City of Talladega, Alabama

FINANCIAL STATEMENTS

September 30, 2022

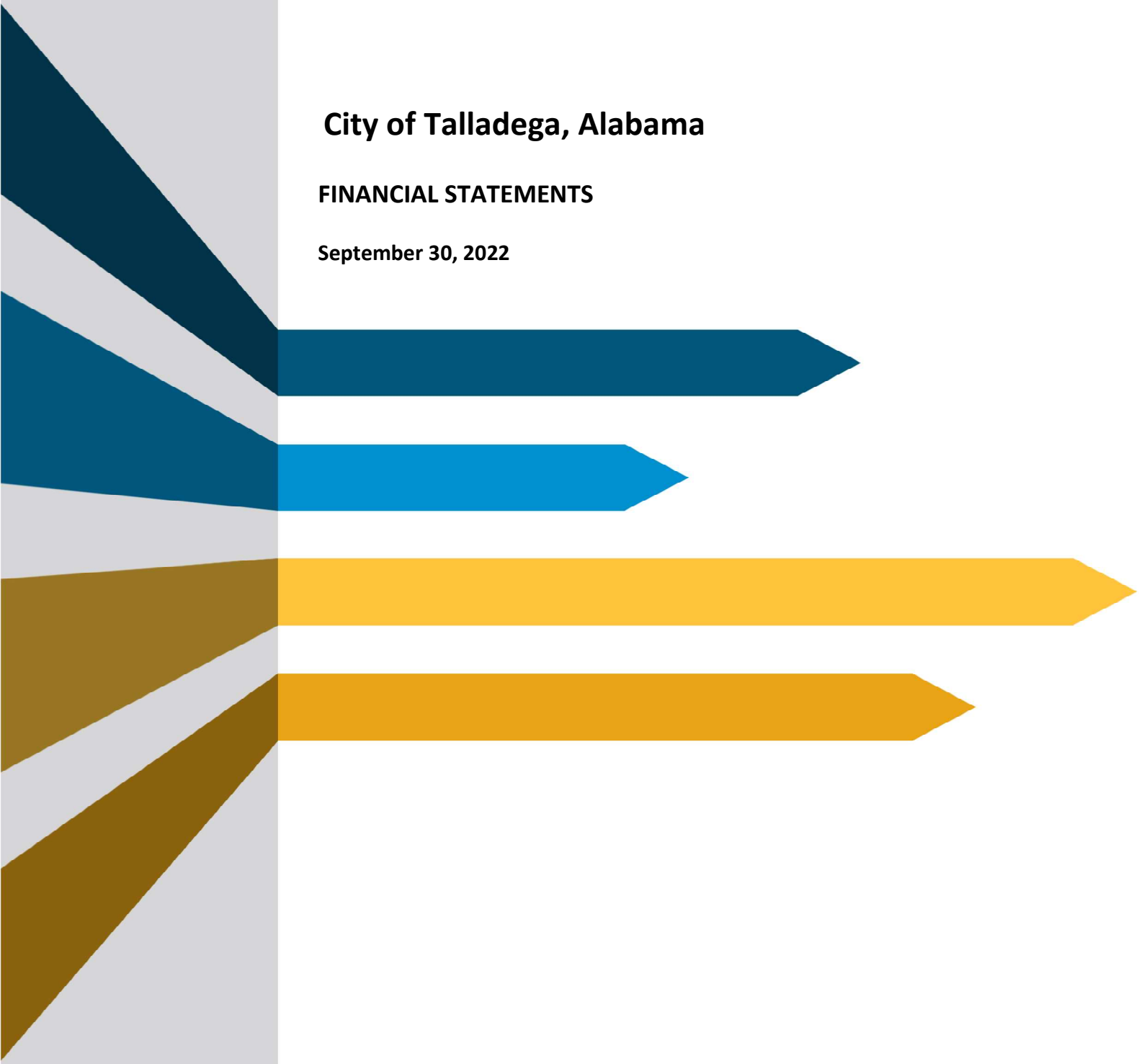


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INDEPENDENT AUDITOR'S REPORT

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

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Talladega, Alabama (the "City"), as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of September 30, 2022, and the respective changes in its financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Talladega City Board of Education or the Talladega Municipal Airport Board, which represent all of the assets, net position, and revenues of the aggregate discretely presented component units. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Talladega City Board of Education and the Talladega Municipal Airport Board, is based solely on the report of the other auditors.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The budgetary comparison schedule for the proprietary fund and combining non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2026 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

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

Enterprise, Alabama
November 9, 2026

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CITY OF TALLADEGA, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2022

This section of the City of Talladega (the "City"), Alabama's annual financial statement is intended to provide readers a general overview of the financial activities during the fiscal year that ended September 30, 2022. The material presented in this section should be read in conjunction with the independent auditor's report and the additional information provided in this financial report.

Financial Highlights – Governmental Activities

- The primary government assets and deferred outflows of resources of the City of Talladega exceeded its liabilities and deferred inflows of resources by $34,727,354 as of September 30, 2022. However, $18,402,836 (53%) reflects the City's investment in capital assets, less any related debt still outstanding that was issued to acquire those items. The City of Talladega uses these capital assets to provide services to citizens; consequently, those assets are not available for future spending. Although the City of Talladega's investment in its capital assets is reported net of the outstanding debt, the resources needed to repay the debt must be provided by other sources since the capital assets cannot be used to liquidate these liabilities. An additional total of $3,708,463 represents assets that are subject to external restrictions on how they may be used. The remaining balance, totaling $12,616,055, is unrestricted.

- The total net position of the City of Talladega increased by approximately $3,053,015 during fiscal year 2022; resulting in a net position of $34,727,354.

- At the close of the fiscal year, the City's governmental funds reported a combined ending fund balance of $19.0 million. The combined governmental funds' fund balances increased by $2,469,038 during the fiscal year, primarily due to the budget surplus.

- The General Fund balance increased by $1,056,662 to a total of $14.4 million at year end. General Fund revenues were $19.3 million, which exceeded the previous fiscal year by $0.4 million and $1.3 million less than anticipated in the budget. The overall financial position of the City remains stable.

- The Capital Projects Trust Fund closed with a fund balance of $2,510,511, a 68% increase from the prior year balance. Capital funds expenditures were $737,130 for fiscal year 2022 and consisted of building and park improvements, software upgrades, as well as equipment and fleet replacement. The City invested approximately $1 million in construction projects during fiscal 2022.

- The Special Revenue Funds include nine funds which receive restricted, committed or assigned funds and include the following: 2.5 Mil Property Tax Fund, 4 Cent Gas Tax Fund, 7 Cent Gas Tax Fund, Corrections Fund, Oil Trust Fund, Police Grants Fund, Cemetery Fund, Library Fund and Rebuild Alabama Gas Tax Fund. The Special Revenue Funds closed with a combined fund balance of $2,105,956, a $389,639 increase from the prior year.

- The CDBG (Community Development Block Grant) fund comprise the Capital Projects Funds. Projects partially funded with this grant were completed during fiscal 2018 and excess fund balances were transferred back to the General Fund.

Financial Highlights – Business-type Activities

- The assets and deferred outflows of resources of the Talladega Water and Sewer Department of the City of Talladega, Alabama, exceeded its liabilities and deferred inflows or resources at September 30, 2022, by $14,297,875 (total net position) up from $14,129,927 in FY 2021. Of the total net position, $6,054,968 or 42% (unrestricted net position) may be used to meet the Department's ongoing obligations.

- The Water and Sewer department required the use of unrestricted resources to fund expenditures. Operating revenues of $9,751,508, an increase of $1,435,175 from 2021, exceeded operating expenses during the year, which decreased $825,541 for a total of $8,898,183 for FY 2022. This net increase combined with a net decrease in nonoperating revenues (expenses) totaling $685,377, caused a net increase of $167,948 in net position.

- During this time period, remaining proceeds from the 2021-A and 2021-B Capital Improvement Warrants continued to be utilized on a number of system improvement projects.

Overview of the Financial Statements

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

Government-wide Financial Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

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

- Governmental Activities - Most of the City's basic services are included here, such as police, fire, public works, recreation and general administration. Sales and use tax, property taxes, business licenses and other state-shared revenues finance most of these activities.

- Business-type Activities - The costs and revenues of the City's Water and Sewer Department are reported here.

- Discretely Presented Component Units - The City includes other legally separate entities in its report including the Talladega Municipal Airport Board and the Talladega City Board of Education. The City is financially accountable for these entities.

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

Fund Financial Statements

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

- Governmental Funds - Most of the City's basic services are included in governmental funds which focus on (1) how cash and other financial assets can be converted to cash flows into and out of the funds, and (2) balances left at year-end that are available to be spent. Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decision.

    - The City of Talladega adopts an annual appropriated budget for the General Fund. A budgetary comparison statement has been provided in the supplementary information for the General Fund to demonstrate compliance with this budget.

- Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Water and Sewer Department has one enterprise fund to account for its business-type activities. The separate enterprise fund financial statements provide the same type of information as the government-wide financial statements, only in more detail.

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

activities. Therefore, these assets are not presented as part of the government-wide financial statements.

Notes to the Financial Statements

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

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Position
September 30, 2022

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	$ 20,796,169	$ 6,319,549	$ 27,115,718
Investments	1,049,194	-	1,049,194
Receivables, net	1,164,563	1,600,028	2,764,591
Unbilled revenue	-	1,473,062	1,473,062
Internal balances	97,322	16,518	113,840
Inventories	-	261,910	261,910
Restricted assets	-	17,607,663	17,607,663
Other assets	7,491	3,350	10,841
Capital assets, not being depreciated	3,936,844	1,676,299	5,613,143
Capital assets, net of accumulated depreciation	11,520,379	25,274,023	36,794,402
Total assets	38,571,962	54,232,402	92,804,364
Deferred Outflows of Resources			
Deferred outflows related to pension	2,514,668	634,524	3,149,192
Deferred outflows related to OPEB	1,098,809	292,089	1,390,898
Deferred outflows on refunding	254,849	109,429	364,278
Total deferred outflows of resources	3,868,326	1,036,042	4,904,368
Liabilities			
Accounts payable and accrued liabilities	1,479,116	1,039,400	2,518,516
Unearned grant revenue	2,365,337	-	2,365,337
Other liabilities	289,213	-	289,213
Accrued interest	47,051	-	47,051
Non-current liabilities:			
Due within one year:			
Warrants payable	835,487	710,000	1,545,487
Capital leases	85,933	-	85,933
Due in more than one year:			
Warrants payable	4,348,746	35,630,381	39,979,127
Capital leases	212,110	-	212,110
Net pension liability	6,658,785	1,886,646	8,545,431
Net OPEB liability	2,303,872	612,422	2,916,294
Customer meter deposits	-	230,786	230,786
Compensated absences	344,993	97,234	442,227
Total liabilities	18,970,643	40,206,869	59,177,512
Deferred Inflows of Resources			
Deferred inflows related to pension	1,612,805	384,275	1,997,080
Deferred inflows related to OPEB	1,427,361	379,425	1,806,786
Total deferred inflows of resources	3,040,166	763,700	3,803,866
Net position			
Net investment in capital assets	10,229,796	8,173,040	18,402,836
Restricted for:			
Capital improvements	2,510,511	3,019	2,513,530
Special revenues (gas tax and road projects)	680,515	-	680,515
Special revenues (ad valorem tax for schools)	355,226	-	355,226
Special revenues (public safety)	92,344	-	92,344
Debt service	-	66,848	66,848
Unrestricted	6,561,087	6,054,968	12,616,055
Total net position	$ 20,429,479	$ 14,297,875	$ 34,727,354

Statement of Net Position
September 30, 2021

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	$ 16,602,852	$ 6,532,192	$ 23,135,044
Investments	1,148,306	-	1,148,306
Receivables, net	1,010,292	1,288,990	2,299,282
Unbilled revenue	-	1,201,321	1,201,321
Internal balances	607,639	(607,639)	-
Inventories	-	316,807	316,807
Restricted assets	-	18,459,638	18,459,638
Other assets	17,405	4,858	22,263
Capital assets, not being depreciated	3,863,521	978,928	4,842,449
Capital assets, net of accumulated depreciation	12,097,344	26,254,722	38,352,066
Total assets	35,347,359	54,429,817	89,777,176
Deferred Outflows of Resources			
Deferred outflows related to pension	2,063,907	548,633	2,612,540
Deferred outflows related to OPEB	958,185	254,708	1,212,893
Deferred outflows on refunding	284,931	131,952	416,883
Total deferred outflows of resources	3,307,023	935,293	4,242,316
Liabilities			
Accounts payable and accrued liabilities	1,451,579	710,292	2,161,871
Unearned grant revenue	1,368,381	-	1,368,381
Other liabilities	54,499	-	54,499
Accrued interest	47,051	-	47,051
Non-current liabilities:			
Due within one year:			
Warrants payable	821,033	540,000	1,361,033
Capital leases	82,435	-	82,435
Warrants payable	5,197,119	36,525,951	41,723,070
Capital leases	293,390	-	293,390
Net pension liability	7,502,926	2,084,656	9,587,582
Net OPEB liability	3,477,720	924,457	4,402,177
Customer meter deposits	-	227,964	227,964
Compensated absences	344,993	97,234	442,227
Total liabilities	20,641,126	41,110,554	61,751,680
Deferred Inflows of Resources			
Deferred inflows related to pension	190,780	50,713	241,493
Deferred inflows related to OPEB	278,064	73,916	351,980
Total deferred inflows of resources	468,844	124,629	593,473
Net position			
Net investment in capital assets	9,851,819	8,616,470	18,468,289
Restricted for:			
Capital improvements	1,487,774	9,769	1,497,543
Special revenues (gas tax and road projects)	447,945	-	447,945
Special revenues (ad valorem tax for schools)	9,959	-	9,959
Special revenues (public safety)	74,555	-	74,555
Debt service	-	48,924	48,924
Unrestricted	5,672,360	5,454,764	11,127,124
Total net position	$ 17,544,412	$ 14,129,927	$ 31,674,339

Statement of Activities
For the Year Ended September 30, 2022

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities	Net (Expense) Revenue and Changes in Net Position: Business-type Activities	Net (Expense) Revenue and Changes in Net Position: Total
Primary Government							
Governmental activities							
General government administration	$ 4,926,271	$ 2,498,453	$ 1,171,404	$ -	$ (1,256,414)	$ -	$ (1,256,414)
Public safety	8,125,562	409,964	48,356	-	(7,667,242)	-	(7,667,242)
Public works	3,218,307	659,072	-	-	(2,559,235)	-	(2,559,235)
Parks and recreation	1,205,956	94,750	3,383	-	(1,107,823)	-	(1,107,823)
Interest on long-term debt	197,631	-	-	-	(197,631)		(197,631)
Total governmental activities	17,673,727	3,662,239	1,223,143	-	(12,788,345)	-	(12,788,345)
Business-type activities							
Water and sewer	9,750,229	9,751,508	-	-	-	1,279	1,279
Total primary government	$ 27,423,956	$ 13,413,747	$ 1,223,143	$ -	(12,788,345)	1,279	(12,787,066)
General revenues and transfers							
Taxes							
Property taxes, levied for general purposes					1,391,312	-	1,391,312
Sales and use taxes					12,720,895	-	12,720,895
Other taxes					1,182,291	-	1,182,291
Grants not restricted to specific programs					-	-	-
Miscellaneous					439,812	107,771	547,583
Investment income (loss)					(60,898)	58,898	(2,000)
Total general revenues and transfers					15,673,412	166,669	15,840,081
Change in net position					2,885,067	167,948	3,053,015
Net position, beginning of year					17,544,412	14,129,927	31,674,339
Net position, end of year					$ 20,429,479	$ 14,297,875	$ 34,727,354

Statement of Activities
For the Year Ended September 30, 2021

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities	Net (Expense) Revenue and Changes in Net Position: Business-type Activities	Net (Expense) Revenue and Changes in Net Position: Total
Primary Government							
Governmental activities							
General government administration	$ 4,427,239	$ 2,357,948	$ 1,500,007	$ -	$ (569,284)	$ -	$ (569,284)
Public safety	7,817,541	471,202	6,221	-	(7,340,118)	-	(7,340,118)
Public works	2,917,048	438,963	-	-	(2,478,085)	-	(2,478,085)
Parks and recreation	1,173,400	47,394	31,717	-	(1,094,289)	-	(1,094,289)
Interest on long-term debt	209,467	-	-	-	(209,467)		(209,467)
Total governmental activities	16,544,695	3,315,507	1,537,945	-	(11,691,243)	-	(11,691,243)
Business-type activities							
Water and sewer	9,723,724	8,243,651	-	-	-	(1,480,073)	(1,480,073)
Total primary government	$ 26,268,419	$ 11,559,158	$ 1,537,945	$ -	(11,691,243)	(1,480,073)	(13,171,316)
General revenues and transfers							
Taxes							
Property taxes, levied for general purposes					1,212,083	-	1,212,083
Sales and use taxes					12,385,498	-	12,385,498
Other taxes					1,285,608	-	1,285,608
Grants not restricted to specific programs					-	-	-
Miscellaneous					270,549	(18,600)	251,949
Investment earnings					76,343	8,249	84,592
Gain on sale of assets					73,683	-	73,683
Transfers, net					-	-	-
Total general revenues and transfers					15,303,764	(10,351)	15,293,413
Change in net position					3,612,521	(1,490,424)	2,122,097
Net position, beginning of year					13,931,891	15,620,351	29,552,242
Net position, end of year					$ 17,544,412	$ 14,129,927	$ 31,674,339

CAPITAL ASSETS AND DEBT OUTSTANDING

Capital Assets: The City of Talladega's investment in capital assets (net of accumulated depreciation) for governmental and business-type activities as of September 30, 2022, totals $42,407,545. These assets include buildings, land, equipment, facilities and vehicles. Additional detailed information on the capital assets may be found in Note 2 on pages 49-50.

Long-term Debt: As of September 30, 2022, the City of Talladega governmental activities had debt outstanding of $5,184,233 consisting of four General Obligation Warrants. Interest paid on long-term debt was $197,631 for fiscal year 2022. In addition, the City has two capital leases with terms up to 10 years. The total present value of future minimum lease payments equaled $298,043 at 2022 fiscal year end. The Water and Sewer Department of the City had warrants outstanding in the amount of $32,830,000, payable solely from revenues of the system, and no capital leases outstanding as of September 30, 2022.

The City uses the 1% sales and use tax increase implemented in April 2011 as the major source of funds for future capital improvements rather than relying on financing alone. The City's indebtedness is managed in coordination with debt repayment schedules to stay within legal debt limits and to maintain a stable level of debt service. The City was first rated by Standard & Poors in 2009, achieving a rating of "A, stable" and was upgraded to "AA-" in 2014. This rating was affirmed in March 2015. The City's rating for its Water and Sewer revenue warrants was lowered to "A, stable" from "A+" in July of 2021. Additional detailed information on long-term debt may be found in the notes to the financial statements Note 2 on pages 53-59.

POST-EMPLOYMENT BENEFIT PLAN

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

Governmental Accounting Standards Board (GASB) issued Statement No. 75, "Accounting and Financial Reporting for Post-Employment Benefits Other than Pensions (OPEB)" has replaced the previous authoritative guidance regarding the City's retiree health care benefits. Additional information on post-employment benefits may be found in the notes to the financial statements Note 4 on pages 67-72.

ECONOMIC FACTORS

The City of Talladega continues to be heavily dependent on sales tax revenue, which accounts for approximately 66% of total General Fund operating revenues. 2022 sales tax revenue increased by 3%, or about $0.3M, over fiscal year 2021. Business license revenue increased by $113K during 2022 or 5% over 2021.

At the close of FY22, the City continued to enjoy the benefits of economic recovery, although long-term macroeconomic trends indicate a need for stronger economic development strategy. In the absence of pronounced revenue growth, the City must still meet increases in areas such as healthcare costs, employee salaries, and retirement costs. Thus, the City should remain diligent in keeping in place various cost saving measures from previous years, and examine closely the long-term financial effect of any proposed spending. However, the City is hopeful that its community-building efforts during fiscal year 2022 will pay dividends to the local economy and quality of life over the next several years. Though no significant immediate impact to the City's General Fund revenue is expected, the City is beginning to exhibit a trend toward future economic growth.

Request for Information

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

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

City of Talladega, Alabama
Statement of Net Position

September 30, 2022	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Assets				
Cash and cash equivalents	$ 20,796,169	$ 6,319,549	$ 27,115,718	$ 5,519,388
Investments	1,049,194	-	1,049,194	4,893,303
Receivables, net	1,164,563	1,600,028	2,764,591	15,496
Unbilled revenue	-	1,473,062	1,473,062	-
Internal balances	97,322	16,518	113,840	-
Due from other governments	-	-	-	1,804,017
Inventories	-	261,910	261,910	84,076
Restricted assets	-	17,607,663	17,607,663	-
Other assets	7,491	3,350	10,841	67,213
Lease asset	-	-	-	767,081
Capital assets, not being depreciated	3,936,844	1,676,299	5,613,143	375,643
Capital assets, net of accumulated depreciation	11,520,379	25,274,023	36,794,402	9,844,572
Total assets	38,571,962	54,232,402	92,804,364	23,370,789
Deferred Outflows of Resources				
Deferred outflows related to pension	2,514,668	634,524	3,149,192	4,151,268
Deferred outflows related to OPEB	1,098,809	292,089	1,390,898	4,104,859
Deferred outflows on refunding	254,849	109,429	364,278	-
Total deferred outflows of resources	3,868,326	1,036,042	4,904,368	8,256,127
Liabilities				
Bank overdraft	-	-	-	896,339
Accounts payable and accrued liabilities	1,479,116	1,039,400	2,518,516	1,880,787
Unearned grant revenue	2,365,337	-	2,365,337	-
Other liabilities	289,213	-	289,213	4,930
Accrued interest	47,051	-	47,051	-
Non-current liabilities				
Due within one year				
Warrants and notes payable	835,487	710,000	1,545,487	699,366
Capital leases	85,933	-	85,933	-
Compensated absences	-	-	-	170,662
Due in more than one year				
Warrants and notes payable	4,348,746	35,630,381	39,979,127	1,680,873
Capital leases	212,110	-	212,110	-
Net pension liability	6,658,785	1,886,646	8,545,431	15,306,000
Net OPEB liability	2,303,872	612,422	2,916,294	9,473,817
Customer meter deposits	-	230,786	230,786	-
Compensated absences	344,993	97,234	442,227	-
Total liabilities	18,970,643	40,206,869	59,177,512	30,112,774
Deferred Inflows of Resources				
Deferred inflows related to leases	-	-	-	767,081
Deferred inflows related to pension	1,612,805	384,275	1,997,080	5,123,000
Deferred inflows related to OPEB	1,427,361	379,425	1,806,786	9,063,683
Total deferred inflows of resources	3,040,166	763,700	3,803,866	14,953,764
Net Position (Deficit)				
Net investment in capital assets	10,229,796	8,173,040	18,402,836	7,839,976
Restricted for:				
Capital improvements	2,510,511	3,019	2,513,530	1,506,407
Special revenues (gas tax and road projects)	680,515	-	680,515	-
Special revenues (ad valorem tax for schools)	355,226	-	355,226	1,212,566
Special revenues (public safety)	92,344	-	92,344	-
Debt service	-	66,848	66,848	-
Unrestricted	6,561,087	6,054,968	12,616,055	(23,998,571)
Total net position (deficit)	$ 20,429,479	$ 14,297,875	$ 34,727,354	$ (13,439,622)

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

City of Talladega, Alabama
Statement of Activities

For the year ended September 30, 2022		Program Revenues		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities				
General government	$ 4,926,271	$ 2,498,453	$ 1,171,404	$ -
Public safety	8,125,562	409,964	48,356	-
Public works	3,218,307	659,072	-	-
Recreation	1,205,956	94,750	3,383	-
Interest on long-term debt	197,631	-	-	-
Total governmental activities	17,673,727	3,662,239	1,223,143	-
Business-type activities				
Water and sewer	9,750,229	9,751,508	-	-
Total primary government	$ 27,423,956	$13,413,747	$ 1,223,143	$ -
Component units				
Board of Education	$ 24,086,974	$ 2,051,579	$ 18,756,438	$ 543,020
Municipal Airport Board	856,753	262,515	235,720	-
Total component units	$ 24,943,727	$ 2,314,094	$ 18,992,158	$ 543,020

General revenues and transfers	
Taxes	
Property taxes, levied for general purposes	
Sales and use taxes	
Other taxes	
Grants not restricted to specific programs	
Miscellaneous	
Investment income (loss)	
Total general revenues and transfers	
Change in net position	
Net position (deficit), beginning of year	
Net position (deficit), end of year	

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

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
$ (1,256,414)	$ -	$ (1,256,414)	$ -
(7,667,242)	-	(7,667,242)	-
(2,559,235)	-	(2,559,235)	-
(1,107,823)	-	(1,107,823)	-
(197,631)	-	(197,631)	-
(12,788,345)	-	(12,788,345)	-
-	1,279	1,279	-
(12,788,345)	1,279	(12,787,066)	-
-	-	-	(2,735,937)
-	-	-	(358,518)
-	-	-	(3,094,455)
1,391,312	-	1,391,312	2,098,445
12,720,895	-	12,720,895	2,042,404
1,182,291	-	1,182,291	98,337
-	-	-	150,000
439,812	107,771	547,583	648,993
(60,898)	58,898	(2,000)	78,142
15,673,412	166,669	15,840,081	5,116,321
2,885,067	167,948	3,053,015	2,021,866
17,544,412	14,129,927	31,674,339	(15,461,488)
$ 20,429,479	$ 14,297,875	$ 34,727,354	$ (13,439,622)

City of Talladega, Alabama
Balance Sheet – Governmental Funds

September 30, 2022	General	Capital Projects Trust Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	$ 15,819,617	$ 3,376,319	$ 1,600,233	$ 20,796,169
Investments	282,382	-	766,812	1,049,194
Receivables, net	1,131,778	-	32,785	1,164,563
Interfund receivables	891,763	-	79,078	970,841
Other assets	7,425	-	66	7,491
Total assets	$ 18,132,965	$ 3,376,319	$ 2,478,974	$ 23,988,258
Liabilities and Fund Balances				
Liabilities				
Accounts payable and accrued liabilities	$ 1,302,672	$ -	$ 176,444	$ 1,479,116
Unearned grant revenue	2,365,337	-	-	2,365,337
Interfund payables	79,078	576,595	201,328	857,001
Interfund payable - proprietary fund	16,518	-	-	16,518
Other liabilities	-	289,213	-	289,213
Total liabilities	3,763,605	865,808	377,772	5,007,185
Fund balances				
Restricted	-	2,510,511	1,128,085	3,638,596
Committed	-	-	881,817	881,817
Assigned	-	-	96,054	96,054
Unassigned:				
Capital projects - community development	-	-	(4,754)	(4,754)
General fund	14,369,360	-	-	14,369,360
Total fund balances	14,369,360	2,510,511	2,101,202	18,981,073
Total liabilities and fund balances	$ 18,132,965	$ 3,376,319	$ 2,478,974	$ 23,988,258

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

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

September 30, 2022

Total fund balances - governmental funds		$ 18,981,073
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental capital assets not being depreciated	$ 3,936,844	
Governmental capital assets being depreciated	67,161,539	
Less accumulated depreciation	(55,641,160)	15,457,223
Long-term liabilities, including debt, net OPEB liability, net pension liability and compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.		
Accrued interest	(47,051)	
Warrants payable	(5,184,233)	
Capital lease obligations	(298,043)	
Net OPEB liability	(2,303,872)	
Net pension liability	(6,658,785)	
Compensated absences	(344,993)	(14,836,977)
Deferred outflows of resources related to pension and OPEB expenses are not recognized in the governmental funds; however, they are recorded in the statement of net position under full accrual accounting.		3,613,477
In the advance refunding of debt, the difference between the net carrying amount of the old debt and its reacquisition price is treated as an other financing use in the governmental fund statements, whereas this amount is deferred and amortized over the life of the old debt or new debt, whichever is shorter, and reported as a deferred outflow on the statement of net position.		254,849
Deferred inflows of resources related to pension and OPEB expenses are not recognized in the governmental funds; however, they are recorded in the statement of net position under full accrual accounting.		(3,040,166)
Net position of governmental activities		$ 20,429,479

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

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

For the year ended September 30, 2022	General	Capital Projects Trust Fund	Nonmajor Funds	Total Governmental Funds
Revenues				
Taxes	$ 14,570,135	$ -	$ 724,363	$ 15,294,498
Licenses and permits	2,409,599	-	-	2,409,599
Charges for services	807,224	-	445,416	1,252,640
Intergovernmental	1,108,072	-	115,071	1,223,143
Investment income (loss)	11,044	1,143	(73,085)	(60,898)
Miscellaneous	389,813	-	-	389,813
Total revenues	19,295,887	1,143	1,211,765	20,508,795
Expenditures				
Current				
General government	2,325,387	190,597	653,427	3,169,411
Public safety	7,045,818	-	549,050	7,594,868
Public works	2,951,447	-	-	2,951,447
Recreation	1,099,818	-	-	1,099,818
Other boards and agencies	711,890	-	-	711,890
Non-departmental	841,718	-	-	841,718
Capital outlay	44,822	546,533	-	591,355
Debt service:				
Principal	-	-	880,982	880,982
Interest	-	-	198,268	198,268
Total expenditures	15,020,900	737,130	2,281,727	18,039,757
Excess (deficiency) of revenues over (under) expenditures	4,274,987	(735,987)	(1,069,962)	2,469,038
Other Financing Sources (Uses)				
Transfers in	-	1,991,674	1,606,480	3,598,154
Transfers out	(3,218,325)	(232,950)	(146,879)	(3,598,154)
Total other financing sources (uses)	(3,218,325)	1,758,724	1,459,601	-
Net change in fund balances	1,056,662	1,022,737	389,639	2,469,038
Fund balances, beginning of year	13,312,698	1,487,774	1,711,563	16,512,035
Fund balances, end of year	$ 14,369,360	$ 2,510,511	$ 2,101,202	$ 18,981,073

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

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

September 30, 2022

Net change in fund balances - total governmental funds		$ 2,469,038
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeds capital outlay in the current period.		(503,642)
For governmental funds, the issuance of long-term debt provides current financial resources and the repayment of long-term debt consumes current financial resources. Neither transaction, however, has any effect on net position in the government-wide statement of net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued whereas these amounts are deferred and amortized in the Statement of Activities. These amounts are the net effect of these differences in the treatment of long-term debt and related items:		
Principal payments		803,200
Capital lease payments		77,782
Amortization of premiums		30,719
Amortization of deferred charges on refunding		(30,082)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.		
Change in OPEB expense	165,175	
Change in pension expense	(127,123)	38,052
Change in net position of governmental activities		$ 2,885,067

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

September 30,	2022
Assets	
Current assets	
Cash and cash equivalents	$ 6,319,549
Accounts receivable (net of allowance for doubtful accounts for $880,840)	1,600,028
Unbilled revenue	1,473,062
Prepaid expenses	3,350
Interfund receivable	16,518
Inventories	261,910
Total current assets	9,674,417
Noncurrent assets	
Restricted investments	17,607,663
Capital assets not being depreciated	1,676,299
Capital assets, net of depreciation	25,274,023
Total noncurrent assets	44,557,985
Total assets	54,232,402
Deferred Outflows of Resources	
Deferred outflows related to pension	634,524
Deferred outflows related to OPEB	292,089
Deferred charge on refunding	109,429
Total deferred outflows of resources	1,036,042

(Continued)

September 30,		2022
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	$	1,039,400
Current portion of long-term debt		710,000
Total current liabilities		1,749,400
Noncurrent liabilities		
Compensated absences		97,234
Customer meter deposits		230,786
Revenue warrants payable, net		35,630,381
Net pension liability		1,886,646
Net OPEB liability		612,422
Total noncurrent liabilities		38,457,469
Total liabilities		40,206,869
Deferred Inflows of Resources		
Deferred inflows related to pension		384,275
Deferred inflows related to OPEB		379,425
Total deferred inflows of resources		763,700
Net Position		
Net investment in capital assets		8,173,040
Restricted for:		
Debt service		66,848
Capital improvements		3,019
Unrestricted		6,054,968
Total net position	$	14,297,875

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

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

For the year ended September 30,		2022
Operating Revenues		
Water revenues	$	4,865,541
Sewer revenues		3,419,698
Garbage revenues		1,078,090
Other operating revenues		388,179
Total operating revenues		9,751,508
Operating Expenses		
Water and sewer department expenses		1,179,163
Waste water plants		1,794,107
Water filters and wells		1,014,045
Garbage collection expenses		1,203,030
General and administrative expenses		1,927,641
Depreciation expense		1,780,197
Total operating expenses		8,898,183
Operating income (loss)		853,325
Nonoperating Revenues (Expenses)		
Interest income		58,898
Grant revenue		107,771
Interest expense		(852,046)
Total nonoperating revenues (expenses)		(685,377)
Change in net position		167,948
Net position, beginning of year		14,129,927
Net position, end of year	$	14,297,875

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

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

For the year ended September 30,		2022
Operating Activities		
Cash received from customers for sales and services	$	9,253,819
Cash paid to suppliers for goods and services		(5,531,473)
Cash payments to and on behalf of employees		(1,816,581)
Net cash provided by (used in) operating activities		1,905,765
Capital and Related Financing Activities		
Acquisition of capital assets		(1,496,869)
Other income (expense)		22,682
Principal paid on long-term debt		(540,000)
Interest paid on long-term debt		(1,015,094)
Net cash provided by (used in) capital and related financing activities		(3,029,281)
Investing Activities		
Proceeds from the sale of investments		851,975
Interest received		58,898
Net cash provided by (used in) investing activities		910,873
Net increase (decrease) in cash and cash equivalents		(212,643)
Cash and cash equivalents, beginning of year		6,532,192
Cash and cash equivalents, end of year	$	6,319,549

(Continued)

For the year ended September 30,		2022
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used In) Operating Activities:		
Operating income (loss)	$	853,325
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation		1,780,197
Change in assets, deferred outflows, liabilities and deferred inflows		
(Increase) decrease in assets and deferred outflows		
Accounts receivable		(225,948)
Unbilled revenue		(271,741)
Prepaid expenses		1,508
Inventories		54,897
Interfund receivable		(16,518)
Deferred outflows of resources related to pension and OPEB		(123,272)
Increase (decrease) in liabilities and deferred inflows		
Accounts payable and accrued expenses		329,108
Interfund payable		(607,639)
Customer meter deposits		2,822
Net pension liability		(312,035)
Net OPEB liability		(198,010)
Deferred inflows of resources		639,071
Total adjustments		1,052,440
Net cash provided by (used in) operating activities	$	1,905,765

City of Talladega, Alabama
Statement of Fiduciary Net Position

September 30, 2022	OPEB Trust Fund
Assets	
Cash and cash equivalents	$ 22,691
Investments, at fair value	1,171,349
Total assets	1,194,040
Liabilities	
Due to general fund	113,840
Net Position	
Restricted for OPEB benefits	$ 1,080,200

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

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

For the year ended September 30, 2022	OPEB Trust Fund
Additions	
Contributions:	
Employer	$ -
Investment income:	
Interest and dividends	30,531
Total additions	30,531
Deductions	
Net depreciation in the fair value of investments	198,586
Benefits paid	357,947
Administrative expenses	3,964
Total deductions	560,497
Change in net position	(529,966)
Net position held in trust for OPEB benefits, beginning of year	1,610,166
Net position held in trust for OPEB benefits, end of year	$ 1,080,200

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

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

September 30, 2022

	Talladega City Board of Education	Talladega Municipal Airport Board	Total
Assets			
Cash and cash equivalents	$ 5,369,174	$ 150,214	$ 5,519,388
Investments	3,178,937	1,714,366	4,893,303
Receivables	15,496	-	15,496
Due from other governments	1,765,370	38,647	1,804,017
Inventories	84,076	-	84,076
Other assets	61,334	5,879	67,213
Lease asset	-	767,081	767,081
Capital assets, net of accumulated depreciation	10,220,215	-	10,220,215
Total assets	20,694,602	2,676,187	23,370,789
Deferred Outflows of Resources			
Deferred outflows related to pension	4,151,268	-	4,151,268
Deferred outflows related to OPEB	4,104,859	-	4,104,859
Total deferred outflows of resources	8,256,127	-	8,256,127
Liabilities			
Bank overdraft	896,339	-	896,339
Accounts payable and accrued liabilities	1,857,398	23,389	1,880,787
Other liabilities	4,930	-	4,930
Non-current liabilities			
Due within one year			
Warrants and notes payable	699,366	-	699,366
Compensated absences	170,662	-	170,662
Due in more than one year			
Warrants and notes payable	1,680,873	-	1,680,873
Net pension liability	15,306,000	-	15,306,000
Net OPEB liability	9,473,817	-	9,473,817
Total liabilities	30,089,385	23,389	30,112,774
Deferred Inflows of Resources			
Deferred inflows related to leases	-	767,081	767,081
Deferred inflows related to pension	5,123,000	-	5,123,000
Deferred inflows related to OPEB	9,063,683	-	9,063,683
Total deferred inflows of resources	14,186,683	767,081	14,953,764
Net Position (Deficit)			
Net investment in capital assets	7,839,976	-	7,839,976
Restricted	2,718,973	-	2,718,973
Unrestricted (deficit)	(25,884,288)	1,885,717	(23,998,571)
Total net position (deficit)	$ (15,325,339)	$ 1,885,717	$ (13,439,622)

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

City of Talladega, Alabama
Combining Statement of Activities – Component Units

For the year ended September 30, 2022		Program Revenues		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Talladega City Board of Education				
Education	$ 24,086,974	$ 2,051,579	$ 18,756,438	$ 543,020
Talladega Municipal Airport Board				
Community Development	856,753	262,515	235,720	-
Total component units	$ 24,943,727	$ 2,314,094	$ 18,992,158	$ 543,020

General revenues
Taxes
Property taxes, levied for general purposes
Sales taxes
Alcohol beverage taxes
Other taxes
Grants not restricted to specific programs
Investment earnings
Miscellaneous
Total general revenues
Change in net position
Net position (deficit), beginning of year
Net position (deficit), end of year

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

Net (Expense) Revenue and Changes in Net Position		
Talladega City Board of Education	Talladega Municipal Airport Board	Total
$ (2,735,937)	$ -	$ (2,735,937)
-	(358,518)	(358,518)
(2,735,937)	(358,518)	(3,094,455)
2,098,445	-	2,098,445
2,042,404	-	2,042,404
70,450		70,450
27,887		27,887
150,000	-	150,000
62,510	15,632	78,142
644,567	4,426	648,993
5,096,263	20,058	5,116,321
2,360,326	(338,460)	2,021,866
(17,685,665)	2,224,177	(15,461,488)
$ (15,325,339)	$ 1,885,717	$ (13,439,622)

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

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

Blended Component Units

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

Discretely Presented Component Units

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

- Talladega City Board of Education is the City's local school system that provides educational services to citizens. It is a component unit of the City because it is reliant upon the City for tax revenue collections and for bond issues because the Talladega City Board of Education is precluded from issuing bonds directly. The audited financial information for Talladega City Board of Education is included in these financial statements.
- Talladega Municipal Airport Board provides air traffic services to the geographic area that includes the City. It is a component unit because the governing body of the Talladega Municipal Airport Board is appointed by the City Council and because of the existence of a financial benefit/burden relationship. The audited information for the Talladega Municipal Airport Board is included in these financial statements.

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

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-wide and Fund Financial Statements

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

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

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

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

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

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

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

Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and internal service funds, while business-type activities incorporate data from the City's enterprise funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the City's wastewater and sanitation services functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements

The fund financial statements provide information about the City's funds, including its fiduciary funds and blended component units. Separate statements for each fund category, including governmental, proprietary, and fiduciary, are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

Fiduciary funds are used to report assets held in a trustee or agency capacity for others that cannot be used to support the government's own programs.

The City reports the following governmental funds:

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

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

Debt Service Funds are non-major governmental funds used to account for the repayment of principal and interest on the City’s outstanding debt obligations.

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

1. Community Development Fund
2. Capital Projects Trust Fund

The Capital Projects Trust fund is considered a major fund.

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

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

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements (continued)

Proprietary funds include the following fund types:

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

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

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

During the course of operations, the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements.

Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

Budgetary Information

Budgetary Basis of Accounting

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

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Cash and Cash Equivalents

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

Receivables

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

Provisions for credit losses are charged to income in amounts sufficient to maintain the allowance at a level considered adequate to cover current losses, as deemed necessary by management. Bad debt expense was $127,205 for the year ended September 30, 2022, and the allowance for doubtful accounts was $1,008,045 at September 30, 2022.

Investments

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

Receivables and Allowance for Doubtful Accounts

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

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

Inventories and Prepaid Expenses

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

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

Restricted Assets

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

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 $150,972 at September 30, 2022. Capital improvement funds total $17,456,691 at September 30, 2022.

Capital Assets

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

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

Water and Sewer Department. Capital assets are recorded at cost when purchased or constructed. The Water and Sewer Department records water and sewer lines constructed by sub-dividers as a part of capital assets, upon completion of subdivision. Contributed assets are recorded at the estimated fair value at the date of donation. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. Interest is capitalized during the construction of assets; however, no interest was capitalized during the current year. The Water and Sewer Department capitalizes assets with a cost more than $500 and a useful life of one year or more.

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

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has three items that qualify for reporting in this category, the deferred charge on refunding, deferred outflows related to pension and deferred outflows related to OPEB. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its acquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred outflows related to pension are an aggregate of items related to the pension as calculated in accordance with GASB Codification P20: *Pension Activities – Reporting for Benefits Provided through Trusts That Meet Specified Criteria.* Deferred outflows related to OPEB result from 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 City has two items that qualify for reporting in this category, the deferred inflows related to pension and deferred inflows related to OPEB. The deferred inflows related to pension are an aggregate of items related to pension as calculated in accordance with GASB Codification P20: *Pension Activities – Reporting for Benefits Provided through Trusts That Meet Specified Criteria.* Deferred inflows related to OPEB result from differences between expected and actual experience, changes in assumptions, and the net difference between projected and actual earnings on plan investments. The deferred inflows related to pension or OPEB will be recognized as a reduction to pension or OPEB expense in future reporting years.

Compensated absences

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

Cost of Borrowing

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

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

Customer Meter Deposits

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

Long-term Liabilities

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

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

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Categories and Classification of Net Position

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

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

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

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

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

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

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

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Categories and Classification of Net Position (continued)

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

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

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

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

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

Unassigned - residual classification for the general fund (i.e. everything that is not in another classification or in another fund). It is also used to report negative fund balances in other governmental funds. In governmental funds other than the general fund, if expenditures incurred for specific purposes exceed the amounts that are restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance in that fund. As of September 30, 2022, the Community Development Capital Project Fund reported a deficit of $4,754.

The City has restricted $2,510,511 of the Capital Projects Trust Fund balance and $1,128,085 of the Other Governmental Funds fund balance.

The City has committed $881,817 of the Other Governmental Funds fund balance to maintain the City’s Cemetery.

Interfund transfers

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

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interfund transfers (continued)

The government-wide statements eliminate interfund transfers and receivables/payables as reported within the segregated governmental and business activities column. Transfers and receivables/payables between the two columns are eliminated in this statement.

Property Taxes

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

Use of Estimates

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

Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, November 9, 2026. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

Recently Issued and Implemented Accounting Pronouncements

In June 2017, the GASB issued Statement No. 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. The City adopted Statement No. 87 for the year ended September 30, 2022. The adoption of Statement No. 87 did not significantly impact the City’s financial statements.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued and Implemented Accounting Pronouncements (continued)

In June 2018, the GASB issued Statement No. 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. The City adopted Statement No. 89 for the year ended September 30, 2022. The adoption of Statement No. 89 did not significantly impact the City's financial statements.

In January 2020, the GASB issued Statement No. 92, *Omnibus 2020.* The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following:

- The effective date of Statement No. 87, *Leases,* and Implementation Guide No. 2019-3, *Leases,* for interim financial reports,
- Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan,
- The applicability of Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68,* as amended, and No. 74, *Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans,* as amended, to reporting assets accumulated for postemployment benefits,
- The applicability of certain requirements of Statement No. 84, *Fiduciary Activities,* to postemployment benefit arrangements,
- Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition,
- Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers,
- Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature, and
- Terminology used to refer to derivative instruments.

The City adopted GASB 92 for the year ended September 30, 2022, and GASB 92 did not have a significant impact on the financial statements.

In May 2020, the GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The objectives of this Statement are to address financial reporting issues that result from the replacement of an Interbank Offered Rate (IBOR) by providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment and clarification of the hedge accounting termination provisions when a hedged item is amended to replace the reference rate; replacing LIBOR as an appropriate benchmark interest rate for the evaluation of the effectiveness of an interest rate swap with a Secured Overnight Financing Rate or the Effective Federal Funds Rate; and providing exceptions to the lease modifications guidance in Statement 87 for lease contracts that are amended solely to replace an IBOR used to determine variable payments.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued and Implemented Accounting Pronouncements (continued)

The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2022. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021. The City adopted GASB 93 for the year ended September 30, 2022, and GASB 93 did not have a significant impact on the financial statements.

In June 2020, the GASB issued GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. 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 OPEB plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit 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 (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. The City adopted GASB 97 for the year ended September 30, 2022, and GASB 97 did not have a significant impact on the financial statements.

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

In May 2019, the GASB issued Statement No. 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, (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 March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued and Implemented Accounting Pronouncements (continued)

or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the City 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. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022.

In May 2020, the GASB issued GASB Statement No. 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. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Assets and liabilities resulting from SBITAs should be recognized and measured using the facts and circumstances that existed at the beginning of the fiscal year in which this Statement is implemented.

Governments are permitted, but are not required, to include in the measurement of the subscription asset capitalizable outlays associated with the initial implementation stage and the operation and additional implementation stage incurred prior to the implementation of this Statement.

In October 2021, the GASB issued GASB Statement No. 98, *The Annual Comprehensive Financial Report.* This Statement establishes the term *annual comprehensive financial report* and its acronym *ACFR.* That new term and acronym replace instances of *comprehensive annual financial report* and its acronym in GAAP for state and local governments. This Statement was developed in response to concerns raised by stakeholders that the common pronunciation of the acronym for comprehensive annual financial report sounds like a profoundly objectionable racial slur. This Statement's introduction of the new term is founded on a commitment to promoting inclusiveness. The requirements of this Statement are effective for fiscal years ending after December 15, 2021.

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. This Statement seeks to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued and Implemented Accounting Pronouncements (continued)

The practice issues addressed by this Statement are as follows:

- Classification and reporting of derivative instruments within the scope of Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument.
- Clarification of provisions in Statement No. 87, *Leases*, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives.
- Clarification of provisions in Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to the determination of the PPP term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset.
- Clarification of provisions in Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the SBITA term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability.
- Extension of the period during which the LIBOR is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt.
- Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP).
- Disclosures related to nonmonetary transactions.
- Pledges of future revenues when resources are not received by the pledging government.
- Clarification of provisions in Statement No. 34, *Basic Financial Statements— and Management's Discussion and Analysis—for State and Local Governments*, as amended, related to the focus of the government-wide financial statements.
- Terminology updates related to certain provisions of Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.
- Terminology used in Statement No. 53 to refer to resource flows statements.

The requirements of this Statement are effective as follows:

- The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement No. 34, as amended, and terminology updates related to Statement No. 53 and Statement No. 63 are effective upon issuance.
- The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement No. 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections* (GASB 100). GASB 100 prescribes accounting and financial reporting for (1) each category of accounting change and (2) error corrections. GASB 100 also addresses how accounting changes and error corrections should be displayed in financial statements, disclosed in notes, and presented in required supplementary information and supplementary information. The requirements of GASB 100 are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Pronouncements (continued)

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

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

Note 2: DETAILED NOTES

Deposits and Investments

As of September 30, 2022, the City's deposits were entirely covered by federal depository insurance (FDIC) or by the Security for Alabama Funds Enhancement ("SAFE") Program.

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

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

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

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).

Note 2: DETAILED NOTES (Continued)

Deposits and Investments (continued)

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

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

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

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

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

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

In addition to a long-term certificate of deposit held by the General Fund, the City uses investments to maintain the Oak Hill Cemetery and the Armstrong-Osborne Public Library. As of September 30, 2022, the value of the investments held in the General Fund, the Cemetery Trust Fund and the Library Fund are $282,382, $719,878 and $46,934, respectively.

The following table sets forth by level, within the fair value hierarchy, the City's assets at fair value as of September 30, 2022:

Governmental Activities:

		Fair Value Measurements		
Investment type	Fair Value	Level 1	Level 2	Level 3
Certificate of deposit	$ 282,382	$ 282,382	$ -	$ -
Common Stock	232,465	232,465	-	-
Mutual Funds	46,934	46,934	-	-
Corporate Bonds	487,413	487,413	-	-
Total investments	$ 1,049,194	$ 1,049,194	$ -	$ -

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at September 30, 2022.

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

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

Note 2: DETAILED NOTES (Continued)

Deposits and Investments (continued)

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

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

The following schedule displays the investments held in governmental funds as of September 30, 2022 and their maturities:

		Maturities (in years)			
September 30, 2022	Fair Value	Less than 1 year	1 to 5 years	More than 5	Percentage
Investment type:					
Corporate bonds	$ 487,413	32,662	265,200	189,551	46%
Certificate of deposit	282,382	-	282,382	-	27%
Common Stock	232,465	232,465	-	-	22%
Mutual Funds	46,934	46,934	-	-	5%
Total investments	$ 1,049,194	$ 312,061	$ 547,582	$ 189,551	100%

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

Business-type Activities:

The Water and Sewer Department has investments that are classified as restricted assets that consist of monies held in trust by Regions Bank to cover debt indenture expenses and repayment of warrants. At September 30, 2022, the monies held in trust were $17,607,663. The following schedule displays the restricted assets held by the Department as of September 30, 2022, and their fair value measurements:

		Fair Value Measurements		
Investment type	Fair Value	Level 1	Level 2	Level 3
Money Market Treasury Portfolio	$ 17,607,663	$ 17,607,663	$ -	$ -

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at September 30, 2022.

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

Note 2: DETAILED NOTES (Continued)

Deposits and Investments (continued)

In fiscal year 2015, the City established an irrevocable trust to be used to accumulate and invest assets to pay for the accumulated liability for post-employment healthcare benefits. The following schedule displays the investments held within the irrevocable trust as of September 30, 2022, and their fair value measurements:

Fiduciary Fund:

		Fair Value Measurements		
Investment type	Fair Value	Level 1	Level 2	Level 3
Certificate of deposit	$ 161,097	$ 161,097	$ -	$ -
Mutual funds	1,010,252	1,010,252	-	-
Total investments	$ 1,171,349	$ 1,171,349	$ -	$ -

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at September 30, 2022.

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

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

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

Accounts Receivable

Governmental activities receivables at September 30, 2022:

September 30,	2022
Taxes receivable	$ 1,131,778
Restitution receivable	7,584
Other receivables	25,201
Accounts receivable, net	$ 1,164,563

Note 2: DETAILED NOTES (Continued)

Accounts Receivable (continued)

Water and Sewer Department receivables at September 30, 2022:

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, 2022 (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, 2022, were as follows:

September 30,	2022
Accounts receivable	$ 2,011,023
Grants receivable	597,050
Less: allowance for doubtful accounts	(1,008,045)
Accounts receivable, net	$ 1,600,028

Unbilled revenues receivable, not included in accounts receivable in the table above, at September 30, 2022 was $1,473,062.

Capital Assets

The following is a summary of changes in capital assets during the year ended September 30, 2022:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land and improvements	$ 3,849,954	$ -	$ -	$ 3,849,954
Construction progress	13,567	274,280	(200,957)	86,890
Capital assets, not being depreciated	$ 3,863,521	$ 274,280	$ (200,957)	$ 3,936,844
Capital assets, being depreciated:				
Building and improvements	$ 14,773,929	$ 187,388	$ -	$ 14,961,317
Infrastructure	43,767,550	-	-	43,767,550
Machinery and equipment	8,102,028	330,644	-	8,432,672
Capital assets, being depreciated	66,643,507	518,032	-	67,161,539
Less accumulated depreciation for:				
Building and improvements	10,134,776	339,578	-	10,474,354
Infrastructure	38,685,402	153,254	-	38,838,656
Machinery and equipment	5,725,985	602,165	-	6,328,150
Total accumulated depreciation	54,546,163	1,094,997	-	55,641,160
Total capital assets, being depreciated, net	$ 12,097,344	$ (576,965)	$ -	$ 11,520,379

Note 2: DETAILED NOTES (Continued)

Capital Assets (continued)

Depreciation expense was charged to governmental functions as follows:

General government administration	$ 293,003
Public safety	451,878
Public works	260,504
Parks and recreation	89,612
Total depreciation expense	$ 1,094,997

The following is a summary of changes in capital assets for the Water and Sewer Department during the year ended September 30, 2022:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	$ 279,326	$ -	$ -	$ 279,326
Construction progress	699,602	1,430,871	(733,500)	1,396,973
Capital assets, not being depreciated	$ 978,928	$ 1,430,871	$ (733,500)	$ 1,676,299
Capital assets, being depreciated:				
Land improvements	$ 1,458,541	$ -	$ -	$ 1,458,541
Building and improvements	49,334,355	733,500	-	50,067,855
Machinery and equipment	6,077,083	65,998	-	6,143,081
Capital assets, being depreciated	56,869,979	799,498	-	57,669,477
Less accumulated depreciation for:				
Land improvements	115,492	59,369	-	174,861
Building and improvements	26,138,107	1,349,354	-	27,487,461
Machinery and equipment	4,361,658	371,474	-	4,733,132
Total accumulated depreciation	30,615,257	1,780,197	-	32,395,454
Total capital assets, being depreciated, net	$ 26,254,722	$ (980,699)	$ -	$ 25,274,023

Depreciation expense for the year ended September 30, 2022 was $1,780,197.

Note 2: DETAILED NOTES (Continued)

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities for governmental activities at September 30, 2022 consisted of the following:

September 30,	2022
Accounts payable	$ 749,654
Payroll liabilities	687,826
Other liabilities	41,636
Total	$ 1,479,116

Accounts payable and accrued liabilities for the Water and Sewer Department consisted of the following at September 30, 2022:

September 30,	2022
Accounts payable	$ 579,791
Payroll liabilities	375,485
Accrued interest payable	84,124
Total	$ 1,039,400

Interfund Transfers

Interfund transfers among governmental funds for the year ended September 30, 2022 were:

	Transfers In	Transfers Out
General fund		
Other nonmajor funds	$ -	$ 1,373,530
Capital projects funds	-	1,844,795
Total general fund	-	3,218,325
Capital projects trust fund		
Other nonmajor funds	146,879	232,950
General fund	1,844,795	-
Total capital projects trust fund	1,991,674	232,950
Other nonmajor funds		
General fund	1,373,530	-
Capital projects	-	146,879
Other nonmajor funds	232,950	-
Total nonmajor funds	1,606,480	146,879
Total governmental fund interfund transfers	$ 3,598,154	$ 3,598,154

Note 2: DETAILED NOTES (Continued)

Interfund Transfers (continued)

Transfers are primarily used to move funds from:

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

Interfund Receivables and Payables

Generally, outstanding balances between funds reported as "interfund receivables/payables" include subsidy commitments outstanding at year-end and other miscellaneous receivables/ payables between funds. Interfund receivables and payables at September 30, 2022:

	Interfund Receivable	Interfund Payable
General fund		
Water and Sewer Department	$ -	$ 16,518
Capital projects trust fund	576,595	-
Other governmental funds	201,328	79,078
Fiduciary Fund	113,840	-
Capital projects trust fund		
General fund	-	576,595
Other governmental funds		
General fund	79,078	201,328
Water and Sewer Department		
General fund	16,518	-
Total interfund receivable/payable	$ 987,359	$ 873,519

Note 2: DETAILED NOTES (Continued)

Long-Term Debt and Liabilities

Governmental Activities

General obligation warrants provide funds for the acquisition and construction of major capital projects. The general and limited obligation warrants of the City include the following at September 30, 2022:

$2,760,000; 2015 Series General Obligation Warrants; due at rates ranging from 2.00% to 4.00% per annum; maturing August 1, 2033.	$	2,180,000
$3,120,000; 2017-A Series General Obligation Warrants; due at rates 1.50% to 3.00% per annum; maturing August 1, 2027.		1,655,000
$1,320,000; 2017-B Series General Obligation Warrants; due at rates ranging from 2.00% to 3.00% per annum; maturing August 1, 2027.		700,000
$660,000; General Obligation Warrant; due at a rate 3.75% per annum; maturing February 1, 2023.		451,800
		4,986,800
Unamortized premium, 2015 Series General Obligation Warrants		92,695
Unamortized premium, 2017-A Series General Obligation Warrants		75,959
Unamortized premium, 2017-B Series General Obligation Warrants		28,779
		197,433
Total warrants payable	$	5,184,233

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

Year ending September 30,	Principal	Interest	Total
2023	$ 835,487	$ 161,305	$ 996,792
2024	861,313	135,955	997,268
2025	650,000	108,362	758,362
2026	670,000	88,412	758,412
2027	685,000	67,850	752,850
2028 – 2032	1,050,000	164,650	1,214,650
2033	235,000	9,400	244,400
Total	$ 4,986,800	$ 735,934	$ 5,722,734

Note 2: DETAILED NOTES (Continued)

Long-Term Debt and Liabilities (continued)

Series 2015 Warrants

Due to favorable interest rates during fiscal year 2015, $2,920,111, including premium, of Series 2015 General Obligation Warrants were issued to refund $2,510,000 of the City's previously issued and outstanding Series 2008 General Obligation Warrants. The proceeds were deposited with an escrow agent to provide for all future debt service on the refunded portion of the Series 2008 warrants. As a result, that portion of the Series 2008 warrants is considered defeased, and the City has removed the liability from its accounts. As of September 30, 2022, the outstanding principal of the defeased warrants were fully paid.

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

Series 2017-A Warrants

In 2017, the City issued $3,284,833, including premium, of Series 2017-A General Obligation Warrants to refund $3,145,695 of the City's previously issued and outstanding Series 2007 General Obligation Warrants. The proceeds were deposited with an escrow agent to provide for all future debt service on the refunded Series 2007 warrants. As a result, the Series 2007 warrants are considered defeased, and the City has removed the liability from its accounts. As of September 30, 2022, the outstanding principal of the defeased warrants were fully paid.

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

Series 2017-B Warrants

Also in 2017, the City issued $1,378,093, including premium, of Series 2017-B General Obligation Warrants to refund $1,280,000 of the City's previously issued and outstanding 2008 Industrial Development Authority (IDA) revenue bond. The proceeds were deposited with an escrow agent to provide for all future debt service on the refunded 2008 revenue bond. As a result, the 2008 revenue bond is considered defeased, and the City has removed the liability from its accounts. As of September 30, 2022, the outstanding principal of the defeased revenue bond is $700,000.

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

Interest paid on long-term debt was $197,631 for the year ended September 30, 2022.

Capital Leases Payable

The City has entered into capital leases for various amounts with terms up to 10 years. The lease purchase value of the equipment totals $1,339,521. These assets have been added to the capital asset list and have been fully depreciated. Future minimum lease payments under these capital leases at September 30, 2022 are as follows:

Note 2: DETAILED NOTES (Continued)

Long-Term Debt and Liabilities (continued)

Capital Leases Payable (continued)

Year ending September 30,	Present Value of Minimum Lease Payments	Interest	Total Lease Payments
2023	$ 85,933	$ 5,790	$ 91,723
2024	89,521	4,202	93,723
2025	76,422	2,519	78,941
2026	46,167	902	47,069
Total	$ 298,043	$ 13,413	$ 311,456

Long-term liability for the governmental activities of the City for the year ended September 30, 2022, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Warrants payable	$ 6,018,152	$ -	$ (833,919)	$ 5,184,233	$ 835,487
Capital leases - direct borrowings	375,825	-	(77,782)	298,043	85,933
Compensated absences	344,993	-	-	344,993	-
Total	$ 6,738,970	$ -	$ (911,701)	$ 5,827,269	$ 921,420

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

The defeasance of Series 2008 revenue warrants resulted in a difference of $336,677 between the reacquisition price and the net carrying amount of the old debt. This difference is amortized through 2033 and is reported in the accompanying financial statements as a deferred outflow of resources. The unamortized portion at September 30, 2022 was $197,954.

The defeasance of Series 2007 revenue warrants resulted in a difference of $64,355 between the reacquisition price and the net carrying amount of the old debt. This difference is amortized through 2027 and is reported in the accompanying financial statements as a deferred outflow of resources. The unamortized portion at September 30, 2022 was $32,178.

The defeasance of 2008 IDA revenue bonds resulted in a difference of $49,428 between the reacquisition price and the net carrying amount of the old debt. This difference is amortized through 2027 and is reported in the accompanying financial statements as a deferred outflow of resources. The unamortized portion at September 30, 2022 was $24,717.

Note 2: DETAILED NOTES (Continued)

Long-Term Debt and Liabilities (continued)

Business-Type Activities

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

Series 2010 Warrants

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

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

The Series 2010 warrants are limited obligation warrants of the Water and Sewer Department, payable solely out of revenues of the system. Cash in the amount of $7,162,734 was deposited with an escrow agent pursuant to an escrow agreement. The maturities of these securities and related earnings thereon are expected to provide sufficient cash flow to meet the debt service requirements of the defeased Series 2003 and Series 2004 Bonds as they mature. This transaction effectively released the City from its obligation to repay the defeased Series 2003 and Series 2004 Bonds and constitutes an in-substance defeasance. Accordingly, the escrow account assets and the liability for the defeased bonds are not included in the City's financial statements. The Series 2010 warrants were refunded by the issuance of the Series 2021 warrants.

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 to make improvements to the system, to fund a debt service reserve fund for the benefit of the Series 2015 Warrants, and to pay expenses for issuing the warrants. The Series 2015 warrants were refunded by the issuance of the Series 2021 warrants.

Series 2021-A and 2021-B Warrants

On September 1, 2021, the Water and Sewer Department issued the Series 2021-A revenue warrants totaling $28,130,000 with an interest rate of 4.00% and the Series 2021-B revenue warrants totaling $5,240,000 with various interest rates from 0.45% through 1.87%. 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.

Note 2: DETAILED NOTES (Continued)

Long-Term Debt and Liabilities (continued)

Series 2021-A and 2021-B Warrants (continued)

3) To fund a debt service reserve fund for the benefit of the Series 2021 Warrants.

4) To pay expenses for issuing the warrants.

Cash in the amount of $19,288,582 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 2010 and Series 2015 Bonds as they mature. This transaction effectively released the City from its obligation to repay the defeased Series 2010 and Series 2015 Bonds and constitutes an in-substance defeasance. Accordingly, the escrow account assets and the liability for the defeased bonds are not included in the financial statements of the Water and Sewer department.

The Series 2021-A warrants are limited obligation warrants of the Water and Sewer Department, payable solely out of the revenues of the system.

Year ending September 30,	Principal	Interest	Total
2023	$ -	$ 973,950	$ 973,950
2024	-	973,950	973,950
2025	-	973,950	973,950
2026	-	973,950	973,950
2027	-	973,950	973,950
2028 – 2032	3,195,000	4,694,550	7,889,550
2033 – 2037	5,025,000	3,844,750	8,869,750
2038 – 2042	6,105,000	2,756,950	8,861,950
2043 – 2047	7,215,000	1,650,600	8,865,600
2048 – 2051	6,590,000	501,450	7,091,450
Total	$ 28,130,000	$ 18,318,050	$ 46,448,050

The Series 2021-B warrants are limited obligation warrants of the Water and Sewer Department, payable solely out of the revenues of the system.

Year ending September 30,	Principal	Interest	Total
2023	$ 710,000	$ 55,919	$ 765,919
2024	750,000	52,014	802,014
2025	755,000	45,639	800,639
2026	760,000	37,334	797,334
2027	770,000	27,682	797,682
2028 – 2029	955,000	19,311	974,311
Total	$ 4,700,000	$ 237,899	$ 4,937,899

Note 2: DETAILED NOTES (Continued)

Long-Term Debt and Liabilities (continued)

Series 2021-A and 2021-B Warrants (continued)

Long-term liability for the Water and Sewer Department of the City for the year ended September 30, 2022, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
2021-A Warrants	$ 28,130,000	$ -	$ -	$ 28,130,000	$ -
2021-B Warrants	5,240,000	-	(540,000)	4,700,000	710,000
Premium	3,695,951	-	(185,570)	3,510,381	-
Compensated absences	97,234	-	-	97,234	-
Customer meter deposits	227,964	2,822	-	230,786	-
Total	$ 37,391,149	$ 2,822	$ (725,570)	$ 36,668,401	$ 710,000

The Water and Sewer Department is required to maintain certain financial ratios relating to debt service coverage. At September 30, 2022, the City was in compliance with the provisions of the Department's 2022 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 2010 and 2015 revenue bonds resulted in a difference of $133,829 between the reacquisition price and the net carrying amount of the old debt. This difference is amortized through 2040 and is reported in the accompanying financial statements as a deferred outflow of resources. The unamortized portion of the deferred charges at September 30, 2022 was $109,429.

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 2021 warrants. This debt is not a general obligation of the City. Remaining proceeds from the 2021 warrants after refunding the 2010 and 2015 warrants will be used to upgrade the utility systems. The total principal and interest remaining to be paid on the 2021 warrants is $51,385,949, at September 30, 2022. Total principal and interest paid for the 2010, 2015 and 2021 warrants and net operating income (loss) for the year ended September 30, 2022 were $1,577,617 and $853,325, respectively.

Note 2: DETAILED NOTES (Continued)

Long-Term Debt and Liabilities (continued)

Net Investment in Capital Assets

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

Capital assets (net)	$ 15,457,223
Outstanding debt related to capital assets	(5,482,276)
Outstanding deferred charge on refunding	254,849
Net investment in capital assets	$ 10,229,796

The elements of this calculation for the Water and Sewer Department are as follows:

Capital assets (net)	$ 26,950,322
Unspent debt proceeds	17,453,670
Outstanding debt related to capital assets	(36,340,381)
Outstanding deferred charge on refunding	109,429
Net investment in capital assets	$ 8,173,040

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. Effective October 1, 2021, Act 390 of the Legislature of 2021 will create two additional representatives and change the composure of representatives within the ERS Board of Control. The Plan is administered by the Retirement Systems of Alabama ("RSA"). 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.

Note 3: RETIREMENT PLAN (Continued)

The ERS Board of Control consists of 15 trustees as follows:

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

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.

Employers participating in the ERS pursuant to *Code of Alabama 1975, Section 36-27-6* were not required by statute to increase covered member contribution rates but were provided the opportunity to do so through Act 2011-676. By adopting Act 2011-676 Tier 1 regular members

Note 3: RETIREMENT PLAN (Continued)

Funding Requirements (continued)

contribution rates increased from 5% to 7.5% of earnable compensation and Tier 1 firefighters and law enforcement officers increased from 6% to 8.5% of earnable compensation.

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

The ERS establishes rates based upon an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with additional amounts to finance any unfunded accrued liability, the pre-retirement death benefit and administrative expenses of the Plan. For the year ended September 30, 2022, the City's active employee contribution rate was 5% of covered employee payroll for normal Tier 1 employees and 7.5% of covered employee payroll for normal Tier 2 employees, and the City's average contribution rate to fund the normal and accrued liability costs was 11.33% of pensionable payroll for Tier 1 employees and 9.29% for Tier 2 employees.

The City's contractually required contribution rate for the year ended September 30, 2022 was 11.70% of pensionable pay for Tier 1 employees, and 9.66% of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation as of September 30, 2019, a percent of annual pensionable payroll, and actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan were $836,600 for the year ended September 30, 2022, and $158,954 (19%) 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

Note 3: RETIREMENT PLAN (Continued)

Plan Membership and Benefits (continued)

Police) are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service. State Police are allowed 2.375% for each year of State Police service in computing the formula method.

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

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

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

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

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

Note 3: RETIREMENT PLAN (Continued)

Net Pension Liability, Significant Assumptions, and Discount Rate

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

	Expected	Actual Before Act 2019-132	Actual After Act 2019-132	Actual After 2020 Experience Study
(a) TPL as of September 30, 2020	$ 31,241,816	$ 31,846,870	$ 31,846,870	$ 33,007,536
(b) Discount Rate	7.70%	7.70%	7.70%	7.45%
(c) Entry Age Normal Cost for the period October 1, 2020 – September 30, 2021	741,110	741,110	741,110	817,102
(d) Transfers Among Employers	-	(135,739)	(135,739)	(135,739)
(e) Actual Benefit Payments and Refunds for the period October 1, 2020 – September 30, 2021	(2,027,393)	(2,027,393)	(2,027,393)	(2,027,393)
(f) TPL as of September 30, 2021 [(a) x (1+(b))] + (c) + (d) + [(e) x (1 + 0.5*(b))]	$ 32,283,098	$ 32,799,002	$ 32,799,002	$ 34,045,047
(g) Difference between Expected and Actual		$ 515,904		
(h) Less Liability Transferred for Immediate Recognition		(135,739)		
(i) Experience (Gain)/Loss = (g) - (h)		$ 651,643		
(j) Difference between Actual TPL Before and After Act 2019-132 - Benefit Change (Gain)/Loss			$ -	
(k) Difference between Actual TPL Before and After 2020 Experience Study - Assumption Change (Gain)/Loss				$ 1,246,045

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

Inflation	2.50%
Projected salary increases	3.25% - 6.00% for State and Local Employees and 4.00% - 7.75% for State Police, including inflation
Investment rate of return (net of pension plan investment expense)	7.45%

Note 3: RETIREMENT PLAN (Continued)

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

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

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

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

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of geometric real rates of return for each major asset class are as follows:

	Target Allocation	Long-Term Expected Rate of Return *
Fixed Income	15.00%	2.80%
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%	9.00%
Real Estate	10.00%	6.50%
Cash	5.00%	1.50%
Total	100.00%	

* Includes assumed rate of Inflation of 2.00%

Note 3: RETIREMENT PLAN (Continued)

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

The discount rate used to measure the total pension liability was the long-term rate of return, 7.45%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that 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.

For the year ended September 30, 2022, the City recognized pension expense of $1,040,704, $197,734 of which was related to Water and Sewer Department employees. At September 30, 2022, 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	$ 1,156,477	$ 158,495
Changes of assumptions	1,156,115	-
Net difference between projected and actual earnings on plan investments	-	1,838,585
Employer contributions subsequent to the measurement date	836,600	-
Total	$ 3,149,192	$ 1,997,080

$836,600 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

For Year Ending September 30,	
2023	$ 171,089
2024	173,114
2025	(15,701)
2026	(216,313)
2027	203,323
Thereafter	-
Total	$ 315,512

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 19%, or $634,524 of the above deferred outflows of resources and $384,275 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, 2020	$ 31,241,816	$ 21,654,234	$ 9,587,582
Changes for the year:			
Service cost	741,110	-	741,110
Interest	2,327,565	-	2,327,565
Changes of benefit terms	1,246,045	-	1,246,045
Difference between expected and actual experience	651,643	-	651,643
Contributions – employer	-	798,634	(798,634)
Contributions – employee	-	497,489	(497,489)
Net investment income	-	4,712,391	(4,712,391)
Benefit payments, including refunds of employee contributions	(2,027,393)	(2,027,393)	-
Transfers among employers	(135,739)	(135,739)	-
Net changes	2,803,231	3,845,382	(1,042,151)
Balances at September 30, 2021	$ 34,045,047	$ 25,499,616	$ 8,545,431

The above net pension liability is shared between the City's general fund and Water and Sewer Department. The City has allocated 21% or $1,886,646 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 7.45%, 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 (6.45%) or 1-percentage point higher (8.45%) than the current rate:

Note 3: RETIREMENT PLAN (Continued)

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

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
City's Net Pension Liability	$ 12,571,467	$ 8,545,431	$ 5,160,593

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

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.

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.

Note 4: OTHER POST-EMPLOYMENT BENEFITS (Continued)

Plan Membership and Benefits

At September 30, 2022, the OPEB Plan's membership consisted of 159 active employees receiving benefits and 20 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.

The components of the City's OPEB liability as of September 30, 2022 were as follows:

Total OPEB liability	$	4,110,335
Plan fiduciary net position		1,194,041
Net OPEB liability (asset)	$	2,916,294
Plan fiduciary net position as a percentage of the total OPEB liability		29.05%

The above net OPEB liability is shared between the City and the Water and Sewer Department. The City has allocated 21%, or $612,422, 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, 2022 based on an actuarial valuation as of October 1, 2021, rolled forward to September 30, 2022 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	2.15%, beginning of year
	4.02%, end of year

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

Note 4: OTHER POST-EMPLOYMENT BENEFITS (Continued)

Net OPEB Liability, Significant Assumptions, and Discount Rate

Asset Class	Long-term Expected Real Rate of Return
Domestic Equity	6%
Certificates of Deposit	1%
Corporate Bonds	3%
Agency Bonds	2%

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, 2022, the City's investments are weighted as follows:

Asset Class	Allocation
Domestic Equity	85%
Certificates of Deposit	13%
Cash	2%

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 2022, 22.37%; First Trust 40/60 Strategic Allocation 2nd Quarter 2022, 36%; and First Trust 60/40 Strategic Allocation 3rd Quarter 2022, 26.24%.

For the year ended September 30, 2022, the annual money-weighted rate of return on investments, net of investment expense was 2.00%. 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 4.02%, which is the value of the Bond Buyer's 20 year general obligation municipal bond index as of September 30, 2022.

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

For the year ended September 30, 2022, the City recognized OPEB expense of $35,025, 21% or $7,355 of which was allocated to the Water and Sewer Department. At September 30, 2022, the City reported deferred outflows and inflows of resources related to OPEB from the following sources:

Note 4: OTHER POST-EMPLOYMENT BENEFITS (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between projected and actual earnings on OPEB investments	$ 363,946	$ 75,501
Differences between expected and actual experience	413,115	1,044,874
Changes in assumption	613,837	686,411
Total	$ 1,390,898	$ 1,806,786

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 $292,089 in deferred outflows and $379,425 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,	
2023	$ (35,448)
2024	(36,008)
2025	(39,008)
2026	(13,840)
2027	(214,283)
Thereafter	(77,301)
Total	$ (415,888)

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, 2021	$ 6,012,343	$ 1,610,166	$ 4,402,177
Changes for the year			
Service cost	68,406	-	68,406
Interest cost at 2.15%	126,641	-	126,641
Difference between expected and actual experience	(1,212,535)	-	(1,212,535)
Employer contributions	-	-	-
Net investment income	-	(412,161)	412,161
Changes of assumptions	(640,413)	-	(640,413)
Benefit payments			
a. From trust	-	-	-
b. Direct	(244,107)	-	(244,107)
Administrative expenses			
a. From trust	-	(3,964)	3,964
b. Direct	-	-	-
Net changes	(1,902,008)	(416,125)	(1,485,883)
Balance at September 30, 2022	$ 4,110,335	$ 1,194,041	$ 2,916,294

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 (3.02%) or 1-percentage-point higher (5.02%) than the current discount rate:

	1% Decrease (3.02%)	Current Discount Rate (4.02%)	1% Increase (5.02%)
City's Net OPEB Liability	$ 3,642,261	$ 2,916,294	$ 2,310,380

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	$ 2,296,129	$ 2,916,294	$ 3,655,599

Note 5: RISK MANAGEMENT

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

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

The commercial insurance carried is a claims incurred policy for which the City is covered for claims originating against the City during the policy period. The amount of coverage is dependent on the date of the liability-imposing event. The City has maintained continuous coverage and does not believe it has any exposure to events which occurred prior to the year ended September 30, 2022.

Note 6: COMMITMENTS AND CONTINGENCIES

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

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

The City has two active construction projects as of September 30, 2022 and has incurred total costs of $86,890 on these projects. This project is funded by local funds.

Note 6: COMMITMENTS AND CONTINGENCIES (Continued)

The Water and Sewer Department has several active construction projects as of September 30, 2022 and has incurred total costs of $1,396,973 on these projects. These projects are funded by federal grant and local funds. Construction projects in progress at September 30, 2022 have current budgeted project costs totaling $3,749,686.

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: TAX ABATEMENTS

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

Note 7: TAX ABATEMENTS (Continued)

Nature of Incentive	Type of Tax	% of City Taxes Abated	Amount Abated in FYE September 30, 2022	Expiration of Incentive	Maximum Incentive Amount
Business development	Business licenses [1]	100%	$ -	3 years	None
	Construction-related transaction taxes	100%	-	None	None
	Noneducational ad valorem tax	100%	-	10 years, to begin on October 1st following the date each property becomes owned by the Company	None

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

REQUIRED SUPPLEMENTARY INFORMATION

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

For the year ended September 30, 2022	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Taxes				
Sales and use tax	$ 10,200,000	$ 10,200,000	$ 11,252,859	$ 1,052,859
Rental tax	235,000	235,000	194,234	(40,766)
Lodging tax	183,000	183,000	214,682	31,682
Automobile sales tax	124,000	124,000	131,243	7,243
Wholesale gasoline tax	202,000	202,000	128,217	(73,783)
Motor vehicle license tax	4,400	4,400	4,581	181
Alcoholic beverage tax	34,000	34,000	27,161	(6,839)
Beer tax	93,000	93,000	99,760	6,760
Wine tax	14,500	14,500	4,903	(9,597)
Liquor tax - ABC profit	5,200	5,200	14,551	9,351
Cigarette tax	470,000	470,000	416,408	(53,592)
Alabama gas franchise tax	46,500	46,500	53,611	7,111
Charter cable franchise tax	195,700	195,700	156,611	(39,089)
10 mil property tax	1,236,000	1,236,000	1,391,312	155,312
M2 connections franchise tax	-	-	717	717
Republic franchise	30,000	30,000	-	(30,000)
Excise tax on financial institutions	200,000	200,000	447,017	247,017
County business privilege tax	32,000	32,000	32,268	268
Total taxes	13,305,300	13,305,300	14,570,135	1,264,835
Licenses				
Business license	2,418,300	2,418,300	2,332,646	(85,654)
Alcohol license	100	100	50	(50)
Automobile license	37,000	37,000	47,793	10,793
Chauffeur license	60	60	20	(40)
Total licenses	2,455,460	2,455,460	2,380,509	(74,951)
Permits				
Building permits	39,000	39,000	28,994	(10,006)
Yard sale permits	100	100	96	(4)
Total permits	39,100	39,100	29,090	(10,010)

(Continued)

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

For the year ended September 30, 2022	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues (continued)				
Fees				
Motor vehicle registration fees	$ 180	$ 180	$ 298	$ 118
Recycling fee revenue	17,510	17,510	25,914	8,404
Zoning fees	1,545	1,545	3,000	1,455
Total fees	19,235	19,235	29,212	9,977
Police department				
Impound fees	7,210	7,210	8,400	1,190
Sex offender registration	927	927	1,024	97
Accident reports	1,751	1,751	610	(1,141)
Animal control reimbursement	90,640	90,640	6,600	(84,040)
I&O reports	257	257	150	(107)
Total police department	100,785	100,785	16,784	(84,001)
Corrections				
Bail bond fees	721	721	7,406	6,685
Donations				
Donations to animal control	5,150	5,150	2,110	(3,040)
Other donations	43,400	43,400	42,885	(515)
Total donations	48,550	48,550	44,995	(3,555)
Recreation department				
Recreation Center	77,250	77,250	98,764	21,514
Refunds - Recreation Center	2,000	2,000	(4,014)	(6,014)
Total recreation department	79,250	79,250	94,750	15,500

(Continued)

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

For the year ended September 30, 2022	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues (continued)				
Municipal airport				
Gasoline Sales	$ 250,899	$ 418,970	$ 482,110	$ 63,140
Rental revenue	43,286	40,814	114,085	73,271
Reimbursements	58,908	58,908	-	(58,908)
Other revenue	26,310	26,310	62,877	36,567
Total municipal airport	379,403	545,002	659,072	114,070
Miscellaneous				
Senior citizens grant	6,695	6,695	3,383	(3,312)
Transportation grant	30,900	30,900	103,260	72,360
Transportation farebox	5,665	5,665	7,989	2,324
Children's summer nutrition grant	133,900	133,900	102,862	(31,038)
ARPA grant	-	3,600,000	842,222	(2,757,778)
Weed abatement assessments	18,025	18,025	48,045	30,020
Condemnation revenue	24,000	24,000	-	(24,000)
EMS grant	-	-	48,356	48,356
Water detention review	515	515	-	(515)
Vending machine	200	200	451	251
Rental revenue	17,000	17,000	26,138	9,138
City property lease revenue	17,000	17,000	12,000	(5,000)
Insurance reimbursements	2,060	2,060	21,196	19,136
Reimbursements	103,000	103,000	-	(103,000)
Interest revenue	25,779	25,779	11,044	(14,735)
Cell tower application fee	2,100	2,100	2,000	(100)
Other revenue	56,650	56,650	234,988	178,338
Total miscellaneous	443,489	4,043,489	1,463,934	(2,579,555)
Total revenues	$ 16,871,293	$ 20,636,892	$ 19,295,887	$ (1,341,005)

(Continued)

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

For the year ended September 30, 2022	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Expenditures				
City Council	$ 71,041	$ 71,041	$ 67,108	$ 3,933
City Manager's office	530,907	1,628,252	890,300	737,952
Finance department	430,596	429,646	396,081	33,565
City Clerk's office	357,182	357,182	344,341	12,841
Human resources	172,968	172,968	143,913	29,055
Purchasing and safety	195,624	195,624	142,170	53,454
Police department	4,338,250	4,338,250	4,154,524	183,726
Animal control	245,268	245,268	226,296	18,972
Fire department	2,861,559	2,861,559	2,664,998	196,561
Public works department	1,249,459	1,249,459	1,235,061	14,398
Municipal airport	530,074	530,074	621,024	(90,950)
Community appearance	1,008,057	1,008,057	1,095,362	(87,305)
Parks and recreation	980,753	980,753	1,099,818	(119,065)
Other boards and agencies	548,150	739,150	711,890	27,260
Nondepartmental	1,062,826	1,062,826	1,228,014	(165,188)
Total expenditures	14,582,714	15,870,109	15,020,900	849,209
Excess of revenues over expenditures	2,288,579	4,766,783	4,274,987	(491,796)
Other Financing Sources				
Proceeds from sale of assets	5,200	5,200	-	(5,200)
Transfers in	168,707	168,707	-	(168,707)
Transfers out	(1,526,527)	(1,526,527)	(3,218,325)	(1,691,798)
Total other financing sources	(1,352,620)	(1,352,620)	(3,218,325)	(1,865,705)
Net change in fund balance	935,959	3,414,163	1,056,662	(2,357,501)
Fund balance, beginning of the year	8,265,094	8,573,304	13,312,698	4,739,394
Fund balance, end of year	$ 9,201,053	$ 11,987,467	$14,369,360	$ 2,381,893

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

As of and for the year ended September 30,	**2021**	2020	2019	2018	2017	2016	2015	2014
Total pension liability								
Service cost	**$ 741,110**	$ 632,699	$ 627,913	$ 593,659	$ 583,545	$ 602,738	$ 608,309	$ 592,326
Interest	**2,327,565**	2,241,056	2,095,320	2,068,567	2,013,859	1,928,337	1,832,623	1,761,806
Changes in benefit terms	**-**	409,331	-	-	-	-	-	-
Differences between expected and actual experience	**651,643**	65,984	1,100,211	(318,784)	(204,100)	26,895	309,855	-
Changes of assumptions	**1,246,045**	-	-	146,665	-	1,027,411	-	-
Benefit payments, including refunds of employee contributions	**(2,027,393)**	(1,903,068)	(1,958,485)	(1,784,053)	(1,654,058)	(1,585,868)	(1,522,852)	(1,414,985)
Transfers among employers	**(135,739)**	(260,342)	7	(98,079)	31,663	(84,352)	-	-
Net change in total pension liability	**2,803,231**	1,185,660	1,864,966	607,975	770,909	1,915,161	1,227,935	939,147
Total pension liability - beginning	**31,241,816**	30,056,156	28,191,190	27,583,215	26,812,306	24,897,145	23,669,210	22,730,063
Total pension liability - ending (a)	**34,045,047**	31,241,816	30,056,156	28,191,190	27,583,215	26,812,306	24,897,145	23,669,210
Plan Fiduciary Net Position								
Contributions - employer	**798,634**	768,444	775,677	726,979	635,966	640,034	699,653	740,892
Contributions - employee	**497,489**	470,917	448,995	411,668	374,226	365,914	404,420	360,594
Net investment income	**4,712,391**	1,195,472	544,509	1,858,814	2,356,733	1,760,239	208,626	1,917,819
Benefit payments, including refunds of employee contributions	**(2,027,393)**	(1,903,068)	(1,958,485)	(1,784,053)	(1,654,058)	(1,585,868)	(1,522,852)	(1,414,985)
Transfers among employers	**(135,739)**	(260,342)	7	(98,079)	31,663	(84,352)	63,907	(3,971)
Net change in plan fiduciary net position	**3,845,382**	271,423	(189,297)	1,115,329	1,744,530	1,095,967	(146,246)	1,600,349
Plan net position - beginning	**21,654,234**	21,382,811	21,572,108	20,456,779	18,712,249	17,616,282	17,762,528	16,162,179
Plan net position - ending (b)	**$ 25,499,616**	$ 21,654,234	$ 21,382,811	$ 21,572,108	$ 20,456,779	$ 18,712,249	$ 17,616,282	$ 17,762,528
Net pension liability (asset) - ending (a) - (b)	**$ 8,545,431**	$ 9,587,582	$ 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	**74.90%**	69.31%	71.14%	76.52%	74.16%	69.79%	70.76%	75.04%
Covered payroll*	**$ 8,866,806**	$ 8,407,773	$ 8,248,435	$ 7,606,318	$ 6,911,019	$ 6,713,736	$ 6,313,716	$ 6,643,729
Net pension liability as a percentage of covered payroll	**96.38%**	114.03%	105.15%	87.02%	103.12%	120.65%	115.32%	88.91%

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

Note to Schedule

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

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

For the year ended September 30,	**2022**	2021	2020	2019	2018	2017	2016	2015	2014
Actuarially determined contribution	**$ 836,600**	$ 803,613	$ 775,013	$ 775,677	$ 726,979	$ 635,966	$ 640,034	$ 699,653	$ 740,892
Contributions in relation to the actuarially determined contribution	**836,600**	803,613	775,013	775,677	726,979	635,966	640,034	699,653	740,892
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered payroll	**$ 9,322,080**	$ 8,866,806	$ 8,407,773	$ 8,248,435	$ 7,606,318	$ 6,911,019	$ 6,713,736	$ 6,313,716	$ 6,643,729
Contributions as a percentage of covered payroll	**8.97%**	9.06%	9.22%	9.40%	9.56%	9.20%	9.53%	11.08%	11.15%

Notes to Schedule

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

Note 2: GASB Codification P20 requires information for 10 years. However, until a full 10-year trend is compiled, the City is presenting information for only the years for which information is available.

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

As of and for the year ended September 30,	2022	2021	2020	2019	2018
Total OPEB Liability					
Service cost	**$ 68,406**	$ 166,465	$ 153,818	$ 115,706	$ 122,473
Interest	**126,641**	119,811	135,108	174,629	154,929
Changes in benefit terms	**-**	-	-	-	-
Difference between expected an actual experience	**(1,212,535)**	319,013	80,173	223,346	(8,338)
Changes of assumptions	**(640,413)**	101,647	206,731	618,136	(206,231)
Benefit payments	**(244,107)**	(231,823)	(235,715)	(224,840)	(200,664)
Net change in total OPEB liability	**(1,902,008)**	475,113	340,115	906,977	(137,831)
Total OPEB liability, beginning of year	**6,012,343**	5,537,230	5,197,115	4,290,138	4,427,969
Total OPEB liability, end of year	**$ 4,110,335**	$ 6,012,343	$ 5,537,230	$ 5,197,115	$ 4,290,138
Plan Fiduciary Net Position					
Contributions - employer	**-**	345,949	302,100	80,847	-
Contributions - other	**-**	-	-	-	-
Net investment income	**(412,161)**	156,735	19,363	46,321	47,296
Benefit payments and net transfers	**-**	(231,823)	(235,715)	-	-
Administrative expense	**(3,964)**	(3,401)	(3,261)	(3,252)	(2,808)
Net change in fiduciary net position	**(416,125)**	267,460	82,487	123,916	44,488
Plan fiduciary net position, beginning of year	**1,610,166**	1,342,706	1,260,219	1,136,303	1,091,815
Plan fiduciary net position, end of year	**$ 1,194,041**	$ 1,610,166	$ 1,342,706	$ 1,260,219	$ 1,136,303
Net OPEB liability, end of year	**$ 2,916,294**	$ 4,402,177	$ 4,194,524	$ 3,936,896	$ 3,153,835
Plan fiduciary net position as a percentage of the total OPEB liability	**29.05%**	26.78%	24.25%	24.25%	26.49%
Covered-employee payroll in year ending September 30	**$ 6,627,788**	$ 6,767,939	$ 6,507,634	$ 6,015,944	$ 5,784,562
Net OPEB liability as a percentage of covered-employee payroll	**44.00%**	65.04%	64.46%	65.44%	54.52%

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

Note to Schedule

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

City of Talladega, Alabama
Schedule of Employer Contributions - OPEB

	2022	2021	2020	2019	2018
Actuarially determined contribution	**$ 269,040**	$ 359,201	$ 345,949	$ 302,100	$ 305,687
Contributions in relation to the actuarially determined contribution					
Employer contributions to the trust	**-**	345,949	302,100	80,847	-
Employer-paid retiree premiums	**244,107**	-	-	224,840	200,664
Employer-paid expenses	**-**	-	-	-	-
Contribution deficiency (excess)	**$ 24,933**	$ 13,252	$ 43,849	$ (3,587)	$ 105,023
Covered annual payroll	**$ 6,627,799**	$ 6,767,939	$ 6,507,634	$ 6,015,944	$ 5,784,562
Contributions as a percentage of covered-employee payroll	**3.68%**	5.11%	4.64%	5.08%	3.47%

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

Note to Schedule

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

Note 1: PLAN CHANGES IN BENEFIT TERMS

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

Note 2: CHANGES OF ASSUMPTIONS

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

Note 3: METHODS AND ASSUMPTIONS USED TO DETERMINE CONTRIBUTION RATES

Pension

Actuarially determined contribution rates are calculated as of September 30, three years prior to the end of the fiscal year in which contributions are reported. Contributions for fiscal year 2022 were based on the September 30, 2019 actuarial valuation. Methods and assumptions used to determine contribution rates for the period October 1, 2021 to September 30, 2022:

Actuarial cost method	Entry age
Amortization method	Level percent closed
Remaining amortization period	27.3 years
Asset valuation method	Five year smoothed market
Inflation	2.75%
Salary increases:	3.25 - 5.00%, including inflation
Investment rate of return:	7.70%, net of pension plan investment expense, including inflation

OPEB

Valuation date	October 1, 2021 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	2.15% annually (Beginning of Year to Determine ADC) 4.02% annually (As of End of Year Measurement Date)
Retirement age	Attainment of 25 years or service at any age; or, attainment of age 60 and 10 years of service; continuous health coverage for 10 years before retirement required employees hired on and after January 1, 2013 are not eligible to retire until age 62 (age 56 for Fire and Police).
Mortality	RP-2000 without projection
Turnover	Age specific table with an average of 14% when applied to the active census

OTHER SUPPLEMENTARY INFORMATION

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

For the year ended September 30, 2022	Original Budget	Final Budget	Actual	Variance
Operating Revenues				
Water revenues	$ 3,931,113	$ 3,931,113	$ 4,865,541	$ 934,428
Sewer revenues	2,873,802	2,873,802	3,419,698	545,896
Garbage revenues	1,098,564	1,098,564	1,078,090	(20,474)
Other operating revenues	324,463	339,463	388,179	48,716
Total revenues	8,227,942	8,242,942	9,751,508	1,508,566
Operating Expenses				
Water and sewer department expenses	907,462	907,462	1,179,163	(271,701)
Waste water plants	1,568,666	1,568,666	1,794,107	(225,441)
Water filters and wells	1,019,970	1,019,970	1,014,045	5,925
Garbage collection expenses	1,062,694	1,062,694	1,203,030	(140,336)
General and administrative expenses	1,758,467	1,758,467	1,927,641	(169,174)
Depreciation expense	793,100	793,100	1,780,197	(987,097)
Total operating expenses	7,110,359	7,110,359	8,898,183	(1,787,824)
Operating income	1,117,583	1,132,583	853,325	(279,258)
Nonoperating Revenues (Expenses)				
Interest income	3,513	3,513	58,898	55,385
Other income	16,387	16,387	107,771	91,384
Interest expense	(1,503,522)	(1,503,522)	(852,046)	651,476
Total nonoperating revenues (expenses)	(1,483,622)	(1,483,622)	(685,377)	798,245
Change in net position	$ (366,039)	$ (351,039)	$ 167,948	$ 518,987

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

September 30, 2022	Special Revenue Funds	Debt Service Fund	Capital Projects Fund	Total Other Governmental Funds
Assets				
Cash and cash equivalents	$ 1,592,233	$ -	$ 8,000	$ 1,600,233
Investments	766,812	-	-	766,812
Receivables, net	32,777	-	8	32,785
Interfund receivables	79,078	-	-	79,078
Other assets	66	-	-	66
Total assets	$ 2,470,966	$ -	$ 8,008	$ 2,478,974
Liabilities and Fund Balances				
Liabilities				
Accounts payable and accrued liabilities	$ 171,682	$ -	$ 4,762	$ 176,444
Interfund payables	193,328	-	8,000	201,328
Total liabilities	365,010	-	12,762	377,772
Fund balances				
Restricted	1,128,085	-	-	1,128,085
Committed	881,817	-	-	881,817
Assigned	96,054	-	-	96,054
Unassigned	-	-	(4,754)	(4,754)
Total fund balances (deficit)	2,105,956	-	(4,754)	2,101,202
Total liabilities and fund balances	$ 2,470,966	$ -	$ 8,008	$ 2,478,974

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

For the year ended September 30, 2022	Special Revenue Funds	Debt Service Fund	Capital Projects Fund	Total Other Governmental Funds
Revenues				
Intergovernmental	$ 115,071	$ -	$ -	$ 115,071
Taxes	724,363	-	-	724,363
Charges for services	445,416	-	-	445,416
Investment income (loss)	(73,085)	-	-	(73,085)
Total revenues	1,211,765	-	-	1,211,765
Expenditures				
Current				
General government	653,427	-	-	653,427
Public safety	549,050	-	-	549,050
Debt service				
Principal	-	880,982	-	880,982
Interest	-	198,268	-	198,268
Total expenditures	1,202,477	1,079,250	-	2,281,727
Excess (deficiency) of revenues over (under) expenditures	9,288	(1,079,250)	-	(1,069,962)
Other Financing Sources (Uses)				
Transfers in	527,230	1,079,250	-	1,606,480
Transfers out	(146,879)	-	-	(146,879)
Total other financing sources (uses)	380,351	1,079,250	-	1,459,601
Net change in fund balances	389,639	-	-	389,639
Fund balance, beginning of year (deficit)	1,716,317	-	(4,754)	1,711,563
Fund balance, end of year (deficit)	$ 2,105,956	$ -	$ (4,754)	$ 2,101,202

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

September 30, 2022	2.5 Mil Property Tax Fund	4 Cent Gas Tax Fund	7 Cent Gas Tax Fund	Corrections Fund
Assets				
Cash and cash equivalents	$ 350,594	$ 119,696	$ 151,801	$ 230,926
Investments	-	-	-	-
Receivables	4,632	4,201	5,281	7,584
Due from other funds	-	55,180	-	23,898
Other assets	-	-	-	-
Total assets	$ 355,226	$ 179,077	$ 157,082	$ 262,408
Liabilities and Fund Balances				
Liabilities				
Accounts payable and accrued liabilities	$ -	$ -	$ -	$ 103,318
Due to other funds	-	-	-	91,104
Total liabilities	-	-	-	194,422
Fund balances				
Restricted	355,226	179,077	157,082	67,986
Committed	-	-	-	-
Assigned	-	-	-	-
Total fund balances	355,226	179,077	157,082	67,986
Total liabilities and fund balances	$ 355,226	$ 179,077	$ 157,082	$ 262,408

Oil Trust Fund	Police Grant	Cemetery Fund	Library Fund	Rebuild Alabama Gas Tax Fund	Total Special Revenue Funds
$ 51,386	$ 24,358	$ 221,527	$ 160,054	$ 281,891	$ 1,592,233
-	-	719,878	46,934	-	766,812
-	-	-	-	11,079	32,777
-	-	-	-	-	79,078
-	-	-	66	-	66
$ 51,386	$ 24,358	$ 941,405	$ 207,054	$ 292,970	$ 2,470,966
$ -	$ -	$ 7,520	$ 60,844	$ -	$ 171,682
-	-	52,068	50,156	-	193,328
-	-	59,588	111,000	-	365,010
51,386	24,358	-	-	292,970	1,128,085
-	-	881,817	-	-	881,817
-	-	-	96,054	-	96,054
51,386	24,358	881,817	96,054	292,970	2,105,956
$ 51,386	$ 24,358	$ 941,405	$ 207,054	$ 292,970	$ 2,470,966

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

For the year ended September 30, 2022	2.5 Mil Property Tax Fund	4 Cent Gas Tax Fund	7 Cent Gas Tax Fund	Corrections Fund
Revenues				
Intergovernmental	$ -	$ -	$ -	$ -
Taxes	345,188	47,571	60,139	-
Charges for services	-	-	-	393,180
Investment income (loss)	79	-	86	-
Total revenues	345,267	47,571	60,225	393,180
Expenditures				
Current				
General government	-	-	-	-
Public safety	-	-	-	549,050
Capital outlay	-	-	-	-
Total expenditures	-	-	-	549,050
Excess (deficiency) of revenues over (under) expenditures	345,267	47,571	60,225	(155,870)
Other Financing Sources (Uses)				
Transfers in	-	-	-	173,658
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	173,658
Net change in fund balances	345,267	47,571	60,225	17,788
Fund balances, beginning of year	9,959	131,506	96,857	50,198
Fund balances, end of year	$ 355,226	$ 179,077	$ 157,082	$ 67,986

Oil Trust Fund	Police Grant	Cemetery Fund	Library Fund	Rebuild Alabama Gas Tax Fund	Total Special Revenue Funds
$ -	$ -	$ -	$ 115,071	$ -	$ 115,071
146,879	-	-	-	124,586	724,363
-	-	45,950	6,286	-	445,416
33	1	(66,699)	(6,740)	155	(73,085)
146,912	1	(20,749)	114,617	124,741	1,211,765
-	-	105,328	548,099	-	653,427
-	-	-	-	-	549,050
-	-	-	-	-	-
-	-	105,328	548,099	-	1,202,477
146,912	1	(126,077)	(433,482)	124,741	9,288
-	-	-	353,572	-	527,230
(146,879)	-	-	-	-	(146,879)
(146,879)	-	-	353,572	-	380,351
33	1	(126,077)	(79,910)	124,741	389,639
51,353	24,357	1,007,894	175,964	168,229	1,716,317
$ 51,386	$ 24,358	$ 881,817	$ 96,054	$ 292,970	$ 2,105,956

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Talladega, Alabama (the "City") as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 9, 2026. Our report includes a reference to other auditors who audited the financial statements of the Talladega City Board of Education and the Talladega Municipal Airport Board, as described in our report on the City's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We consider the deficiency in internal control, described as item 2022-001 below, to be a material weakness.

2022-001 Financial Reporting Policies and Procedures (Repeat finding 2021-001)

Condition – Sufficient policies and procedures were not in place during the year to ensure the timely reconciliation of accounts. There is also a need for purchasing manual to be updated for changes due to Uniform Guidance and the Alabama Bid Law changes subsequent to the last revision of manual.

Criteria – *Government Auditing Standards* Section A1.08 (d) states that management is responsible for "establishing and maintaining effective internal control to help ensure that appropriate goals and objectives are met; following laws and regulation; and ensuring that management and financial information is reliable and properly reported;…"

Cause – During 2022, the reconciliation of certain cash accounts and subsidiary ledgers were not performed timely due to lack of sufficient policies and procedures over the month end closing process and significant turnover in the finance department.

Effect – Failure to implement adequate internal controls over the reconciliation of cash accounts and subsidiary ledgers can result in the need for material corrections to the City's financial statements. Multiple general ledger accounts and financial statement line items required adjustment or reclassification in order for the financial statements to be presented in accordance with generally accepted accounting principles.

Recommendation – We recommend that management establish a formal financial close process, including the timely preparation and review of various reconciliations of account balances and schedules, and consider additional training for personnel responsible for financial reporting.

Management's Response – The City's management acknowledges the finding and has been working with an external consultant to implement internal control policies and procedures requiring monthly reconciliation of all balance sheet accounts to their subledgers and supporting documentation.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which is described below as item 2022-002.

2022-002 Timeliness of Audit (Noncompliance)

Condition – The City's single audit reporting package and Data Collection Form for the fiscal year ended September 30, 2022 were not submitted to the Federal Audit Clearinghouse by the required statutory deadline of June 30, 2023.

Criteria – Per 2 CFR § 200.512(a)(1), the single audit reporting package and Data Collection Form (SF-SAC) must be submitted electronically to the Federal Audit Clearinghouse within the earlier of 30 calendar days after receipt of the auditor's report(s), or 9 months after the end of the audit period, unless a different period is specified in a program-specific audit guide.

Cause – Management did not complete year-end account reconciliations and the Schedule of Expenditures of Federal Awards (SEFA) in a timely manner. The delay was in large part due to significant turnover in positions that are integral to the accounting function and performance of the period end close.

Effect – Failure to file the audit in accordance with 2 CFR 200.512 of the Uniform Guidance, resulted in a material noncompliance.

Recommendation – We recommend that management implement a year-end close and audit preparation calendar with assigned milestones to ensure all financial statements, the SEFA, and related compliance documentation are finalized, reviewed, and submitted to the Federal Audit Clearinghouse within the timeframe mandated by 2 CFR § 200.512.

Management's Response – Management has reviewed and accepted the finding.

City's Response to Findings

The City's response to the findings identified in our audit are described above. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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
November 9, 2026