City of Talladega
Water and Sewer Department

FINANCIAL STATEMENTS

September 30, 2020

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INDEPENDENT AUDITORS' REPORT

To the Manager and City Council
City of Talladega, Alabama

We have audited the accompanying financial statements of the City of Talladega Water and Sewer Department of the City of Talladega, Alabama (the "Water and Sewer Department"), as of and for the year ended September 30, 2020, and the related notes to the 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 conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Water and Sewer Department'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 Water and Sewer Department's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water and Sewer Department as of September 30, 2020, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Water and Sewer Department and do not purport to, and do not present fairly the financial position of the City of Talladega, Alabama, as of September 30, 2020, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that 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 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 responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require supplementing the basic financial statements. Such missing information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2021 on our consideration of the Water and Sewer Department'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 Water and Sewer Department'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 Department's internal control over financial reporting and compliance.

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

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

Enterprise, Alabama
June 25, 2021

City of Talladega Water and Sewer Department
Statement of Net Position

September 30,		**2020**
Assets		
Current assets		
Cash and cash equivalents	$	5,114,511
Accounts receivable (net of allowance for doubtful accounts of $847,063)		1,145,672
Unbilled revenue		955,615
Prepaid expenses		29,722
Inventory of supplies		259,761
Total current assets		7,505,281
Noncurrent assets		
Restricted investments		2,879,722
Capital assets not being depreciated		1,572,038
Capital assets, net of depreciation		26,484,247
Total noncurrent assets		30,936,007
Total assets		38,441,288
Deferred Outflows of Resources		
Deferred outflows related to pension		525,790
Deferred outflows related to OPEB		204,040
Deferred charge on refunding		64,152
Total deferred outflows of resources		793,982

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

City of Talladega Water and Sewer Department
Statement of Net Position (Continued)

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

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

City of Talladega Water and Sewer Department
Statement of Revenues, Expenses and Changes in Fund Net Position

For the year ended September 30,		**2020**
Operating Revenues		
Water revenues	$	3,921,720
Sewer revenues		2,802,584
Garbage revenues		1,060,018
Other operating revenues		532,011
Total operating revenues		8,316,333
Operating Expenses		
Water and sewer department expenses		1,084,018
Waste water plants		1,710,226
Water filters and wells		1,018,351
Garbage collection expenses		981,216
General and administrative expenses		1,806,139
Depreciation expense		1,704,456
Total operating expenses		8,304,406
Operating income (loss)		11,927
Nonoperating Revenues (Expenses)		
Interest income		33,478
Grant revenue		1,090,875
Other income		36,681
Interest expense		(897,937)
Total nonoperating revenues (expenses)		263,097
Income Before Transfers		275,024
Transfers out		(199,088)
Change in net position		75,936
Net position, beginning of year		15,544,415
Net position, end of year	$	15,620,351

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

City of Talladega Water and Sewer Department
Statement of Cash Flows

For the year ended September 30,		**2020**
Operating Activities		
Cash received from customers for sales and services	$	8,280,128
Cash paid to suppliers for goods and services		(4,664,576)
Cash payments to and on behalf of employees		(1,906,901)
Net cash provided by (used in) operating activities		1,708,651
Noncapital Financing Activities		
Grant proceeds		578,915
Transfers out		(199,088)
Net cash provided by (used in) noncapital financing activities		379,827
Capital and Related Financing Activities		
Acquisition of capital assets		(3,175,305)
Other income		36,681
Principal paid on long-term debt		(462,917)
Interest paid on long-term debt		(887,833)
Net cash provided by (used in) capital and related financing activities		(4,489,374)
Investing Activities		
Proceeds from sale of investments		1,456,472
Interest received		33,478
Net cash provided by (used in) investing activities		1,489,950
Net increase (decrease) in cash and cash equivalents		(910,946)
Cash and cash equivalents, beginning of year		6,025,457
Cash and cash equivalents, end of year	$	5,114,511

-Continued-

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

City of Talladega Water and Sewer Department
Statement of Cash Flows (Continued)

For the year ended September 30,		**2020**
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:		
Operating income (loss)	$	11,927
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation		1,704,456
Change in assets, deferred outflows, liabilities and deferred inflows		
(Increase) decrease in assets and deferred outflows		
Accounts receivable		30,425
Unbilled revenue		(66,630)
Prepaid expenses		(10,654)
Inventories		(3,295)
Deferred outflows of resources		(234,206)
Increase (decrease) in liabilities and deferred inflows		
Accounts payable and accrued expenses		(24,050)
Interfund payable		1,822
Customer deposits		(16,487)
Net pension liability		431,395
Net OPEB liability		54,102
Deferred inflows of resources		(170,154)
Total adjustments		1,696,724
Net cash provided by (used in) operating activities	$	1,708,651

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Talladega Water and Sewer Department (the "Water and Sewer Department") is a component unit of the City of Talladega, Alabama (the "City") and has oversight responsibility and control over activities related to the supply of water and sewer services for the City.

Reporting Entity

The Water and Sewer Department is a department of the City and its governing body is the City Council of the City. City Council has decision-making authority, the power to set rates, arrange financing, designate management, significantly influence operations, and primary accountability for fiscal matters. The accounting policies of the Water and Sewer Department conform to generally accepted accounting principles (GAAP) as applied to governmental units. The more significant accounting policies used by the Water and Sewer Department are described below.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

The Water and Sewer Department's proprietary fund financial statements are reported using the *economic resources measurement focus* and *the accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Assets, Deferred Outflows, Liabilities, and Net Position

Cash and Cash Equivalents

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

Investments

The Water and Sewer Department's investments consist of mutual funds which are invested in short-term U.S. Treasury obligations. Investments are reported at fair market value. These investments meet all of the specified criteria in Section I50: *Investments* to qualify to elect to measure their investments at amortized cost.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Receivables and Allowance for Doubtful Accounts

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

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

Inventories and Prepaid Items

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

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

Restricted Assets

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

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

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

Capital Assets

Capital assets, which include property, plant, and equipment are reported in the statement of net position. Capital assets are defined by the Water and Sewer Department as assets with an initial, individual cost of more than $500 and an estimated useful life in excess of one year.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

As the Water and Sewer Department constructs or acquires additional capital assets each period, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

Land and construction in progress are not depreciated. The other property, plant, and equipment are depreciated using the straight line method over the estimated useful lives of the assets, ranging from five to fifty years. Improvements that extend the useful life of the assets are capitalized and depreciated over the remaining useful life of the asset.

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Water and Sewer Department 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. The deferred amount on refunding is amortized over the shorter of the life of the refunded or refunding debt. The deferred outflows related to pension are an aggregate of items related to pension as calculated in accordance with GASB Codification P20: *Pension Activities – Reporting for Benefits Provided through Trusts That Meet Specified Criteria.* Deferred outflows related to OPEB result from contributions related to normal and accrued employer liability (net of any refunds or error service payments) subsequent to the measurement date, the net difference between projected and actual earnings on plan investments, changes in assumptions, and differences between actual and expected experience. The deferred outflows related to pension or OPEB will be recognized as either pension or OPEB expense or a reduction in the net pension or OPEB liabilities in future reporting years.

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 Water and Sewer Department has two items that qualify for reporting in this category, the deferred inflows related to pension and deferred inflows related to OPEB. The deferred inflows related to pension are an aggregate of items related to pension as calculated in accordance with GASB Codification P20: *Pension Activities*

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

– *Reporting for Benefits Provided through Trusts That Meet Specified Criteria.* Deferred inflows related to OPEB result from differences between expected and actual experience, changes in assumptions, and the net difference between projected and actual earnings on plan investments. The deferred inflows related to pension or OPEB will be recognized as a reduction to pension or OPEB expense in future reporting years.

Compensated absences

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

Cost of Borrowing

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

Pensions

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

Other Post-Employment Benefits (OPEB)

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

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Categories and Classification of Net Position

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

The Water and Sewer Department's net position is divided into three components:

- *Net investment in capital assets* - This component of net position consists of the historical cost of capital assets, net of accumulated depreciation, and is reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt should also be included in this component of net position.

- *Restricted* - This component of net position consists of assets that are restricted by contributors, contractual provisions, or enabling legislation, reduced by liabilities and deferred inflows of resources related to those assets. The Water and Sewer Department's restricted net position as reported in the statement of net position consist of cash and investments which are restricted for debt service and capital improvements.

- *Unrestricted* - This component of net position is the net amount of the assets, liabilities, and deferred inflows/outflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

Revenues and Expenses

The Water and Sewer Department's financial statements distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Water and Sewer Department's principal ongoing operations. The principal operating revenues of the Water and Sewer Department are charges to customers for sales and services. The Water and Sewer Department also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the Water and Sewer Department include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make various estimates. Actual results could differ from those estimates. Estimates that are particularly susceptible to significant change in the near term are related to the allowance for doubtful accounts, net pension liability and net OPEB liability.

Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, June 25, 2021, and determined there were no events that occurred that required disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

Recently Issued and Implemented Accounting Pronouncements

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

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

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

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

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued and Implemented Accounting Pronouncements (continued)

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

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

In August 2018, the GASB issued Statement No. 90 (GASB 90), *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this statement are to improve the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government’s holding of the equity interest meets the definition of an investment.

A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. The requirements of this statement are effective for reporting periods beginning after December 15, 2019.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued and Implemented Accounting Pronouncements (continued)

The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

In May 2019, the GASB issued Statement No. 91 (GASB 91), *Conduit Debt Obligations*. The primary objectives of this statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The requirements of this statement are effective for reporting periods beginning after December 15, 2021.

In January 2020, the GASB issued Statement No. 92 (GASB 92), *Omnibus 2020*. The objectives of this statement are to enhance the comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The requirements of this statement are effective for reporting periods beginning after June 15, 2021.

In March 2020, the GASB issued Statement No. 93 (GASB 93), *Replacement of Interbank Offered Rates*. The purpose of this statement is to address accounting and financial reporting implications that result from the replacement of interbank offered rate (IBOR) – most notably, the London Interbank Offered Rate (LIBOR). This statement achieves this objective by (1) providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment, (2) clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate, (3) clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable, (4) removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap, (5) identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of the interest rate swap, and (6) clarifying the definition of reference rate, as it is used in Statement 53, as amended. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021.

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

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued and Implemented Accounting Pronouncements (continued)

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

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

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

The Water and Sewer Department is evaluating the requirements of the above statements and the impact on reporting.

Note 2: DETAILED NOTES

Deposits and Investments

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

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

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

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

Credit risk – Section I50: *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. As of September 30, 2020, the Water and Sewer Department does not have any investments in debt securities.

Concentration risk – Section I50: *Investments* of the GASB Codification requires disclosures of investments in any one issuer that represents five percent or more of total investments. No such reportable concentrations of investments as of September 30, 2020.

Note 2: DETAILED NOTES (Continued)

Deposits and Investments (continued)

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

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

Level 1 (L1): Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Water and Sewer Department has the ability to access.

Level 2 (L2): Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 (L3): Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

The Water and Sewer Department's assets valued at fair value within the fair value hierarchy consist of Federated Treasury Obligations Fund SS totaling $2,879,722 and are valued using market prices (Level 1 inputs).

The methods described 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 Water and Sewer Department believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Accounts Receivable

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

Note 2: DETAILED NOTES (Continued)

Accounts Receivable (continued)

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

Unbilled revenues, included in accounts receivable in the table above, at September 30, 2020 was $955,615.

Capital Assets

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

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

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

Note 2: DETAILED NOTES (Continued)

Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consisted of the following:

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

Long-Term Debt and Liabilities

Revenue Warrants Payable

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 warrants 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.

Note 2: DETAILED NOTES (Continued)

Long-Term Debt and Liabilities (continued)

Revenue Warrants Payable (continued)

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

Series 2015 Warrants

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

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

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

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

Note 2: DETAILED NOTES (Continued)

Changes in Long-Term Liabilities

Long-term liability activity for the year ended September 30, 2020, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
2010 Warrants	$ 14,827,915	$ -	$ (462,917)	$ 14,364,998	$ 480,000
Premium	183,932	-	(8,760)	175,172	-
2015 Warrants	4,700,000	-	-	4,700,000	-
Premium	463,542	-	(18,540)	445,002	-
Compensated absences	124,359	-	-	124,359	-
Customer meter deposits	230,867	-	(16,487)	214,380	-
Total	$ 20,530,615	$ -	$ (506,704)	$ 20,023,911	$ 480,000

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

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

Pledged Revenues

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

Note 2: DETAILED NOTES (Continued)

Net Investment in Capital Assets

The elements of this calculation are as follows:

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

Note 3: RETIREMENT PLAN

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

Description of Plan

The Employees' Retirement System of Alabama ("ERS" or the "Plan"), an agent multiple-employer plan, was established as of October 1, 1945, pursuant to the *Code of Alabama 1975, Title 36, Chapter 27* (Act 515 of the Legislature of 1945). The purpose of the ERS is to provide retirement allowances and other specified benefits for state employees, State Police, and on an elective basis, to all cities, counties, towns and quasi-public organizations. The responsibility for the general administration and operation of ERS is vested in its Board of Control which consists of 13 trustees. The Plan is administered by the Retirement Systems of Alabama ("RSA"). The *Code of Alabama, Title 36*, *Chapter 27* grants the authority to establish and amend the benefit terms to the ERS Board of Control. The Plan issues a publicly available financial report that can be obtained at www.rsa-al.gov.

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

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

Note 3: RETIREMENT PLAN (Continued)

Description of Plan (continued)

c. Two vested active employees of an employer participating in ERS pursuant to the *Code of Alabama 1975, Section 36-27-6*.

Summary of Significant Accounting Policies

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

Funding Requirements

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

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

The ERS establishes rates based upon an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with additional amounts to finance any unfunded accrued liability, the pre-retirement death benefit and administrative expenses of the Plan.

Note 3: RETIREMENT PLAN (Continued)

Funding Requirements (continued)

For the year ended September 30, 2020, the City's active employee contribution rate was 5% of covered employee payroll for normal Tier 1 employees and 6% of covered employee payroll for normal Tier 2 employees, and the City's average contribution rate to fund the normal and accrued liability costs was 10.77% of pensionable payroll for Tier 1 employees and 7.53% for Tier 2 employees.

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

Plan Membership and Benefits

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

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

Note 3: RETIREMENT PLAN (Continued)

Plan Membership and Benefits (continued)

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

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

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

Net Pension Liability, Significant Assumptions, and Discount Rate

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

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

Note 3: RETIREMENT PLAN (Continued)

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

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

Inflation	2.75%
Projected salary increases	3.25% - 5.00%
Investment rate of return	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.

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:

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

* Includes assumed rate of Inflation of 2.50%

Note 3: RETIREMENT PLAN (Continued)

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

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.

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

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

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

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

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

Note 3: RETIREMENT PLAN (Continued)

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

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

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

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

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

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

Note 3: RETIREMENT PLAN (Continued)

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

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

Pension Plan Financial Statements

Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2019. The supporting actuarial information is included in the GASB Statement No. 68 *Report for the ERS* prepared as of September 30, 2019. The auditor's report dated August 27, 2020 on the Schedule of Changes in Fiduciary Net Position by Employer and accompanying notes is also available. The additional financial and actuarial information is available at http://www.rsa-al.gov/index.php/employers/financial-reports/gasb-68-reports/.

Note 4: OTHER POST-EMPLOYMENT BENEFITS

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

Description of Plan

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

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

Note 4: OTHER POST-EMPLOYMENT BENEFITS (Continued)

Funding Requirements

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

Plan Membership and Benefits

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

Net OPEB Liability, Significant Assumptions, and Discount Rate

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

Total OPEB liability	$	5,537,230
Plan fiduciary net position		1,342,706
Net OPEB liability (asset)	$	4,194,524
Plan fiduciary net position as a percentage of the total OPEB liability		24.25%

The above net OPEB liability is shared between the City and the Water and Sewer Department. The City has allocated 21%, or $880,850, to the Water and Sewer Department. The allocation is based on the relative share of employer OPEB contributions.

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

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

Note 4: OTHER POST-EMPLOYMENT BENEFITS (Continued)

Net OPEB Liability, Significant Assumptions, and Discount Rate (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, 2020 are summarized in the following table:

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

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

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

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

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

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

Note 4: OTHER POST-EMPLOYMENT BENEFITS (Continued)

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

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

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

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

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

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

Note 4: OTHER POST-EMPLOYMENT BENEFITS (Continued)

Changes in the Net OPEB Liability

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

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

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

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

Note 4: OTHER POST-EMPLOYMENT BENEFITS (Continued)

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

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

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

Note 5: RISK MANAGEMENT

The Water and Sewer Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees and natural disasters. The Water and Sewer Department has entered into an agreement with other municipalities and governmental units to pool their liabilities in a fund for the purpose of self-insuring worker's compensation risk.

This fund has satisfied the Alabama Department of Industrial Relations of its financial ability to pay compensation direct and in the manner due, as provided by law, and has filed with the Department an acceptable bond or made deposit of security as required. The Water and Sewer Department has no joint or several liabilities with other members of the fund, except that the total sum of premiums over and above fixed costs paid by all members are available for payment of worker's compensation claims of all members.

Note 6: COMMITMENTS AND CONTINGENCIES

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

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

Note 6: COMMITMENTS AND CONTINGENCIES (Continued)

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

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

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

Note 7: UNCERTAINTIES

In March 2020, the World Health Organization made the assessment that the outbreak of a novel coronavirus (COVID-19) can be characterized as a pandemic. As a result, uncertainties have arisen that may have a significant negative impact on the operating activities and results of the Water and Sewer Department. 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 as of June 25, 2021.

City of Talladega Water and Sewer Department
Schedule of Changes in Net Pension Liability
Last Six Fiscal Years

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

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

Note to Schedule

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

City of Talladega Water and Sewer Department
Schedule of Employer Contributions – Pension
Last Six Fiscal Years

Fiscal Year	Actuarially Determined Contribution* (a)	Employer Contributions to Pension Plan* (b)	Annual Contribution Deficiency (Excess) (b-a)	Covered Payroll** (c)	Employer Contributions to Pension Plan as a % of Covered Payroll (b/c)
2020	$ 775,013	$ 775,013	$ -	$ 8,407,773	9.22%
2019	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%

<u>Notes to Schedule</u>

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

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

City of Talladega Water and Sewer Department
Schedule of Changes in Net OPEB Liability

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

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

Note to Schedule

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

City of Talladega Water and Sewer Department
Schedule of Employer Contributions - OPEB

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

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

Note to Schedule

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

Note 1: PLAN CHANGES IN BENEFIT TERMS

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

Note 2: CHANGES OF ASSUMPTIONS

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

Note 3: METHODS AND ASSUMPTIONS USED TO DETERMINE CONTRIBUTION RATES

Pension

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

OPEB

Valuation date	43739 Actuarially determined contributions are calculated as of the last day of the fiscal year in which contributions are reported
Actuarial cost method	Individual Entry Age Normal
Amortization method	Level dollar, open
Amortization period	30 years
Asset valuation method	Market value
Inflation	2.5% annually
Healthcare trend	5.5% annually for ten years, 4.5% thereafter
Salary increases	4.0% annually
Investment return	2.66% annually (Beginning of Year to Determine ADC) 2.39% annually (As of End of Year Measurement Date)
Retirement age	Attainment of 25 years or service at any age; or, attainment of age 60 and 10 years of service; continuous health coverage for 10 years before retirement required employees hired on and after January 1, 2013 are not eligible to retire until age 62 (age 56 for Fire and Police).
Mortality	RP-2000 without projection
Turnover	Age specific table with an average of 14% when applied to the active census

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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
Water and Sewer Department
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 Water and Sewer Department of the City of Talladega, Alabama (the "Water and Sewer Department"), an enterprise fund of the City of Talladega, Alabama, as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the Water and Sewer Department's basic financial statements and have issued our report thereon dated June 25, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Water and Sewer Department's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Water and Sewer Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Water and Sewer Department'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 and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

Compliance and Other Matters

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

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
June 25, 2021