Governmental activities							
General government administratic	\$ 3,997,720	\$ 2,393,927	\$ 308,021	\$ 294,448	\$ (1,001,324)	\$ -	\$ (1,001,324)
Public safety	7,198,260	481,335	-	-	(6,716,925)	-	(6,716,925)
Public works	2,533,370	-	-	-	(2,533,370)	-	(2,533,370)
Parks and recreation	1,224,651	129,078	14,636	-	(1,080,937)	-	(1,080,937)
Interest on long-term debt	239,162	-	-	-	(239,162)	-	(239,162)
Total governmental activities	15,193,163	3,004,340	322,657	294,448	(11,571,718)	-	(11,571,718)
Business-type activities:							
Water and sewer	8,467,956	8,204,449	-	-	-	(263,507)	(263,507)
Total primary government	\$ 23,661,119	\$ 11,208,789	\$ 322,657	\$ 294,448	(11,571,718)	(263,507)	(11,835,225)
General revenues and transfers							
Taxes							
Property taxes, levied for general purposes					1,099,146	-	1,099,146
Sales and use taxes					10,657,606	-	10,657,606
Other taxes					865,052	-	865,052
Grants not restricted to specific programs					-	62,593	62,593
Miscellaneous revenues					219,262	73,682	292,944
Investment earnings					77,695	94,452	172,147
Transfers, net					(29,223)	29,223	-
Total general revenues and transfers					12,889,538	259,950	13,149,488
Change in net position					1,317,820	(3,557)	1,314,263
Net position, beginning of year					12,387,448	15,547,972	27,935,420
Net position, end of year					\$ 13,705,268	\$ 15,544,415	\$ 29,249,683

City of Talladega, Alabama

Management's Discussion and Analysis

CAPITAL ASSETS AND DEBT OUTSTANDING

Capital Assets: The City of Talladega's investment in capital assets (net of accumulated depreciation) for governmental and business-type activities as of September 30, 2020, totals \$44,447,697. These assets include buildings, land, equipment, facilities and vehicles. Additional detailed information on the capital assets may be found in Note 2 on pages 50-51.

Long-term Debt: As of September 30, 2020, the City of Talladega governmental activities had debt outstanding of \$5,968,871 consisting of three General Obligation Warrants. Interest paid on long-term debt was \$190,912 for fiscal year 2020. In addition, the City has two capital leases with terms up to 10 years. The total present value of future minimum lease payments equaled \$453,176 at 2020 fiscal year end. The Water and Sewer Department of the City had warrants outstanding in the amount of \$19,685,172, payable solely from revenues of the system, and no capital leases outstanding as of September 30, 2020. Effective September 1, 2021, the Water and Sewer Department issued Series 2021-A Revenue Warrants totaling \$28,130,000 and Series 2021-B Revenue Warrants totaling \$5,240,000. These funds were used to refund the Series 2010 and Series 2015 Warrants and to provide funding for future capital improvements.

The City uses the 1% sales and use tax increase implemented in April, 2011 as the major source of funds for future capital improvements rather than relying on financing alone. The City's indebtedness is managed in coordination with debt repayment schedules to stay within legal debt limits and to maintain a stable level of debt service. The City was first rated by Standard & Poors in 2009, achieving a rating of "A, stable" and was upgraded to "AA-" in 2014. This rating was affirmed in March 2015. The City's Water and Sewer utility has achieved a rating of A+, stable, which was also affirmed in March 2015. Additional detailed information on long-term debt may be found in the notes to the financial statements Note 2 on pages 54-60.

POST-EMPLOYMENT BENEFIT PLAN

In January 2015, the City established a trust fund to provide for other post-employment benefits (OPEB) and initially funded it with \$1,000,000 from the General Fund. This created an OPEB asset which grew slightly during FY 2018; however, costs are expected to rise in future years. 5% of general sales and use tax revenues are assigned to meeting the City's actuarially determined Annual Required Contribution to help ensure that the City does not develop a significant OPEB liability.

Governmental Accounting Standards Board (GASB) issued Statement No. 75, "Accounting and Financial Reporting for Post-Employment Benefits Other than Pensions (OPEB)" has replaced the previous authoritative guidance regarding the City's retiree health care benefits. Additional information on post-employment benefits may be found in the notes to the financial statements Note 4 on pages 59-64.

ECONOMIC FACTORS

The City of Talladega continues to be heavily dependent on sales tax revenue, which accounts for approximately 60% of total General Fund operating revenues. 2020 sales tax revenue increased by 3.6%, or about \$338K, over fiscal year 2019; the average annual increase since 2012 is about 2%. Business license revenue increased by \$190K during 2020 or \$53K under 2019.

City of Talladega, Alabama Management's Discussion and Analysis

At the close of FY20, the City continued to enjoy the benefits of economic recovery, although long-term macroeconomic trends indicate a need for stronger economic development strategy. In the absence of pronounced revenue growth, the City must still meet increases in areas such as healthcare costs, employee salaries, and retirement costs. Thus, the City should remain diligent in keeping in place various cost saving measures from previous years, and examine closely the long-term financial effect of any proposed spending. However, the City is hopeful that its community-building efforts during fiscal year 2020 will pay dividends to the local economy and quality of life over the next several years. Though no significant immediate impact to the City's General Fund revenue is expected, the City is beginning to exhibit a trend toward future economic growth.

Request for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or request for additional information should be addressed to:

The City of Talladega – Finance Department
255 South Street West
Talladega, Alabama 35160

City of Talladega, Alabama Statement of Net Position

September 30, 2020	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 10,247,505	\$ 5,114,511	\$ 15,362,016	\$ 4,896,642
Investments	1,100,457	-	1,100,457	4,796,084
Receivables, net	984,994	1,145,672	2,130,666	41,774
Unbilled revenue	-	955,615	955,615	-
Internal balances	106,739	(106,739)	-	-
Due from other governments	-	-	-	1,197,283
Inventories	-	259,761	259,761	90,857
Restricted assets	-	2,879,722	2,879,722	-
Other assets	93,940	29,722	123,662	67,683
Capital assets, not being depreciated	3,977,041	1,572,038	5,549,079	-
Capital assets, net of accumulated depreciation	12,414,371	26,484,247	38,898,618	10,966,183
Total assets	28,925,047	38,334,549	67,259,596	22,056,506
Deferred Outflows of Resources				
Deferred outflows related to pension	1,977,972	525,790	2,503,762	3,280,227
Deferred outflows related to OPEB	767,578	204,040	971,618	3,384,882
Deferred outflows on refunding	315,013	64,152	379,165	-
Total deferred outflows of resources	3,060,563	793,982	3,854,545	6,665,109
Liabilities				
Bank overdraft	-	-	-	728,601
Accounts payable and accrued liabilities	659,482	605,869	1,265,351	1,284,938
Due to other governments	-	-	-	30,000
Other liabilities	54,571	-	54,571	3,563
Accrued interest	28,312	-	28,312	-
Non-current liabilities				
Due within one year				
Warrants and notes payable	580,000	480,000	1,060,000	343,862
Capital leases	79,028	-	79,028	-
Compensated absences	-	-	-	146,109
Due in more than one year				
Warrants and notes payable	5,388,871	19,205,172	24,594,043	2,397,064
Capital leases	374,148	-	374,148	-
Net pension liability	6,780,679	1,892,666	8,673,345	17,475,000
Net OPEB liability	3,313,674	880,850	4,194,524	7,874,785
Customer meter deposits	-	214,380	214,380	-
Compensated absences	400,390	124,359	524,749	-
Total liabilities	17,659,155	23,403,296	41,062,451	30,283,922
Deferred Inflows of Resources				
Deferred inflows related to pension	256,348	68,143	324,491	1,868,000
Deferred inflows related to OPEB	138,216	36,741	174,957	10,180,003
Total deferred inflows of resources	394,564	104,884	499,448	12,048,003
Net Position (Deficit)				
Net investment in capital assets	10,284,378	9,845,662	20,130,040	8,225,257
Restricted for:				
Capital improvements	1,316,776	2,767,282	4,084,058	1,653,483
Special revenues (gas tax and road projects)	318,324	-	318,324	-
Special revenues (ad valorem tax for schools)	30,266	-	30,266	688,967
Special revenues (public safety)	92,790	-	92,790	-
Debt service	-	40,552	40,552	-
Unrestricted	1,889,357	2,966,855	4,856,212	(24,178,017)
Total net position (deficit)	\$ 13,931,891	\$ 15,620,351	\$ 29,552,242	\$ (13,610,310)

The accompanying notes are an integral part of these financial statements.

City of Talladega, Alabama
Statement of Activities

For the year ended September 30, 2020

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities				
General government	\$ 5,781,129	\$ 2,608,357	\$ 410,067	\$ 193,854
Public safety	7,456,243	506,452	17,734	-
Public works	2,973,007	306,831	-	-
Recreation	1,150,336	32,587	18,152	-
Interest on long-term debt	201,814	-	-	-
Total governmental activities	17,562,529	3,454,227	445,953	193,854
Business-type activities				
Water and sewer	9,202,343	8,316,333	-	-
Total primary government	\$ 26,764,872	\$ 11,770,560	\$ 445,953	\$ 193,854
Component units				
Board of Education	\$ 20,559,591	\$ 1,278,322	\$ 15,893,605	\$ 461,517
Municipal Airport Board	340,410	246,738	54,540	-
Total component units	\$ 20,900,001	\$ 1,525,060	\$ 15,948,145	\$ 461,517
General revenues and transfers				
Taxes				
Property taxes, levied for general purposes				
Sales and use taxes				
Other taxes				
Grants not restricted to specific programs				
Miscellaneous				
Investment earnings				
Transfers, net				
<u>Total general revenues and transfers</u>				
Change in net position				
<u>Net position (deficit), beginning of year</u>				
<u>Net position (deficit), end of year</u>				

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue and Changes in Net Position

Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (2,568,851)	\$ -	\$ (2,568,851)	\$ -
(6,932,057)	-	(6,932,057)	-
(2,666,176)	-	(2,666,176)	-
(1,099,597)	-	(1,099,597)	-
(201,814)	-	(201,814)	-
(13,468,495)	-	(13,468,495)	-
-	(886,010)	(886,010)	-
(13,468,495)	(886,010)	(14,354,505)	-
-	-	-	(2,926,147)
-	-	-	(39,132)
-	-	-	(2,965,279)
1,240,256	-	1,240,256	2,392,889
11,012,582	-	11,012,582	1,782,347
1,008,443	-	1,008,443	110,868
-	1,090,875	1,090,875	93,500
160,012	36,681	196,693	440,348
74,737	33,478	108,215	93,434
199,088	(199,088)	-	-
13,695,118	961,946	14,657,064	4,913,386
226,623	75,936	302,559	1,948,107
13,705,268	15,544,415	29,249,683	(15,558,417)
\$ 13,931,891	\$ 15,620,351	\$ 29,552,242	\$ (13,610,310)

City of Talladega, Alabama
Balance Sheet – Governmental Funds

<i>September 30, 2020</i>	General	Capital Projects Trust Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 7,590,814	\$ 1,475,257	\$ 1,181,434	\$ 10,247,505
Investments	278,857	-	821,600	1,100,457
Receivables, net	962,273	-	22,721	984,994
Interfund receivable	84,167	-	112,355	196,522
Interfund receivable - proprietary fund	106,739	-	-	106,739
Other assets	93,940	-	-	93,940
Total assets	\$ 9,116,790	\$ 1,475,257	\$ 2,138,110	\$ 12,730,157
Liabilities and Fund Balances				
Liabilities				
Accounts payable and accrued liabilities	\$ 208,679	\$ 19,743	\$ 431,060	\$ 659,482
Interfund payable	112,355	84,167	-	196,522
Other liabilities	-	54,571	-	54,571
Total liabilities	321,034	158,481	431,060	910,575
Fund balances				
Restricted	-	1,316,776	441,380	1,758,156
Committed	-	-	995,487	995,487
Assigned	-	-	274,937	274,937
Unassigned:				
Capital projects - community development	-	-	(4,754)	(4,754)
General fund	8,795,756	-	-	8,795,756
Total fund balances	8,795,756	1,316,776	1,707,050	11,819,582
Total liabilities and fund balances	\$ 9,116,790	\$ 1,475,257	\$ 2,138,110	\$ 12,730,157

The accompanying notes are an integral part of these financial statements.

City of Talladega, Alabama
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Position

September 30, 2020

Total fund balances - governmental funds \$ 11,819,582

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Governmental capital assets not being depreciated	\$ 3,977,041	
Governmental capital assets being depreciated	65,728,010	
Less accumulated depreciation	<u>(53,313,639)</u>	16,391,412

Long-term liabilities, including debt, net OPEB liability, net pension liability and compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.

Accrued interest	(28,312)	
Warrants payable	(5,968,871)	
Capital lease obligations	(453,176)	
Net OPEB liability	(3,313,674)	
Net pension liability	(6,780,679)	
Compensated absences	<u>(400,390)</u>	(16,945,102)

Deferred outflows of resources related to pension and OPEB expenses are not recognized in the governmental funds; however, they are recorded in the statement of net position under full accrual accounting.

2,745,550

In the advance refunding of debt, the difference between the net carrying amount of the old debt and its reacquisition price is treated as an other financing use in the governmental fund statements, whereas this amount is deferred and amortized over the life of the old debt or new debt, whichever is shorter, and reported as a deferred outflow on the statement of net position.

315,013

Deferred inflows of resources related to pension and OPEB expenses are not recognized in the governmental funds; however, they are recorded in the statement of net position under full accrual accounting.

(394,564)

Net position of governmental activities \$ 13,931,891

The accompanying notes are an integral part of these financial statements.

City of Talladega, Alabama
Statement of Revenues, Expenditures, and Changes in
Fund Balances – Governmental Funds

<i>For the year ended September 30, 2020</i>	General	Capital Projects Trust Fund	Nonmajor Funds	Total Governmental Funds
Revenues				
Taxes	\$ 12,577,817	\$ -	\$ 683,464	\$ 13,261,281
Licenses and permits	2,518,280	-	-	2,518,280
Charges for services	468,063	-	467,884	935,947
Federal and state grants	333,155	193,854	112,798	639,807
Interest	35,086	564	39,087	74,737
Other revenues	190,882	-	-	190,882
Total revenues	16,123,283	194,418	1,303,233	17,620,934
Expenditures				
Current				
General government	1,495,226	209,480	941,477	2,646,183
Public safety	6,049,604	-	571,395	6,620,999
Public works	2,370,254	203,167	-	2,573,421
Recreation	982,820	-	-	982,820
Other boards and agencies	329,678	-	-	329,678
Non-departmental	877,398	-	-	877,398
Capital outlay	-	526,730	1,529,051	2,055,781
Debt service:				
Principal	-	-	643,745	643,745
Interest	-	-	205,303	205,303
Total expenditures	12,104,980	939,377	3,890,971	16,935,328
Excess (deficiency) of revenues over (under) expenditures	4,018,303	(744,959)	(2,587,738)	685,606
Other Financing Sources (Uses)				
Transfers in	332,281	1,163,088	2,175,630	3,670,999
Transfers out	(2,912,452)	-	(559,459)	(3,471,911)
Total other financing sources (uses)	(2,580,171)	1,163,088	1,616,171	199,088
Net change in fund balances	1,438,132	418,129	(971,567)	884,694
Fund balances, beginning of year	7,357,624	898,647	2,678,617	10,934,888
Fund balances, end of year	\$ 8,795,756	\$ 1,316,776	\$ 1,707,050	\$ 11,819,582

The accompanying notes are an integral part of these financial statements.

City of Talladega, Alabama
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances – Governmental Funds
to the Statement of Activities

September 30, 2020

Net change in fund balances - total governmental funds \$ 884,694

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeds capital outlay in the current period. (969,200)

In the statement of activities, the gain or loss on the disposal of capital assets is reported, whereas in the governmental funds, disposals are not reported. Thus, the change in net position differs from the change in fund balance by the net book value of the disposed capital assets. (30,870)

For governmental funds, the issuance of long-term debt provides current financial resources and the repayment of long-term debt consumes current financial resources. Neither transaction, however, has any effect on net position in the government-wide statement of net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued whereas these amounts are deferred and amortized in the Statement of Activities. These amounts are the net effect of these differences in the treatment of long-term debt and related items:

Principal payments	570,000	
Amortization of premiums	30,719	
Amortization of deferred charges on refunding	(30,082)	

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.

Change in accrued interest	2,852	
Change in OPEB expense	(38,745)	
Change in capital lease, net	73,745	
Change in pension expense	(266,490)	(228,638)

Change in net position of governmental activities \$ 226,623

The accompanying notes are an integral part of these financial statements.

City of Talladega, Alabama
Statement of Net Position – Proprietary Fund

September 30,

2020

Assets

Current assets

Cash and cash equivalents	\$ 5,114,511
Accounts receivable (net of allowance for doubtful accounts for \$847,063)	1,145,672
Unbilled revenue	955,615
Prepaid expenses	29,722
Inventories	259,761

Total current assets 7,505,281

Noncurrent assets

Restricted investments	2,879,722
Capital assets not being depreciated	1,572,038
Capital assets, net of depreciation	26,484,247

Total noncurrent assets 30,936,007

Total assets 38,441,288

Deferred Outflows of Resources

Deferred outflows related to pension	525,790
Deferred outflows related to OPEB	204,040
Deferred charge on refunding	64,152

Total deferred outflows of resources 793,982

(Continued)

The accompanying notes are an integral part of these financial statements.

City of Talladega, Alabama
Statement of Net Position – Proprietary Fund (Continued)

<i>September 30,</i>	2020
<hr/>	
Liabilities	
Current liabilities	
Accounts payable and accrued expenses	\$ 605,869
Interfund payable	106,739
Current portion of long-term debt	480,000
<hr/>	
Total current liabilities	1,192,608
Noncurrent liabilities	
Compensated absences	124,359
Customer meter deposits	214,380
Revenue warrants payable, net	19,205,172
Net pension liability	1,892,666
Net OPEB liability	880,850
<hr/>	
Total noncurrent liabilities	22,317,427
Total liabilities	23,510,035
<hr/>	
Deferred Inflows of Resources	
Deferred inflows related to pension	68,143
Deferred inflows related to OPEB	36,741
<hr/>	
Total deferred inflows of resources	104,884
Net Position	
Net investment in capital assets	9,845,662
Restricted for:	
Debt service	40,552
Capital improvements	2,767,282
Unrestricted	2,966,855
<hr/>	
Total net position	\$ 15,620,351
<hr/> <hr/>	

The accompanying notes are an integral part of these financial statements.

City of Talladega, Alabama
Statement of Revenues, Expenses and Changes
in Fund Net Position – Proprietary Fund

For the year ended September 30,

2020

Operating Revenues	
Water revenues	\$ 3,921,720
Sewer revenues	2,802,584
Garbage revenues	1,060,018
Other operating revenues	532,011
<hr/>	
Total operating revenues	8,316,333
Operating Expenses	
Water and sewer department expenses	1,084,018
Waste water plants	1,710,226
Water filters and wells	1,018,351
Garbage collection expenses	981,216
General and administrative expenses	1,806,139
Depreciation expense	1,704,456
<hr/>	
Total operating expenses	8,304,406
<hr/>	
Operating income	11,927
Nonoperating Revenues (Expenses)	
Interest income	33,478
Grant revenue	1,090,875
Other income	36,681
Interest expense	(897,937)
<hr/>	
Total nonoperating revenues (expenses)	263,097
<hr/>	
Income Before Transfers	275,024
Transfers out	(199,088)
<hr/>	
Change in net position	75,936
<hr/>	
Net position, beginning of year	15,544,415
<hr/>	
Net position, end of year	\$ 15,620,351
<hr/> <hr/>	

The accompanying notes are an integral part of these financial statements.

City of Talladega, Alabama
Statement of Cash Flows – Proprietary Fund

For the year ended September 30,

2020

Operating Activities

Cash received from customers for sales and services	\$	8,280,128
Cash paid to suppliers for goods and services		(4,664,576)
Cash payments to and on behalf of employees		(1,906,901)

Net cash provided by (used in) operating activities 1,708,651

Noncapital Financing Activities

Grant proceeds		578,915
Transfers out		(199,088)

Net cash provided by (used in) noncapital financing activities 379,827

Capital and Related Financing Activities

Acquisition of capital assets		(3,175,305)
Other income		36,681
Principal paid on long-term debt		(462,917)
Interest paid on long-term debt		(887,833)

Net cash provided by (used in) capital and related financing activities (4,489,374)

Investing Activities

Proceeds from sale of investments		1,456,472
Interest received		33,478

Net cash provided by (used in) investing activities 1,489,950

Net increase (decrease) in cash and cash equivalents (910,946)

Cash and cash equivalents, beginning of year 6,025,457

Cash and cash equivalents, end of year \$ 5,114,511

(Continued)

The accompanying notes are an integral part of these financial statements.

City of Talladega, Alabama
Statement of Cash Flows – Proprietary Fund (Continued)

For the year ended September 30,

2020

**Reconciliation of Operating Income (Loss) to Net Cash Provided
by (Used In) Operating Activities:**

Operating income (loss)	\$	11,927
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation		1,704,456
Change in assets, deferred outflows, liabilities and deferred inflows		
(Increase) decrease in assets and deferred outflows		
Accounts receivable		30,425
Unbilled revenue		(66,630)
Prepaid expenses		(10,654)
Inventories		(3,295)
Deferred outflows of resources		(234,206)
Increase (decrease) in liabilities and deferred inflows		
Accounts payable and accrued expenses		(24,050)
Interfund payable		1,822
Customer deposits		(16,487)
Net pension liability		431,395
Net OPEB liability		54,102
Deferred inflows of resources		(170,154)
<hr/>		
Total adjustments		1,696,724
<hr/>		
Net cash provided by (used in) operating activities	\$	1,708,651
<hr/>		

The accompanying notes are an integral part of these financial statements.

City of Talladega, Alabama
Statement of Fiduciary Net Position

<i>September 30, 2020</i>	OPEB Trust Fund
<hr/>	
Assets	
Cash and cash equivalents	\$ 104,002
Investments, at fair value	1,238,704
<hr/>	
Total assets	1,342,706
 Net Position	
Restricted for OPEB benefits	\$ 1,342,706
<hr/> <hr/>	

The accompanying notes are an integral part of these financial statements.

City of Talladega, Alabama
Statement of Changes in Fiduciary Net Position

<i>For the year ended September 30, 2020</i>	OPEB Trust Fund
Additions	
Contributions:	
Employer	\$ 302,100
Investment income:	
Interest and dividends	30,093
Total additions	332,193
Deductions	
Net depreciation in the fair value of investments	10,730
Benefits paid	235,715
Administrative expenses	3,261
Total deductions	249,706
Change in net position	82,487
Net position held in trust for OPEB benefits, beginning of year	1,260,219
Net position held in trust for OPEB benefits, end of year	\$ 1,342,706

The accompanying notes are an integral part of these financial statements.

City of Talladega, Alabama
Statement of Net Position – Component Units

September 30, 2020

	Talladega City Board of Education	Talladega Municipal Airport Board	Total
Assets			
Cash and cash equivalents	\$ 4,367,810	\$ 528,832	\$ 4,896,642
Investments	3,141,753	1,654,331	4,796,084
Receivables	41,283	-	41,283
Due from other governments	1,167,283	30,000	1,197,283
Inventories	90,857	-	90,857
Accrued interest receivable	-	491	491
Other assets	61,007	6,676	67,683
Capital assets, net of accumulated depreciation	10,964,170	2,013	10,966,183
Total assets	19,834,163	2,222,343	22,056,506
Deferred Outflows of Resources			
Deferred outflows related to pension	3,280,227	-	3,280,227
Deferred outflows related to OPEB	3,384,882	-	3,384,882
Total deferred outflows of resources	6,665,109	-	6,665,109
Liabilities			
Bank overdraft	728,601	-	728,601
Accounts payable and accrued liabilities	1,284,221	717	1,284,938
Due to other governments	-	30,000	30,000
Other liabilities	3,563	-	3,563
Non-current liabilities			
Due within one year			
Warrants and notes payable	343,862	-	343,862
Compensated absences	146,109	-	146,109
Due in more than one year			
Warrants and notes payable	2,397,064	-	2,397,064
Net pension liability	17,475,000	-	17,475,000
Net OPEB liability	7,874,785	-	7,874,785
Total liabilities	30,253,205	30,717	30,283,922
Deferred Inflows of Resources			
Deferred inflows related to pension	1,868,000	-	1,868,000
Deferred inflows related to OPEB	10,180,003	-	10,180,003
Total deferred inflows of resources	12,048,003	-	12,048,003
Net Position (Deficit)			
Net investment in capital assets	8,223,244	2,013	8,225,257
Restricted	2,342,450	-	2,342,450
Unrestricted (deficit)	(26,367,630)	2,189,613	(24,178,017)
Total net position (deficit)	\$ (15,801,936)	\$ 2,191,626	\$ (13,610,310)

The accompanying notes are an integral part of these financial statements.

City of Talladega, Alabama
Statement of Activities – Component Units

For the year ended September 30, 2020

Functions/Programs	Expenses	Charges for Services	Program Revenues	
			Operating Grants and Contributions	Capital Grants and Contributions
Talladega City Board of Education Education	\$ 20,559,591	\$ 1,278,322	\$ 15,893,605	\$ 461,517
Talladega Municipal Airport Board Community Development	340,410	246,738	54,540	-
Total component units	\$ 20,900,001	\$ 1,525,060	\$ 15,948,145	\$ 461,517

General revenues

Taxes

Property taxes, levied for general purposes

Sales taxes

Alcohol beverage taxes

Other taxes

Grants not restricted to specific programs

Investment earnings

Miscellaneous

Total general revenues

Change in net position

Net position (deficit), beginning of year

Net position (deficit), end of year

The accompanying notes are an integral part of these financial statements.

City of Talladega, Alabama
Statement of Activities – Component Units

Net (Expense) Revenue and Changes in Net Position		
Talladega City Board of Education	Talladega Municipal Airport Board	Total
\$ (2,926,147)	\$ -	\$ (2,926,147)
-	(39,132)	(39,132)
(2,926,147)	(39,132)	(2,965,279)
2,392,889	-	2,392,889
1,782,347	-	1,782,347
82,408	-	82,408
28,460	-	28,460
93,500	-	93,500
62,323	31,111	93,434
435,799	4,549	440,348
4,877,726	35,660	4,913,386
1,951,579	(3,472)	1,948,107
(17,753,515)	2,195,098	(15,558,417)
\$ (15,801,936)	\$ 2,191,626	\$ (13,610,310)

City of Talladega, Alabama

Notes to Financial Statements

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The City of Talladega, Alabama (the “City”) was founded in 1834. The City operates under a Manager-Council form of government with a City Council consisting of five council members elected for concurrent terms of four years. One official is elected at large by the qualified voters of the City and has the title of Mayor. The City Manager is appointed by the City Council. The City Manager has full administrative authority for all operations of the City. City Council has decision-making authority, the power to set rates, arrange financing, designate management, significantly influence operations, and primary accountability for fiscal matters. The accounting policies of the City conform to generally accepted accounting principles (GAAP) as applied to governmental units. The more significant accounting policies used by the City are described below.

In evaluating the City as a reporting entity, management has considered all potential component units in accordance with Section 2100: *Defining the Financial Reporting Entity* of the governmental Accounting Standards Board (GASB) Codification.

As required by GAAP, the accompanying financial statements present the City as a primary government and its component units, entities for which the City is considered financially accountable. The component units are included in the reporting entity because of the significance of their operational relationship with the primary government. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of the organization’s governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. The primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

Blended Component Units

Blended component units, although legally separate entities, are in substance part of the primary government’s operations and data from these units would be combined with the data of the City. The City has no blended component units.

Discretely Presented Component Units

Discretely presented component units are presented in a separate column in the combined financial statements to emphasize they are legally separate from the City. The discretely presented component units are as follows:

- Talladega City Board of Education is the City’s local school system that provides educational services to citizens. It is a component unit of the City because it is reliant upon the City for tax revenue collections and for bond issues because the Talladega City Board of Education is precluded from issuing bonds directly. The audited financial information for Talladega City Board of Education is included in this audit report.

City of Talladega, Alabama Notes to Financial Statements

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Discretely Presented Component Units (continued)

- Talladega Municipal Airport Board provides air traffic services to the geographic area that includes the City. It is a component unit because the governing body of the Talladega Municipal Airport Board is appointed by the City Council and because of the existence of a financial benefit/burden relationship. The audited information for the Talladega Municipal Airport Board is included in this report.

Audited financial statements for the Talladega City Board of Education and Talladega Municipal Airport Board are available at City Hall.

Government-wide and Fund Financial Statements

The City's basic financial statements include both government-wide (based on the City as a whole) and fund financial Statements. The focus is on either the City as a whole or on major individual funds, within the fund financial statements. Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. Government-wide financial statements, comprised of the statement of net position and the statement of activities, report information on all of the non-fiduciary activities of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The City's police and fire protection, parks and recreation, public works, economic development, library and general administrative services are classified as governmental activities. The City's water and sewer services are classified as business-type activities.

In the statement of net position, both the governmental and business-type activities columns are presented on a consolidated basis by column, and are reported on a full accrual, economic resource basis, which includes all long-term assets and receivables as well as long-term debt and obligations. The City's net position is reported in three parts — net investment in capital assets, restricted, and unrestricted.

The statement of activities reports both the gross and net cost per functional category (public works, public safety, etc.), which are otherwise being supported by general government revenues (taxes, licenses and permits, etc.) and business-type activities. The statement of activities reduces gross expenses; including depreciation, by related program revenues (charges for services, operating and capital grants and contributions). The program revenues must be directly associated with a function or a business-type activity. The City does not allocate indirect expenses. The operating grants include operating specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. The City first utilizes restricted resources to finance qualifying activities.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

City of Talladega, Alabama Notes to Financial Statements

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source. All other revenue items are considered to be measurable and available only when cash is received by the City.

The proprietary fund and fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*.

City of Talladega, Alabama Notes to Financial Statements

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the City's enterprise funds.

Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use and balances of the City's expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The measurement focus is based upon determination of changes in financial position, rather than upon net income determination. The following are the City's governmental funds:

General Fund is the general operating fund of the City and is considered a major governmental fund. All general tax revenue and other receipts that are not allocated by law or contractual agreement to another fund are accounted for in this fund. The general operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than for major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action. The special revenue funds are considered nonmajor governmental funds.

Debt Service Funds are nonmajor governmental funds used to account for the repayment of principal and interest on the City's outstanding debt obligations.

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities. Capital projects funds used by the City are as follows:

1. Community Development Fund
2. Capital Projects Trust Fund

The Capital Projects Trust fund is considered a major fund.

Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. This focus of proprietary fund measurement is upon determination of operating income, changes in net position, and cash flows.

City of Talladega, Alabama Notes to Financial Statements

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements (continued)

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. Operating expenses include the cost of sales and services, administrative and personnel expenses, repairs and supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Proprietary funds include the following fund types:

- Enterprise funds account for those operations that are financed and operated in a manner similar to private business or where the City has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. The City's Water and Sewer Department is considered a major enterprise fund that provides water, sewer and garbage service for the citizens in and around the City of Talladega, Alabama.

Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations and other governmental units. Since, by definition, these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

The City has a fiduciary fund for its Other Post-Employment Benefit (OPEB) trust.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operations or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function or business segment is self-financing or draws from the general revenues of the City.

City of Talladega, Alabama
Notes to Financial Statements

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary Information

Budgetary Basis of Accounting

Annual budgets are adopted on a basis consistent with GAAP for the general fund and special revenue funds. The appropriated budget is prepared by fund, function, and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the council. The legal level of budgetary control (i.e. the level at which expenditures may not legally exceed appropriations) is the department level. Appropriations for general and special revenue funds lapse at year-end (except for appropriations for capital outlays, which are carried forward from year to year until fully expended or the purpose of the appropriation has been accomplished or abandoned).

Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position

Cash and Cash Equivalents

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

Receivables

All trade, court cost and fines receivable are reported net of an allowance for uncollectible amounts. Actual uncollectible trade receivables are written off in September each year with an allowance for unrecognized uncollectible accounts based on historical experience. An allowance is recognized for court cost and fines accounts with no activity during the past twelve months.

Provisions for credit losses are charged to income in amounts sufficient to maintain the allowance at a level considered adequate to cover current losses, as deemed necessary by management. Bad debt expense was \$0 for the year ended September 30, 2020, and the allowance for doubtful accounts was \$847,063 at September 30, 2020.

Investments

Investments are recorded at fair value based on quoted market prices. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

Receivables and Allowance for Doubtful Accounts

Unbilled receivables – An amount for unbilled revenue is recorded for services rendered, but not yet billed as of the end of the fiscal year. The receivable is derived from the cycle billings generated subsequent to fiscal year end and prorated for usage in September.

City of Talladega, Alabama Notes to Financial Statements

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position (continued)

Allowance for doubtful accounts – Accounts receivable have been reported net of the allowance for doubtful accounts. Accounts receivable in excess of 90 days are subject to being considered as uncollectible.

Inventories and Prepaid Expenses

Inventories are valued at the lower of cost or market using the first-in/first-out (FIFO) method and consist of expendable supplies and vehicle repair parts. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Restricted Assets

Certain assets of the Water and Sewer Department are classified as restricted assets on the statement of net position because their use is limited by law through constitutional provisions or enabling legislation; or by restrictions imposed externally by creditors, grantors, contributors or laws and regulations of other governments.

Bond debt service and capital improvement accounts – Includes certain proceeds from issuance of revenue bonds, as well as certain resources set aside for the repayment of bonds.

Restricted assets consist of funds held in federated treasury obligation fund securities. Debt service funds total \$112,440 at September 30, 2020. Capital improvement funds total \$2,767,282 at September 30, 2020.

Capital Assets

Governmental activities. Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are valued at historical cost or estimated historical cost if actual is unavailable. Donated capital assets are valued at their estimated acquisition value on the date donated. The City capitalizes assets with a cost of more than \$5,000 and an estimated useful life in excess of one year as purchase and construction outlays occur. Land and construction in progress are not depreciated. The other property, plant, equipment, and infrastructure of the primary government are depreciated using the straight line method over the following estimated useful lives:

City of Talladega, Alabama
Notes to Financial Statements

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position (continued)

Capital asset classes	Lives
Equipment	3-7 years
Buildings	40 years
Improvements	40 years
Machinery and equipment	5-10 years
Automotive equipment	5 years
Office equipment	5-10 years

Water and Sewer Department. Capital assets are recorded at cost when purchased or constructed. The Water and Sewer Department records water and sewer lines constructed by sub-dividers as a part of capital assets, upon completion of subdivision. Contributed assets are recorded at the estimated fair value at the date of donation. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. Interest is capitalized during the construction of assets; however, no interest was capitalized during the current year. The Water and Sewer Department capitalizes assets with a cost more than \$5,000 and a useful life of one year or more.

Capital asset classes	Lives
Water System	20-50 years
Sewer System	20-50 years
Equipment	3 – 7 years

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, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has three items that qualify for reporting in this category, the deferred charge on refunding, deferred outflows related to pension and deferred outflows related to OPEB. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its acquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred outflows related to pension are an aggregate of items related to the pension as calculated in accordance with GASB Codification P20: *Pension Activities – Reporting for Benefits Provided through Trusts That Meet Specified Criteria*. Deferred outflows related to OPEB result from contributions related to normal and accrued employer liability (net of any refunds or error service payments) subsequent to the measurement date, the net difference between projected and actual earnings on plan investments, changes in assumptions, and differences between actual and expected experience. The deferred outflows related to pension or OPEB will be recognized as either pension or OPEB expense or a reduction in the net pension or OPEB liabilities in future reporting years.

City of Talladega, Alabama Notes to Financial Statements

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position (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, *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 City has two items that qualify for reporting in this category, the deferred inflows related to pension and deferred inflows related to OPEB. The deferred inflows related to pension are an aggregate of items related to pension as calculated in accordance with GASB Codification P20: *Pension Activities – Reporting for Benefits Provided through Trusts That Meet Specified Criteria*. Deferred inflows related to OPEB result from differences between expected and actual experience, changes in assumptions, and the net difference between projected and actual earnings on plan investments. The deferred inflows related to pension or OPEB will be recognized as a reduction to pension or OPEB expense in future reporting years.

Compensated absences

The City's policy permits employees to accumulate earned but unused vacation and sick leave benefits up to certain limits for use in subsequent periods and various annual leave can be carried forward into the next fiscal year. Upon termination of employment, an employee is compensated for accumulated vacation leave and compensatory pay at current wage rates. The liability for such leave is reported as incurred in financial statements and consists of unpaid, accumulated vacation leave and compensatory pay balances and does not reflect non-vesting accumulating rights to receive sick pay benefits.

Cost of Borrowing

In accordance with GASB Codification Section I30: *Interest Costs – Imputation*, bond issuance costs are expensed in the period incurred except for prepaid insurance costs.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, pension expense, information about the fiduciary net position, and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

City of Talladega, Alabama Notes to Financial Statements

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position (continued)

Other Post-Employment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows/inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Customer Meter Deposits

The Water and Sewer Department requires customers to pay a one-time deposit of \$50 for water service, with the exception of customers who provide proof of home ownership. When a customer terminates service, the deposit is applied to the last bill and the balance is refunded.

Long-term Liabilities

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Warrant premiums and discounts are deferred and amortized over the life of the debt using the straight-line method. The difference between the reacquisition price of refunding debt and the net carrying amount of refunded debt (deferred amount on refunding) is amortized over the life of the refunding debt or remaining life of the refunded debt, whichever is shorter. Warrants payable are reported net of the unamortized portion of applicable premium or discount. Amortization of premiums or discounts and deferred amounts on refunding are included in interest expense. Debt issuance costs are expensed in the period incurred.

In the governmental fund financial statements, debt premiums and discounts, as well as debt issuance costs are recognized during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. Interest and principal payments are reported as debt service expenditures.

Categories and Classification of Net Position

Net position flow assumption – Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

City of Talladega, Alabama Notes to Financial Statements

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position (continued)

Categories and Classification of Net Position (continued)

The City's net position is divided into three components:

- *Net investment in capital assets* - This component of net position consists of the historical cost of capital assets, net of accumulated depreciation, and is reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt should also be included in this component of net position.
- *Restricted* - This component of net position consists of assets that are restricted by contributors, contractual provisions, or enabling legislation, reduced by liabilities and deferred inflows of resources related to those assets. The City's restricted net position as reported in the statement of net position consist of cash and investments which are restricted for debt service and capital improvements.
- *Unrestricted* - This component of net position is the net amount of the assets, liabilities, and deferred inflows/outflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

Fund balance flow assumptions – Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund balance policies – Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The provisions of GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, specifies the following classifications:

Nonspendable fund balance - Nonspendable fund balances are amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

City of Talladega, Alabama Notes to Financial Statements

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position (continued)

Categories and Classification of Net Position (continued)

Restricted fund balance - Restricted fund balances are restricted when constraints placed on the use of resources are either: (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed - amounts that can be used only for specific purposes because of a formal resolution by the City Council - the government's highest level of decision-making authority. City Council action by formal resolution is required to establish, modify or rescind a fund balance commitment.

Assigned - amounts intended to be used by the City for specific purposes that are neither restricted nor committed. Intent is expressed by a body (for example a budget or finance committee) or official to whom the City Council has delegated the authority to assign amounts to be used for specific purposes. The City Council has delegated such authority to the City Manager.

Unassigned - residual classification for the general fund (i.e. everything that is not in another classification or in another fund). It is also used to report negative fund balances in other governmental funds. In governmental funds other than the general fund, if expenditures incurred for specific purposes exceed the amounts that are restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance in that fund. As of September 30, 2020, the Community Development Capital Project Fund reported a deficit of \$4,754.

The City has restricted \$1,316,776 of the Capital Projects Trust Fund balance and \$441,380 of the Other Governmental Funds fund balance.

The City has committed \$995,487 of the Other Governmental Funds fund balance to maintain the City's Cemetery.

The City has assigned \$274,937 of the Other Governmental Funds fund balance for the City's Library.

Interfund transfers

In the fund financial statements, receivables and payables resulting from outstanding balances between funds are classified as "interfund receivables/payables". Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances". Flow of cash or goods from one fund to another without a requirement for repayment is reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds.

City of Talladega, Alabama Notes to Financial Statements

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interfund transfers (continued)

The government-wide statements eliminate interfund transfers and receivables/payables as reported within the segregated governmental and business activities column. Only transfers and receivables/payables between the two columns appear in this statement, which zero in total.

Property Taxes

Millage rates for property taxes are levied at the first regular meeting of the County Commission in February of each year. Property is assessed for taxation as of October 1 of the preceding year based on the millage rates established by the County Commission. Property taxes are due and payable the following October 1 and are delinquent after December 31. Amounts receivable, net of estimated refunds and estimated uncollectible amounts, are recorded for the property taxes with a legally enforceable claim in the current year.

Use of Estimates

Management uses estimates and assumptions in preparing these financial statements in accordance with GAAP. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, January 26, 2022. See Note 9. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

Recently Issued and Implemented Accounting Pronouncements

In May 2020, the GASB issued Statement No. 95 (GASB 95), *Postponement of the Effective Date of Certain Authoritative Guidance*. This statement provides temporary relief to governments and other stakeholders in light of the COVID-19 pandemic by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later. GASB 95 had no impact on the City's financial statements.

The GASB has issued statements that will become effective in future years. These statements are as follows:

In January 2017, the GASB issued Statement No. 84 (GASB 84), *Fiduciary Activities*. GASB 84 establishes specific criteria for identifying fiduciary activities and the requirements for financial statement reporting. The focus of the criteria is on whether a government is controlling the assets of the fiduciary activity and the beneficiaries with whom a fiduciary relationship exists.

City of Talladega, Alabama Notes to Financial Statements

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued and Implemented Accounting Pronouncements (continued)

Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. GASB 84 describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. In addition, recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred which compels the government to disburse fiduciary resources should also be reported. GASB 84 will be effective for the fiscal years beginning after December 15, 2019.

In June 2017, the GASB issued Statement No. 87 (GASB 87), *Leases*. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases 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 payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this statement are effective for reporting periods beginning after June 15, 2021.

In June 2018, the GASB issued Statement No. 89 (GASB 89), *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objectives of this statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The requirements of this statement are effective for reporting periods beginning after December 15, 2020.

In August 2018, the GASB issued Statement No. 90 (GASB 90), *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund.

City of Talladega, Alabama Notes to Financial Statements

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued and Implemented Accounting Pronouncements (continued)

Those governments and funds should measure the majority equity interest at fair value. The requirements of this statement are effective for reporting periods beginning after December 15, 2019. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

In May 2019, the GASB issued Statement No. 91 (GASB 91), *Conduit Debt Obligations*. The primary objectives of this statement are 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 this statement are effective for reporting periods beginning after December 15, 2021.

In January 2020, the GASB issued Statement No. 92 (GASB 92), *Omnibus 2020*. The objectives of this statement are to enhance the 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. The requirements of this statement are effective for reporting periods beginning after June 15, 2021.

In March 2020, the GASB issued Statement No. 93 (GASB 93), *Replacement of Interbank Offered Rates*. The purpose of this statement is to address accounting and financial reporting implications that result from the replacement of interbank offered rate (IBOR) – most notably, the London Interbank Offered Rate (LIBOR). This statement achieves this objective by (1) 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, (2) clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate, (3) 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, (4) removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap, (5) 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 the interest rate swap, and (6) clarifying the definition of reference rate, as it is used in Statement 53, as amended. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021.

In March 2020, the GASB issued Statement No. 94 (GASB 94), *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public

City of Talladega, Alabama Notes to Financial Statements

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued and Implemented Accounting Pronouncements (continued)

partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. This Statement is effective for fiscal years beginning after June 15, 2022.

In May 2020, the GASB issued Statement No. 96 (GASB 96), *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. This Statement is effective for fiscal years beginning after June 15, 2022.

In June 2020, the GASB issued statement No. 97 (GASB 97), *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. The primary objectives of this statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension or OPEB plans as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans that meet the definition of a pension plan and for benefits provided through those plans. The requirements for this statement are effective for reporting periods beginning after June 15, 2021.

The City is evaluating the requirements of the above statements and the impact on reporting.

City of Talladega, Alabama Notes to Financial Statements

Note 2: DETAILED NOTES

Deposits and Investments

As of September 30, 2020, the City's deposits were entirely covered by federal depository insurance (FDIC) or by the Security for Alabama Funds Enhancement ("SAFE") Program.

The SAFE Program was established by the Alabama Legislature and is governed by the provisions contained in the *Code of Alabama 1975*, Sections 41-14A-1 through 41-14A-14. Under the SAFE Program all public funds are protected through a collateral pool administered by the Alabama State Treasurer's Office. Under this program, financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by the FDIC. If the securities pledged fail to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance.

Custodial credit risk – Custodial credit risk for deposits is the risk in the event of the failure of a depository financial institution a government may not be able to recover deposits. Monies placed on deposit with financial institutions in the form of demand deposits, time deposits or certificate of deposits are defined as public deposits. The financial institutions in which the City places its deposits are certified as "qualified public depositories," as required under the SAFE program. For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Interest rate risk – Interest rate risk is the possibility that interest rates will rise and reduce the fair value of an investment. The City has limited its interest rate risk by investing in money market funds which are required to maintain an average dollar-weighted portfolio maturity of 90 days or less and certificates of deposits held at local banks with an original maturity of one year or less.

Credit risk – Section 150: *Investments* of the GASB Codification requires that governments provide information about credit risk associated with their investments by disclosing the credit rating of investments in debt securities as described by nationally recognized statistical rating organizations.

Concentration risk – Section 150: *Investments* of the GASB Codification requires disclosures of investments in any one issuer that represents five percent or more of total investments. The City had no such reportable concentrations of investments as of September 30, 2020.

City of Talladega, Alabama Notes to Financial Statements

Note 2: DETAILED NOTES (Continued)

Deposits and Investments (continued)

Fair Value – GASB Codification Section 3100: *Fair Value Measurements* establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy under the codification are described as follows:

- Level 1 (L1): Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the City has the ability to access.
- Level 2 (L2): Inputs to the valuation methodology include:
- quoted prices for similar assets or liabilities in active markets;
 - quoted prices for identical or similar assets or liabilities in inactive markets;
 - inputs other than quoted prices that are observable for the asset or liability;
 - inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 (L3): Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

In addition to a long-term certificate of deposit held by the General Fund, the City uses investments to maintain the Oak Hill Cemetery and the Armstrong-Osborne Public Library. As of September 30, 2020, the value of the investments held in the General Fund, the Cemetery Trust Fund and the Library Fund are \$278,857, \$778,264 and \$43,336, respectively.

City of Talladega, Alabama
Notes to Financial Statements

Note 2: DETAILED NOTES (Continued)

Deposits and Investments (continued)

The following table sets forth by level, within the fair value hierarchy, the City's assets at fair value as of September 30, 2020:

Governmental Activities:

Investment type	Fair Value	Fair Value Measurements		
		Level 1	Level 2	Level 3
Certificate of deposit	\$ 278,856	\$ 278,856	\$ -	\$ -
Common Stock	189,951	189,951	-	-
Mutual Funds	43,336	43,336	-	-
Corporate Bonds	588,314	588,314	-	-
Total investments	\$ 1,100,457	\$ 1,100,457	\$ -	\$ -

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at September 30, 2020.

Certificates of Deposit – Certificates of deposit classified in Level 1 of the fair value hierarchy are valued at amortized cost which approximates fair value.

Common stocks – Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual funds – Mutual funds classified in Level 1 of the fair value hierarchy are valued using quoted market prices for those investments.

Corporate bonds – Corporate bonds classified in Level 1 of the fair value hierarchy are valued using quoted market prices for those investments.

City of Talladega, Alabama
Notes to Financial Statements

Note 2: DETAILED NOTES (Continued)

Deposits and Investments (continued)

The following schedule displays the investments held in governmental funds as of September 30, 2020 and their maturities:

September 30, 2020	Fair Value	Maturities (in years)			Percentage
		Less than 1 year	1 to 5 years	More than 5	
Investment type:					
Corporate bonds	\$ 588,314	\$ 55,639	\$ 229,895	\$ 302,780	53%
Certificate of deposit	278,856	-	278,856	-	25%
Common Stock	189,951	189,951	-	-	17%
Mutual Funds	43,336	43,336	-	-	5%
Total investments	\$ 1,100,457	\$ 288,926	\$ 508,751	\$ 302,780	100%

The debt securities held by the City have credit ratings from Standard and Poor's ranging from BBB to AAA.

Business-type Activities:

The Water and Sewer Department has investments that are classified as restricted assets that consist of monies held in trust by Regions Bank to cover debt indenture expenses and repayment of warrants. At September 30, 2020, the monies held in trust were \$2,879,722. The following schedule displays the restricted assets held by the Department as of September 30, 2020, and their fair value measurements:

Investment type	Fair Value	Fair Value Measurements		
		Level 1	Level 2	Level 3
Money Market Treasury Portfolio	\$ 2,879,722	\$ 2,879,722	\$ -	\$ -

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at September 30, 2020.

Mutual funds – Mutual funds classified in Level 1 of the fair value hierarchy are valued using quoted market prices for those investments.

In fiscal year 2015, the City established an irrevocable trust to be used to accumulate and invest assets to pay for the accumulated liability for post-employment healthcare benefits. The following

City of Talladega, Alabama
Notes to Financial Statements

Note 2: DETAILED NOTES (Continued)

Deposits and Investments (continued)

schedule displays the investments held within the irrevocable trust as of September 30, 2020, and their fair value measurements:

Fiduciary Fund:

Investment type	Fair Value	Fair Value Measurements		
		Level 1	Level 2	Level 3
Certificate of deposit	\$ 208,259	\$ 208,259	\$ -	\$ -
Mutual funds	1,030,445	1,030,445	-	-
Total investments	\$ 1,238,704	\$ 1,238,704	\$ -	\$ -

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at September 30, 2020.

Certificates of Deposit – Certificates of deposit classified in Level 1 of the fair value hierarchy are valued at amortized cost which approximates fair value.

Mutual funds – Mutual funds classified in Level 1 of the fair value hierarchy are valued using quoted market prices for those investments.

The methods described in the tables above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the City believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Accounts Receivable

Governmental activities receivables at September 30, 2020:

September 30,	2020
Taxes receivable	\$ 962,273
Restitution receivable	2,346
Other receivables	20,375
Accounts receivable, net	\$ 984,994

City of Talladega, Alabama
Notes to Financial Statements

Note 2: DETAILED NOTES (Continued)

Accounts Receivable (continued)

Water and Sewer Department receivables at September 30, 2020:

Operating revenues are generally recognized on the basis of cycle billings rendered monthly. The amount of services delivered for the period from the last billing date to September 30, 2020 (unbilled receivable), is estimated and accrued at year end. All accounts receivable are shown net of allowances for uncollectible accounts. The accounts receivable and allowance for uncollectible accounts at September 30, 2020, were as follows:

September 30,	2020
Accounts receivable	\$ 1,480,775
Grants receivable	511,960
Less: allowance for doubtful accounts	(847,063)
Accounts receivable, net	\$ 1,145,672

Unbilled revenues receivable at September 30, 2020 was \$955,615.

Capital Assets

The following is a summary of changes in capital assets during the year ended September 30, 2020:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land and improvements	\$ 3,849,954	\$ -	\$ -	\$ 3,849,954
Construction progress	2,042,271	424,113	(2,339,297)	127,087
Capital assets, not being depreciated	5,892,225	424,113	(2,339,297)	3,977,041
Capital assets, being depreciated:				
Building and improvements	14,544,644	45,300	-	14,589,944
Infrastructure	41,632,622	2,134,928	-	43,767,550
Machinery and equipment	7,065,021	389,357	(83,862)	7,370,516
Capital assets, being depreciated	63,242,287	2,569,585	(83,862)	65,728,010
Less accumulated depreciation for:				
Building and improvements	9,462,221	340,620	-	9,802,841
Infrastructure	37,380,408	812,196	-	38,192,604
Machinery and equipment	4,900,401	470,785	(52,992)	5,318,194
Total accumulated depreciation	51,743,030	1,623,601	(52,992)	53,313,639
Total capital assets, being depreciated, net	\$ 11,499,257	\$ 945,984	\$ (30,870)	\$ 12,414,371

City of Talladega, Alabama
Notes to Financial Statements

Note 2: DETAILED NOTES (Continued)

Capital Assets (continued)

Depreciation expense was charged to governmental functions as follows:

General government administration	\$	434,448
Public safety		670,020
Public works		386,261
Parks and recreation		132,872
<hr/>		
Total depreciation expense	\$	1,623,601
<hr/>		

The following is a summary of changes in capital assets for the Water and Sewer Department during the year ended September 30, 2020:

	Beginning Balance	Increases	Decreases	Ending Balance
<hr/>				
Capital assets, not being depreciated:				
Land	\$ 279,326	\$ -	\$ -	\$ 279,326
Construction progress	863,543	3,175,305	(2,746,136)	1,292,712
<hr/>				
Capital assets, not being depreciated	1,142,869	3,175,305	(2,746,136)	1,572,038
<hr/>				
Capital assets, being depreciated:				
Land improvements	312,564	162,156	-	474,720
Building and improvements	46,206,709	2,583,980	-	48,790,689
Machinery and equipment	6,056,820	-	-	6,056,820
<hr/>				
Capital assets, being depreciated	52,576,093	2,746,136	-	55,322,229
Less accumulated depreciation for:				
Land improvements	43,689	18,993	-	62,682
Building and improvements	23,511,092	1,292,283	-	24,803,375
Machinery and equipment	3,578,745	393,180	-	3,971,925
<hr/>				
Total accumulated depreciation	27,133,526	1,704,456	-	28,837,982
<hr/>				
Total capital assets, being depreciated, net	\$ 25,442,567	\$ 1,041,680	\$ -	\$ 26,484,247
<hr/>				

Depreciation expense for the year ended September 30, 2020 was \$1,704,456.

City of Talladega, Alabama
Notes to Financial Statements

Note 2: DETAILED NOTES (Continued)

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities for governmental activities at September 30, 2020 consisted of the following:

September 30,	2020
Accounts payable	\$ 591,380
Payroll liabilities	38,788
Other liabilities	29,314
Total	\$ 659,482

Accounts payable and accrued liabilities for the Water and Sewer Department consisted of the following at September 30, 2020:

September 30,	2020
Accounts payable	\$ 499,872
Payroll liabilities	34,109
Accrued interest payable	71,888
Total	\$ 605,869

Interfund Transfers

Interfund transfers among governmental funds for the year ended September 30, 2020 were:

	Transfers In	Transfers Out
General fund		
Other nonmajor funds	\$ 332,281	\$ 1,948,453
Capital projects funds	-	940,555
Proprietary fund	-	23,444
Total general fund	332,281	2,912,452
Capital projects trust fund		
General fund	940,556	-
Proprietary fund	222,532	-
Total capital projects trust fund	1,163,088	-
Other nonmajor funds		
General fund	1,948,453	332,282
Other nonmajor funds	227,177	227,177
Total nonmajor funds	2,175,630	559,459
Total governmental fund interfund transfers	\$ 3,670,999	\$ 3,471,911

City of Talladega, Alabama
Notes to Financial Statements

Note 2: DETAILED NOTES (Continued)

Interfund Transfers (continued)

Transfers are primarily used to move funds from:

- The general fund to the library fund for operating expenses.
- The general fund to the corrections fund for operating expenses.
- The general fund to the debt service fund for debt service.
- The general fund to the capital projects fund to finance capital projects and expenditures.
- The corrections fund to the general fund for personnel expenses.

Interfund transfers among proprietary funds for the year ended September 30, 2020 were:

	Transfers In	Transfers Out
Water and Sewer Department		
General fund	\$ 23,444	\$ -
Capital projects funds	-	222,532
Total proprietary fund transfers	\$ 23,444	\$ 222,532

Transfers are primarily used to move funds from the Water and Sewer Department to the Capital Projects fund for capital outlay.

Interfund Receivables and Payables

Generally, outstanding balances between funds reported as “interfund receivables/payables” include subsidy commitments outstanding at year-end and other miscellaneous receivables/payables between funds. Interfund receivables and payables at September 30, 2020:

	Interfund Receivable	Interfund Payable
General fund		
Water and Sewer Department	\$ 106,739	\$ -
Capital projects trust fund	84,167	
Other governmental funds	-	112,355
Capital projects trust fund		
General fund	-	84,167
Other governmental funds		
General fund	112,355	-
Water and Sewer Department		
General fund	-	106,739
Total interfund receivable/payable	\$ 303,261	\$ 303,261

City of Talladega, Alabama
Notes to Financial Statements

Note 2: DETAILED NOTES (Continued)

Long-Term Debt and Liabilities

Governmental Activities

General obligation warrants provide funds for the acquisition and construction of major capital projects. The general and limited obligation warrants of the City include the following at September 30, 2020:

\$2,760,000; 2015 Series General Obligation Warrants; due at rates ranging from 2.00% to 4.00% per annum; maturing August 1, 2033.	\$ 2,500,000
\$3,120,000; 2017-A Series General Obligation Warrants; due at rates 1.50% to 3.00% per annum; maturing August 1, 2027.	2,255,000
\$1,320,000; 2017-B Series General Obligation Warrants; due at rates ranging from 2.00% to 3.00% per annum; maturing August 1, 2027.	955,000
	5,710,000
Unamortized premium, 2015 Series General Obligation Warrants	109,551
Unamortized premium, 2017-A Series General Obligation Warrants	108,925
Unamortized premium, 2017-B Series General Obligation Warrants	40,395
	258,871
Total warrants payable	\$ 5,968,871

The principal and maturities and related interest requirements for the warrants for the next five fiscal years and thereafter are as follows:

Year Ending September 30,	Principal	Interest	Total
2021	\$ 580,000	\$ 173,813	\$ 753,813
2022	595,000	160,913	755,913
2023	620,000	144,363	764,363
2024	625,000	127,113	752,113
2025	650,000	108,363	758,363
2026 – 2030	1,960,000	275,313	2,235,313
2031 – 2033	680,000	55,000	735,000
Total	\$ 5,710,000	\$ 1,044,878	\$ 6,754,878

City of Talladega, Alabama Notes to Financial Statements

Note 2: DETAILED NOTES (Continued)

Long-Term Debt and Liabilities (continued)

Series 2015 Warrants

Due to favorable interest rates during fiscal year 2015, \$2,920,111, including premium, of Series 2015 General Obligation Warrants were issued to refund \$2,510,000 of the City's previously issued and outstanding Series 2008 General Obligation Warrants. The proceeds were deposited with an escrow agent to provide for all future debt service on the refunded portion of the Series 2008 warrants. As a result, that portion of the Series 2008 warrants is considered defeased, and the City has removed the liability from its accounts. As of September 30, 2020, the outstanding principal of the defeased warrants were fully paid.

As a result of the refunding, the City reduced its aggregate debt service payments to maturity by \$197,503, and obtained an economic gain (difference between present value of the debt service payments on the old and new debt) of \$155,242.

Series 2017-A Warrants

In 2017, the City issued \$3,284,833, including premium, of Series 2017-A General Obligation Warrants to refund \$3,145,695 of the City's previously issued and outstanding Series 2007 General Obligation Warrants. The proceeds were deposited with an escrow agent to provide for all future debt service on the refunded Series 2007 warrants. As a result, the Series 2007 warrants are considered defeased, and the City has removed the liability from its accounts. As of September 30, 2020, the outstanding principal of the defeased warrants were fully paid.

As a result of the refunding, the City reduced its aggregate debt service payments to maturity by \$325,229, and obtained an economic gain (difference between present value of the debt service payments on the old and new debt) of \$289,753.

Series 2017-B Warrants

Also in 2017, the City issued \$1,378,093, including premium, of Series 2017-B General Obligation Warrants to refund \$1,280,000 of the City's previously issued and outstanding 2008 Industrial Development Authority (IDA) revenue bond. The proceeds were deposited with an escrow agent to provide for all future debt service on the refunded 2008 revenue bond. As a result, the 2008 revenue bond is considered defeased, and the City has removed the liability from its accounts. As of September 30, 2020, the outstanding principal of the defeased revenue bond is \$955,000.

As a result of the refunding, the City reduced its aggregate debt service payments to maturity by \$119,956, and obtained an economic gain (difference between present value of the debt service payments on the old and new debt) of \$108,518.

City of Talladega, Alabama
Notes to Financial Statements

Note 2: DETAILED NOTES (Continued)

Long-Term Debt and Liabilities (continued)

Interest paid on long-term debt was \$208,155 for the year ended September 30, 2020.

Capital Leases Payable

The City has entered into capital leases for various amounts with terms up to 10 years. The lease purchase value of the equipment totals \$1,339,521. These assets have been added to the capital asset list and have been fully depreciated. Future minimum lease payments under these capital leases at September 30, 2020 are as follows:

Year ending September 30,	Present Value of Minimum Lease Payments		Interest	Total Lease Payments
2021	\$	79,028	\$ 8,695	\$ 87,723
2022		82,435	7,287	89,722
2023		85,933	5,790	91,723
2024		89,521	4,202	93,723
2025		71,768	2,519	74,287
2026		44,491	902	45,393
Total	\$	453,176	\$ 29,395	\$ 482,571

Long-term liability for the governmental activities of the City for the year ended September 30, 2020, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Warrants payable	\$ 6,569,590	\$ -	\$ (600,719)	\$ 5,968,871	\$ 580,000
Capital leases - direct borrowings	526,921	-	(73,745)	453,176	79,028
Compensated absences	400,390	198,403	(198,403)	400,390	-
Total	\$ 7,496,901	\$ 198,403	\$ (872,867)	\$ 6,822,437	\$ 659,028

The City's General Fund is typically used to liquidate long-term liabilities with the exception of warrant debt service which is paid from the City's Debt Service Fund.

City of Talladega, Alabama Notes to Financial Statements

Note 2: DETAILED NOTES (Continued)

Capital Leases Payable (continued)

The defeasance of Series 2008 revenue warrants resulted in a difference of \$336,677 between the reacquisition price and the net carrying amount of the old debt. This difference is amortized through 2033 and is reported in the accompanying financial statements as a deferred outflow of resources. The unamortized portion at September 30, 2020 was \$235,363.

The defeasance of Series 2007 revenue warrants resulted in a difference of \$64,355 between the reacquisition price and the net carrying amount of the old debt. This difference is amortized through 2027 and is reported in the accompanying financial statements as a deferred outflow of resources. The unamortized portion at September 30, 2020 was \$45,050.

The defeasance of 2008 IDA revenue bonds resulted in a difference of \$49,428 between the reacquisition price and the net carrying amount of the old debt. This difference is amortized through 2027 and is reported in the accompanying financial statements as a deferred outflow of resources. The unamortized portion at September 30, 2020 was \$34,600.

Business-type Activities

Revenue warrants payable consists of Subordinated Water and Sewer Revenue warrants issued as special obligations of the Water and Sewer Department secured by the net revenues of the water and sewer system. This debt is not a general obligation of the City. The principal and interest is paid by revenue earned by the system and trust restricted assets.

Series 2010 Warrants

On November 1, 2010, the Water and Sewer Department issued revenue warrants totaling \$18,435,000 with interest rates ranging from 2.00% to 5.00%. The proceeds were used for the following:

- 1) To make improvements to the system.
- 2) To provide funds to prepay on an advance refunding basis, all of the debt now outstanding that were heretofore issued by The Water and Sewer Department of the City of Talladega.
- 3) To fund a debt service reserve fund for the benefit of the Series 2010 Warrants.
- 4) To pay expenses for issuing the warrants.

The Series 2010 warrants are limited obligation warrants of the Water and Sewer Department, payable solely out of revenues of the system.

City of Talladega, Alabama
Notes to Financial Statements

Note 2: DETAILED NOTES (Continued)

Capital Leases Payable (continued)

Year ending September 30,	Principal	Interest	Total
2021	\$ 480,000	\$ 632,450	\$ 1,112,450
2022	500,000	616,850	1,116,850
2023	515,000	599,350	1,114,350
2024	540,000	578,750	1,118,750
2025	555,000	557,150	1,112,150
2026 – 2030	3,130,000	2,433,950	5,563,950
2031 – 2035	3,830,000	1,736,375	5,566,375
2036 – 2040	4,814,998	746,000	5,560,998
Total	\$ 14,364,998	\$ 7,900,875	\$ 22,265,873

Series 2015 Warrants

On April 8, 2015, the Water and Sewer Department issued revenue warrants totaling \$4,700,000 with an interest rate of 5.00%. The proceeds were used for the following:

- 1) To make improvements to the system.
- 2) To fund a debt service reserve fund for the benefit of the Series 2015 Warrants.
- 3) To pay expenses for issuing the warrants.

The Series 2015 warrants are limited obligation warrants of the Water and Sewer Department, payable solely out of revenues of the system.

City of Talladega, Alabama
Notes to Financial Statements

Note 2: DETAILED NOTES (Continued)

Capital Leases Payable (continued)

Year ending September 30,	Principal	Interest	Total
2021	\$ -	\$ 235,000	\$ 235,000
2022	-	235,000	235,000
2023	-	235,000	235,000
2024	-	235,000	235,000
2025	-	235,000	235,000
2026 – 2030	-	1,175,000	1,175,000
2031 – 2035	-	1,175,000	1,175,000
2036 – 2040	-	1,175,000	1,175,000
2041 – 2044	4,700,000	595,250	5,295,250
Total	\$ 4,700,000	\$ 5,295,250	\$ 9,995,250

Long-term liability for the Water and Sewer Department of the City for the year ended September 30, 2020, was as follows:

	Beginning		Ending		Amount
	Balance	Additions	Reductions	Balance	Due Within One Year
2010 Warrant	\$ 14,827,915	\$ -	\$ (462,917)	\$ 14,364,998	\$ 480,000
Premium	183,932	-	(8,760)	175,172	-
2015 Warrant	4,700,000	-	-	4,700,000	-
Premium	463,542	-	(18,540)	445,002	-
Compensated absences	124,359	64,811	(64,811)	124,359	-
Customer meter deposits	230,867	-	(16,487)	214,380	-
Total	\$ 20,530,615	\$ 64,811	\$ (571,515)	\$ 20,023,911	\$ 480,000

The Water and Sewer Department is required to maintain certain financial ratios relating to debt service coverage. At September 30, 2020, the City was in compliance with the provisions of the Department’s 2010 and 2015 Water and Sewer bond covenants that require the Water and Sewer Department make and maintain rates and charges for the water and other services supplied from the water and sewer system and make collections from the users thereof in such manner that shall produce revenues during each fiscal year at least equal to the sum of a) operation and maintenance expenses during such fiscal year plus b) 1.25 times the annual debt service requirements.

City of Talladega, Alabama
Notes to Financial Statements

Note 2: DETAILED NOTES (Continued)

Capital Leases Payable (continued)

The defeasance of series 2003 and 2004 revenue bonds resulted in a difference of \$507,384 between the reacquisition price and the net carrying amount of the old debt. This difference is amortized through 2022 and is reported in the accompanying financial statements as a deferred outflow of resources. The unamortized portion of the deferred charges at September 30, 2020 was \$64,152.

Pledged Revenues

The Water and Sewer Board has pledged future revenues derived from the operation of the Water and Sewer Department's combined activities remaining after the cost of operating and maintaining to repay the 2010 and 2015 warrants. This debt is not a general obligation of the City. Proceeds from the 2010 and 2015 warrants were initially used to upgrade the utility systems. The total principal and interest remaining to be paid on the 2010 and 2015 warrants is \$22,265,873 and \$9,995,250, respectively, at September 30, 2020. Total principal and interest paid for the 2010 and 2015 warrants and net operating income for the year ended September 30, 2020 were \$1,350,750 and \$11,927, respectively.

Net Investment in Capital Assets

The elements of this calculation for governmental activities are as follows:

Capital assets (net)	\$ 16,391,412
Outstanding debt related to capital assets	(6,422,047)
Outstanding deferred charge on refunding	315,013
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Net investment in capital assets	\$ 10,284,378
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The elements of this calculation for the Water and Sewer Department are as follows:

Capital assets (net)	\$ 28,056,285
Unspent debt proceeds	1,410,397
Outstanding debt related to capital assets	(19,685,172)
Outstanding deferred charge on refunding	64,152
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Net investment in capital assets	\$ 9,845,662
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City of Talladega, Alabama Notes to Financial Statements

Note 3: RETIREMENT PLAN

As described in Note 1, the Water and Sewer Department is a department of the City; the following information is based on the City as a whole, which includes the Water and Sewer Department's portion of retirement benefits.

Description of Plan

The Employees' Retirement System of Alabama ("ERS" or the "Plan"), an agent multiple-employer 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 13 trustees. The Plan is administered by the Retirement Systems of Alabama ("RSA"). The *Code of Alabama, Title 36, Chapter 27* grants the authority to establish and amend the benefit terms to the ERS Board of Control. The Plan issues a publicly available financial report that can be obtained at www.rsa-al.gov.

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

- 1) The Governor, ex officio.
- 2) The State Treasurer, ex officio.
- 3) The State Personnel Director, ex officio.
- 4) The State Director of Finance, ex officio.
- 5) Three vested members of ERS appointed by the Governor for a term of four years, no two of whom are from the same department of state government nor from any department of which an ex officio trustee is the head.
- 6) Six members of ERS who are elected by members from the same category of ERS for a term of four years as follows:
 - a. Two retired members with one from the ranks of retired state employees and one from the ranks of retired employees of a city, county or a public agency each of whom is an active beneficiary of ERS.
 - b. Two vested active state employees.
 - c. Two vested active employees of an employer participating in ERS pursuant to the *Code of Alabama 1975, Section 36-27-6*.

Summary of Significant Accounting Policies

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

City of Talladega, Alabama Notes to Financial Statements

Note 3: RETIREMENT PLAN (Continued)

Funding Requirements

Covered members of the ERS contributed 5% of earnable compensation to the ERS as required by statute until September 30, 2011. From October 1, 2011 to September 30, 2012, covered members of the ERS were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered members of the ERS are required by statute to contribute 7.50% of earnable compensation. Certified law enforcement, correctional officers, and firefighters of the ERS contributed 6% of earnable compensation as required by statute until September 30, 2011. From October 1, 2011 to September 30, 2012, certified law enforcement, correctional officers, and firefighters of the ERS were required by statute to contribute 8.25% of earnable compensation. Effective October 1, 2012, certified law enforcement, correctional officers, and firefighters of the ERS are required by statute to contribute 8.50% of earnable compensation. State Police of the ERS contribute 10% of earnable compensation. ERS local participating employers are not required by statute to increase contribution rates for their members.

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

The ERS establishes rates based upon an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with additional amounts to finance any unfunded accrued liability, the pre-retirement death benefit and administrative expenses of the Plan. For the year ended September 30, 2020, the City's active employee contribution rate was 5% of covered employee payroll for normal Tier 1 employees and 6% of covered employee payroll for normal Tier 2 employees, and the City's average contribution rate to fund the normal and accrued liability costs was 10.77% of pensionable payroll for Tier 1 employees and 7.53% for Tier 2 employees.

The City's contractually required contribution rate for the year ended September 30, 2020 was 11.14% of pensionable pay for Tier 1 employees, and 7.90% of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation as of September 30, 2017, a percent of annual pensionable payroll, and actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan were \$775,013 for the year ended September 30, 2020, and \$162,753 (21%) were related to Water and Sewer Department employees.

City of Talladega, Alabama
Notes to Financial Statements

Note 3: RETIREMENT PLAN (Continued)

Plan Membership and Benefits

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

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

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

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

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

City of Talladega, Alabama
Notes to Financial Statements

Note 3: RETIREMENT PLAN (Continued)

Net Pension Liability, Significant Assumptions, and Discount Rate

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

	Expected	Actual
(a) TPL as of September 30, 2018	\$ 28,191,190	\$ 29,212,742
(b) Discount Rate	7.70%	7.70%
(c) Entry Age Normal Cost for the period October 1, 2018 – September 30, 2019	627,913	627,913
(d) Transfers Among Employers	-	7
(e) Actual Benefit Payments and Refunds for the period October 1, 2018 – September 30, 2019	(1,958,485)	(1,958,485)
(f) TPL as of September 30, 2019 [(a) x (1+(b))] + (c) + (d) + [(e) x (1 + 0.5*(b))]	\$ 28,955,938	\$ 30,056,156
(g) Difference between Expected and Actual		\$ 1,100,218
(h) Less Liability Transferred for Immediate Recognition		7
(i) Experience (Gain)/Loss = (g) - (h)		\$ 1,100,211

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

Inflation	2.75%
Projected salary increases	3.25% - 5.00%
Investment rate of return (net of pension plan investment expense)	7.70%

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

The actuarial assumptions used in the September 30, 2017 valuation were based on the results of an investigation of the economic and demographic experience for the ERS based upon participant data as of September 30, 2015. The Board of Control accepted and approved these changes in September 2016, which became effective at the beginning of fiscal year 2016.

City of Talladega, Alabama
Notes to Financial Statements

Note 3: RETIREMENT PLAN (Continued)

Net Pension Liability, Significant Assumptions, and Discount Rate (continued)

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:

	Target Allocation	Long-Term Expected Rate of Return *
Fixed Income	17.00%	4.40%
U. S. Large Stocks	32.00%	8.00%
U. S. Mid Stocks	9.00%	10.00%
U. S. Small Stocks	4.00%	11.00%
International Developed Market Stocks	12.00%	9.50%
International Emerging Market Stocks	3.00%	11.00%
Alternatives	10.00%	10.10%
Real Estate	10.00%	7.50%
Cash	3.00%	1.50%
Total	100.00%	

* Includes assumed rate of Inflation of 2.50%

The discount rate used to measure the total pension liability was the long-term rate of return, 7.70%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that 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.

City of Talladega, Alabama
Notes to Financial Statements

Note 3: RETIREMENT PLAN (Continued)

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

For the year ended September 30, 2020, the City recognized pension expense of \$1,138,966, \$239,183 of which was related to Water and Sewer Department employees. At September 30, 2020, the reported deferred outflows of resources and deferred inflows of resources related to pensions are from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 991,792	\$ 324,491
Changes of assumptions	495,264	-
Net difference between projected and actual earnings on plan investments	241,693	-
Employer contributions subsequent to the measurement date	775,013	-
Total	\$ 2,503,762	\$ 324,491

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

For Years Ending September 30		
2021		\$ 998,588
2022		253,359
2023		353,233
2024		355,258
2025		166,444
Thereafter		52,389
Total		\$ 2,179,271

The above deferred outflows and inflows of resources are shared between the City's general fund and Water and Sewer Department. The City has allocated 21%, or \$525,790 of the above deferred outflows of resources and \$68,143 of the above deferred inflows of resources, to the Water and Sewer Department. The allocation is based on the fund's relative share of employee and employer pension contributions. The deferred outflows and inflows of resources will be recognized in each fund's pension expense account in future periods.

City of Talladega, Alabama
Notes to Financial Statements

Note 3: RETIREMENT PLAN (Continued)

Changes in Net Pension Liability and Sensitivity to Changes in Discount Rate

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a)-(b)
Balances at September 30, 2018	\$ 28,191,190	\$ 21,572,108	\$ 6,619,082
Changes for the year:			
Service cost	627,913	-	627,913
Interest	2,095,320	-	2,095,320
Difference between expected and actual experience	1,100,211	-	1,100,211
Contributions – employer	-	775,677	(775,677)
Contributions – employee	-	448,995	(448,995)
Net investment income	-	544,509	(544,509)
Benefit payments, including refunds of employee contributions	(1,958,485)	(1,958,485)	-
Transfers among employers	7	7	-
Net changes	1,864,966	(189,297)	2,054,263
Balances at September 30, 2019	\$ 30,056,156	\$ 21,382,811	\$ 8,673,345

The above net pension liability is shared between the City’s general fund and Water and Sewer Department. The City has allocated 21% or \$1,892,666 to the Water and Sewer Department. The allocation is based on the fund’s relative share of employee and employer pension contributions.

The following table presents the City’s net pension liability calculated using the discount rate of 7.70%, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.70%) or 1-percentage point higher (8.70%) than the current rate:

City of Talladega, Alabama
Notes to Financial Statements

Note 3: RETIREMENT PLAN (Continued)

Changes in Net Pension Liability and Sensitivity to Changes in Discount Rate (continued)

	1% Decrease (6.70%)	Current Discount Rate (7.70%)	1% Increase (8.70%)
City's Net Pension Liability	\$ 12,060,255	\$ 8,673,345	\$ 5,808,666

Pension Plan Financial Statements

Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2019. The supporting actuarial information is included in the GASB Statement No. 68 *Report for the ERS* prepared as of September 30, 2019. The auditor's report dated August 27, 2020 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/>.

Note 4: OTHER POST-EMPLOYMENT BENEFITS

As described in Note 1, the Water and Sewer Department is a department of the City; the following information is based on the City as a whole, which includes the Water and Sewer Department's portion of OPEB.

Description of Plan

The City, through its substantive commitment to provide OPEB, maintains a single-employer defined benefit plan to provide certain post-retirement healthcare benefits to all former employees who have 25 years of continuous service, regardless of age, or who have 10 years of continuous service and are age 62. Such benefits are also available to retirees' spouses or dependents, but the cost of that coverage is the retiree's responsibility. Specific details of the OPEB Plan include coverage offered through the Alabama Local Government Health Insurance Program. Retirees with 25 years of continuous service have 100% of their health and life insurance coverage paid for by the City. Retirees with 10 years of continuous service must pay the entire cost of the premium and are not eligible for life insurance through the City. Medical, drug, dental, and life benefits are offered for pre-Medicare retirees.

Management of the OPEB Plan is invested in the City's elected council members, who may vary from time to time and who may designate certain administration officials as signatories on the trust's investment accounts.

City of Talladega, Alabama
Notes to Financial Statements

Note 4: OTHER POST-EMPLOYMENT BENEFITS (Continued)

Funding Requirements

Employees do not contribute to their post-employment benefits costs until they become retirees and begin receiving those benefits. The plan provisions and contribution rates are contained in the official OPEB plan documents.

Plan Membership and Benefits

At September 30, 2020, the OPEB Plan's membership consisted of 167 active employees receiving benefits and 22 retirees receiving benefits. Medical plan benefits are provided through Local Government Health Insurance Programs (LGHIP) which is administered by the Alabama State Employee Insurance Board. The City contributes the full monthly premium for single retiree medical coverage for retirees with 24 or more years of service at retirement. The retiree is responsible for the cost of dependent coverage in excess of this amount. The subsidy continues until the retiree reaches age 65. Dental benefits are included in the medical contribution. The City also provides certain life insurance benefits for retirees.

Net OPEB Liability, Significant Assumptions, and Discount Rate

The components of the City's OPEB liability as of September 30, 2020 were as follows:

Total OPEB liability	\$	5,537,230
Plan fiduciary net position		1,342,706
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Net OPEB liability (asset)	\$	4,194,524
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Plan fiduciary net position as a percentage of the total OPEB liability	24.25%
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The above net OPEB liability is shared between the City and the Water and Sewer Department. The City has allocated 21%, or \$880,850, to the Water and Sewer Department. The allocation is based on the relative share of employer OPEB contributions.

The total OPEB liability was measured as of September 30, 2020 based on an actuarial valuation as of October 1, 2019, rolled forward to September 30, 2020 using standard roll-forward techniques and the following actuarial assumptions applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.5% annually
Healthcare cost trend rates	5.5% annually for ten years, 4.5% thereafter
Salary increases	4.0% annually
Investment rate of return	2.66%, beginning of year 2.39%, end of year

City of Talladega, Alabama
Notes to Financial Statements

Note 4: OTHER POST-EMPLOYMENT BENEFITS (Continued)

Net OPEB Liability, Significant Assumptions, and Discount Rate (continued)

Mortality rates were based on the RP-2000 without projection. The long-term expected rate of return on OPEB plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of 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. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of September 30, 2020 are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return
Domestic Equity	6%
Certificates of Deposit	1%

The OPEB Plan's policy regarding the allocation of invested assets is established and may be amended by the City. It is the City's policy to invest public funds in a manner that will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the City and conforming to all state and local statutes governing the investment of public funds. As of September 30, 2020, the City's investments are weighted as follows:

Asset Class	Allocation
Domestic Equity	91%
Certificates of Deposit	9%

The plan has three investments each exceeding 5% of total assets. The funds and corresponding allocations are: First Trust 60/40 Strategic Allocation 3rd Quarter 2019, 29%; First Trust 60/40 Strategic Allocation 1st Quarter 2020, 44%; and First Trust 60/40 Strategic Allocation 3rd Quarter 2020, 24%.

For the year ended September 30, 2020, the annual money-weighted rate of return on investments, net of investment expense was 1.32%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

The discount rate used to measure the total OPEB liability was 2.39%, which is the value of the Bond Buyer's 20 year general obligation municipal bond index as of September 30, 2020.

City of Talladega, Alabama
Notes to Financial Statements

Note 4: OTHER POST-EMPLOYMENT BENEFITS (Continued)

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

For the year ended September 30, 2020, the City recognized OPEB expense of \$351,144, 21% or \$73,740 of which was allocated to the Water and Sewer Department. At September 30, 2020, the City reported deferred outflows and inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between projected and actual earnings on OPEB investments	\$ 13,676	\$ 3,303
Differences between expected and actual experience	257,706	6,670
Changes in assumption	700,236	164,984
Total	\$ 971,618	\$ 174,957

The above deferred outflows and inflows of resources is shared between the City and the Water and Sewer Department. The City has allocated 21%, or \$204,040 in deferred outflows and \$36,741 in deferred inflows, to the Water and Sewer Department. The allocation is based on the relative share of employer OPEB contributions.

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

Year ending September 30,	
2021	\$ 93,318
2022	93,318
2023	94,970
2024	94,410
2025	91,410
Thereafter	329,235
Total	\$ 796,661

City of Talladega, Alabama
Notes to Financial Statements

Note 4: OTHER POST-EMPLOYMENT BENEFITS (Continued)

Changes in the Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a)-(b)
Balances at September 30, 2019	\$ 5,197,115	\$ 1,260,219	\$ 3,936,896
Changes for the year:			
Service cost	153,818	-	153,818
Interest cost at 2.66%	135,108	-	135,108
Difference between expected and actual experience	80,173	-	80,173
Employer contributions	-	302,100	(302,100)
Net investment income	-	19,363	(19,363)
Changes of assumptions	206,731	-	206,731
Benefit payments			
a. From trust	-	-	-
b. Direct	(235,715)	(235,715)	-
Administrative expenses			
a. From trust	-	(3,261)	3,261
b. Direct	-	-	-
Net changes	340,115	82,487	257,628
Balance at September 30, 2020	\$ 5,537,230	\$ 1,342,706	\$ 4,194,524

Sensitivity of the Net OPEB Liability to Change in the Discount Rate

The following represents the City's net OPEB liability, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.39%) or 1-percentage-point higher (3.39%) than the current discount rate:

	1% Decrease (1.39%)	Current Discount Rate (2.39%)	1% Increase (3.39%)
City's Net OPEB Liability	\$ 5,172,508	\$ 4,194,524	\$ 3,378,269

City of Talladega, Alabama
Notes to Financial Statements

Note 4: OTHER POST-EMPLOYMENT BENEFITS (Continued)

Sensitivity of the Net OPEB Liability to Change in the Healthcare Cost Trend Rate

The following represents the City's net OPEB liability, as well as what the City's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower (4.50%) or 1-percentage-point higher (6.50%) than the current healthcare cost trend rate:

	1% Decrease (4.50%)	Healthcare Cost Trend Rate (5.50%)	1% Increase (6.50%)
City's Net OPEB Liability	\$ 3,359,070	\$ 4,194,524	\$ 5,190,477

Note 5: RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees and natural disasters. The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The City purchases separate commercial insurance coverage for workers' compensation, liability, and property damage. Coverage for workers' compensation and automobile claims are limited to the maximum liability exposure the City faces under Alabama statutes. Coverage for general liability claims is a maximum of \$2,000,000 combined single limit.

The commercial insurance carried is a claims incurred policy for which the City is covered for claims originating against the City during the policy period. The amount of coverage is dependent on the date of the liability-imposing event. The City has maintained continuous coverage and does not believe it has any exposure to events which occurred prior to the year ended September 30, 2020.

Note 6: COMMITMENTS AND CONTINGENCIES

During the ordinary course of its operation, the City is party to various claims, legal actions, and complaints. While the ultimate effect of such litigation cannot be ascertained at this time, in the opinion of counsel for the City, the liabilities which may arise from such actions would not result in losses which would exceed the liability insurance limits in effect at the time the claim arose or otherwise materially affect the financial condition of the City or results of activities.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable fund(s). The amount, if any, of expenditures from current or prior years which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts not recorded, if any, to be immaterial.

City of Talladega, Alabama
Notes to Financial Statements

Note 6: COMMITMENTS AND CONTINGENCIES (Continued)

The City has several active construction projects as of September 30, 2020 and has incurred total costs of \$127,087 on these projects. These projects are funded by federal grant and local funds. Construction projects in progress at September 30, 2020 have current budgeted project costs totaling \$150,000.

The Water and Sewer Department has several active construction projects as of September 30, 2020 and has incurred total costs of \$1,292,712 on these projects. These projects are funded by federal grant and local funds. Construction projects in progress at September 30, 2020 have current budgeted project costs totaling \$2,256,448.

The Water and Sewer Department has entered into contracts to provide water to three governmental entities. The terms are as follows:

<u>Entity</u>	<u>Expiration Date</u>	<u>Minimum Usage</u>	<u>Maximum Usage</u>
City of Lincoln	May 31, 2006 with option to renew for up to eight two year periods	150 million gallons yearly	32 million gallons monthly
Central Talladega County Water District	Verbal contract-non-specified	None	6 million gallons monthly
City of Waldo	When notice is given by either party expressing the desire to terminate the contract	None	As required from month-to-month

Note 7: TAX ABATEMENTS

The City has entered into a tax abatement agreement with a business for the purpose of recruiting new business development within the City. These incentive agreements require approval by the City Council and are authorized by Amendment 772 to the Constitution of Alabama (1901) (Article 94.01 of the Recompiled Constitution of Alabama). The incentive agreements generally expire upon the earlier of a specified term of years or the satisfaction of the agreed upon incentive amount. A summary is as follows:

City of Talladega, Alabama
Notes to Financial Statements

Note 7: TAX ABATEMENTS (Continued)

Nature of Incentive	Type of Tax	% of City Taxes Abated	Amount Abated in FYE September 30, 2020	Expiration of Incentive	Maximum Incentive Amount
Business development	Business licenses ¹	100%	\$ -	3 years	None
	Construction-related transaction taxes	100%	-	None	None
	Noneducational ad valorem tax	100%	-	10 years, to begin on October 1st following - the date each property becomes owned by the Company	None

¹ Business license taxes will be abated for a period of three years, beginning with the first year that gross receipts for the project exceed \$1,000,000

Note 8: UNCERTAINTIES

In March 2020, the World Health Organization made the assessment that the outbreak of a novel coronavirus (COVID-19) can be characterized as a pandemic. As a result, uncertainties have arisen that may have a significant negative impact on the operating activities and results of the City. The occurrence and extent of such an impact will depend on future developments, including (i) the duration and spread of the virus, (ii) government quarantine measures, (iii) voluntary and precautionary restrictions on travel or meetings, (iv) the effects on the financial markets, and (v) the effects on the economy overall, all of which are uncertain.

Note 9: SUBSEQUENT EVENTS

Effective September 1, 2021, the Water and Sewer Department issued Series 2021-A Revenue Warrants totaling \$28,130,000 and Series 2021-B Revenue Warrants totaling \$5,240,000. These funds were used to refund the Series 2010 and Series 2015 Warrants and to provide funding for future capital improvements.

REQUIRED SUPPLEMENTARY INFORMATION

City of Talladega, Alabama
Schedule of Revenues, Expenditures and Changes in Fund Balance —
Budget and Actual — General Fund

<i>For the year ended September 30, 2020</i>	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Taxes				
Sales and use tax	\$ 9,400,000	\$ 9,400,000	\$ 9,610,378	\$ 210,378
Rental tax	305,000	305,000	202,933	(102,067)
Lodging tax	225,000	225,000	154,806	(70,194)
Automobile sales tax	180,000	180,000	116,234	(63,766)
Wholesale gasoline tax	185,000	185,000	174,713	(10,287)
Motor vehicle license tax	3,000	3,000	3,861	861
Alcoholic beverage tax	26,000	26,000	31,031	5,031
Beer tax	75,000	75,000	87,320	12,320
Wine tax	5,000	5,000	14,183	9,183
Liquor tax - ABC profit	5,000	5,000	3,443	(1,557)
Cigarette tax	325,000	325,000	435,633	110,633
Alabama gas franchise tax	50,000	50,000	47,435	(2,565)
Charter cable franchise tax	180,000	180,000	191,233	11,233
10 mil property tax	1,050,000	1,050,000	1,240,256	190,256
Republic franchise	-	-	26,846	26,846
Excise tax on financial institutions	190,000	190,000	205,722	15,722
County business privilege tax	31,000	31,000	31,790	790
Total taxes	12,235,000	12,235,000	12,577,817	342,817
Licenses				
Business license	1,290,500	1,290,500	1,413,756	123,256
Business license - Spire	125,000	125,000	118,354	(6,646)
Business license - Alabama Power Co.	730,000	730,000	830,457	100,457
Business license - Coosa Valley Electric	70,000	70,000	70,950	950
Business license - telephone	7,500	7,500	7,806	306
Alcohol license	100	100	75	(25)
Automobile license	42,000	42,000	40,010	(1,990)
Chauffeur license	50	50	-	(50)
Total licenses	2,265,150	2,265,150	2,481,408	216,258
Permits				
Building permits	40,000	40,000	36,764	(3,236)
Yard sale permits	200	200	108	(92)
Total permits	40,200	40,200	36,872	(3,328)

(Continued)

City of Talladega, Alabama
Schedule of Revenues, Expenditures and Changes in Fund Balance —
Budget and Actual — General Fund (Continued)

<i>For the year ended September 30, 2020</i>	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues (continued)				
Fees				
Motor vehicle registration fees	\$ 250	\$ 250	\$ 245	\$ (5)
Returned check fees	35	35	-	(35)
Recycling fee revenue	16,000	16,000	19,800	3,800
Zoning fees	-	-	9,000	9,000
Total fees	16,285	16,285	29,045	12,760
Police department				
Impound fees	8,000	8,000	7,525	(475)
Sex offender registration	900	900	965	65
Accident reports	3,000	3,000	1,540	(1,460)
Animal control reimbursement	90,000	90,000	88,530	(1,470)
I&O reports	500	500	270	(230)
Total police department	102,400	102,400	98,830	(3,570)
Corrections				
Bail bond fees	700	700	770	70
Donations				
Donations to animal control	5,000	5,000	4,550	(450)
Other donations	75,000	75,000	41,003	(33,997)
Total donations	80,000	80,000	45,553	(34,447)
Recreation department				
Recreation Center	130,000	130,000	47,383	(82,617)
Refunds - Recreation Center	(1,200)	(1,200)	(14,796)	(13,596)
Total recreation department	128,800	128,800	32,587	(96,213)

(Continued)

City of Talladega, Alabama
Schedule of Revenues, Expenditures and Changes in Fund Balance —
Budget and Actual — General Fund (Continued)

<i>For the year ended September 30, 2020</i>	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues (continued)				
Municipal airport				
Gasoline Sales	\$ -	\$ -	\$ 168,210	\$ 168,210
Rental revenue	-	-	46,934	46,934
Reimbursements	-	-	19,772	19,772
Other revenue	-	-	71,915	71,915
Total municipal airport	-	-	306,831	306,831
Miscellaneous				
Senior citizens grant	10,000	10,000	18,152	8,152
Transportation grant	36,000	36,000	28,771	(7,229)
Transportation farebox	7,000	7,000	5,600	(1,400)
Children's summer nutrition grant	120,000	120,000	175,473	55,473
HPC grant	3,000	3,000	7,250	4,250
CARES Act Reimbursements	-	-	103,509	103,509
Weed abatement assessments	18,000	18,000	15,015	(2,985)
Water detention review	600	600	500	(100)
Vending machine	350	350	189	(161)
Proceeds from sale of property	10,000	10,000	7,226	(2,774)
Rental revenue	25,000	25,000	18,286	(6,714)
City property lease revenue	-	-	4,000	4,000
Insurance reimbursements	2,000	2,000	67,347	65,347
Reimbursements	-	-	2,568	2,568
Interest revenue	3,000	3,000	35,086	32,086
Cell tower application fee	2,000	2,000	9,000	7,000
Other revenue	60,000	60,000	15,598	(44,402)
Total miscellaneous	296,950	296,950	513,570	216,620
Total revenues	\$ 15,165,485	\$ 15,165,485	\$ 16,123,283	\$ 957,798

(Continued)

City of Talladega, Alabama
Schedule of Revenues, Expenditures and Changes in Fund Balance —
Budget and Actual — General Fund (Continued)

<i>For the year ended September 30, 2020</i>	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Expenditures				
City Council	\$ 74,445	\$ 74,445	\$ 68,567	\$ 5,878
City Manager's office	481,226	481,226	495,367	(14,141)
Finance department	353,349	353,349	326,444	26,905
City Clerk's office	339,194	339,194	344,831	(5,637)
Human resources	144,840	144,840	141,636	3,204
Purchasing and safety	184,184	184,184	118,381	65,803
Police department	3,967,060	3,967,060	3,780,935	186,125
Animal control	268,708	268,708	219,669	49,039
Fire department	2,187,465	2,187,465	2,049,000	138,465
Public works department	1,302,776	1,302,776	1,161,347	141,429
Municipal airport	-	-	325,407	(325,407)
Community appearance	1,064,690	1,064,690	883,500	181,190
Parks and recreation	1,195,240	1,195,240	982,820	212,420
Other boards and agencies	389,740	389,740	329,678	60,062
Nondepartmental	1,259,646	1,259,646	877,398	382,248
Total expenditures	13,212,563	13,212,563	12,104,980	1,107,583
Excess of revenues over expenditures	1,952,922	1,952,922	4,018,303	2,065,381
Other Financing Sources				
Transfers in	35,000	35,000	332,281	297,281
Transfers out	(1,491,240)	(1,491,240)	(2,912,452)	(1,421,212)
Total other financing sources	(1,456,240)	(1,456,240)	(2,580,171)	(1,123,931)
Net change in fund balance	496,682	496,682	1,438,132	941,450
Fund balance, beginning of the year	7,357,624	7,357,624	7,357,624	-
Fund balance, end of year	\$ 7,854,306	\$ 7,854,306	\$ 8,795,756	\$ 941,450

City of Talladega, Alabama
Schedule of Changes in Net Pension Liability
Last Six Fiscal Years

<i>As of and for the year ended September 30,</i>	2019	2018	2017	2016	2015	2014
Total pension liability						
Service cost	\$ 627,913	\$ 593,659	\$ 583,545	\$ 602,738	\$ 608,309	\$ 592,326
Interest	2,095,320	2,068,567	2,013,859	1,928,337	1,832,623	1,761,806
Changes in benefit terms	-	-	-	-	-	-
Differences between expected and actual experience	1,100,211	(318,784)	(204,100)	26,895	309,855	-
Changes of assumptions	-	146,665	-	1,027,411	-	-
Benefit payments, including refunds of employee contributions	(1,958,485)	(1,784,053)	(1,654,058)	(1,585,868)	(1,522,852)	(1,414,985)
Transfers among employers	7	(98,079)	31,663	(84,352)	-	-
Net change in total pension liability	1,864,966	607,975	770,909	1,915,161	1,227,935	939,147
Total pension liability - beginning	28,191,190	27,583,215	26,812,306	24,897,145	23,669,210	22,730,063
Total pension liability - ending (a)	30,056,156	28,191,190	27,583,215	26,812,306	24,897,145	23,669,210
Plan Fiduciary Net Position						
Contributions - employer	775,677	726,979	635,966	640,034	699,653	740,892
Contributions - employee	448,995	411,668	374,226	365,914	404,420	360,594
Net investment income	544,509	1,858,814	2,356,733	1,760,239	208,626	1,917,819
Benefit payments, including refunds of employee contributions	(1,958,485)	(1,784,053)	(1,654,058)	(1,585,868)	(1,522,852)	(1,414,985)
Transfers among employers	7	(98,079)	31,663	(84,352)	63,907	(3,971)
Net change in plan fiduciary net position	(189,297)	1,115,329	1,744,530	1,095,967	(146,246)	1,600,349
Plan net position - beginning	21,572,108	20,456,779	18,712,249	17,616,282	17,762,528	16,162,179
Plan net position - ending (b)	\$ 21,382,811	\$ 21,572,108	\$ 20,456,779	\$ 18,712,249	\$ 17,616,282	\$ 17,762,528
Net pension liability (asset) - ending (a) - (b)	\$ 8,673,345	\$ 6,619,082	\$ 7,126,436	\$ 8,100,057	\$ 7,280,863	\$ 5,906,682
Plan fiduciary net position as a percentage of total pension liability	71.14%	76.52%	74.16%	69.79%	70.76%	75.04%
Covered payroll*	\$ 8,248,435	\$ 7,606,318	\$ 6,911,019	\$ 6,713,736	\$ 6,313,716	\$ 6,643,729
Net pension liability as a percentage of covered payroll	105.15%	87.02%	103.12%	120.65%	115.32%	88.91%

The schedule above represents the changes in net pension liability for the City of Talladega. The City has allocated 21% of the net pension liability to the Water and Sewer Department.

Note to Schedule

Note 1: GASB codification P20 requires information for 10 years. However, until a full 10-year trend is compiled, the City is presenting information for only the years for which information is available.

City of Talladega, Alabama
Schedule of Employer Contributions – Pension
Last Seven Fiscal Years

Fiscal Year	Actuarially Determined Contribution (a)	Employer Contributions to Pension Plan (b)	Annual Contribution Deficiency (Excess) (b-a)	Covered Payroll (c)	Employer Contributions to Pension Plan as a % of Covered Payroll (b/c)
2020	\$ 775,013	\$ 775,013	\$ -	\$ 8,407,773	9.22%
2019	775,677	775,677	-	8,248,435	9.40%
2018	726,979	726,979	-	7,606,318	9.56%
2017	635,966	635,966	-	6,911,019	9.20%
2016	640,034	640,034	-	6,713,736	9.53%
2015	699,653	699,653	-	6,313,716	11.08%
2014	740,892	740,892	-	6,643,729	11.15%

Notes to Schedule

Note 1: Actuarially determined contribution rates are calculated as of September 30, two years prior to the end of the fiscal year in which contributions are reported.

Note 2: GASB codification P20 requires information for 10 years.

City of Talladega, Alabama
Schedule of Changes in Net OPEB Liability

<i>As of and for the year ended September 30,</i>	2020	2019	2018
Total OPEB Liability			
Service cost	\$ 153,818	\$ 115,706	\$ 122,473
Interest	135,108	174,629	154,929
Changes in benefit terms	-	-	-
Difference between expected and actual experience	80,173	223,346	(8,338)
Changes of assumptions	206,731	618,136	(206,231)
Benefit payments	(235,715)	(224,840)	(200,664)
Net change in total OPEB liability	340,115	906,977	(137,831)
Total OPEB liability, beginning of year	5,197,115	4,290,138	4,427,969
Total OPEB liability, end of year	\$ 5,537,230	\$ 5,197,115	\$ 4,290,138
Plan Fiduciary Net Position			
Contributions - employer	302,100	80,847	-
Contributions - other	-	-	-
Net investment income	19,363	46,321	47,296
Benefit payments and net transfers	(235,715)	-	-
Administrative expense	(3,261)	(3,252)	(2,808)
Net change in fiduciary net position	82,487	123,916	44,488
Plan fiduciary net position, beginning of year	1,260,219	1,136,303	1,091,815
Plan fiduciary net position, end of year	\$ 1,342,706	\$ 1,260,219	\$ 1,136,303
Net OPEB liability, end of year	\$ 4,194,524	\$ 3,936,896	\$ 3,153,835
Plan fiduciary net position as a percentage of the total OPEB liability	24.25%	24.25%	26.49%
Covered-employee payroll in year ending September 30	\$ 6,507,634	\$ 6,015,944	\$ 5,784,562
Net OPEB liability as a percentage of covered-employee payroll	64.46%	65.44%	54.52%

The schedule above represents the changes in net pension liability for the City of Talladega. The City has allocated 21% of the net pension liability to the Water and Sewer Department.

Note to Schedule

Note 1: GASB codification P50 requires information for 10 years. However, until a full 10-year trend is compiled, the City is presenting information for only the years for which information is available.

City of Talladega, Alabama
Schedule of Employer Contributions - OPEB

	2020	2019	2018
Actuarially determined contribution	\$ 345,949	\$ 302,100	\$ 305,687
Contributions in relation to the actuarially determined contribution			
Employer contributions to the trust	302,100	80,847	-
Employer-paid retiree premiums	-	224,840	200,664
Employer-paid expenses	-	-	-
Contribution deficiency (excess)	\$ 43,849	\$ (3,587)	\$ 105,023
Covered annual payroll	\$ 6,507,634	\$ 6,015,944	\$ 5,784,562
Contributions as a percentage of covered-employee payroll	4.64%	5.08%	3.47%

The table above represents the schedule of funding progress for the City of Talladega, which includes the Water and Sewer Department.

Note to Schedule

Note 1: GASB codification P50 requires information for 10 years. However, until a full 10-year trend is compiled, the City is presenting information for only the years for which information is available.

City of Talladega, Alabama
Notes to Required Supplementary Information

Note 1: PLAN CHANGES IN BENEFIT TERMS

There have been no changes in benefits since the prior valuation.

Note 2: CHANGES OF ASSUMPTIONS

There have been no significant changes in assumptions since the prior valuation.

Note 3: METHODS AND ASSUMPTIONS USED TO DETERMINE CONTRIBUTION RATES

Pension

Actuarially determined contribution rates are calculated as of September 30, three years prior to the end of the fiscal year in which contributions are reported. Contributions for fiscal year 2020 were based on the September 30, 2017 actuarial valuation. Methods and assumptions used to determine contribution rates for the period October 1, 2019 to September 30, 2020:

Actuarial cost method	Entry age
Amortization method	Level percent closed
Remaining amortization period	25.2 years
Asset valuation method	Five year smoothed market
Inflation	2.75%
Salary increases:	3.25 - 5.00%, including inflation
Investment rate of return:	7.75%, net of pension plan investment expense, including inflation

OPEB

Valuation date	October 1, 2019 Actuarially determined contributions are calculated as of the last day of the fiscal year in which contributions are reported
Actuarial cost method	Individual Entry Age Normal
Amortization method	Level dollar, open
Amortization period	30 years
Asset valuation method	Market value
Inflation	2.5% annually
Healthcare trend	5.5% annually for ten years, 4.5% thereafter
Salary increases	4.0% annually
Investment return	2.66% annually (Beginning of Year to Determine ADC) 2.39% annually (As of End of Year Measurement Date)
Retirement age	Attainment of 25 years or service at any age; or, attainment of age 60 and 10 years of service; continuous health coverage for 10 years before retirement required employees hired on and after January 1, 2013 are not eligible to retire until age 62 (age 56 for Fire and Police).
Mortality	RP-2000 without projection
Turnover	Age specific table with an average of 14% when applied to the active census

OTHER SUPPLEMENTARY INFORMATION

City of Talladega, Alabama
Schedule of Revenues, Expenses, and Changes in Fund Net Position -
Proprietary Fund – Budget and Actual

<i>For the year ended September 30, 2020</i>	Original Budget	Final Budget	Actual	Variance
Operating Revenues				
Water revenues	\$ 3,655,000	\$ 3,655,000	\$ 3,921,720	\$ 266,720
Sewer revenues	2,600,000	2,600,000	2,802,584	202,584
Garbage revenues	1,030,000	1,030,000	1,060,018	30,018
Other operating revenues	257,350	257,350	532,011	274,661
Total revenues	7,542,350	7,542,350	8,316,333	773,983
Operating Expenses				
Water and sewer department expenses	997,600	997,600	1,084,018	(86,418)
Waste water plants	1,337,850	1,337,850	1,710,226	(372,376)
Water filters and wells	941,375	941,375	1,018,351	(76,976)
Garbage collection expenses	992,000	992,000	981,216	10,784
General and administrative expenses	1,794,650	1,794,650	1,806,139	(11,489)
Depreciation expense	1,320,000	1,320,000	1,704,456	(384,456)
Total operating expenses	7,383,475	7,383,475	8,304,406	(920,931)
Operating income	158,875	158,875	11,927	(146,948)
Nonoperating Revenues (Expenses)				
Interest income	48,500	48,500	33,478	(15,022)
Grant revenue	-	-	1,090,875	1,090,875
Other income	16,150	16,150	36,681	20,531
Interest expense	(902,375)	(902,375)	(897,937)	4,438
Total nonoperating revenues (expenses)	(837,725)	(837,725)	263,097	1,100,822
Transfers				
Transfers out	-	-	(199,088)	(199,088)
Change in net position	\$ (678,850)	\$ (678,850)	\$ 75,936	\$ 754,786

City of Talladega, Alabama
Combining Balance Sheet – Non-major Governmental Funds

<i>September 30, 2020</i>	Special Revenue Funds	Debt Service Fund	Capital Projects Fund	Total Other Governmental Funds
Assets				
Cash and cash equivalents	\$ 1,181,434	\$ -	\$ -	\$ 1,181,434
Investments	821,600	-	-	821,600
Receivables	22,713	-	8	22,721
Due from other funds	112,355	-	-	112,355
Total assets	\$ 2,138,102	\$ -	\$ 8	\$ 2,138,110
Liabilities and Fund Balances				
Liabilities				
Accounts payable and accrued liabilities	\$ 426,298	\$ -	\$ 4,762	\$ 431,060
Total liabilities	426,298	-	4,762	431,060
Fund balances				
Restricted	441,380	-	-	441,380
Committed	995,487	-	-	995,487
Assigned	274,937	-	-	274,937
Unassigned	-	-	(4,754)	(4,754)
Total fund balances (deficit)	1,711,804	-	(4,754)	1,707,050
Total liabilities and fund balances	\$ 2,138,102	\$ -	\$ 8	\$ 2,138,110

City of Talladega, Alabama
Combining Statement of Revenues, Expenditures and Changes in Fund
Balances—Non-major Governmental Funds

<i>For the year ended September 30, 2020</i>	Special Revenue Funds	Debt Service Fund	Capital Projects Fund	Total Other Governmental Funds
Revenues				
Intergovernmental	\$ 112,798	\$ -	\$ -	\$ 112,798
Taxes	683,464	-	-	683,464
Charges for services	467,884	-	-	467,884
Interest	39,087	-	-	39,087
Total revenues	1,303,233	-	-	1,303,233
Expenditures				
Current				
General government	941,477	-	-	941,477
Public safety	571,395	-	-	571,395
Capital outlay	1,529,051	-	-	1,529,051
Debt service				
Principal	-	643,745	-	643,745
Interest	-	205,303	-	205,303
Total expenditures	3,041,923	849,048	-	3,890,971
Excess (deficiency) of revenues over (under) expenditures	(1,738,690)	(849,048)	-	(2,587,738)
Other Financing Sources (Uses)				
Transfers in	1,326,582	849,048	-	2,175,630
Transfers out	(559,459)	-	-	(559,459)
Total other financing sources (uses)	767,123	849,048	-	1,616,171
Net change in fund balances	(971,567)	-	-	(971,567)
Fund balance, beginning of year (deficit)	2,683,371	-	(4,754)	2,678,617
Fund balance, end of year (deficit)	\$ 1,711,804	\$ -	\$ (4,754)	\$ 1,707,050

City of Talladega, Alabama
Combining Balance Sheet – Special Revenue Funds

<i>September 30, 2020</i>	2.5 Mil Property Tax Fund	4 Cent Gas Tax Fund	7 Cent Gas Tax Fund	Corrections Fund
Assets				
Cash and cash equivalents	\$ 380,431	\$ 22,706	\$ 28,880	\$ 96,672
Investments	-	-	-	-
Receivables	4,412	4,287	5,413	2,346
Due from other funds	-	55,180	-	18,995
Total assets	\$ 384,843	\$ 82,173	\$ 34,293	\$ 118,013
Liabilities and Fund Balances				
Liabilities				
Accounts payable and accrued liabilities	\$ 354,577	\$ -	\$ -	\$ 43,346
Total liabilities	354,577	-	-	43,346
Fund balances				
Restricted	30,266	82,173	34,293	74,667
Committed	-	-	-	-
Assigned	-	-	-	-
Total fund balances	30,266	82,173	34,293	74,667
Total liabilities and fund balances	\$ 384,843	\$ 82,173	\$ 34,293	\$ 118,013

Oil Trust Fund	Police Grant	Cemetery Fund	Library Fund	Rebuild Alabama Gas Tax Fund	Total Special Revenue Funds
\$ 131,445	\$ 18,123	\$ 231,576	\$ 207,443	\$ 64,158	\$ 1,181,434
-	-	778,264	43,336	-	821,600
-	-	-	-	6,255	22,713
-	-	-	38,180	-	112,355
<u>\$ 131,445</u>	<u>\$ 18,123</u>	<u>\$ 1,009,840</u>	<u>\$ 288,959</u>	<u>\$ 70,413</u>	<u>\$ 2,138,102</u>
\$ -	\$ -	\$ 14,353	\$ 14,022	\$ -	\$ 426,298
-	-	14,353	14,022	-	426,298
131,445	18,123	-	-	70,413	441,380
-	-	995,487	-	-	995,487
-	-	-	274,937	-	274,937
<u>131,445</u>	<u>18,123</u>	<u>995,487</u>	<u>274,937</u>	<u>70,413</u>	<u>1,711,804</u>
<u>\$ 131,445</u>	<u>\$ 18,123</u>	<u>\$ 1,009,840</u>	<u>\$ 288,959</u>	<u>\$ 70,413</u>	<u>\$ 2,138,102</u>

City of Talladega, Alabama
Combining Statement of Revenues, Expenditures and Changes in Fund
Balances—Special Revenue Funds

<i>For the year ended September 30, 2020</i>	2.5 Mil Property Tax Fund	4 Cent Gas Tax Fund	7 Cent Gas Tax Fund	Corrections Fund
Revenues				
Intergovernmental	\$ -	\$ -	\$ -	\$ -
Taxes	348,763	47,407	60,227	-
Charges for services	-	-	-	407,622
Interest	644	-	394	-
Total revenues	349,407	47,407	60,621	407,622
Expenditures				
Current				
General government	354,577	96	-	-
Public safety	-	-	-	553,646
Capital outlay	-	-	-	-
Total expenditures	354,577	96	-	553,646
Excess (deficiency) of revenues over (under) expenditures	(5,170)	47,311	60,621	(146,024)
Other Financing Sources (Uses)				
Transfers in	-	-	-	220,168
Transfers out	-	(194,949)	(318,510)	(46,000)
Total other financing sources (uses)	-	(194,949)	(318,510)	174,168
Net change in fund balances	(5,170)	(147,638)	(257,889)	28,144
Fund balances, beginning of year	35,436	229,811	292,182	46,523
Fund balances, end of year	\$ 30,266	\$ 82,173	\$ 34,293	\$ 74,667

Oil Trust Fund	Police Grant	Cemetery Fund	Library Fund	Rebuild Alabama Gas Tax Fund	Total Special Revenue Funds
\$ -	\$ 17,734	\$ -	\$ 95,064	\$ -	\$ 112,798
156,654	-	-	-	70,413	683,464
-	-	54,565	5,697	-	467,884
1,146	2	35,360	1,541	-	39,087
157,800	17,736	89,925	102,302	70,413	1,303,233
45	-	80,968	505,791	-	941,477
-	17,749	-	-	-	571,395
1,529,051	-	-	-	-	1,529,051
1,529,096	17,749	80,968	505,791	-	3,041,923
(1,371,296)	(13)	8,957	(403,489)	70,413	(1,738,690)
647,731	9,281	-	449,402	-	1,326,582
-	-	-	-	-	(559,459)
647,731	9,281	-	449,402	-	767,123
(723,565)	9,268	8,957	45,913	70,413	(971,567)
855,010	8,855	986,530	229,024	-	2,683,371
\$ 131,445	\$ 18,123	\$ 995,487	\$ 274,937	\$ 70,413	\$ 1,711,804



Carr, Riggs & Ingram, LLC
1117 Boll Weevil Circle
Enterprise, AL 36330

Mailing Address:
PO Box 311070
Enterprise, AL 36331

334.347.0088
334.347.7650 (fax)
CRIcpa.com

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Manager and City Council
City of Talladega
Talladega, Alabama

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Talladega, Alabama (the "City") as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 26, 2022. Our report includes a reference to other auditors who audited the financial statements of the Talladega City Board of Education and the Talladega Municipal Airport Board, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) 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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or 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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2020-001 that we consider to be a material weakness.

Compliance and Other Matters

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

City's Response to Findings

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

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

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

Enterprise, Alabama
January 26, 2022

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

To the Manager and City Council
City of Talladega
Talladega, Alabama

Report on Compliance for Each Major Federal Program

We have audited the City of Talladega, Alabama's (the "City") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the City's major federal programs for the year ended September 30, 2020. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2020.

Report on Internal Control Over Compliance

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

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

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

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

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

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

Enterprise, Alabama
January 26, 2022

City of Talladega, Alabama
Schedule of Findings and Questioned Costs

For the year ended September 30, 2020

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR Part 200.516(a)? yes X no

Identification of major programs:

Assistance Listing Number(s)	Name of Federal Program or Cluster
14.228	Community Development Block Grants/State's Program
11.300	Economic Development Cluster Investments for Public Works and Economic Development Facilities
Dollar threshold used to distinguish between type A and type B programs? \$ 750,000	
Auditee qualified as low-risk auditee? <u> </u> yes <u> X </u> no	

City of Talladega, Alabama Schedule of Findings and Questioned Costs

Section II – Financial Statement Findings

Item 2020-001 Preparation of the Schedule of Expenditures of Federal Awards (SEFA)

Condition – Management was unable to prepare a schedule of schedule of expenditures of federal awards.

Criteria – Under 2 CFR 200.510(b), the auditee must prepare a schedule of expenditures of federal awards (SEFA) for the period covered by the auditee’s financial statements which must include the total Federal awards expended as determined in accordance with §200.502 Basis for determining Federal awards expended.

Cause – Turnover of management during and subsequent to the fiscal year end created difficulties in ensuring that all federal awards were evaluated and a complete SEFA could be prepared.

Effect – The auditor assisted management in preparing the SEFA based upon review of the City’s records and inquiries of management.

Recommendation – We recommend management implement procedures to ensure federal expenditures are properly captured and reported in the SEFA.

Management’s Response – Management has reviewed the requirements of 2 CFR Section 200.510 and 2 CFR Section 200.502 relating to the preparation of the SEFA. Management will implement additional procedures to ensure federal expenditures are properly captured and reported in the SEFA.

Section III - Federal Award Findings and Questioned Costs

No matters were reported.

City of Talladega, Alabama
Schedule of Expenditures of Federal Awards

For the year ended September 30, 2020

Federal Grantor/Pass-Through Grantor Program Title	Federal Assistance Listing Number	Grant/ Award Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Housing and Urban Development				
Passed through Alabama Department of Economic and Community Affairs				
Community Development Block Grants/State's Program	14.228	LR CM PF 18 011	\$ -	\$ 381,528
Appalachian Regional Commission				
Passed through Alabama Department of Economic and Community Affairs				
Appalachian Area Development	23.002	AL 19535 2019	-	197,387
U.S. Department of Justice				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2018-DJ-BX-0067	-	10,104
Bulletproof Vest Partnership Program	16.607	FY 2018 BVP	-	7,630
Total U.S. Department of Justice			-	17,734
U.S. Department of the Treasury				
Passed through the State of Alabama				
COVID 19 - Coronavirus Relief Fund	21.019	n/a	-	118,190
National Endowment for the Humanities				
Passed through Alabama Public Library Service				
Grants to States	45.310	n/a	-	2,625
U.S. Department of Commerce				
Investments for Public Works and Economic Development Facilities*	11.300	04-01-07299	-	511,960
U.S. Department of Transportation				
Passed through the Alabama Department of Transportation				
Highway Planning and Construction**	20.205	TAPAA-TA16(906)	-	194,276
Total federal awards			\$ -	\$ 1,423,700

* Economic Development Cluster

** Highway Planning and Construction Cluster

See independent auditors' report and accompanying notes to schedule of expenditures of federal awards.

City of Talladega, Alabama

Notes to Schedule of Expenditures of Federal Awards

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The accompanying schedule of expenditures of federal awards includes the federal spending of the City of Talladega, Alabama (the "City") and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of, the basic financial statements. Because the schedule presents only a selected portion of the operations of the City, it is not intended to and does not represent the financial position of the City.

Economic Development Cluster - Includes awards that assist entities to promote competitiveness and growth in the worldwide economy. Investments are made in economically distressed communities in order to create jobs, promote innovation and accelerate long-term sustainable economic growth.

Highway Planning and Construction Cluster - Includes awards that (1) assist states in the planning and development of an integrated, interconnected transportation system important to interstate commerce and travel by constructing, rehabilitating, and preserving the National Highway System; (2) provide aid for the repair of Federal-aid highways following disasters; (3) foster safe highway design and improve bridge conditions; (4) support community-level transportation infrastructure; and (5) provide for other special purposes.

Note 2: INDIRECT COST RATE

The City has not elected to use the 10% de minimis cost rate allowed under the Uniform Guidance.

Note 3: LOAN/LOAN GUARANTEE OUTSTANDING BALANCES

The City did not have any federal loans or loan guarantees outstanding during the year ended September 30, 2020.

Note 4: SUB-RECIPIENTS

During the year ended September 30, 2020, the City had no sub-recipients.

Note 5: NONCASH ASSISTANCE AND OTHER

The City did not receive any noncash assistance or federally funded insurance during the year ended September 30, 2020.

City of Talladega, Alabama
Notes to Schedule of Expenditures of Federal Awards

Note 6: CONTINGENCIES

Grant monies received and disbursed by the City are for specific purposes and are subject to review by the grantor agencies. Such audits may result in requests for reimbursement due to disallowed expenditures. Based upon prior experience, the City does not believe that such disallowance, if any, would have a material effect on the financial position of the City. As of January 26, 2022, there were no known material questioned or disallowed costs as a result of grant audits in process or completed.

Note 7: FEDERAL AND STATE PASS-THROUGH FUNDS

The City is also the sub-recipient of federal funds that have been subjected to testing and are reported as expenditures and listed as federal or state pass-through funds. Federal awards other than those indicated as “pass-through” are considered direct.



CITY OF TALLADEGA

255 South Street W.
P.O. Box 498
Talladega, Al 35161
(256) 362 - 8186

Corrective Action Plan

The City of Talladega, Alabama respectfully submits the following corrective action plan for the year ended September 30, 2020.

Carr, Riggs & Ingram, LLC
1117 Boll Weevil Circle
Enterprise, AL 36330

The finding from the September 30, 2020 schedule of findings and questioned costs is discussed below. The finding is numbered consistent with the number assigned in the schedule.

FINDINGS – FINANCIAL STATEMENT AUDIT

2020-001 Preparation of the Schedule of Expenditures of Federal Awards (SEFA)

Recommendation: Under 2 CFR 200.510(b), the auditee must prepare a schedule of expenditures of federal awards (SEFA) for the period covered by the auditee’s financial statements which must include the total federal awards expended as determined in accordance with §200.502 Basis for determining Federal awards expended. Turnover of management during and subsequent to the fiscal year end created difficulties in ensuring that all federal awards were evaluated and a complete SEFA could be prepared. We recommend management implement procedures to ensure federal expenditures are properly captured and reported in the SEFA. The City Manager, Seddrick Hill, should maintain a complete listing of federal awards to help facilitate the preparation of the SEFA and reporting requirements.

Action Taken: Management has reviewed the requirements of 2 CFR Section 200.510 and 2 CFR Section 200.502 relating to the preparation of the SEFA and agrees with the recommendation. Management will implement additional procedures, and effective immediately, the City Manager will maintain a complete listing of federal awards to ensure federal expenditures are properly captured and reported in the SEFA. The City anticipates having this corrective action fully implemented by March 31, 2022.

FINDINGS – FEDERAL AWARDS PROGRAM AUDITS

No such findings in the current year.