

# City of Talladega, Alabama

## FINANCIAL STATEMENTS

September 30, 2019



**CRI** CARR  
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## **INDEPENDENT AUDITORS' REPORT**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the fiduciary fund, 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, 2019, 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 an opinion 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to

design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinions. 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 fiduciary fund, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of September 30, 2019, 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 4.1–4.9 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 proprietary fund, combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary comparison schedule for proprietary fund and combining and individual non-major fund financial statements 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 supplementary information is 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 September 15, 2020 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

September 15, 2020

**CITY OF TALLADEGA**

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**CITY OF TALLADEGA, ALABAMA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2019**

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, 2019. 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 \$29,249,683 as of September 30, 2019. However, \$19,333,227 (66%) 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 \$6,625,892 represents assets that are subject to external restrictions on how they may be used. The remaining balance, totaling \$3,290,564, is unrestricted.
- The total net position of the City of Talladega increased by approximately \$1.3 million during fiscal year 2019; resulting in a net position of \$13,705,268.
- At the close of the fiscal year, the City's governmental funds reported a combined ending fund balance of \$10.9 million. The combined governmental funds' fund balances increased by \$29,742 during the fiscal year, primarily due to the budget surplus.
- The General Fund balance increased by \$667,305 to a total of \$7.36 million at year end. The city considers \$2.415 million of this balance to be emergency reserves; this amount represents just over 15.9% of annual expenditures, or 58 days of operations. General Fund revenues were \$15.1 million, which exceeded the previous fiscal year by \$0.2 million and \$348,018 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 \$898,647, a 53% decrease from the prior year balance. Capital funds expenditures were \$2,085,727 for fiscal year 2019 and consisted of building and park improvements, software upgrades, as well as equipment and fleet replacement. The City invested approximately \$987,000 in construction projects during fiscal 2019.

- 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, Brownfield Fund, Police Grants Fund, Cemetery Fund and Library Fund. The Special Revenue Funds closed with a combined fund balance of \$2,683,371, a \$356,991 increase from the prior year.
- The CDBG (Community Development Block Grant) fund comprise the Capital Projects Funds. Projects partially funded with this grant was 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, 2019, by \$15,544,415 (total net position) down from \$15,547,972 in FY 2018. Of the total net position, \$1,901,636 or 12% (unrestricted net position) may be used to meet the Department’s ongoing obligations. Current liabilities were about \$152,000 lower than the previous fiscal year due to decreased outstanding payables at year end. The City’s noncurrent liabilities decreased about \$435,000 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 revenues of \$8,204,449, an increase of \$656,931 from 2018, exceeded operating expenses during the year, which decreased \$134,158 for a total of \$7,538,328 for FY 2019. This increase combined with increases in nonoperating revenues and transfers in, caused a slight decrease of \$3,557 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 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.
- **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.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

### Statement of Net Position September 30, 2019

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
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
<b>Total assets</b>	<b>28,989,232</b>	<b>38,775,743</b>	<b>67,764,975</b>
<b>Deferred outflows of resources</b>			
Deferred outflows of resources - pension	1,249,090	332,036	1,581,126
Deferred outflows of resources - OPEB	615,403	163,588	778,991
Deferred charges from refunding	345,095	106,434	451,529
<b>Total deferred outflows of resources</b>	<b>2,209,588</b>	<b>602,058</b>	<b>2,811,646</b>
<b>Total assets and deferred outflows of resources</b>	<b>31,198,820</b>	<b>39,377,801</b>	<b>70,576,621</b>
<b>Liabilities</b>			
Accounts payable and accrued liabilities	608,291	634,797	1,243,088
Internal balances	-	104,917	104,917
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
<b>Total liabilities</b>	<b>16,458,886</b>	<b>23,558,348</b>	<b>40,017,234</b>
<b>Deferred inflows of resources</b>			
Deferred inflows of resources - pension	883,844	234,946	1,118,790
Deferred inflows of resources - OPEB	150,822	40,092	190,914
<b>Deferred inflows of resources</b>	<b>1,034,666</b>	<b>275,038</b>	<b>1,309,704</b>
<b>Net position</b>			
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
<b>Total net position</b>	<b>\$ 13,705,268</b>	<b>\$ 15,544,415</b>	<b>\$ 29,249,683</b>

**Statement of Net Position**  
**September 30, 2018**

Cash and cash equivalents	\$ 9,529,564	\$ 7,043,608	\$ 16,573,172
Investments	1,033,027	-	1,033,027
Receivables, net	989,100	670,804	1,659,904
Unbilled revenue	-	557,388	557,388
Internal balances	46,411	-	46,411
Inventories	-	276,470	276,470
Restricted assets	-	5,507,330	5,507,330
Other assets	68,895	24,100	92,995
Capital assets not being depreciated	5,318,014	1,446,339	6,764,353
Capital assets, net of accumulated depreciation	11,566,326	23,893,040	35,459,366
<b>Total assets</b>	<b>28,551,337</b>	<b>39,419,079</b>	<b>67,970,416</b>
<b>Deferred outflows of resources</b>			
Employer retirement contributions subsequent to measurement date	525,586	147,216	672,802
Net difference between projected and actual earnings on pension plan investments and differences between expected and actual experience	692,149	195,222	887,371
Deferred charges from refunding	375,177	148,716	523,893
<b>Total deferred outflows of resources</b>	<b>1,592,912</b>	<b>491,154</b>	<b>2,084,066</b>
<b>Total assets and deferred outflows of resources</b>	<b>30,144,249</b>	<b>39,910,233</b>	<b>70,054,482</b>
<b>Liabilities</b>			
Accounts payable and accrued liabilities	707,279	865,185	1,572,464
Internal balances	-	46,411	46,411
Customer meter deposits	-	231,110	231,110
Accrued interest	54,572	-	54,572
Noncurrent liabilities:	33,615	-	33,615
Due within one year:			
Bonds and warrants payable	550,000	445,000	995,000
Capital leases	70,558	-	70,558
Compensated absences	60,059	-	60,059
Due in more than one year:			
Bonds and warrants payable	6,584,745	20,202,689	26,787,434
Capital leases	525,359	-	525,359
Net pension liability	5,558,620	1,567,816	7,126,436
Net OPEB liability	2,491,530	662,305	3,153,835
Compensated absences	340,331	124,359	464,690
<b>Total liabilities</b>	<b>16,976,668</b>	<b>24,144,875</b>	<b>41,121,543</b>
<b>Deferred inflows of resources</b>			
Deferred inflows of resources - pension	616,705	173,943	790,648
Deferred inflows of resources - OPEB	163,428	43,443	206,871
<b>Deferred inflows of resources</b>	<b>780,133</b>	<b>217,386</b>	<b>997,519</b>
<b>Net position</b>			
Net investment in capital assets	8,778,501	8,203,640	16,982,141
Restricted for:			
Capital projects	1,893,201	-	1,893,201
Special revenues (gas tax and road projects)	1,115,468	-	1,115,468
Special revenues (ad valorem tax for schools)	34,890	-	34,890
Special revenues (public safety)	24,020	-	24,020
Debt service fund	-	5,507,330	5,507,330
Unrestricted	541,368	1,837,002	2,378,370
<b>Total net position</b>	<b>\$ 12,387,448</b>	<b>\$ 15,547,972</b>	<b>\$ 27,935,420</b>

**Statement of Activities**  
**For the Year Ended September 30, 2019**

Program Activities	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Primary government</b>							
Governmental activities:							
General government administration	\$ 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)
<b>Total governmental activities</b>	<b>15,193,163</b>	<b>3,004,340</b>	<b>322,657</b>	<b>294,448</b>	<b>(11,571,718)</b>	<b>-</b>	<b>(11,571,718)</b>
Business-type activities:							
Water and sewer	8,467,956	8,204,449	-	-	-	(263,507)	(263,507)
<b>Total primary government</b>	<b>\$ 23,661,119</b>	<b>\$ 11,208,789</b>	<b>\$ 322,657</b>	<b>\$ 294,448</b>	<b>(11,571,718)</b>	<b>(263,507)</b>	<b>(11,835,225)</b>
<b>General revenues:</b>							
Taxes:							
Ad Valorem (real and personal property)					1,099,146	-	1,099,146
Sales and use					10,657,606	-	10,657,606
Other					865,052	-	865,052
Grants not restricted to specific programs					-	62,593	62,593
Miscellaneous revenues					219,262	73,682	292,944
Interest income					77,695	94,452	172,147
Transfers					(29,223)	29,223	-
<b>Total general revenues and transfers</b>					<b>12,889,538</b>	<b>259,950</b>	<b>13,149,488</b>
<b>Change in net position</b>					<b>1,317,820</b>	<b>(3,557)</b>	<b>1,314,263</b>
Net position at beginning of year					12,387,448	15,547,972	27,935,420
<b>Net position at end of year</b>					<b>\$ 13,705,268</b>	<b>\$ 15,544,415</b>	<b>\$ 29,249,683</b>

**Statement of Activities**  
**For the Year Ended September 30, 2018**

Program Activities	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	
<b>Primary government</b>							
<b>Governmental activities:</b>							
General government administration	\$ 4,245,141	\$ 64,744	\$ 238,367	\$ 107,411	\$ (3,834,619)	\$ -	\$ (3,834,619)
Public safety	6,725,848	473,871	11,458	-	(6,240,519)	-	(6,240,519)
Public works	2,451,608	-	-	-	(2,451,608)	-	(2,451,608)
Parks and recreation	1,268,791	130,749	49,277	-	(1,088,765)	-	(1,088,765)
Interest on long-term debt	228,258	-	-	-	(228,258)	-	(228,258)
<b>Total governmental activities</b>	<b>14,919,646</b>	<b>669,364</b>	<b>299,102</b>	<b>107,411</b>	<b>(13,843,769)</b>	<b>-</b>	<b>(13,843,769)</b>
<b>Business-type activities:</b>							
Water and sewer	8,597,783	7,547,518	-	-	-	(1,050,265)	(1,050,265)
<b>Total primary government</b>	<b>\$ 23,517,429</b>	<b>\$ 8,216,882</b>	<b>\$ 299,102</b>	<b>\$ 107,411</b>	<b>(13,843,769)</b>	<b>(1,050,265)</b>	<b>(14,894,034)</b>

**General revenues:**

<b>Taxes:</b>			
Ad Valorem (real and personal property)	1,022,661	-	1,022,661
Sales and use	10,496,401	-	10,496,401
Other	821,291	-	821,291
General business licenses and permits	2,381,730	-	2,381,730
Grants not restricted to specific programs	-	-	-
Payments from City of Talladega	-	-	-
Miscellaneous revenues	249,481	23,358	272,839
Interest income	34,245	69,576	103,821
Interest income	-	-	-
Transfers	18,324	(18,324)	-
<b>Total general revenues and transfers</b>	<b>15,024,133</b>	<b>74,610</b>	<b>15,098,743</b>
<b>Change in net position</b>	<b>1,180,364</b>	<b>(975,655)</b>	<b>204,709</b>
Net position at beginning of year, as originally stated	13,955,916	17,224,219	31,180,135
Prior period adjustment (note 20)	(2,748,832)	(700,592)	(3,449,424)
Net position at beginning of year, as restated	11,207,084	16,523,627	27,730,711
<b>Net position at end of year</b>	<b>\$ 12,387,448</b>	<b>\$ 15,547,972</b>	<b>\$ 27,935,420</b>

## **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, 2019, totals \$43,976,918. These assets include buildings, land, equipment, facilities and vehicles. Additional detailed information on the capital assets may be found in Note 6 on pages 36 - 37.

Long-term Debt: As of September 30, 2019, the City of Talladega governmental activities had debt outstanding of \$6,569,590 consisting of three General Obligation Warrants. Interest paid on long-term debt was \$229,137 for fiscal year 2019. In addition, the City has two capital leases with terms up to 10 years. The total present value of future minimum lease payments equaled \$526,921 at 2019 fiscal year end. The Water and Sewer Department of the City had warrants outstanding in the amount of \$20,175,389, payable solely from revenues of the system, and no capital leases outstanding as of September 30, 2019. No additional debt activity has occurred subsequent to the close of FY 2019.

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 10 on pages 40-45.

## **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 11 on pages 45-49.

## **ECONOMIC FACTORS**

The City of Talladega continues to be heavily dependent on sales tax revenue, which accounts for approximately 70% of total General Fund operating revenues. 2019 sales tax revenue increased by 1.5%, or about \$161K, over fiscal year 2018; the average annual increase since 2012 is about 2%. Business license revenue decreased by \$53K during 2019 or 2% under 2018.

At the close of FY19, 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 2019 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, 2019

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and cash equivalents	\$ 9,483,466	\$ 6,025,457	\$ 15,508,923	\$ 5,466,069
Investments	1,077,567	-	1,077,567	4,739,691
Receivables, net	865,192	664,137	1,529,329	16,072
Unbilled revenue	-	888,985	888,985	-
Internal balances	104,917	-	104,917	-
Due from other governments	-	-	-	561,428
Inventories	-	256,466	256,466	61,669
Restricted assets	-	4,336,194	4,336,194	-
Other assets	66,608	19,068	85,676	63,714
Capital assets not being depreciated	5,892,225	1,142,869	7,035,094	-
Capital assets, net of accumulated depreciation	11,499,257	25,442,567	36,941,824	11,373,287
<b>Total assets</b>	<b>28,989,232</b>	<b>38,775,743</b>	<b>67,764,975</b>	<b>22,281,930</b>
<b>Deferred outflows of resources</b>				
Deferred outflows of resources - pension	1,249,090	332,036	1,581,126	3,307,787
Deferred outflows of resources - OPEB	615,403	163,588	778,991	2,763,802
Deferred charges from refunding	345,095	106,434	451,529	-
<b>Total deferred outflows of resources</b>	<b>2,209,588</b>	<b>602,058</b>	<b>2,811,646</b>	<b>6,071,589</b>
<b>Total assets and deferred outflows of resources</b>	<b>31,198,820</b>	<b>39,377,801</b>	<b>70,576,621</b>	<b>28,353,519</b>
<b>Liabilities</b>				
Bank overdraft	-	-	-	341,099
Accounts payable and accrued liabilities	608,291	634,797	1,243,088	1,973,890
Internal balances	-	104,917	104,917	-
Other liabilities	54,571	-	54,571	3,439
Accrued interest	31,164	-	31,164	-
Noncurrent liabilities:				
Due within one year:				
Warrants payable	570,000	465,000	1,035,000	334,699
Capital leases	73,745	-	73,745	-
Compensated absences	-	-	-	68,042
Due in more than one year:				
Warrants payable	5,999,590	19,710,389	25,709,979	2,740,926
Capital leases	453,176	-	453,176	-
Net pension liability	5,157,811	1,461,271	6,619,082	16,250,000
Net OPEB liability	3,110,148	826,748	3,936,896	16,900,578
Customer meter deposits	-	230,867	230,867	-
Compensated absences	400,390	124,359	524,749	-
<b>Total liabilities</b>	<b>16,458,886</b>	<b>23,558,348</b>	<b>40,017,234</b>	<b>38,612,673</b>
<b>Deferred inflows of resources</b>				
Deferred inflows of resources - pension	883,844	234,946	1,118,790	3,247,000
Deferred inflows of resources - OPEB	150,822	40,092	190,914	2,052,263
<b>Total deferred inflows of resources</b>	<b>1,034,666</b>	<b>275,038</b>	<b>1,309,704</b>	<b>5,299,263</b>
<b>Net position (deficit)</b>				
Net investment in capital assets	9,949,876	9,383,351	19,333,227	8,297,662
Restricted for:				
Capital improvements	898,647	4,222,379	5,121,026	2,031,870
Special revenues (gas tax and road projects)	1,377,003	-	1,377,003	-
Special revenues (ad valorem tax for schools)	35,436	-	35,436	688,180
Special revenues (public safety)	55,378	-	55,378	-
Debt service	-	37,049	37,049	-
Unrestricted	1,388,928	1,901,636	3,290,564	(26,576,129)
<b>Total net position (deficit)</b>	<b>\$ 13,705,268</b>	<b>\$ 15,544,415</b>	<b>\$ 29,249,683</b>	<b>\$ (15,558,417)</b>

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



**City of Talladega, Alabama**  
**Statement of Activities**

*For the year ended September 30, 2019*

Program Activities	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary government</b>				
Governmental activities:				
General government administration	\$ 3,997,720	\$ 2,393,927	\$ 308,021	\$ 294,448
Public safety	7,198,260	481,335	-	-
Public works	2,533,370	-	-	-
Parks and recreation	1,224,651	129,078	14,636	-
Interest on long-term debt	239,162	-	-	-
<b>Total governmental activities</b>	<b>15,193,163</b>	<b>3,004,340</b>	<b>322,657</b>	<b>294,448</b>
Business-type activities:				
Water and sewer	8,467,956	8,204,449	-	-
<b>Total primary government</b>	<b>\$ 23,661,119</b>	<b>\$ 11,208,789</b>	<b>\$ 322,657</b>	<b>\$ 294,448</b>
Component units:				
Board of Education	\$ 22,620,965	\$ 1,619,801	\$ 15,752,320	\$ 591,225
Municipal Airport Board	452,543	321,391	251,080	-
<b>Total component units</b>	<b>\$ 23,073,508</b>	<b>\$ 1,941,192</b>	<b>\$ 16,003,400</b>	<b>\$ 591,225</b>
<b>General revenues:</b>				
Taxes:				
Ad Valorem (real and personal property)				
Sales and use				
Other				
Grants not restricted to specific programs				
Miscellaneous revenues				
Interest income				
Transfers				
<b>Total general revenues and transfers</b>				
<b>Change in net position</b>				
Net position (deficit) at beginning of year				
<b>Net position (deficit) at end of year</b>				

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

<b>Net (Expense) Revenue and Changes in Net Position</b>			<b>Component Units</b>	
<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	<b>Totals</b>	
\$ (1,001,324)	\$ -	\$ (1,001,324)	\$ -	-
(6,716,925)	-	(6,716,925)	-	-
(2,533,370)	-	(2,533,370)	-	-
(1,080,937)	-	(1,080,937)	-	-
(239,162)	-	(239,162)	-	-
(11,571,718)	-	(11,571,718)	-	-
-	(263,507)	(263,507)	-	-
(11,571,718)	(263,507)	(11,835,225)	-	-
-	-	-	(4,657,619)	-
-	-	-	119,928	-
-	-	-	(4,537,691)	-
1,099,146	-	1,099,146	2,226,636	-
10,657,606	-	10,657,606	1,638,798	-
865,052	-	865,052	101,660	-
-	62,593	62,593	95,031	-
219,262	73,682	292,944	266,416	-
77,695	94,452	172,147	109,959	-
(29,223)	29,223	-	-	-
12,889,538	259,950	13,149,488	4,438,500	-
1,317,820	(3,557)	1,314,263	(99,191)	-
12,387,448	15,547,972	27,935,420	(15,459,226)	-
\$ 13,705,268	\$ 15,544,415	\$ 29,249,683	\$ (15,558,417)	-

**City of Talladega, Alabama**  
**Balance Sheet – Governmental Funds**

<i>September 30, 2019</i>	<b>General</b>	<b>Capital Projects Trust Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets</b>				
Cash and cash equivalents	\$ 6,424,011	\$ 1,116,700	\$ 1,942,755	\$ 9,483,466
Investments	273,002	-	804,565	1,077,567
Receivables, net	848,019	-	17,173	865,192
Interfund receivable	84,494	-	80	84,574
Interfund receivable - proprietary fund	104,917	-	-	104,917
Other assets	66,608	-	-	66,608
<b>Total assets</b>	<b>\$ 7,801,051</b>	<b>\$ 1,116,700</b>	<b>\$ 2,764,573</b>	<b>\$ 11,682,324</b>
<b>Liabilities</b>				
Accounts payable and accrued liabilities	\$ 443,347	\$ 90,332	\$ 74,612	\$ 608,291
Interfund payable	80	73,150	11,344	84,574
Other liabilities	-	54,571	-	54,571
<b>Total liabilities</b>	<b>443,427</b>	<b>218,053</b>	<b>85,956</b>	<b>747,436</b>
<b>Fund balance</b>				
Restricted	-	898,647	1,467,817	2,366,464
Committed	-	-	986,530	986,530
Assigned	-	-	229,024	229,024
Unassigned:				
Capital projects - community development	-	-	(4,754)	(4,754)
General fund	7,357,624	-	-	7,357,624
<b>Total fund balance</b>	<b>7,357,624</b>	<b>898,647</b>	<b>2,678,617</b>	<b>10,934,888</b>
<b>Total liabilities and fund balance</b>	<b>\$ 7,801,051</b>	<b>\$ 1,116,700</b>	<b>\$ 2,764,573</b>	<b>\$ 11,682,324</b>

*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, 2019*

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**Fund balance - total governmental funds** \$ 10,934,888

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

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

Those assets consist of:

Governmental capital assets not being depreciated	\$ 5,892,225	
Governmental capital assets being depreciated	63,242,287	
Less accumulated depreciation	<u>(51,743,030)</u>	17,391,482

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.

All liabilities both current and long-term are reported in the statement of net position.

Accrued interest	(31,164)	
Warrants payable	(6,569,590)	
Capital lease obligations	(526,921)	
OPEB liability	(3,110,148)	
Net pension liability	(5,157,811)	
Compensated absences	<u>(400,390)</u>	(15,796,024)

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

1,864,493

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.

345,095

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

(1,034,666)

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**Net position of governmental activities** **\$ 13,705,268**

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*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, 2019</i>	<b>General</b>	<b>Capital Projects Trust Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Revenues</b>				
Taxes	\$ 12,084,047	\$ -	\$ 537,757	\$ 12,621,804
Licenses and permits	2,328,704	-	-	2,328,704
Charges for services	249,829	-	425,807	675,636
Federal and state grants	204,232	294,448	118,425	617,105
Interest	13,994	717	62,984	77,695
Other revenues	219,262	-	-	219,262
<b>Total revenues</b>	<b>15,100,068</b>	<b>295,165</b>	<b>1,144,973</b>	<b>16,540,206</b>
<b>Expenditures</b>				
General government	1,489,861	66,258	813,353	2,369,472
Public safety	6,116,363	-	530,686	6,647,049
Public works	2,164,868	-	-	2,164,868
Recreation	1,116,503	-	-	1,116,503
Other boards and agencies	329,740	-	-	329,740
Non-departmental	915,769	-	-	915,769
Capital outlay	-	2,085,727	6,431	2,092,158
Debt service:				
Principal	-	-	618,996	618,996
Interest	-	-	226,686	226,686
<b>Total expenditures</b>	<b>12,133,104</b>	<b>2,151,985</b>	<b>2,196,152</b>	<b>16,481,241</b>
<b>Excess of revenues over (under) expenditures</b>	<b>2,966,964</b>	<b>(1,856,820)</b>	<b>(1,051,179)</b>	<b>58,965</b>
<b>Other financing sources (uses)</b>				
Transfers in	2,301	873,784	1,408,170	2,284,255
Transfers out	(2,301,960)	(11,518)	-	(2,313,478)
<b>Total other financing sources (uses)</b>	<b>(2,299,659)</b>	<b>862,266</b>	<b>1,408,170</b>	<b>(29,223)</b>
<b>Net change in fund balances</b>	<b>667,305</b>	<b>(994,554)</b>	<b>356,991</b>	<b>29,742</b>
<b>Fund balance at beginning of year</b>	<b>6,690,319</b>	<b>1,893,201</b>	<b>2,321,626</b>	<b>10,905,146</b>
<b>Fund balance, end of year</b>	<b>\$ 7,357,624</b>	<b>\$ 898,647</b>	<b>\$ 2,678,617</b>	<b>\$ 10,934,888</b>

*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**

*For the year ended September 30, 2019*

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**Net change in fund balances - total governmental funds** \$ 29,742

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

Governmental funds report capital outlays as expenditures. However, in the government-wide statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Expenditures for capital assets	\$ 2,090,777	
Less current year depreciation	(1,583,635)	507,142

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		550,000
Amortization of premiums		15,155
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	2,451	
Change in OPEB expense	9,391	
Change in capital lease, net	68,996	
Change in pension expense	165,025	245,863

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**Change in net position of governmental activities** **\$ 1,317,820**

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

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

*September 30, 2019*

**Assets and deferred outflows of resources**

**Current assets**

Cash and cash equivalents	\$ 6,025,457
Accounts receivable (net of allowance for doubtful accounts for \$668,035)	664,137
Unbilled revenue	888,985
Prepaid expenses	19,068
Inventory of supplies	256,466
<hr/>	
<b>Total current assets</b>	<b>7,854,113</b>

**Noncurrent assets**

**Noncurrent restricted assets**

Investments	4,336,194
<hr/>	

**Capital assets**

Land	279,326
Land improvements	312,564
Buildings and improvements	46,206,709
Machinery and equipment	6,056,820
Construction in progress	863,543
<hr/>	
	53,718,962
Less accumulated depreciation	27,133,526
<hr/>	
<b>Total capital assets, net of accumulated depreciation</b>	<b>26,585,436</b>

<b>Total noncurrent assets</b>	<b>30,921,630</b>
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**Deferred outflows of resources**

Deferred outflows of resources - pension	332,036
Deferred outflows of resources - OPEB	163,588
Deferred charges from refunding	106,434
<hr/>	

<b>Total deferred outflows of resources</b>	<b>602,058</b>
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<b>Total assets and deferred outflows of resources</b>	<b>\$ 39,377,801</b>
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-Continued-

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

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

*September 30, 2019*

**Liabilities, deferred inflows and net position**

**Liabilities**

**Current liabilities**

Accounts payable and accrued expenses	\$	634,797
Interfund payable		104,917
Current portion of long-term debt		465,000

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<b>Total current liabilities</b>		1,204,714
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**Noncurrent liabilities**

Compensated absences		124,359
Customer meter deposits		230,867
Revenue warrants payable, net		19,710,389
Net pension liability		1,461,271
Net OPEB liability		826,748

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<b>Total noncurrent liabilities</b>		22,353,634
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<b>Total liabilities</b>		23,558,348
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**Deferred inflows of resources**

Deferred inflows of resources - pension		234,946
Deferred inflows of resources - OPEB		40,092

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<b>Total deferred inflows of resources</b>		275,038
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**Net position**

Net investment in capital assets		9,383,351
Restricted for:		
Debt service		37,049
Capital improvements		4,222,379
Unrestricted		1,901,636

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<b>Total net position</b>		15,544,415
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<b>Total liabilities, deferred outflows of resources, and net position</b>	\$	39,377,801
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*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, 2019*

<b>Operating revenues</b>	
Water revenues	\$ 3,995,732
Sewer revenues	2,732,041
Garbage revenues	1,059,735
Other operating revenues	416,941
<b>Total operating revenues</b>	<b>8,204,449</b>
<b>Operating expenses</b>	
Water and sewer department expenses	1,016,803
Waste water plants	1,532,661
Water filters and wells	949,774
Garbage collection expenses	1,028,322
General and administrative expenses	1,519,313
Depreciation expense	1,491,455
<b>Total operating expenses</b>	<b>7,538,328</b>
<b>Operating income</b>	<b>666,121</b>
<b>Nonoperating income (expense)</b>	
Interest income	94,452
Grant revenue	62,593
Miscellaneous income	73,682
Interest expense	(929,628)
<b>Total nonoperating income (expense)</b>	<b>(698,901)</b>
<b>Total loss</b>	<b>(32,780)</b>
<b>Transfers</b>	
Transfers in	29,223
<b>Change in net position</b>	<b>(3,557)</b>
Net position, beginning of year	15,547,972
Net position, end of year	\$ 15,544,415

*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, 2019*

<b>Cash Flows From Operating Activities</b>	
Cash received from customers	\$ 7,879,519
Cash paid to suppliers	(4,352,960)
Cash paid to employees	(1,897,959)
<b>Net cash provided by operating activities</b>	<b>1,628,600</b>
<b>Cash Flows From Non-Capital Financing Activities</b>	
Grant revenue	62,593
Transfers from other departments	29,223
<b>Net cash provided by non-capital financing activities</b>	<b>91,816</b>
<b>Cash Flows From Capital and Related Financing Activities</b>	
Acquisition and construction of capital assets	(2,737,512)
Proceeds from sale of capital assets	73,682
Principal paid on long-term debt	(445,000)
Interest paid on long-term debt	(895,325)
<b>Net cash used in capital and related financing activities</b>	<b>(4,004,155)</b>
<b>Cash Flows From Investing Activities</b>	
Interest received on investments	94,452
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(2,189,287)</b>
<b>Cash and Cash Equivalents - Beginning</b>	<b>12,550,938</b>
<b>Cash and Cash Equivalents - Ending</b>	<b>\$ 10,361,651</b>
<b>Reconciliation of Cash and cash equivalents to the Statement of Net Position</b>	
Cash and cash equivalents	\$ 6,025,457
Investments	4,336,194
<b>Total</b>	<b>\$ 10,361,651</b>

-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, 2019*

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**Reconciliation of Operating Income to Net Cash Provided  
by Operating Activities:**

Operating income	\$ 666,121
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	1,491,455
Change in assets and liabilities:	
Decrease in accounts receivable	6,667
Increase in unbilled revenue	(331,597)
Decrease in prepaid expenses	5,032
Decrease in inventory of supplies	20,004
Increase in deferred outflows of resources	(153,186)
Decrease in accounts payable and accrued expenses	(249,709)
Increase in interfund payable	58,506
Decrease in customer deposits	(243)
Decrease in net pension liability	(106,545)
Increase in net OPEB liability	164,443
Increase in deferred inflows of resources	57,652

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**Net cash provided by operating activities** **\$ 1,628,600**

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

**City of Talladega, Alabama**  
**Statement of Fiduciary Net Position**

<i>September 30, 2019</i>	<b>OPEB Trust Fund</b>
<hr/>	
<b>Assets</b>	
Cash and cash equivalents	\$ 31,997
Investments, at fair value	1,228,222
<hr/>	
<b>Total assets</b>	1,260,219
<hr/>	
<b>Net position restricted for OPEB</b>	<b>\$ 1,260,219</b>
<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, 2019</i>	<b>OPEB Trust Fund</b>
<b>Additions</b>	
Contributions:	
Employer	\$ 305,687
<hr/>	
Net investment income:	
Investment income	31,406
Net gain on investments	14,909
<hr/>	
Net investment income	46,315
<hr/>	
<b>Total additions</b>	<b>352,002</b>
<hr/>	
<b>Deductions</b>	
Benefit payments:	
Employer	224,840
Administrative expenses	3,246
<hr/>	
<b>Total deductions</b>	<b>228,086</b>
<hr/>	
Net increase in net position	123,916
<hr/>	
<b>Net position restricted for OPEB - beginning of year</b>	<b>1,136,303</b>
<hr/>	
<b>Net position restricted for OPEB - end of year</b>	<b>\$ 1,260,219</b>
<hr/> <hr/>	

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

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

*September 30, 2019*

	<b>Talladega City Board of Education</b>	<b>Talladega Municipal Airport Board</b>	<b>Total</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 4,911,605	\$ 554,464	\$ 5,466,069
Investments	3,110,541	1,629,150	4,739,691
Receivables	15,531	-	15,531
Due from other governments	561,428	-	561,428
Inventories	61,669	-	61,669
Accrued interest receivable	-	541	541
Other assets	55,922	7,792	63,714
Capital assets, net of accumulated depreciation	11,368,254	5,033	11,373,287
<b>Total assets</b>	<b>20,084,950</b>	<b>2,196,980</b>	<b>22,281,930</b>
Deferred outflows of resources - pension	3,307,787	-	3,307,787
Deferred outflows of resources - OPEB	2,763,802	-	2,763,802
<b>Total deferred outflows of resources</b>	<b>6,071,589</b>	<b>-</b>	<b>6,071,589</b>
<b>Total assets and deferred outflows of resources</b>	<b>26,156,539</b>	<b>2,196,980</b>	<b>28,353,519</b>
<b>Liabilities</b>			
Bank overdraft	341,099	-	341,099
Accounts payable and accrued liabilities	1,972,008	1,882	1,973,890
Other liabilities	3,439	-	3,439
Noncurrent liabilities:			
Due within one year:			
Warrants and notes payable	334,699	-	334,699
Compensated absences	68,042	-	68,042
Due in more than one year:			
Warrants and notes payable	2,740,926	-	2,740,926
Net pension liability	16,250,000	-	16,250,000
Net OPEB liability	16,900,578	-	16,900,578
<b>Total liabilities</b>	<b>38,610,791</b>	<b>1,882</b>	<b>38,612,673</b>
Deferred inflows of resources - pension	3,247,000	-	3,247,000
Deferred inflows of resources - OPEB	2,052,263	-	2,052,263
<b>Total deferred inflows of resources</b>	<b>5,299,263</b>	<b>-</b>	<b>5,299,263</b>
<b>Net position (deficit)</b>			
Net investment in capital assets	8,292,629	5,033	8,297,662
Restricted	2,720,050	-	2,720,050
Unrestricted (deficit)	(28,766,194)	2,190,065	(26,576,129)
<b>Total net position (deficit)</b>	<b>\$ (17,753,515)</b>	<b>\$ 2,195,098</b>	<b>\$ (15,558,417)</b>

*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, 2019*

Program Activities	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Talladega City Board of Education</b>				
Education	\$ 22,620,965	\$ 1,619,801	\$ 15,752,320	\$ 591,225
<b>Talladega Municipal Airport Board</b>				
Community Development	452,543	321,391	251,080	-
<b>Total component units</b>	<b>\$ 23,073,508</b>	<b>\$ 1,941,192</b>	<b>\$ 16,003,400</b>	<b>\$ 591,225</b>

**General revenues:**

Ad Valorem (real and personal property)  
 Grants not restricted to specific programs  
 Interest income  
 Miscellaneous

**Total general revenues**

**Change in net position**

Net position (deficit) at beginning of year

**Net position (deficit) at end of year**

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

<b>Net (Expense) Revenue and Changes in Net Position</b>		
<b>Talladega City Board of Education</b>	<b>Talladega Municipal Airport Board</b>	<b>Total</b>
\$ (4,657,619)	\$ -	\$ (4,657,619)
-	119,928	119,928
(4,657,619)	119,928	(4,537,691)
3,967,094	-	3,967,094
95,031	-	95,031
77,932	32,027	109,959
266,251	165	266,416
4,406,308	32,192	4,438,500
(251,311)	152,120	(99,191)
(17,502,204)	2,042,978	(15,459,226)
\$ (17,753,515)	\$ 2,195,098	\$ (15,558,417)



## **City of Talladega, Alabama** **Notes to Financial Statements**

### **Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City of Talladega, Alabama (the "City") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

#### ***Reporting Entity***

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. Members of the City Council serve part-time and are responsible for adopting all legislative ordinances and setting policies of the City, including the appropriation of money.

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, 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. Each discretely presented component unit is presented in a separate column in the combined financial statements to emphasize it is 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)

- 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.

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

Governmental 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, considered to be sixty days for property taxes and ninety days for all other revenue. 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.

In applying the susceptibility-to-accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended for the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and substantially irrevocable; i.e., revocable only for failure to comply with prescribed compliance requirements, such as with equal employment opportunity. These recourses are reflected as revenues at the time of receipt or earlier if they meet the availability criterion.

Property 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. All other revenue items are considered to be measurable and available only when cash is received by the City.

In Alabama, City property taxes are levied by the County Commission at its first regular meeting in February of each year based on the property on record as of the preceding October 1. The taxes are due the following October 1 and delinquent after December 31<sup>st</sup>.

The City's accounting records are organized and operated on a fund basis. A fund is a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on the specific activities or attaining certain objectives, in accordance with special regulations, restrictions or limitations.

## City of Talladega, Alabama Notes to Financial Statements

### Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

An emphasis is placed on major funds within the governmental categories. A fund is considered major if it is the primary operating fund of the City or meets certain criteria based on the size of its assets, liabilities, revenues, or expenses/expenditures.

Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The types of funds used in accounting for the financial operations of the City and their nature and purpose are as follows:

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.

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

## City of Talladega, Alabama Notes to Financial Statements

### Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

The City follows these procedures in establishing the budgetary data presented in the accompanying financial statements:

- Normally, on or before August 15, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1<sup>st</sup>.
- Expenditures in excess of the originally approved budget are not formally approved by the City Council until an amended budget is adopted.
- Formal budgetary integration is employed as a management control device during the year for the General Fund.
- The basis of accounting for the budget is the same as used in the governmental fund accounting (GAAP).
- All budget appropriations lapse at year end.

## **City of Talladega, Alabama** **Notes to Financial Statements**

### **Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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.

#### ***Cash and Cash Equivalents***

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, 2019, and the allowance for doubtful accounts was \$668,035 at September 30, 2019.

#### ***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.

#### ***Inventories and Prepaid Items***

Inventories are stated at cost determined by the first-in, first-out method. Purchases of inventories for governmental fund types are reported as expenditures in the period purchased. Inventories for governmental fund types are not deemed material and are not reported on the balance sheet. Inventories of proprietary fund types consist of unused supplies and pipe and are physically counted at the end of each fiscal year. Inventories are recorded at the lower of average cost or market, with cost being determined by the first-in, first-out method. Inventories expended for repairs are recorded as expenditures when consumed. Inventories expended for capital improvements are capitalized.

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

## City of Talladega, Alabama Notes to Financial Statements

### Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### ***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 \$5,000 or more as purchase and construction outlays occur.

Depreciation is provided over the assets' useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset for the City's governmental activities is as follows:

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 has not been capitalized during the construction of assets. The Water and Sewer Department capitalizes assets with a useful life of one year or more. Depreciation is recorded using the straight-line method over the estimated service lives of the assets, ranging from five to forty years.

#### ***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.

#### ***Compensated Absences***

The City follows GASB Statement No. 16, *Accounting for Compensated Absences*, which requires that accrued liabilities for compensated absences be recorded to the extent the future leaves (1) relate to rights attributable to employee services already rendered, (2) relate to rights that vest or accumulate, (3) where payment is probable, and (4) where amounts can be reasonably estimated. All compensated absences are accrued as long-term debt when incurred in the government-wide statements. The current portion of this debt is estimated based on historical trends. A liability for compensated absences is reported in the governmental funds only if the obligation has matured, for example, as a result of an employee's resignation or retirement.

## **City of Talladega, Alabama** **Notes to Financial Statements**

### **Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### ***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, discount, or deferred amount on refunding. 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.

#### ***Pensions***

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

#### ***Other Post-employment Benefits***

The fiduciary net position of the City's retiree benefit plan (OPEB Plan) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net OPEB liability, deferred outflow of resources and deferred inflows of resources related to OPEB, OPEB expense, and information about assets, liabilities and additions to/deductions from the OPEB Plan's fiduciary net position. Benefit payments are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.



## City of Talladega, Alabama Notes to Financial Statements

### Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### ***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. Deferred outflows related to pension and 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.

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. Deferred inflows related to pension and OPEB result from differences between expected and actual experience, changes in assumptions, and the net difference between projected and actual earnings on plan investments.

#### ***Net Position and Fund Balances***

Net position is reported on the government-wide financial statements and is required to be classified for accounting and reporting purposes into the following net position categories:

*Net Investment in Capital Assets* – Consists of capital assets including restricted capital assets net of accumulated depreciation and reduced by outstanding balances of any bonds, warrants, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

*Restricted* – Constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulation of other governments; or (2) law through constitutional provisions or enabling legislation.

*Unrestricted* – All other net position that do not meet the definition of "restricted" or "net investment in capital assets."

## City of Talladega, Alabama Notes to Financial Statements

### Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In the fund financial statements, governmental funds report equity as fund balance. Reporting standards establish a hierarchy for fund balance classifications and constraints imposed on the uses of those resources. The following is a description of the City's various fund balance accounts:

*Nonspendable* - Fund balances that cannot be spent because they are either:

*Not in Spendable Form* - generally, amounts that are not expected to be converted to cash, such as inventories or prepaid amounts.

*Legally or Contractually Required to be Maintained Intact* - amounts that are required to be maintained intact, such as the principal of a permanent fund.

*Restricted* - amounts that can be used only for specific purposes because of (a) constitutional provisions or enabling legislation or (b) externally imposed constraints.

*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, 2019, the Community Development Capital Project Fund reported a deficit of \$4,754.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then committed, assigned, and unassigned – in order as needed.

The City has restricted \$898,647 of the Capital Projects Trust Fund balance and \$1,467,817 of the Other Governmental Funds fund balance. The purposes of these restrictions are described in Note 14.

The City has committed \$986,530 of the Other Governmental Funds fund balance to maintain the City's Cemetery.

## City of Talladega, Alabama Notes to Financial Statements

### Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City has assigned \$229,024 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. 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.

#### ***Management Estimates and Assumptions***

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.

#### ***Impact of Recently issued Accounting Pronouncements***

In fiscal year 2019, the City adopted two new statements of financial accounting standards issued by the GASB:

- Statement No. 83, *Certain Asset Retirement Obligations* (GASB 83)
- Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements* (GASB 88)

GASB 83 establishes standards of accounting and financial reporting requirements for legally enforceable liabilities associated with the retirement of certain tangible capital assets. State and local governments that have legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the regulation of GASB 83. The requirements of GASB 83 are effective for reporting periods beginning after June 15, 2018. GASB 83 had no impact on the City's financial statements.

GASB 88 defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. GASB 88 requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant subjective acceleration clauses.

**City of Talladega, Alabama**  
**Notes to Financial Statements**

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

GASB 88 also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of GASB 88 are effective for reporting periods beginning after June 15, 2018. Details of the City’s implementation with respect to GASB 88 is included in the long-term debt note (see Note 10).

***Pronouncements Issued But Not Yet Effective***

The GASB has issued the following pronouncements that may affect future financial position, results of operations, cash flows, or financial presentation of the City upon implementation. Management has not yet evaluated the effect of implementation of these standards.

<b>GASB Statement No.</b>	<b>GASB Accounting Standard</b>	<b>Effective Fiscal Year</b>
84	<i>Fiduciary Activities</i>	2020
87	<i>Leases</i>	2021
89	<i>Accounting for Interest Cost Incurred before the End of a Construction Period</i>	2021
90	<i>Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61</i>	2020
91	<i>Conduit Debt Obligations</i>	2022

***Subsequent Events***

Management has evaluated subsequent events through the date that the financial statements were available to be issued, September 15, 2020. See Note 18 for relevant disclosures. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

**Note 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

***Budgetary Information***

Each year, formal budgets are legally adopted and amended as required by the City Council for the General Fund and Special Revenue Funds. Management can approve transfers within government function categories only. Transfers of appropriations or revisions between government function categories require the approval of the council. The level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the government function category level. Budgets for the governmental funds are adopted on a basis consistent with GAAP.

**City of Talladega, Alabama**  
**Notes to Financial Statements**

**Note 3: CASH AND CASH EQUIVALENTS**

City cash balances are maintained in cash and cash equivalent accounts to improve earning opportunities. Cash equivalents consist of certificates of deposits with a maturity date of three months or less.

Each of the banks holding the City's deposits, as well as those of the Component Units, is a certified participant in the SAFE Program. Through the SAFE program, all public funds are protected through a collateral pool administered by the Alabama State Treasury. Due to the requirements of the SAFE program, the City has no formal custodial risk or interest risk rating policy. State statute requirement for investments are followed.

The City's governmental activities deposits, including certificates of deposit were fully insured or collateralized at September 30, 2019. At year-end, the carrying amount of the City's cash and cash equivalents was \$9,483,466. Cash deposits and savings held at local banks are insured by the FDIC or collateralized by assets administered by the state treasurer's office in accordance with the SAFE program. The Water and Sewer Department's cash and cash equivalents consist of cash in checking accounts. Cash and cash equivalents at September 30, 2019 included cash of \$6,025,457 and investments in money market mutual funds of \$4,336,194.

**Note 4: RECEIVABLES AND UNBILLED REVENUE**

Governmental activities receivables at September 30, 2019:

Taxes receivable	\$	848,019
Restitution receivable		2,346
Other receivables		14,827
<hr/>		
Total receivables	\$	865,192
<hr/> <hr/>		

The Water and Sewer Department uses cycle billing and customers are billed at various times during each month. Income and unbilled receivables are recorded for the portion of customers' usage of water and sewage from the time of their last billing until September 30.

Accounts receivable	\$	1,332,172
Less: allowance for doubtful accounts		668,035
<hr/>		
Accounts receivable, net	\$	664,137
<hr/> <hr/>		

Unbilled revenues receivable at September 30, 2019 was \$888,985.

## City of Talladega, Alabama Notes to Financial Statements

### Note 5: INVESTMENTS AND RESTRICTED ASSETS

The City is restricted by State statute to investments in U.S. Government Treasury and Agency securities, certificates of deposit and money market accounts, repurchase agreements and reverse repurchase agreements, banker's acceptances and commercial paper.

*Interest rate risk* – Interest rate risk is the possibility that interest rates will rise and reduce the fair value of an investment. The City limits interest rate risk by requiring that an attempt be made to match investment maturities with known cash needs and anticipated cash flow requirements.

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

*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: 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: 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: 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, 2019, the value of the investments held in the General Fund, the Cemetery Trust Fund and the Library Fund are \$273,002, \$760,349 and \$44,216, respectively. The following schedule displays the investments held in governmental funds as of September 30, 2019, and their fair value measurements:

**City of Talladega, Alabama**  
**Notes to Financial Statements**

**Note 5: INVESTMENTS AND RESTRICTED ASSETS (Continued)**

**Governmental Activities:**

<b>Investment type</b>	<b>Fair Value</b>	<b>Fair Value Measurements</b>		
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Certificate of deposit	\$ 273,002	\$ 273,002	\$ -	\$ -
Common Stock	198,663	198,663	-	-
Mutual Funds	44,216	44,216	-	-
Corporate Bonds	561,686	561,686	-	-
<b>Total investments</b>	<b>\$ 1,077,567</b>	<b>\$ 1,077,567</b>	<b>\$ -</b>	<b>\$ -</b>

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, 2019.

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.

The following schedule displays the investments held in governmental funds as of September 30, 2019 and their maturities:

<b>September 30, 2019</b>	<b>Fair Value</b>	<b>Investment Maturity</b>			<b>Percentage</b>
		<b>Less than 1 year</b>	<b>1 to 5 years</b>	<b>6 to 10 years</b>	
Investment type:					
Corporate bonds	\$ 561,686	\$ 44,258	\$ 322,804	\$ 194,624	53%
Certificate of deposit	273,002	-	-	-	25%
Common Stock	198,663	-	-	-	18%
Mutual Funds	44,216	-	-	-	4%
<b>Total investments</b>	<b>\$ 1,077,567</b>	<b>\$ 44,258</b>	<b>\$ 322,804</b>	<b>\$ 194,624</b>	<b>100%</b>

**City of Talladega, Alabama**  
**Notes to Financial Statements**

**Note 5: INVESTMENTS AND RESTRICTED ASSETS (Continued)**

**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, 2019, the monies held in trust were \$4,336,194. The following schedule displays the restricted assets held by the Department as of September 30, 2019, and their fair value measurements:

<b>Investment type</b>	<b>Fair Value</b>	<b>Fair Value Measurements</b>		
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Money Market Treasury Portfolio	\$ 4,336,194	\$ 4,336,194	\$ -	\$ -

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, 2019.

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 schedule displays the investments held within the irrevocable trust as of September 30, 2019, and their fair value measurements:

**Fiduciary Fund:**

<b>Investment type</b>	<b>Fair Value</b>	<b>Fair Value Measurements</b>		
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Certificate of deposit	\$ 202,883	\$ 202,883	\$ -	\$ -
Mutual funds	1,025,339	1,025,339	-	-
<b>Total investments</b>	<b>\$ 1,228,222</b>	<b>\$ 1,228,222</b>	<b>\$ -</b>	<b>\$ -</b>

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, 2019.

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.



**City of Talladega, Alabama**  
**Notes to Financial Statements**

**Note 5: INVESTMENTS AND RESTRICTED ASSETS (Continued)**

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.

**Note 6: CAPITAL ASSETS**

Following is a summary of the changes in the City's capital assets for the year ended September 30, 2019:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>				
<b>Capital assets not being depreciated:</b>				
Land and improvements	\$ 3,832,454	\$ 17,500	\$ -	\$ 3,849,954
Construction progress	1,485,560	987,262	(430,551)	2,042,271
<b>Total capital assets not being depreciated</b>	5,318,014	1,004,762	(430,551)	5,892,225
<b>Capital assets being depreciated:</b>				
Building and improvements	14,384,851	159,793	-	14,544,644
Infrastructure	41,361,865	270,757	-	41,632,622
Machinery and equipment	5,979,005	1,086,016	-	7,065,021
<b>Total capital assets being depreciated</b>	61,725,721	1,516,566	-	63,242,287
<b>Less accumulated depreciation</b>				
Building and improvements	9,079,039	383,182	-	9,462,221
Infrastructure	36,606,172	774,236	-	37,380,408
Machinery and equipment	4,474,184	426,217	-	4,900,401
<b>Total accumulated depreciation</b>	50,159,395	1,583,635	-	51,743,030
<b>Total capital assets being depreciated, net</b>	11,566,326	(67,069)	-	11,499,257
<b>Governmental activities capital assets, net</b>	\$ 16,884,340	\$ 937,693	\$ (430,551)	\$ 17,391,482

**City of Talladega, Alabama**  
**Notes to Financial Statements**

**Note 6: CAPITAL ASSETS (Continued)**

Depreciation expense was charged to governmental functions as follows:

General government administration	\$ 423,754
Public safety	653,527
Public works	376,753
Parks and recreation	129,601
<hr/>	
<b>Total depreciation expense</b>	<b>\$ 1,583,635</b>

The following is a summary of changes in capital assets for the Water and Sewer Department during the year ended September 30, 2019:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Capital assets not being depreciated:</b>				
Land	\$ 279,326	\$ -	\$ -	\$ 279,326
Construction progress	2,478,274	2,296,334	(3,911,065)	863,543
<hr/>				
<b>Total capital assets not being depreciated</b>	2,757,600	2,296,334	(3,911,065)	1,142,869
<hr/>				
<b>Capital assets being depreciated:</b>				
Land improvements	110,564	202,000	-	312,564
Building and improvements	42,810,384	3,396,325	-	46,206,709
Machinery and equipment	5,302,902	753,918	-	6,056,820
<hr/>				
<b>Total capital assets being depreciated</b>	48,223,850	4,352,243	-	52,576,093
<hr/>				
<b>Less accumulated depreciation for:</b>				
Land improvements	38,685	5,004	-	43,689
Building and improvements	22,351,462	1,159,630	-	23,511,092
Machinery and equipment	3,251,924	326,821	-	3,578,745
<hr/>				
<b>Total accumulated depreciation</b>	25,642,071	1,491,455	-	27,133,526
<hr/>				
<b>Total capital assets being depreciated, net</b>	22,581,779	2,860,788	-	25,442,567
<hr/>				
<b>Business-type activities capital assets, net</b>	<b>\$ 25,339,379</b>	<b>\$ 5,157,122</b>	<b>\$ (3,911,065)</b>	<b>\$ 26,585,436</b>

Depreciation expense for the year ended September 30, 2019 was \$1,491,455.

**City of Talladega, Alabama**  
**Notes to Financial Statements**

**Note 7: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payable and accrued liabilities for governmental activities at September 30, 2019 were as follows:

Accounts payable	\$ 360,754
Accrued salaries and wages	123,891
Payroll liabilities	97,365
Other liabilities	26,281
<hr/>	
<b>Total</b>	<b>\$ 608,291</b>

Accounts payable and accrued liabilities for the Water and Sewer Department consisted of the following at September 30, 2019:

Accounts payable	\$ 462,629
Payroll liabilities	54,879
Accrued interest payable	76,766
Accrued salaries and wages	40,523
<hr/>	
<b>Total</b>	<b>\$ 634,797</b>

**Note 8: INTERFUND TRANSFERS**

Interfund transfers among governmental funds for the year ended September 30, 2019 were:

	<b>Transfers In</b>	<b>Transfers Out</b>
<hr/>		
<b>General fund</b>		
Other nonmajor funds	\$ -	\$ 1,408,170
Capital projects funds	2,301	873,784
Proprietary fund	-	20,006
<hr/>		
<b>Total general fund</b>	<b>2,301</b>	<b>2,301,960</b>
<hr/>		
<b>Capital projects trust fund</b>		
General fund	873,784	2,301
Proprietary fund	-	9,217
<hr/>		
<b>Total capital projects trust fund</b>	<b>873,784</b>	<b>11,518</b>
<hr/>		
<b>Other nonmajor funds</b>		
General fund	1,408,170	-
<hr/>		
<b>Total governmental fund interfund transfers</b>	<b>\$ 2,284,255</b>	<b>\$ 2,313,478</b>

**City of Talladega, Alabama**  
**Notes to Financial Statements**

**Note 8: 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, 2019 were:

		<b>Transfers In</b>
<hr/>		
<b>Water and Sewer Department</b>		
General fund	\$	20,006
Capital projects funds		9,217
<hr/>		
<b>Total proprietary fund transfers</b>	<b>\$</b>	<b>29,223</b>
<hr/> <hr/>		

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

**Note 9: 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, 2019:

	<b>Interfund Receivable</b>	<b>Interfund Payable</b>
<hr/>		
<b>General fund</b>		
Water and Sewer Department	\$ 104,917	\$ -
Capital projects trust fund	73,150	
Other governmental funds	11,344	80
<b>Capital projects trust fund</b>		
General fund	-	73,150
<b>Other governmental funds</b>		
General fund	80	11,344
<b>Water and Sewer Department</b>		
General fund	-	104,917
<hr/>		
<b>Total interfund receivable/payable</b>	<b>\$ 189,491</b>	<b>\$ 189,491</b>
<hr/> <hr/>		

**City of Talladega, Alabama**  
**Notes to Financial Statements**

**Note 10: LONG-TERM DEBT**

***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, 2019:

\$2,760,000; 2015 Series General Obligation Warrants; due at rates ranging from 2.00% to 4.00% per annum; maturing August 1, 2033.	\$	2,655,000
\$3,120,000; 2017-A Series General Obligation Warrants; due at rates 1.50% to 3.00% per annum; maturing August 1, 2027.		2,545,000
\$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.		1,080,000
		6,280,000
Unamortized premium, 2015 Series General Obligation Warrants		117,978
Unamortized premium, 2017-A Series General Obligation Warrants		125,408
Unamortized premium, 2017-B Series General Obligation Warrants		46,204
		289,590
<b>Total warrants payable</b>	<b>\$</b>	<b>6,569,590</b>

Warrants payable

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

<b>Fiscal Years Ending September 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2020	\$ 570,000	\$ 190,913	\$ 760,913
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 – 2029	2,405,000	350,326	2,755,326
2030 – 2033	885,000	88,350	973,350
<b>Total</b>	<b>\$ 6,280,000</b>	<b>\$ 1,235,791</b>	<b>\$ 7,515,791</b>

## City of Talladega, Alabama Notes to Financial Statements

### **Note 10: LONG-TERM DEBT (Continued)**

#### General obligation debt refundings

##### Series 2015 General Obligation 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, 2019, the outstanding principal of the defeased warrants is \$2,150,000 and the remaining unrefunded 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 General Obligation 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, 2019, 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 General Obligation 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, 2019, the outstanding principal of the defeased revenue bond is \$1,080,000.

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.

Interest paid on long-term debt was \$239,613 for the year ended September 30, 2019.

**City of Talladega, Alabama**  
**Notes to Financial Statements**

**Note 10: LONG-TERM DEBT (Continued)**

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 depreciated accordingly. Future minimum lease payments under these capital leases at September 30, 2019 are as follows:

Fiscal Years Ending September 30,	Present Value of Minimum Lease Payments		Interest	Total Lease Payments
2020	\$ 73,745	\$ 9,978	\$ 83,723	\$ 83,723
2021	79,028	8,695	87,723	87,723
2022	82,435	7,287	89,722	89,722
2023	85,933	5,790	91,723	91,723
2024	89,521	4,202	93,723	93,723
2025 – 2026	116,259	3,421	119,680	119,680
<b>Total</b>	<b>\$ 526,921</b>	<b>\$ 39,373</b>	<b>\$ 566,294</b>	<b>\$ 566,294</b>

The changes in long-term debt for the governmental activities of the City for the year ended September 30, 2019 is as follows:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Warrants payable	\$ 7,134,745	\$ -	\$ (565,155)	\$ 6,569,590	\$ 570,000
Capital leases - direct borrowings	595,917	-	(68,996)	526,921	73,745
<b>Total</b>	<b>\$ 7,730,662</b>	<b>\$ -</b>	<b>\$ (634,151)</b>	<b>\$ 7,096,511</b>	<b>\$ 643,745</b>

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.

***Water and Sewer Department***

**Revenue Warrants Payable**

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. The following schedule summarizes the changes in revenue warrants for the year ended September 30, 2019:

**City of Talladega, Alabama**  
**Notes to Financial Statements**

**Note 10: LONG-TERM DEBT (Continued)**

Description	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year	Interest Paid
2010 Warrant	\$ 15,272,915	\$ -	\$ (445,000)	\$ 14,827,915	\$ 465,000	\$ 668,387
Premium	192,692	-	(8,760)	183,932	-	-
2015 Warrant	4,700,000	-	-	4,700,000	-	226,938
Premium	482,082	-	(18,540)	463,542	-	-
<b>Total</b>	<b>\$ 20,647,689</b>	<b>\$ -</b>	<b>\$ (472,300)</b>	<b>\$ 20,175,389</b>	<b>\$ 465,000</b>	<b>\$ 895,325</b>

Revenue warrants outstanding at September 30, 2019:

**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.

Cash in the amount of \$7,162,734 was deposited with an escrow agent pursuant to an escrow agreement. The maturities of these securities and related earnings thereon are expected to provide sufficient cash flow to meet the debt service requirements of the defeased Series 2003 and Series 2004 Bonds as they mature. This transaction effectively released the City from its obligation to repay the defeased Series 2003 and Series 2004 Bonds and constitutes an in-substance defeasance.

Accordingly, the escrow account assets and the liability for the defeased bonds are not included in the City's financial statements.

The principal and maturities and related interest requirements for the Series 2010 warrants for the next five fiscal years and thereafter are as follows:



**City of Talladega, Alabama**  
**Notes to Financial Statements**

**Note 10: LONG-TERM DEBT (Continued)**

***Water and Sewer Department Long-term Debt (continued)***

<b>Fiscal Years Ending September 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2020	\$ 465,000	\$ 668,850	\$ 1,133,850
2021	480,000	651,050	1,131,050
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 – 2029	3,010,000	2,554,350	5,564,350
2030 – 2034	3,675,000	1,890,875	5,565,875
2035 – 2039	4,585,000	975,250	5,560,250
2040	1,057,915	53,000	1,110,915
<b>Total</b>	<b>\$ 14,827,915</b>	<b>\$ 8,588,325</b>	<b>\$ 23,416,240</b>

**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.

The following schedule shows the future debt service requirements for the Series 2015 warrants for the next five fiscal years and thereafter are as follows:

<b>Fiscal Years Ending September 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2020	\$ -	\$ 235,000	\$ 235,000
2021	-	235,000	235,000
2022	-	235,000	235,000
2023	-	235,000	235,000
2024	-	235,000	235,000
2025 – 2029	-	1,175,000	1,175,000
2030 – 2034	-	1,175,000	1,175,000
2035 – 2039	-	1,175,000	1,175,000
2040 – 2044	4,700,000	830,250	5,530,250
<b>Total</b>	<b>\$ 4,700,000</b>	<b>\$ 5,530,250</b>	<b>\$ 10,230,250</b>

## City of Talladega, Alabama Notes to Financial Statements

### **Note 10: LONG-TERM DEBT (Continued)**

The Water and Sewer Department is required to maintain certain financial ratios relating to debt service coverage. At September 30, 2019, 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.

### **Note 11: 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.

*Plan description.* The City, through its substantive commitment to provide other post-employment benefits, 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.

*Plan membership.* At September 30, 2019, the OPEB Plan's membership consisted of 159 active employees receiving benefits and 18 retirees receiving benefits.

*Benefits provided.* 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.

*Contribution rates.* 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.

**City of Talladega, Alabama**  
**Notes to Financial Statements**

**Note 11: OTHER POST-EMPLOYMENT BENEFITS (Continued)**

*Investment policy.* 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 than 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, 2019, the City’s investments are weighted as follows:

<b>Asset Class</b>	<b>Allocation</b>
Domestic Equity	83%
Certificates of Deposit	17%

*Concentrations.* The plan has three investments each exceeding 5% of total assets. The funds and corresponding allocations are: First Trust 60/40 Strategic Allocation 3<sup>rd</sup> Quarter 2016, 23%; First Trust 60/40 Strategic Allocation 1<sup>st</sup> Quarter 2019, 38%; and First Trust 60/40 Strategic Allocation 3<sup>rd</sup> Quarter 2019, 28%.

*Rate of Return.* For the year ended September 30, 2019, the annual money-weighted rate of return on investments, net of investment expense was 12.87%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

*Net OPEB Liability.* The components of the City’s OPEB liability as of September 30, 2019 were as follows:

Total OPEB liability	\$ 5,197,115
Plan fiduciary net position	1,260,219
<b>Net OPEB liability</b>	<b>\$ 3,936,896</b>

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 \$826,748, to the Water and Sewer Department. The allocation is based on the relative share of employer OPEB contributions.

*Actuarial Assumptions.* The total OPEB liability was measured as of September 30, 2019 based on an actuarial valuation as of October 1, 2018, rolled forward to September 30, 2019 using standard roll-forward techniques and the following actuarial assumptions applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Healthcare cost trend rates	Level 5.50% annually
Salary increases	4.00%
Investment rate of return	4.18%, beginning of year 2.66%, end of year

**City of Talladega, Alabama**  
**Notes to Financial Statements**

**Note 11: OTHER POST-EMPLOYMENT BENEFITS (Continued)**

Mortality rates were based on the RP-2000 Total without projection with 50%/50% unisex blend.

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, 2019 are summarized in the following table:

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

**Changes in the Net OPEB liability**

	<b>Increases (Decreases)</b>		
	<b>Total OPEB Liability</b>	<b>Plan Fiduciary Net Position</b>	<b>Net OPEB Liability</b>
	<b>(a)</b>	<b>(b)</b>	<b>(a)-(b)</b>
Balances at September 30, 2018	\$ 4,290,138	\$ 1,136,303	\$ 3,153,835
Service cost	115,706	-	115,706
Interest cost at 4.18%	174,629	-	174,629
Changes of benefit terms	-	-	-
Difference between expected and actual experience	223,346	-	223,346
Employer contributions	-	80,847	(80,847)
Net investment income	-	46,321	(46,321)
Changes of assumptions	618,136	-	618,136
Benefit payments			
a. From trust	-	-	-
b. Direct	(224,840)	-	(224,840)
Administrative expenses			
a. From trust	-	(3,252)	3,252
b. Direct	-	-	-
Net changes	906,977	123,916	783,061
Balance at September 30, 2019	\$ 5,197,115	\$ 1,260,219	\$ 3,936,896

**City of Talladega, Alabama**  
**Notes to Financial Statements**

**Note 11: OTHER POST-EMPLOYMENT BENEFITS (Continued)**

*Discount rate.* The discount rate used to measure the total OPEB liability was 2.66%, which is the value of the Bond Buyer's 20 year general obligation municipal bond index as of September 30, 2019.

*Sensitivity of the net OPEB liability to changes 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 (1.66%) or 1-percentage-point higher (3.66%) than the current discount rate:

	<b>1% Decrease (1.66%)</b>	<b>Current Discount Rate (2.66%)</b>	<b>1% Increase (3.66%)</b>
Net OPEB Liability	\$ 4,425,465	\$ 3,936,896	\$ 3,514,467

*Sensitivity of the net OPEB liability to changes in healthcare cost trend rates.* 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:

	<b>1% Decrease (4.50%)</b>	<b>Current Discount Rate (5.50%)</b>	<b>1% Increase (6.50%)</b>
Net OPEB Liability	\$ 3,490,846	\$ 3,936,896	\$ 4,450,267

*OPEB expense and deferred inflows of resources related to OPEB.* For the year ended September 30, 2019, the City recognized OPEB expense of \$293,800, 21% or \$61,698 of which was allocated to the Water and Sewer Department. At September 30, 2019, the City reported deferred outflows and inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between projected and actual earnings	\$ 2,238	\$ 4,955
Differences between expected and actual experience	206,166	7,226
Changes in assumption	570,587	178,733
<b>Total</b>	<b>\$ 778,991</b>	<b>\$ 190,914</b>

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 \$163,588 in deferred outflows and \$40,092 in deferred inflows, to the Water and Sewer Department. The allocation is based on the relative share of employer OPEB contributions.

**City of Talladega, Alabama**  
**Notes to Financial Statements**

**Note 11: OTHER POST-EMPLOYMENT BENEFITS (Continued)**

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

<b>Fiscal Years Ending September 30,</b>	<b>Net Amount to be Recognized</b>
2020	\$ 49,332
2021	49,332
2022	49,332
2023	50,984
2024	50,424
Thereafter	338,673
<hr/>	
Total	\$ 588,077

**Note 12: DEFERRED CHARGES FROM REFUNDING**

***City of Talladega***

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, 2019 was \$254,067.

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, 2019 was \$51,485.

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, 2019 was \$39,543.

***Water and Sewer Department***

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, 2019 was \$106,434.

## City of Talladega, Alabama Notes to Financial Statements

### Note 13: RESTRICTED FUND BALANCES

The restricted fund balances in the amount of \$2,366,464 are restricted for various capital outlay projects and various other purposes. The following amounts are restricted:

1. \$521,993 was derived from the 4 cent, 5 cent, and 7 cent special taxes. These revenues are restricted for street and road maintenance and improvements.
2. \$855,010 is derived from the City's share of the Oil Trust Fund and is restricted for capital improvements.
3. \$898,647 is derived from sales tax receipts held in the Capital Projects Trust Fund.
4. \$35,436 was derived from the 2.5 Mil Property Tax Fund and is restricted for education.
5. \$46,523 was derived from the Corrections Fund and is restricted for corrections related functions.
6. \$8,855 is derived from the Police Grant and is restricted for use on the Police Grant Fund.

### Note 14: EMPLOYEE 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.

*General Information about the Pension Plan. Plan description.* The Employees' Retirement System of Alabama ("ERS"), 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](http://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:

## City of Talladega, Alabama Notes to Financial Statements

### Note 14: EMPLOYEE RETIREMENT PLAN (Continued)

- 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*.

*Benefits provided.* State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the ERS. Benefits for ERS members vest after 10 years of creditable service. State employees who retire after age 60 (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 909 local participating employers. The ERS membership includes approximately 90,999 participants. As of September 30, 2018, membership consisted of:



**City of Talladega, Alabama**  
**Notes to Financial Statements**

**Note 14: EMPLOYEE RETIREMENT PLAN (Continued)**

Retirees and beneficiaries currently receiving benefits	24,818
Terminated employees entitled to but not yet receiving benefits	1,426
Terminated employees not entitled to a benefit	7,854
Active members	56,760
<u>Post-DROP participants who are still in active service</u>	<u>141</u>
<u>Total</u>	<u>90,999</u>

*Contributions.* Covered members of the ERS contributed 5% of earnable compensation to the ERS as required by statute until September 30, 2011. From October 1, 2011 to September 30, 2012, covered members of the ERS were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered members of the ERS are required by statute to contribute 7.50% of earnable compensation. Certified law enforcement, correctional officers, and firefighters of the ERS contributed 6% of earnable compensation as required by statute until September 30, 2011. From October 1, 2011 to September 30, 2012, certified law enforcement, correctional officers, and firefighters of the ERS were required by statute to contribute 8.25% of earnable compensation. Effective October 1, 2012, certified law enforcement, correctional officers, and firefighters of the ERS are required by statute to contribute 8.50% of earnable compensation. State Police of the ERS contribute 10% of earnable compensation. 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, 2019, 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 11.07% of pensionable payroll for Tier 1 employees and 7.84% for Tier 2 employees.

The City's contractually required contribution rate for the year ended September 30, 2019 was 11.44% of pensionable pay for Tier 1 employees, and 8.21% of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation as of September 30, 2016, 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

**City of Talladega, Alabama**  
**Notes to Financial Statements**

**Note 14: EMPLOYEE RETIREMENT PLAN (Continued)**

accrued liability. Total employer contributions to the pension plan were \$783,367 for the year ended September 30, 2019, and \$164,507 (21%) were related to Water and Sewer Department employees.

*Net pension liability.* The City's net pension liability was measured as of September 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2017 rolled forward to September 30, 2018 using standard roll-forward techniques as shown in the following table:

	Expected	Actual
(a) TPL as of September 30, 2017	\$ 27,583,215	\$ 27,287,360
(b) Discount Rate	7.75%	7.75%
(c) Entry Age Normal Cost for the period October 1, 2017 – September 30, 2018	593,659	593,659
(d) Transfers Among Employers	-	(98,079)
(e) Actual Benefit Payments and Refunds for the period October 1, 2017 – September 30, 2018	(1,784,053)	(1,784,053)
(f) TPL as of September 30, 2018 [(a) x (1+(b))] + (c) + (d) + [(e) x (1 + 0.5*(b))]	\$ 28,461,388	\$ 28,044,525
(g) Difference between Expected and Actual		\$ (416,863)
(h) Less Liability Transferred for Immediate Recognition		(98,079)
(i) Experience (Gain)/Loss = (g) - (h)		\$ (318,784)

*Actuarial assumptions.* The total pension liability as of September 30, 2018 was determined based on the annual actuarial funding valuation report prepared as of September 30, 2017. The key actuarial assumptions are summarized below:

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

\*Net of pension plan investment expense

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.

**City of Talladega, Alabama**  
**Notes to Financial Statements**

**Note 14: EMPLOYEE RETIREMENT PLAN (Continued)**

The actuarial assumptions used in the September 30, 2017 valuation were based on the results of an investigation of the economic and demographic experience for the ERS based upon participant data as of September 30, 2015. The Board of Control accepted and approved these changes in September 2016, which became effective at the beginning of fiscal year 2016. The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of geometric real rates of return for each major asset class are as follows:

	<b>Target Allocation</b>	<b>Long-Term Expected Rate of Return *</b>
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%
<b>Total</b>	<b>100.00%</b>	

\* Included assumed rate of Inflation of 2.50%

*Discount rate.* The discount rate used to measure the total pension liability was the long-term rate of return, 7.70%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that 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 14: EMPLOYEE RETIREMENT PLAN (Continued)**

**Changes in Net Pension Liability**

	<b>Total Pension Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net Pension Liability (Asset) (a)-(b)</b>
<b>Balances at September 30, 2017</b>	\$ 27,583,215	\$ 20,456,779	\$ 7,126,436
Changes for the year:			
Service cost	593,659	-	593,659
Interest	2,068,567	-	2,068,567
Changes in assumptions	146,665	-	146,665
Difference between expected and actual experience	(318,784)	-	(318,784)
Contributions – employer	-	726,979	(726,979)
Contributions – employee	-	411,668	(411,668)
Net investment income	-	1,858,814	(1,858,814)
Benefit payments, including refunds of employee contributions	(1,784,053)	(1,784,053)	-
Administrative expense	-	-	-
Transfers among employers	(98,079)	(98,079)	-
<b>Net changes</b>	<b>607,975</b>	<b>1,115,329</b>	<b>(507,354)</b>
<b>Balances at September 30, 2018</b>	<b>\$ 28,191,190</b>	<b>\$ 21,572,108</b>	<b>\$ 6,619,082</b>

The above net pension liability is shared between the City’s general fund and Water and Sewer Department. The City has allocated 21% or \$ 1,461,271 to the Water and Sewer Department. The allocation is based on the fund’s relative share of employee and employer pension contributions.

*Sensitivity of the net pension liability to changes in the discount rate.* The following table presents the City’s net pension liability calculated using the discount rate of 7.70%, 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:

	<b>1% Decrease (6.70%)</b>	<b>Current Discount Rate (7.70%)</b>	<b>1% Increase (8.70%)</b>
Plan’s Net Pension Liability	\$ 9,866,600	\$ 6,619,082	\$ 3,878,428

*Pension plan fiduciary net position.* Detailed information about the pension plan’s fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2018. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2018. The auditor’s report dated August 17, 2019 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/>.

**City of Talladega, Alabama**  
**Notes to Financial Statements**

**Note 14: EMPLOYEE RETIREMENT PLAN (Continued)**

*Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.* For the year ended September 30, 2019, the City recognized pension expense of \$583,202, \$122,472 of which was related to Water and Sewer Department employees. At September 30, 2019, the reported deferred outflows of resources and deferred inflows of resources related to pensions are from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 121,152	\$ 407,489
Changes of assumptions	676,607	-
Net difference between projected and actual earnings on plan investments	-	711,301
Employer contributions subsequent to the measurement date	783,367	-
<b>Total</b>	<b>\$ 1,581,126</b>	<b>\$ 1,118,790</b>

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

**For Years Ending  
September 30**

2020		\$ 854,286
2021		(168,720)
2022		(138,936)
2023		(39,062)
2024		(37,039)
Thereafter		(8,193)
<b>Total</b>		<b>\$ 462,336</b>

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 \$332,036 of the above deferred outflows of resources and \$234,946 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 15: COMMITMENTS AND CONTINGENCIES**

The City is a defendant in various litigation of which the City's management is of the opinion that none will have a material adverse effect on the financial statements of the City. These actions include both asserted and unasserted claims. The City's management feels that damages on any asserted claims, should an unfavorable judgment be reached, will be within the limits of the City's insurance coverage and therefore should not impact upon municipal assets. The City's maximum liability is estimated to be the \$5,000 insurance deductible for claims covered by insurance. No accrual has been included in these financial statements for these matters.

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 16: 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. Except for collision on most vehicles, plate glass coverage, and employee dishonesty in excess of \$5,000, these risks are covered by commercial insurance with various deductibles. The amount of coverage limits of commercial insurance policies, except for increased deductibles, did not change materially over the last three fiscal years. Additionally, the amount of settlements did not exceed insurance coverage for each of the three fiscal years.

**City of Talladega, Alabama**  
**Notes to Financial Statements**

**Note 17: 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. The agreement has limited terms and are entered into by the City as they are expected to benefit the City to increase revenue. 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:

Nature of Incentive	Type of Tax	% of City Taxes Abated	Amount Abated in FYE September 30, 2019	Expiration of Incentive	Maximum Incentive Amount
Business development	Business licenses <sup>1</sup>	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

<sup>1</sup> 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 18: SUBSEQUENT EVENTS**

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.

## **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, 2019</i>	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>Revenues</b>				
<b>Taxes</b>				
Sales and use tax	\$ 9,140,000	\$ 9,140,000	\$ 9,190,323	\$ 50,323
Rental tax	230,000	230,000	273,002	43,002
Lodging tax	212,500	212,500	211,146	(1,354)
Automobile sales tax	216,000	216,000	198,285	(17,715)
Wholesale gasoline tax	190,000	190,000	195,629	5,629
Motor vehicle license tax	3,800	3,800	3,950	150
Alcoholic beverage tax	25,000	25,000	24,314	(686)
Beer tax	103,500	103,500	94,704	(8,796)
Wine tax	5,000	5,000	4,715	(285)
Liquor tax - ABC profit	5,750	5,750	-	(5,750)
Cigarette tax	362,500	362,500	346,149	(16,351)
Alabama gas franchise tax	40,000	40,000	49,202	9,202
Charter cable franchise tax	192,000	192,000	142,359	(49,641)
10 mil property tax	1,045,000	1,045,000	1,099,146	54,146
M2 Connections franchise	1,500	1,500	-	(1,500)
Excise tax on financial institutions	120,000	120,000	219,570	99,570
County business privilege tax	30,000	30,000	31,553	1,553
<b>Total taxes</b>	<b>11,922,550</b>	<b>11,922,550</b>	<b>12,084,047</b>	<b>161,497</b>
<b>Licenses</b>				
Business license	1,300,000	1,300,000	1,274,265	(25,735)
Business license - Spire	97,500	97,500	133,960	36,460
Business license - Alabama Power Co.	720,000	720,000	741,590	21,590
Business license - Coosa Valley Electric	65,000	65,000	71,645	6,645
Business license - telephone	7,500	7,500	7,644	144
Alcohol license	100	100	175	75
Automobile license	40,000	40,000	44,015	4,015
Chauffeur license	50	50	-	(50)
<b>Total license revenue</b>	<b>2,230,150</b>	<b>2,230,150</b>	<b>2,273,294</b>	<b>43,144</b>
<b>Permits</b>				
Building permits	25,000	25,000	55,170	30,170
Miscellaneous permits	1,250	1,250	-	(1,250)
Yard sale permits	400	400	240	(160)
<b>Total permits</b>	<b>26,650</b>	<b>26,650</b>	<b>55,410</b>	<b>28,760</b>
<b>Fees</b>				
Motor vehicle registration fees	\$ 500	\$ 500	\$ 182	\$ (318)
Returned check fees	100	100	35	(65)
Recycling fee revenue	-	-	15,225	15,225
Zoning fees	1,500	1,500	-	(1,500)
<b>Total fees</b>	<b>2,100</b>	<b>2,100</b>	<b>15,442</b>	<b>13,342</b>

-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, 2019</i>	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>Police department</b>				
Impound fees	9,000	9,000	8,650	(350)
Sex offender registration	1,000	1,000	984	(16)
Accident reports	3,750	3,750	3,280	(470)
Animal control reimbursement	85,000	85,000	91,111	6,111
I&O reports	2,000	2,000	500	(1,500)
<b>Total police department</b>	<b>100,750</b>	<b>100,750</b>	<b>104,525</b>	<b>3,775</b>
<b>Corrections</b>				
Bail bond fees	600	600	784	184
<b>Donations</b>				
Donations to animal control	5,000	5,000	5,485	485
Donations to parks and recreation	250	250	5,000	4,750
Other donations	500	500	62,400	61,900
<b>Total donations</b>	<b>5,750</b>	<b>5,750</b>	<b>72,885</b>	<b>67,135</b>
<b>Recreation department</b>				
Recreation Center	170,000	170,000	130,433	(39,567)
Refunds - Recreation Center	(4,000)	(4,000)	(1,355)	2,645
<b>Total recreation department</b>	<b>166,000</b>	<b>166,000</b>	<b>129,078</b>	<b>(36,922)</b>
<b>Miscellaneous</b>				
Senior citizens grant	\$ 10,000	\$ 10,000	\$ 14,628	\$ 4,628
Transportation grant	30,000	30,000	38,007	8,007
Transportation farebox	8,000	8,000	6,828	(1,172)
Children's summer nutrition grant	110,000	110,000	139,825	29,825
HPC grant	2,500	2,500	11,764	9,264
Miscellaneous grant revenue	-	-	8	8
Weed abatement assessments	12,000	12,000	17,499	5,499
Condemnation revenue	2,000	2,000	-	(2,000)
Water detention review	1,800	1,800	600	(1,200)
Vending machine	500	500	403	(97)
Proceeds from sale of property	25,000	25,000	14,230	(10,770)
Rental revenue	17,200	17,200	32,969	15,769
Insurance reimbursements	1,000	1,000	10,128	9,128
Reimbursements	5,000	5,000	-	(5,000)
Interest revenue	5,000	5,000	13,994	8,994
Cell tower application fee	17,500	17,500	4,000	(13,500)
Other revenue	50,000	50,000	59,720	9,720
<b>Total miscellaneous</b>	<b>297,500</b>	<b>297,500</b>	<b>364,603</b>	<b>67,103</b>
<b>Total revenues</b>	<b>\$ 14,752,050</b>	<b>\$ 14,752,050</b>	<b>\$ 15,100,068</b>	<b>\$ 348,018</b>

-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, 2019</i>	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>Expenditures</b>				
City Council	\$ 55,050	\$ 55,050	\$ 65,210	\$ (10,160)
City Manager's office	347,425	277,925	430,093	(152,168)
Finance department	370,295	370,295	316,282	54,013
City Clerk's office	301,995	301,995	301,564	431
Human resources	154,865	154,865	133,032	21,833
Purchasing and safety	383,440	383,440	232,180	151,260
Police department	3,763,831	3,828,831	3,782,700	46,131
Emergency communications	-	-	14,587	(14,587)
Animal control	234,165	234,165	230,903	3,262
Fire department	2,169,150	2,169,150	2,088,125	81,025
Public works department	1,353,665	1,353,665	1,195,355	158,310
Community appearance	956,735	956,735	969,513	(12,778)
Parks and recreation	1,166,245	1,166,245	1,116,503	49,742
Other boards and agencies	350,000	350,000	341,240	8,760
Nondepartmental	960,055	960,055	915,817	44,238
<b>Total expenditures</b>	<b>12,566,916</b>	<b>12,562,416</b>	<b>12,133,104</b>	<b>429,312</b>
<b>Excess revenues over expenditures</b>	<b>2,185,134</b>	<b>2,189,634</b>	<b>2,966,964</b>	<b>777,330</b>
<b>Other financing sources (uses)</b>				
Transfers in from other funds	100,315	100,315	2,301	(98,014)
Transfers out to other funds	(1,576,310)	(1,576,310)	(2,301,960)	(725,650)
<b>Total other financing sources (uses)</b>	<b>(1,475,995)</b>	<b>(1,475,995)</b>	<b>(2,299,659)</b>	<b>(823,664)</b>
<b>Net change in fund balances</b>	<b>\$ 709,139</b>	<b>\$ 713,639</b>	<b>\$ 667,305</b>	<b>\$ (46,334)</b>

**City of Talladega, Alabama**  
**Schedule of Changes in Net Pension Liability**

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

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. This schedule is intended to cover 10 fiscal years. As each year ensues in the future, the information will be added until the schedule covers 10 years.

\*Employer's covered payroll during the measurement period is the total covered payroll. For FY 2019, the measurement period is October 1, 2017 – September 30, 2018.

**City of Talladega, Alabama**  
**Schedule of Employer Contributions - Pension**

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)
2019	\$ 783,368	\$ 783,367	\$ -	\$ 8,248,435	9.50%
2018	697,135	697,135	-	7,606,318	9.17%
2017	632,981	632,981	-	6,911,019	9.16%
2016	642,492	642,492	-	6,713,736	9.57%
2015	718,888	718,888	-	6,313,716	11.39%
2014	595,409	595,409	-	6,643,729	8.96%
2013	616,154	616,154	-	6,313,746	9.76%
2012	506,870	506,870	-	5,922,110	8.56%
2011	550,188	550,188	-	6,688,593	8.23%
2010	507,653	507,653	-	6,586,748	7.71%

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

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

\*\*Employer's covered payroll for FY 2019 is the total covered payroll for the 12 month period of the underlying financial statement.

**Notes to Schedule**

Actuarially determined contribution rates are calculated as of September 30, three years prior to the end of the fiscal year in which contributions are reported. Contributions for fiscal year 2019 were based on the September 30, 2016 actuarial valuation.

Methods and assumptions used to determine contribution rates for the period October 1, 2018 to September 30, 2019:

Actuarial cost method	Entry Age
Amortization method	Level percent closed
Remaining amortization period	25.8 years
Asset valuation method	Five year smoothed market
Inflation	2.875%
Salary increases	3.375 – 5.125%, including inflation
Investment rate of return	7.875%, net of pension plan investment expense, including inflation

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

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

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.

This schedule is intended to cover 10 fiscal years. As each year ensues in the future, the information will be added until the schedule covers 10 years.

**City of Talladega, Alabama**  
**Schedule of Employer Contributions - OPEB**

<b>September 30,</b>	<b>2019</b>	<b>2018</b>
Actuarially determined contribution	\$ 302,100	\$ 305,687
Contributions in relation to the actuarially determined contribution		
Employer contributions to the trust	80,847	-
Employer-paid retiree premiums	224,840	200,664
Employer-paid expenses	-	-
<b>Contribution deficiency (excess)</b>	<b>\$ (3,587)</b>	<b>\$ 105,023</b>
Covered annual payroll	\$ 6,015,944	\$ 5,784,562
Contributions as a percentage of covered employee payroll	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. This schedule is intended to cover 10 fiscal years. Additional years will be displayed as they become available.

**Notes to Schedule:**

Valuation date	10/1/2018 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	Flat 5.5% annually
Salary increases	4.0% annually
Investment return	4.18% annually (Beginning of Year to Determine ADC) 2.66% 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; 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, 50% unisex blend
Turnover	Age specific table with an average of 14% when applied to the active census

## **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, 2019</i>	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>Operating revenues</b>				
Water revenues	\$ 3,655,000	\$ 3,655,000	\$ 3,995,732	\$ 340,732
Sewer revenues	2,600,000	2,600,000	2,732,041	132,041
Garbage revenues	1,030,000	1,030,000	1,059,735	29,735
Other operating revenues	257,350	257,350	416,941	159,591
<b>Total revenues</b>	<b>7,542,350</b>	<b>7,542,350</b>	<b>8,204,449</b>	<b>662,099</b>
<b>Operating expenses</b>				
Water and sewer department expenses	997,600	997,600	1,016,803	(19,203)
Waste water plants	1,337,850	1,337,850	1,532,661	(194,811)
Water filters and wells	941,375	941,375	949,774	(8,399)
Garbage collection expenses	992,000	992,000	1,028,322	(36,322)
General and administrative expenses	1,794,650	1,794,650	1,519,313	275,337
Depreciation expense	1,320,000	1,320,000	1,491,455	(171,455)
<b>Total operating expenses</b>	<b>7,383,475</b>	<b>7,383,475</b>	<b>7,538,328</b>	<b>(154,853)</b>
<b>Operating income</b>	<b>158,875</b>	<b>158,875</b>	<b>666,121</b>	<b>507,246</b>
<b>Nonoperating income (expense)</b>				
Interest income	48,500	48,500	94,452	45,952
Grant revenue	-	-	62,593	62,593
Miscellaneous income	16,150	16,150	73,682	57,532
Interest expense	(902,375)	(902,375)	(929,628)	(27,253)
<b>Total nonoperating income (expense)</b>	<b>(837,725)</b>	<b>(837,725)</b>	<b>(698,901)</b>	<b>138,824</b>
<b>Transfers</b>				
Transfers in	-	-	29,223	29,223
<b>Change in net position</b>	<b>\$ (678,850)</b>	<b>\$ (678,850)</b>	<b>\$ (3,557)</b>	<b>\$ 675,293</b>

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

<i>September 30, 2019</i>	<b>Special Revenue Funds</b>	<b>Debt Service Fund</b>	<b>Capital Projects Fund</b>	<b>Total Other Governmental Funds</b>
<b>Assets</b>				
Cash and cash equivalents	\$ 1,942,755	\$ -	\$ -	\$ 1,942,755
Investments	804,565	-	-	804,565
Receivables	17,165	-	8	17,173
Due from other funds	80	-	-	80
<b>Total assets</b>	<b>\$ 2,764,565</b>	<b>\$ -</b>	<b>\$ 8</b>	<b>\$ 2,764,573</b>
<b>Liabilities</b>				
Accounts payable and accrued liabilities	\$ 69,850	\$ -	\$ 4,762	\$ 74,612
Due to other funds	11,344	-	-	11,344
<b>Total liabilities</b>	<b>81,194</b>	<b>-</b>	<b>4,762</b>	<b>85,956</b>
<b>Fund balances</b>				
Restricted	1,467,817	-	-	1,467,817
Committed	986,530	-	-	986,530
Assigned	229,024	-	-	229,024
Unassigned	-	-	(4,754)	(4,754)
<b>Total fund balance (deficit)</b>	<b>2,683,371</b>	<b>-</b>	<b>(4,754)</b>	<b>2,678,617</b>
<b>Total liabilities and fund balance</b>	<b>\$ 2,764,565</b>	<b>\$ -</b>	<b>\$ 8</b>	<b>\$ 2,764,573</b>

**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, 2019</i>	<b>Special Revenue Funds</b>	<b>Debt Service Fund</b>	<b>Capital Projects Fund</b>	<b>Total Other Governmental Funds</b>
<b>Revenues</b>				
Intergovernmental revenues:				
Federal and state grants	\$ 118,425	\$ -	\$ -	\$ 118,425
Taxes	537,757	-	-	537,757
Other operating revenues:				
Charges for services	425,807	-	-	425,807
Interest	62,984	-	-	62,984
<b>Total revenues</b>	<b>1,144,973</b>	<b>-</b>	<b>-</b>	<b>1,144,973</b>
<b>Expenditures</b>				
Current operations:				
General government	813,353	-	-	813,353
Public safety	530,686	-	-	530,686
Capital outlay	6,431	-	-	6,431
Debt service:				
Principal	-	618,996	-	618,996
Interest	-	226,686	-	226,686
<b>Total expenditures</b>	<b>1,350,470</b>	<b>845,682</b>	<b>-</b>	<b>2,196,152</b>
<b>Excess of revenues over (under) expenditures</b>	<b>(205,497)</b>	<b>(845,682)</b>	<b>-</b>	<b>(1,051,179)</b>
<b>Other financing sources (uses):</b>				
Transfers in	562,488	845,682	-	1,408,170
<b>Net change in fund balance</b>	<b>356,991</b>	<b>-</b>	<b>-</b>	<b>356,991</b>
<b>Fund balance, beginning of year</b>	<b>2,326,380</b>	<b>-</b>	<b>(4,754)</b>	<b>2,321,626</b>
<b>Fund balance, end of year (deficit)</b>	<b>\$ 2,683,371</b>	<b>\$ -</b>	<b>\$ (4,754)</b>	<b>\$ 2,678,617</b>

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

<i>September 30, 2019</i>	<b>2.5 Mil Property Tax Fund</b>	<b>4 Cent Gas Tax Fund</b>	<b>7 Cent Gas Tax Fund</b>	<b>Corrections Fund</b>
<b>Assets</b>				
Cash and cash equivalents	\$ 31,148	\$ 227,702	\$ 286,282	\$ 91,624
Investments	-	-	-	-
Receivables	4,288	4,631	5,900	2,346
Due from other funds	-	-	-	80
<b>Total assets</b>	<b>\$ 35,436</b>	<b>\$ 232,333</b>	<b>\$ 292,182</b>	<b>\$ 94,050</b>
<b>Liabilities</b>				
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ 47,527
Due to other funds	-	2,522	-	-
<b>Total liabilities</b>	<b>-</b>	<b>2,522</b>	<b>-</b>	<b>47,527</b>
<b>Fund balances</b>				
Restricted	35,436	229,811	292,182	46,523
Committed	-	-	-	-
Assigned	-	-	-	-
<b>Total fund balance</b>	<b>35,436</b>	<b>229,811</b>	<b>292,182</b>	<b>46,523</b>
<b>Total liabilities and fund balance</b>	<b>\$ 35,436</b>	<b>\$ 232,333</b>	<b>\$ 292,182</b>	<b>\$ 94,050</b>

<b>Oil Trust Fund</b>	<b>Police Grant</b>	<b>Cemetery Fund</b>	<b>Library Fund</b>	<b>Total Special Revenue Funds</b>
\$ 855,010	\$ 8,855	\$ 238,584	\$ 203,550	\$ 1,942,755
-	-	760,349	44,216	804,565
-	-	-	-	17,165
-	-	-	-	80
<b>\$ 855,010</b>	<b>\$ 8,855</b>	<b>\$ 998,933</b>	<b>\$ 247,766</b>	<b>\$ 2,764,565</b>
\$ -	\$ -	\$ 12,403	\$ 9,920	\$ 69,850
-	-	-	8,822	11,344
-	-	12,403	18,742	81,194
855,010	8,855	-	-	1,467,817
-	-	986,530	-	986,530
-	-	-	229,024	229,024
<b>855,010</b>	<b>8,855</b>	<b>986,530</b>	<b>229,024</b>	<b>2,683,371</b>
<b>\$ 855,010</b>	<b>\$ 8,855</b>	<b>\$ 998,933</b>	<b>\$ 247,766</b>	<b>\$ 2,764,565</b>

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

<i>For the year ended September 30, 2019</i>	<b>2.5 Mil Property Tax Fund</b>	<b>4 Cent Gas Tax Fund</b>	<b>7 Cent Gas Tax Fund</b>	<b>Corrections Fund</b>
<b>Revenues</b>				
Intergovernmental revenues:				
Federal and state grants	\$ -	\$ -	\$ -	\$ -
Taxes	276,349	50,781	64,608	-
Other operating revenues:				
Charges for services	-	-	-	376,810
Interest	484	-	684	-
<b>Total revenues</b>	<b>276,833</b>	<b>50,781</b>	<b>65,292</b>	<b>376,810</b>
<b>Expenditures</b>				
Current operations:				
General	276,287	2,618	-	-
Public safety	-	-	-	530,686
Capital outlay	-	-	-	-
<b>Total expenditures</b>	<b>276,287</b>	<b>2,618</b>	<b>-</b>	<b>530,686</b>
<b>Excess of revenues over (under) expenditures</b>	<b>546</b>	<b>48,163</b>	<b>65,292</b>	<b>(153,876)</b>
<b>Other financing sources (uses):</b>				
Transfers in	-	-	-	185,229
<b>Net change in fund balance</b>	<b>546</b>	<b>48,163</b>	<b>65,292</b>	<b>31,353</b>
<b>Fund balance, beginning of year</b>	<b>34,890</b>	<b>181,648</b>	<b>226,890</b>	<b>15,170</b>
<b>Fund balance, end of year</b>	<b>\$ 35,436</b>	<b>\$ 229,811</b>	<b>\$ 292,182</b>	<b>\$ 46,523</b>

Oil Trust Fund	Police Grant	Cemetery Fund	Library Fund	Total Special Revenue Funds
\$ -	\$ -	\$ -	\$ 118,425	\$ 118,425
146,019	-	-	-	537,757
-	-	40,260	8,737	425,807
2,061	5	58,192	1,558	62,984
148,080	5	98,452	128,720	1,144,973
-	-	50,824	483,624	813,353
-	-	-	-	530,686
-	-	-	6,431	6,431
-	-	50,824	490,055	1,350,470
148,080	5	47,628	(361,335)	(205,497)
-	-	-	377,259	562,488
148,080	5	47,628	15,924	356,991
706,930	8,850	938,902	213,100	2,326,380
\$ 855,010	\$ 8,855	\$ 986,530	\$ 229,024	\$ 2,683,371

**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, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 15, 2020. 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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose 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

September 15, 2020