



**The Water Works and Sewer Board of the City of  
Prichard**

**FINANCIAL STATEMENTS**

**September 30, 2023**



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INDEPENDENT AUDITOR’S REPORT

Board of Directors
The Water Works and Sewer Board of the City of Prichard
Prichard, Alabama

Report on the Audit of the Financial Statements

Disclaimer of Opinion and Unmodified Opinion

We have audited the accompanying financial statements of the business-type activities, of The Water Works and Sewer Board of the City of Prichard (Board) as of and for the year ended September 30, 2023, and the related notes to the financial statements. We were not engaged to audit the statements of the Fiduciary Fund. These financial statements collectively comprise the Board’s basic financial statements as listed in the table of contents.

Summary of Opinions

Table with 2 columns: Opinion Unit, Type of Opinion. Rows include Business-type Activities (Unmodified) and Fiduciary Fund (Disclaimer).

Disclaimer of Opinion on the Fiduciary Fund

Because of the significance of the matter described above in the Basis for Disclaimer Opinion and Unmodified Opinion section of our report, we have not been able to obtain sufficient audit evidence to provide a basis for an audit opinion on the financial statements of the Fiduciary Fund of the Board. Accordingly, we do not express an opinion on these financial statements.

Unmodified Opinion on the Business-type Activities

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Board, as of September 30, 2023, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Disclaimer of Opinion and Unmodified 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 Board 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 unmodified audit opinion.

## Matter Giving Rise to Disclaimer of Opinion on the Fiduciary Fund

The financial statements of the Fiduciary Fund have not been audited, and we were not engaged to audit the Fiduciary Fund financial statements as part of our audit of the Board's basic financial statements. The Fiduciary Fund financial statements are included in the Board's basic financial statements.

### ***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 Board's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Because of the matter described in the Basis for Disclaimer of Opinion and Unmodified Opinion section, however we were not able to obtain sufficient audit evidence to provide a basis for an audit opinion on the Fiduciary Fund. 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 Board'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 Board'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 Schedules of Defined Benefit Plans on pages 36–39 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 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. Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

#### ***Other Supplementary Information***

Management is responsible for the Schedule of the Calculation for Maintaining Adequate Rates for the 2019 Series Water and Sewer Bond Indenture, Section 11.5 on page 40. Our opinions on the basic financial statements do not cover the other supplementary information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other supplementary information and consider whether a material inconsistency exists between the other supplementary information and the basic financial statements, or the other supplementary information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other supplementary information exists, we are required to describe it in our report.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 7, 2025, on our consideration of the Board'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 Board'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 Board's internal control over financial reporting and compliance.

*Carr, Rigg & Ingram, L.L.C.*

Certified Public Accountants  
Panama City Beach, Florida  
May 7, 2025

**The Water Works and Sewer Board of the City of Prichard**  
**Statement of Net Position**  
**September 30, 2023**

<b>Assets</b>	
Current assets	
Cash and cash equivalents	\$ 218,210
Accounts receivable, less allowance for doubtful accounts of \$180,212	3,193,947
Prepaid expenses	<u>198,719</u>
Total current assets	3,610,876
Noncurrent assets	
Restricted noncurrent assets	
Cash and cash equivalents	<u>26,862,310</u>
Capital assets	
Sanitary sewer system	44,377,500
Water distribution system	3,995,309
Water and sewer improvements	7,303,328
Machinery and equipment	2,529,195
Building improvements	521,350
Computers and related equipment	272,401
Vehicles	1,673,817
Office equipment and furniture	<u>131,648</u>
	60,804,548
Less accumulated depreciation	(34,899,339)
Land-not subject to depreciation	<u>569,826</u>
Total capital assets, net	<u>26,475,035</u>
Other assets	
Note receivable	<u>185,833</u>
Total noncurrent assets	<u>53,523,178</u>
Total assets	<u>\$ 57,134,054</u>
<b>Deferred outflows of resources</b>	
Deferred outflows related to pension	\$ 1,815,112
Deferred outflows on refunding	844,764
Total deferred outflows of resources	<u>\$ 2,659,876</u>

(Continued)

The accompanying notes are an integral part of these financial statements

**The Water Works and Sewer Board of the City of Prichard**  
**Statement of Net Position (Continued)**  
**September 30, 2023**

<b>Liabilities</b>	
Current liabilities	
Accounts payable	\$ 1,701,669
Accrued payroll and payroll taxes	16,604
Accrued city business license tax	494,422
Current portion of note payable	<u>59,408</u>
Total current liabilities	2,272,103
Current liabilities - payable from restricted assets	
Accrued bond interest	904,329
Current portion of bonds payable	<u>1,140,000</u>
Total current liabilities - payable from restricted assets	2,044,329
Noncurrent liabilities	
Compensated absences	60,626
Net pension liability	1,544,773
Note payable due after one year	198,825
Bonds payable after one year	56,033,410
Refundable meter deposits	<u>358,849</u>
Total noncurrent liabilities	58,196,483
Total liabilities	<u>62,512,915</u>
<b>Deferred inflows of resources</b>	
Deferred inflows related to pension	<u>927,383</u>
<b>Net position</b>	
Net investment in capital assets	(3,484,434)
Restricted for debt service	1,967,006
Unrestricted	<u>(2,128,940)</u>
Total net position	<u>\$ (3,646,368)</u>

The accompanying notes are an integral part of these financial statements

**The Water Works and Sewer Board of the City of Prichard**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**Year Ended September 30, 2023**

<b>Operating Revenues</b>	
Water system	\$ 7,667,621
Sewer system	3,947,911
Total operating revenues	<u>11,615,532</u>
<b>Operating Expenses</b>	
Cost of water	4,264,326
Depreciation	1,849,669
Personnel services	2,460,982
Professional services	1,879,724
Taxes and licenses	107,257
Bad debts	359,411
Insurance	198,793
Repairs and maintenance	543,284
General and administrative expenses	424,309
Utilities	499,604
Chemicals	278,995
Materials and supplies	212,107
Vehicle expense	251,338
Equipment rental	200,666
Total operating expenses	<u>13,530,465</u>
Operating income (loss)	(1,914,933)
<b>Nonoperating Revenues (Expenses)</b>	
Miscellaneous revenue	1,309
Grant income	500,101
Interest income	627,021
Interest expense	(2,076,370)
Bond issuance costs	(72,346)
Total nonoperating revenues (expenses)	<u>(1,020,285)</u>
Change in net position	(2,935,218)
Net position, beginning of year	
Beginning of year, as originally reported	1,741,424
Prior period adjustment	(2,452,574)
Net position, beginning of year, as restated	<u>(711,150)</u>
Net position, end of year	<u><u>\$ (3,646,368)</u></u>

The accompanying notes are an integral part of these financial statements

**The Water Works and Sewer Board of the City of Prichard**  
**Statement of Cash Flows**  
**Year Ended September 30, 2023**

**Operating Activities**

Cash received from customers for sales and services	\$ 11,024,263
Cash payments to employees	(2,094,166)
Cash payments to suppliers for goods and services	(8,343,965)
Cash received from other operating receipts	1,309
Net cash provided by operating activities	587,441

**Capital and Related Financing Activities**

Acquisition of capital assets	(519,529)
Proceeds for grants	500,101
Principal received on note receivable	46,768
Principal paid on revenue bonds	(535,000)
Principal paid on note payable	(52,338)
Interest paid on revenue bonds	(2,183,763)
Interest paid on note payable	(16,122)
Net cash used in capital and related financing activities	(2,759,883)

**Investing Activities**

Investment income	627,021
Net cash provided by investing activities	627,021

Net decrease in cash and cash equivalents (1,545,421)

Cash and cash equivalents, beginning of year 28,625,941

Cash and cash equivalents, end of year \$ 27,080,520

**Cash classified as:**

Current assets - cash and cash equivalents	\$ 218,210
Restricted - cash and cash equivalents	26,862,310
Total	\$ 27,080,520

(Continued)

The accompanying notes are an integral part of these financial statements

**The Water Works and Sewer Board of the City of Prichard**  
**Statement of Cash Flows (Continued)**  
**Year Ended September 30, 2023**

**Reconciliation of Operating Income (Loss) to Net Cash**

**Provided by Operating Activities**

Operating loss	\$ (1,914,933)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities	
Depreciation	1,849,669
Miscellaneous revenue	1,309
Change in assets, deferred outflows, liabilities and deferred outflows	
(Increase) decrease in assets and deferred outflows	
Accounts receivable	(556,198)
Prepaid expenses	(16,405)
Deferred outflows of resources	(958,596)
Increase (decrease) in liabilities and deferred inflows	
Accounts payable	645,308
Accrued payroll and payroll taxes	(28,151)
Accrued city business license tax	246,947
Compensated absences	10,013
Net pension liability	1,314,390
Refundable meter deposits	(35,071)
Deferred inflows of resources	29,159
Total adjustments	2,502,374
Net cash provided by operating activities	\$ 587,441

The accompanying notes are an integral part of these financial statements

**The Water Works and Sewer Board of the City of Prichard**  
**Statement of Fiduciary Net Position (Unaudited)**  
**September 30, 2023**

**Assets**

**Investments**

Large U.S. Equity	\$	1,219,445
Small/Mid U. S. Equity		215,148
Global/International Equity		601,244
Fixed Income		3,663,870
Other		480,849
Total investments		<u>6,180,556</u>

Total assets		<u><u>6,180,556</u></u>
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**Fiduciary net position**

Fiduciary net position	\$	<u><u>6,180,556</u></u>
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The accompanying notes are an integral part of these financial statements

**The Water Works and Sewer Board of the City of Prichard**  
**Statement of Changes in Fiduciary Net Position (Unaudited)**  
**Year Ended September 30, 2023**

**Additions**

**Contributions**

Employee contributions	\$ 62,476
Employer contributions	83,330
Total contributions	<u>145,806</u>

**Net investment income**

Investment return	327,263
Investment expenses	<u>(5,973)</u>
Net investment income	321,290

Total additions	<u><u>467,096</u></u>
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**Deductions**

Benefit payments	503,735
Administrative expenses	<u>20,056</u>
Total deductions	<u><u>523,791</u></u>

**Net change**

Net decrease in fiduciary net position	(56,695)
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**Fiduciary net position**

Net position, beginning of year	<u>6,237,251</u>
Net position, end of year	<u><u>\$ 6,180,556</u></u>

The accompanying notes are an integral part of these financial statements

## **The Water Works and Sewer Board of the City of Prichard Notes to Financial Statements**

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

The Water Works and Sewer Board of the City of Prichard (“the Board”) is a public corporation organized under the laws of Alabama particularly under Title 37, Sections 394 to 402, of the Code of Alabama of 1940, filed and recorded on the 17<sup>th</sup> day of April 1943. The purpose of the formation of the Board was to acquire, purchase, construct, operate and maintain one or more water works plants and distributing systems and one or more sanitary sewer systems in the City of Prichard and City of Chickasaw, Alabama.

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

The governing body of the City of Prichard appoints the five-member board of directors of The Water Works and Sewer Board of the City of Prichard. The Board provides water and sewer services to commercial and residential customers located in the Cities of Prichard, Eight Mile, and Whistler, and water service only to customers located within the City of Chickasaw.

GASB Statement No. 14 established criteria for determining the governmental reporting entity and component units that should be included within the reporting entity. Under provisions of this Statement, the Board is considered a special-purpose governmental entity and is not a component unit of any other entity.

#### ***Related organization***

As noted above, the city council members of the City of Prichard are responsible for appointing the five members of the Board. However, they do not have the power to impose their will upon the members of the Board.

#### ***Fund Financial Statements***

The Board is accounted for as an Enterprise Fund. Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

#### ***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 the transactions or events for the recognition in the financial statements. Enterprise funds are reported using the *economic resources measurement focus* and *accrual basis of accounting*. The Board is accounted for

## The Water Works and Sewer Board of the City of Prichard Notes to Financial Statements

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### ***Measurement focus, Basis of Accounting and Financial Statement Presentation (continued)***

the accrual basis of accounting. Revenues are recognized when earned and related expenses are recognized when they are incurred.

#### ***Budgetary Information***

Members of the Board of Directors are responsible for the annual adoption and amendments to the budget.

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

##### *Cash and cash equivalents*

The Board'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 and Payables*

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 allowance for doubtful accounts.

##### *Prepaid expenses*

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

##### *Restricted assets*

Certain assets of the Board 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 or regulations of other governments. Special restricted asset accounts have been established to account for the sources and uses of these limited use assets as follows:

*Customer deposit accounts* -Deposited in non-interest bearing account and refunded upon termination of service with the City and satisfaction of all obligations due.

## The Water Works and Sewer Board of the City of Prichard Notes to Financial Statements

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### *Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position (Continued)*

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

#### *Capital assets*

Property acquired through purchase or internal construction is stated at cost. Capital assets are defined by the Board as assets with an initial and individual cost of more than \$1,000 and an estimated useful life more than one year. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the books and any resulting gain or loss is recognized in non-operating revenue for the year. Property contributed by customers and developers is recorded at its fair value at the date received as estimated by engineers. The cost of normal maintenance and repairs is charged to operations as incurred and significant renewals and betterments are capitalized.

Land and construction in progress are not depreciated. The other property, plant, equipment, and infrastructure are depreciated using the straight-line method over the following estimated useful lives:

Building improvements	15 to 20 years
Water distribution system	10 to 50 years
Sanitary sewer system	24 to 50 years
Water and sewer improvements	10 to 20 years
Machinery and equipment	5 to 10 years
Vehicles, computers, office equipment and furniture	5 to 10 years

#### *Deferred outflow/inflow of resources*

In addition to assets, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

The Board has two items that qualify for reporting as deferred outflows of resources, the *deferred loss on refunding* and the *deferred outflows related to pension*. The deferred loss on refunding results from debt refinancing, whereby the reacquisition of the price of the funding debt instruments exceed their net carrying amount. The deferred loss on refunding is amortized over the shorter of the life of the refunded or refunding debt. The deferred outflows related to pensions are an aggregate of items related to pensions as calculated in accordance with GASBC Section P20: *Pension Activities – Reporting for Benefits Provided through Trusts That Meet Specified Criteria*. The deferred outflows related to pensions will be recognized as either pension expense or a reduction in the net pension liability in future reporting years.

## The Water Works and Sewer Board of the City of Prichard Notes to Financial Statements

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### *Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position (Continued)*

In addition to liabilities, the statement of financial of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element *deferred inflow of resources* represents an acquisition of net position that applies to future period (s) and so will not be recognized as an inflow of resources (revenue) until that time. The Board has one item that qualifies for reporting as deferred inflows of resources. The *deferred inflows related to pension* are an aggregate of items related to pensions as calculated in accordance with GASBC Section P20: *Pension Activities – Reporting for Benefits Provided through Trusts That Meet Specified Criteria*. The deferred inflows related to pensions will be recognized as a reduction to pension expense in future reporting years.

#### *Accrued compensated absences*

It is the Board's policy to permit employees to accumulate a limited amount of earned but unused annual leave which are eligible for payment upon separation from service. Additionally, sick leave may be accumulated. In the event of death or retirement due only to the longevity of an employee, compensation for three-fourths of accumulated sick leave is payable in one lump sum payment. The liability for such leave is reported as incurred in the statement of net position.

#### *Long-term Obligations*

Bond premiums and discounts are deferred and amortized over the life of the bonds and are recorded as an adjustment to interest expense. Bonds payable are reported net of the applicable bond premium or discount. In accordance with GASBC Section I30: *Interest Costs – Imputation*, bond issuance costs are expenses in the period incurred except for prepaid insurance costs.

#### *Pension*

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about the fiduciary net position of the Water Works and Sewer Board of the City of Prichard Employee's Pension Fund (the "Plan") 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 valued as of the measurement date. Investments in separate accounts held at The Principal Financial Group are commingled pools, rather than individual securities and are valued at fair market value.

## The Water Works and Sewer Board of the City of Prichard Notes to Financial Statements

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### *Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position (Continued)*

##### *Use of estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make various estimates. Actual results could differ from those estimates. Estimates that are particularly susceptible to significant change in the near term are related to allowance for doubtful accounts, useful lives of capital assets, and net pension liability and related deferred inflows and outflows.

##### *Subsequent events*

Management has evaluated subsequent events through the date that the financial statements were available to be issued, May 7, 2025. See note 9 for relevant disclosures. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

#### ***Recently Issued and Implemented Accounting Pronouncements***

In May 2020, the GASB issued 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. There was no significant impact of implementing this Statement.

The Governmental Accounting Standards Board has issued statements that will become effective in future years. These statements are as follows:

## The Water Works and Sewer Board of the City of Prichard Notes to Financial Statements

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### *Recently Issued and Implemented Accounting Pronouncements (continued)*

GASB Statement No. 100, *Accounting Changes and Error Corrections*. This Statement establishes accounting and financial reporting requirements for (a) accounting changes and (b) the correction of an error in previously issued financial statements (error correction). This Statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. This Statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections. This Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated. Furthermore, this Statement addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information (RSI) and supplementary information (SI). The requirements of this Statement are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

GASB 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.

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

### NOTE 2 DETAILED NOTES

#### *Deposits and Investments*

At September 30, 2023, the Board's carrying amount of deposits was \$27,080,520 and the total of the bank balances of these deposits was \$27,125,018. Of these deposits, \$27,125,018 was deposited with banks that are Qualified Public Fund Depositories under the Security for Alabama Funds Enhancement (SAFE) Act. 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

## The Water Works and Sewer Board of the City of Prichard Notes to Financial Statements

### NOTE 2 DETAILED NOTES (CONTINUED)

#### *Deposits and Investments (continued)*

Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation (FDIC). If the securities pledged fail to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance. On September 30, 2023, \$180,000 of the Boards bank balances exceeded federal depository insurance. The Board has no formal policy regarding custodial credit risk for deposits.

State statutes authorize the Board to invest in securities of the United States as well as those of the state and local governments of Alabama. Investments of the Board consist solely of those funds required by the bond trust indentures included in the financial statements under restricted assets. The trust indentures state that the trustee "shall at all times keep the moneys continuously secured by holding on deposit, as collateral security, Federal Securities, or other marketable securities eligible as security for the deposit of trust funds under regulation of the Controller of the Currency." At September 30, 2023, these funds included \$27,125,018 in banks that are Qualified Public Fund Depositories. The Board has no formal policy regarding custodial credit risk for investments.

#### *Restricted cash and cash equivalents*

Restricted assets at September 30, 2023 consisted of money market accounts. The restricted cash accounts at September 30, 2023 were as follows:

Customer Deposits	\$ 167,292
Debt Service Fund	325,841
Debt Service Reserve Fund	3,027,430
Capital Improvement Fund	23,341,747
Total	\$ 26,862,310

*Customer deposits accounts* – Deposits that are refunded upon termination of service with the Board and satisfaction of all obligations due.

*Debt Service Fund* – The fund was created by the Water and Sewer Revenue Bonds, Series 2019, Trust Indenture. The indenture provides that the Board will deposit into this account on or before the last calendar day of each month, 1/6 of the amount needed to make the next interest payment and 1/12 of the amount needed to make the next maturing principal payment on the bonds. Monies on deposit in the Debt Service Fund are to be used only for payment of the principal and interest on the bonds.

**The Water Works and Sewer Board of the City of Prichard**  
**Notes to Financial Statements**

**NOTE 2 DETAILED NOTES (CONTINUED)**

***Restricted cash and cash equivalents (continued)***

*Debt Service Reserve Fund* – This fund was created by the Water and Sewer Revenue Bonds, Series 2019, Trust Indenture. Contemporaneously with the delivery of the indenture, there was paid into the Debt Service Reserve Fund, an amount equal to the maximum annual debt service. The monies forming a part of the Debt Service Reserve Fund are held as a reserve for the payment of principal and interest on the bonds but shall be used for the purpose only when necessary to prevent default in the payment of such principal and interest from the Debt Service Fund. If at any time, the balance in the Debt Service Reserve Fund should fall below the maximum required reserve, on or before the last day of the month, transfers should be made to the Debt Service Reserve Fund until it is fully restored.

*Capital Improvement Fund* – This fund was created by the Water and Sewer Revenue Bonds, Series 2019, Trust Indenture. The monies in this fund are solely to be used for the improvements of the Board’s capital system. Funds are transferred to the general account as costs are incurred and approved to be paid.

***Receivables***

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 uncollectable.

***Capital Assets***

Capital assets consisted of the following as of September 30, 2023:

	<b>Restated 2022</b>	<b>Additions</b>	<b>Deletions</b>	<b>2023</b>
Capital assets, not being depreciated				
Land and land improvements	\$ 569,826	\$ -	\$ -	\$ 569,826
Total capital assets, not being depreciated	569,826	-	-	569,826

Continued

**The Water Works and Sewer Board of the City of Prichard  
Notes to Financial Statements**

**NOTE 2 DETAILED NOTES (CONTINUED)**

***Capital Assets (continued)***

	<b>Restated 2022</b>	<b>Additions</b>	<b>Deletions</b>	<b>2023</b>
Capital assets, being depreciated				
Sanitary sewer system	\$ 44,377,500	\$ -	\$ -	\$ 44,377,500
Water distribution system	3,985,459	9,850	-	3,995,309
Water and sewer improvements	6,813,929	489,399	-	7,303,328
Machinery and equipment	2,529,195	-	-	2,529,195
Building improvements	509,850	11,500	-	521,350
Computers and related equipment	263,621	8,780	-	272,401
Vehicles	1,673,817	-	-	1,673,817
Office equipment and furniture	131,648	-	-	131,648
Total capital assets, being depreciated	<u>60,285,019</u>	<u>519,529</u>	<u>-</u>	<u>60,804,548</u>
Less accumulated depreciation for				
Sanitary sewer system	25,657,826	975,280	-	26,633,106
Water distribution system	1,884,805	105,283	-	1,990,088
Water and sewer improvements	1,838,447	285,246	-	2,123,693
Machinery and equipment	1,854,409	202,807	-	2,057,216
Building improvements	277,233	27,643	-	304,876
Computers and related equipment	226,950	19,378	-	246,328
Vehicles	1,224,726	216,178	-	1,440,904
Office equipment and furniture	85,274	17,854	-	103,128
Total accumulated depreciation	<u>33,049,670</u>	<u>1,849,669</u>	<u>-</u>	<u>34,899,339</u>
Total capital assets, being depreciated, net	<u>27,235,349</u>	<u>(1,330,140)</u>	<u>-</u>	<u>25,905,209</u>
Total capital assets, net	<u>\$ 27,805,175</u>	<u>\$ (1,330,140)</u>	<u>\$ -</u>	<u>\$ 26,475,035</u>

Ending balances on September 30, 2022, were restated for prior year errors. See note 8.

## The Water Works and Sewer Board of the City of Prichard Notes to Financial Statements

### NOTE 2 DETAILED NOTES (CONTINUED)

#### *Long-term Debt*

##### *Water and Sewer Revenue Bonds*

The Water and Sewer Revenue Bonds Series 2019 have principal payments ranging from \$500,000, beginning in 2020 to \$3,215,000 in fiscal year 2050 payable each November 1st. The bonds have interest rates ranging from 2.125% to 5.00%. Interest payments are due May 1st and November 1st with annual interest ranging from \$64,300 to \$2,220,088. The rate covenants include a requirement that the Fiscal Year's Annual Net Income not be less than 120% of the aggregate amount payable during such year as debt service on all outstanding bonds. Per the bond covenants the Board was to make deposits to a debt service fund to provide funds for the payment of interest and principal on the series 2019 bonds. Loss on the refunding of the Water and Sewer Revenue Bond series 2018 of \$844,764 as of September 30, 2023 is amortized over the period of the refunded Water and Sewer Revenue Bond Series 2018 at \$72,346 per year. Amortization for the year ending September 30, 2023 was \$72,346.

The Water and Sewer Revenue Bonds Series 2019 are secured by a pledge of all system revenues remaining after the payment of operating expenses (Net System Revenues). The remaining principal and interest payments on this debt as of September 30, 2023 totaled \$88,551,612. Principal and interest payments for the year ended September 30, 2023 and Net System Revenues were \$2,718,763 and \$18,676 respectively. Principal and interest payments were 146% of pledged revenues for the year ended September 30, 2023.

Debt service requirements to maturity are summarized as follows:

Years Ending September 30,	Water and Sewer Revenue Bonds, 2019 Series			
	Principal	Interest	Premium	Total
2024	\$ 1,140,000	\$ 2,141,888	\$ 112,371	\$ 3,394,259
2025	1,195,000	2,083,513	112,371	3,390,884
2026	1,255,000	2,022,263	112,371	3,389,634
2027	1,310,000	1,968,638	112,371	3,391,009
2028	1,350,000	1,928,638	112,371	3,391,009
2029-2033	7,520,000	8,879,072	561,855	16,960,927
2034-2038	9,200,000	7,201,400	561,855	16,963,255
2039-2043	11,235,000	5,164,500	561,855	16,961,355
2044-2048	13,720,000	2,677,000	561,855	16,958,855
2049-2050	6,305,000	254,700	134,135	6,693,835
	<u>\$ 54,230,000</u>	<u>\$ 34,321,612</u>	<u>\$ 2,943,410</u>	<u>91,495,022</u>

**The Water Works and Sewer Board of the City of Prichard**  
**Notes to Financial Statements**

**NOTE 2 DETAILED NOTES (CONTINUED)**

***Long-term Debt (continued)***

*Note payable*

On September 1, 2022, the Board converted the outstanding line of credit to an unsecured promissory note payable for \$315,158. The note payable matures on September 1, 2027, with monthly principal and interest payments of \$6,032. The interest rate on the note is variable and it is based on an independent index which is the prime rate for the U.S designated in the “Money Rates” section of the Wall Street Journal. The interest rate on September 30, 2023, was 8.5%. Principal and interest payments for the year ended September 30, 2023 were \$68,460. At September 30, 2023, the outstanding balance on the note payable was \$258,233.

Debt service requirements to maturity are summarized as follows:

Years Ending September 30,	Note payable		
	Principal	Interest	Total
2024	\$ 59,408	\$ 12,967	\$ 72,375
2025	62,843	9,531	72,374
2026	66,439	5,936	72,375
2027	69,543	2,135	71,678
	<u>\$ 258,233</u>	<u>\$ 30,569</u>	<u>\$ 288,802</u>

Long-term liability activity for the year ended September 30, 2023 consisted of the following:

	Balance 10/1/2022	Increase	Decrease	Balance 9/30/2023	Amount Due Within 1 Year
Water and Sewer Revenue Bonds	54,765,000	\$ -	\$ 535,000	\$ 54,230,000	\$ 1,140,000
Unamortized premium of Water & Sewer Revenue Bond Series 2019	3,055,781	-	112,371	2,943,410	-
Note payable	310,571	-	52,338	258,233	59,408
Net pension liability	230,383	1,314,390	-	1,544,773	-
Refundable meter deposits	393,920	-	35,071	358,849	-
Compensated absences	50,613	10,013	-	60,626	-
Total	<u>\$ 58,806,268</u>	<u>\$ 1,324,403</u>	<u>\$ 734,780</u>	<u>\$ 59,395,891</u>	<u>\$ 1,199,408</u>

## The Water Works and Sewer Board of the City of Prichard Notes to Financial Statements

### NOTE 3: 2019 BOND SERIES INDENTURE AGREEMENT

The 2019 Bond Series Indenture Agreement, Section 11.5, requires the Board to make and maintain such rates and charges for the water and other services supplied from the System and will make collections from the users thereof in such manner as shall produce revenues during each fiscal year at least equal to 120% of the aggregate amount due and payable during such fiscal year as debt service on all outstanding bonds. The calculations applicable to Section 11.5 are presented on page 39. The Water Works and Sewer Board of the City of Prichard did not meet these requirements for the 2023 fiscal Year.

### NOTE 4: NET INVESTMENT IN CAPITAL ASSETS

The elements of this calculation are as follows:

Capital assets, net	\$ 26,475,035
Outstanding debt related to capital assets	(56,328,646)
Unspent bond proceeds	<u>26,369,177</u>
Total	<u><u>\$ (3,484,434)</u></u>

### NOTE 5: PENSION PLAN

#### *Plan Description*

Water Works and Sewer Board of the City of Prichard Employees' Pension Plan is a single-employer defined benefit pension plan sponsored by The Water Works and Sewer Board of the City of Prichard which is responsible for establishing or amending any benefit terms. The city council members of the City of Prichard are responsible for appointing the five members of the Board. There are no non-employer contributing entities, as defined by GASB 67 and 68, for this plan. There are no special funding situations, as defined by GASB 67 and 68, for this plan.

#### *Summary of Significant Accounting Policies*

##### *Contributions*

The Plans' financial statement are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions.

## The Water Works and Sewer Board of the City of Prichard Notes to Financial Statements

### NOTE 5: PENSION PLAN (CONTINUED)

#### *Method Used to Value Investments*

Investments are valued as of the measurement date. Investments in separate accounts held at The Principal Financial Group are commingled pools, rather than individual securities and are valued at fair market value.

#### *Presentation of Financial Statements*

The Plan does not issue stand-alone financial reports and are not included in the reports of any other entity.

#### *Contributions*

The basis for determining contributions is an actuarially determined contribution rate that is calculated each year in the plan's actuarial valuation report. The actuarially determined contribution rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with additional amounts to finance any unfunded accrued liability and plan administrative expenses.

In accordance with the plan's governing document, employees may be required to contribute to the plan.

Employees are currently required to contribute 5.00% of salary.

The actuarially determined employer contribution for the plan year beginning 10/1/2021 and ending 9/30/22 is \$274,049 and increased to \$402,678 for plan year beginning 10/1/22 and ending 9/30/23.

Employer contributions for the measurement period ending 9/30/2022 were \$0. Employer contributions subsequent to the measurement date for the period ending 9/30/23 were \$83,330. Employee contributions for the measurement period ending 9/30/22 were \$70,812.

**The Water Works and Sewer Board of the City of Prichard  
Notes to Financial Statements**

**NOTE 5: PENSION PLAN (CONTINUED)**

***Plan Membership and Benefits***

The makeup of plan participants as of September 30, 2022, valuation was as follows:

<b>Measurement date</b>	<b>9/30/2022</b>
<b>Fiscal year end</b>	<b>9/30/2023</b>
Active plan members	37
Inactive plan members entitled to but not yet receiving benefits	-
Disabled plan members entitled to benefits	-
Retired plan members of beneficiaries currently receiving benefits	25
Total	<u>62</u>

The pension plan provides for retirement and other benefits summarized below. There have been no changes in plan provisions during the measurement period. There have been no changes in plan provisions between the September 30, 2022, measurement date and the September 30, 2023 reporting date.

Plan Eligibility

Covered Group – All permanent full-time employees of The Water Works and Sewer Board of the City of Prichard.

## The Water Works and Sewer Board of the City of Prichard Notes to Financial Statements

### NOTE 5: PENSION PLAN (CONTINUED)

#### *Plan Membership and Benefits (continued)*

##### Normal Retirement Benefit

Age – Attained age 55.

Service – 20 years of accrual service.

Form – Monthly annuity payable for life for single participants. 50% joint and survivor for married participants.

Amount (accrued benefit) –

- 20 through 25 years of accrual service: 50% times the greater of average earning at termination or annual earnings at termination.
- 26 through 29 years of accrual service: 55% times the greater of average earnings at or annual earnings at termination.
- 30 through more years of accrual service: 60% times the greater of average earnings at termination or annual earnings at termination.

##### Late Retirement Benefit

Age – No maximum age

Form – Same as normal retirement

Amount – Accrued benefit on late retirement date

##### Termination Benefit

Eligibility – 5 years of accrual service

Amount –

- 5 through 9 years of accrual service: 50% of employee contributions without interest.
- 10 through 19 years of accrual service: 100% of employee contributions without interest.
- 20 or more years of accrual service: deferred benefit equal to the accrued benefit payable at normal retirement.

##### Disability Benefit

Eligibility – Termination of employment due to temporary or permanent disability after completion of 10 years of accrual service.

## The Water Works and Sewer Board of the City of Prichard Notes to Financial Statements

### NOTE 5: PENSION PLAN (CONTINUED)

#### *Plan Membership and Benefits (continued)*

Form – Monthly income payable until normal retirement, death, or recovery and a deferred annuity payable at the Normal Retirement Date.

Amount – 50% times the greater of average earnings or annual earnings at the time of disability, payable for one year.

#### Lump Sum Death Benefit

Amount – \$1,000 for active or retired employees

#### Pre-Retirement Survivor Annuity Death Benefit

Eligibility – Qualified married active participant and 15 years of accrual service

Form – Monthly annuity payable to spouse

Benefit – 50% of an accrued benefit calculated as if the participant had 20 years of accrual service

#### Post-Retirement Survivor Annuity Death Benefit

Eligibility – Qualified married retired participant

Form – Monthly annuity payable to spouse

Benefit – 50% of the retirement amount being received by the deceased retired participant at the time of death

#### Definitions

Employee contributions – 5% of annual earnings

Average earnings – average of annual compensation over the last 60 months.

Accrual service – Years of service since date of hire.

#### Deferred retirement option program (DROP)

The pension plan does not provide for DROP benefits.

## The Water Works and Sewer Board of the City of Prichard Notes to Financial Statements

### NOTE 5: PENSION PLAN (CONTINUED)

#### *Pension Plan Investments*

##### Investment policy

The investment policy was adopted by the respective Plan Board, which has the authority for establishing and amending investment policy decisions for the plan. Principal Financial Advisors, Inc., a registered investment advisor and wholly owned subsidiary of Principal, has been hired to manage asset allocation strategy for the plan.

The plan's investments are reported at fair value. Independent investment managers and an independent custodian handle all pension investments and disbursements.

##### Concentrations

As of the measurement date, the following are investments (other than U.S. Government and U.S. Government guaranteed obligations) in any one organization that represents 5 percent or more of the pension plan's fiduciary net position.  $\$6,237,251 \times 0.05 = \$311,863$ .

Principal Financial Group            \$6,237,251

##### Money-weighted rate of return

The money-weighted rate of return is calculated as a rate of return on pension plan investments incorporating the actual timing and amount of cash flows. This return is calculated net of investment expenses.

The annual money-weighted rate of return on plan investments for the measurement period of 10/01/2021 to 09/30/2022 is -15.02%.

The actual date and amount of each contribution, benefit payment and administrative expense payment was used in the calculation of the money-weighted rate of return.

	<b>Amount</b>	<b>Interest</b>	<b>Amount with Interest</b>
Fiduciary Net Position, beginning	\$ 7,898,715	\$ (1,186,538)	\$ 6,712,177
Total benefit payments	(574,664)	49,456	(525,208)
Total contributions	70,812	(3,419)	67,393
Total administrative expenses	(18,326)	1,215	(17,111)
<b>Fiduciary Net Position, ending</b>	<b>\$ 7,376,537</b>	<b>\$ (1,139,286)</b>	<b>\$ 6,237,251</b>

**The Water Works and Sewer Board of the City of Prichard  
Notes to Financial Statements**

**NOTE 5: PENSION PLAN (CONTINUED)**

***Pension Plan Investments (continued)***

Allocated insurance contracts

No annuities were purchased for plan members during the measurement period.

***Net Pension Liability, Significant Assumptions, and Discount Rate***

The components of net pension liability of the Board as of September 30, 2022, were as follows:

Total pension liability	\$ 7,782,024
Plan fiduciary net position	(6,237,251)
<b>Board's net pension liability</b>	<b>\$ 1,544,773</b>

Plan Fiduciary net position as a percentage of the total pension liability	80.15%
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Cost Method

The entry age actuarial cost method is used for this disclosure. Under this method, the present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the earnings between entry age and assumed exit age(s). The portion of the present value allocated to a year is the service cost.

Projected benefits are based on projected salary and projected service.

Measurement date

A measurement period of 10/01/21 to 09/30/2022 has been used for the plan year ending 09/30/2022 for GASB 67 reporting and for the fiscal year ending 09/30/2023 for GASB 68 reporting.

The net pension liability reported for The Water Works and Sewer Board of the City of Prichard's fiscal year end of 09/30/2023 was measured as of 09/30/2022, using the total pension liability that was determined by an actuarial valuation as of 09/30/2022.

Assumptions

The end of period total pension liability was determined using the assumption and methods described below.

## The Water Works and Sewer Board of the City of Prichard Notes to Financial Statements

### NOTE 5: PENSION PLAN (CONTINUED)

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

##### Assumptions and methods prescribed by GASB - used to determine the total pension liability and the discount rate

Asset method - Market value of assets, as of the measurement date

Discount rate and basis – Beginning of period – 4.50%, long-term rate of return assumption; End of period – 5.50%, long-term rate of return assumption.

Municipal bond rate and basis – 4.73%. Bloomberg Barclays Municipal GO Long Term (17+ Y) Index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher, as of the measurement date.

Cost method – Entry age normal cost method, level percent of pay. Attribution is made on an individual basis, beginning with the first period in which the employee's service accrues pension benefit through all assumed exit ages, through retirement.

Participant group – The active, deferred vested and retiree census is as of 9/30/2022.

##### Assumptions and methods selected by actuary - used to determine the total pension liability and the discount rate

Long-term rate of return on plan assets – 5.50%. The interest rate is developed as a long-term expected geometric return on plan assets. Arithmetic expected return is calculated as the weighted average of broad asset classes' arithmetic returns of the plan's target asset allocation and then converted to the geometric under lognormal distribution assumption.

Interest rate for employee accumulations – 0.00%. Set by Alabama Law Act No. 96-548

Retirement – Active participants are assumed to retire at age 55 and 20 years of service. Inactive participants are assumed to retire at Normal Retirement Age as defined in summary of plan provisions. This assumption is based on the results of recent experience analysis and anticipated future experience.

Inflation – 2.40% increase per year

Upcoming salary increases – The preceding year's salary is increased by 5.00% at each age. Expected salary increase is composed of salary inflation, a real wage growth and a merit increase. This reflects organization's salary increase philosophies along with more recent experience of the plan participants.

Compensation limit increase of 2.4% per year. Compensation limit increase should be consistent with the inflation assumption.

## The Water Works and Sewer Board of the City of Prichard Notes to Financial Statements

### NOTE 5: PENSION PLAN (CONTINUED)

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

Mortality – Based on PubG-2010 General base rate mortality table projected to future years with historical and assumed mortality improvement (MI) rates using the MP 2021 mortality improvement scale. MP-2021 is the most recent improvement scale published by the SOA in October 2021.

Disability – None. Due to the size of the plan and limited experience, we are not recognizing a disability assumption prior to retirement. This provides a conservative measurement of obligations.

Withdrawal – 2003 Society of Actuaries Small Plan Age Table, multiplied by 1.5.

Marriage – 75% married; male is 3 years older than the female. This assumption does not have material impact on the results of this report and has been selected based on our best estimate of active workforce.

Form of benefit – Participants are assumed to receive their benefits on the normal form at the assumed retirement age. The optional forms of payment available under the plan are considered to be actuarially equivalent.

Retirees – Assets and liabilities for current and future retirees are included.

Funding policy for employer contributions – Assume 100% of the estimated Actuarially Determined Contribution amount is contributed midway during each projection period. Written funding policy is not available. Assuming past contribution pattern continues.

Future employer contributions - Assumed employer contributions are equal to:

- Employer Normal Cost assumed to continue at 4.93% of payroll throughout the projection period. This is based on the 10/01/2022 Actuarial valuation report.
- Current bases as of the 10/01/2022 Actuarial valuation report will continue to be amortized over their remaining periods. No future experience bases will be established as experience is assumed to match projection assumptions. No future assumption bases will be established as no assumption changes are made during the projection period. No future benefit change bases will be established as no future benefit changes are assumed.

## The Water Works and Sewer Board of the City of Prichard Notes to Financial Statements

### NOTE 5: PENSION PLAN (CONTINUED)

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

- Expenses assumed to start at \$21,500 and grow with the inflation assumption throughout the projection period. This is the best estimate available of upcoming years' expenses.

Future Employee Contributions - Employee contributions continue at 5.00% during the projection period.

The beginning of period total pension liability was determined using the same assumptions and methods, with the exception of the changes noted below.

This year we updated the following assumptions:

- The discount rate and long-term rate of return increased from 4.5% to 5.5%.
- The comp limit increased from 2.25% to 2.4%.
- The inflation rate increased from 2.25% to 2.4%.

#### Long-term rate of return

The expected long-term rate of return assumption as of the end of period is 5.50%

The actual weighted average asset allocation for the four quarterly dates from 12/31/21 to 9/30/22 is used as an approximation of the plan's target asset allocation over the upcoming period, and is shown below. Based on this analysis we believe the assumption selected is in the range of reasonable rates that could be used for this period.

Asset Class	Expected Arithmetic Return	Expected Geometric Return	Target Allocation %
US Equity - Large Cap	7.70%	6.20%	19.68%
US Equity - Mid Cap	8.00%	6.20%	2.24%
US Equity - Small Cap	8.55%	6.20%	1.10%
Non-US Equity	8.00%	6.20%	10.40%
Real Estate (Direct Property)	5.35%	5.00%	7.33%
Core Bond	4.20%	4.05%	54.40%
High Yield	6.10%	5.65%	4.85%
			100.00%

## The Water Works and Sewer Board of the City of Prichard Notes to Financial Statements

### NOTE 5: PENSION PLAN (CONTINUED)

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

Exp LTROA (arithmetic mean)	5.59%
Portfolio standard deviation	7.38%
40th percentile	4.82%
45th percentile	5.08%
Expected Compound Return (geometric)	5.34%
55th percentile	5.59%
60th percentile	5.85%
Equity/Fixed Income/Other	33% / 59% / 7%

Basis used to determine expected long-term return on plan assets – The Capital Market Assumptions used in our model were developed focusing on forward-looking market indicators and valuation models, as well as utilizing the analysis of historical data and trends, the outlook and forecasts from credible economic studies, and investment expert opinions.

#### Long-Term Capital Market Assumptions 2022

The long-term rate of return assumption as of the beginning of period was 4.50%.

#### Discount Rate

The discount rate used to determine the end of period Total Pension Liability is 5.50%.

The plan's fiduciary net position and benefit payments were projected to determine if the plan's fiduciary net position was greater than or equal to the expected benefit payments for each period from 2022 to 2079. Benefit payments after 2115 are projected to be \$0.

The long-term rate of return of 5.50% is used to calculate the actuarial present value of projected payments for each future period when the projected Fiduciary Net Position is greater than the projected expected benefit payments. Otherwise, a municipal bond rate of 4.73% is used. The municipal bond rate is from Bloomberg Barclays Municipal GO Long Term (17+ Y) Index, which includes 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher securities, as of the 09/30/2022 measurement date. The discount rate is a single rate that incorporates the long-term rate of return and municipal bond rate as described.

The discount rate used to determine the beginning of period total pension liability is 4.50%.

**The Water Works and Sewer Board of the City of Prichard  
Notes to Financial Statements**

**NOTE 5: PENSION PLAN (CONTINUED)**

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

The pension expense for the fiscal year ended September 30, 2023 was \$468,283.

On September 30, 2023, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**Statement of Deferred Outflows and (Inflows) of Resources**

	<b>Deferred Outflows of Resources</b>	<b>Deferred (Inflows) of Resources</b>
Differences between expected and actual experience	\$ 749,904	\$ (198,539)
Effects of changes in assumptions	93,694	(728,844)
Net difference between expected and net investment income	888,184	-
Employer contributions subsequent to the measurement date	83,330	-
Total deferred outflows and (inflows) of resources	\$ 1,815,112	\$ (927,383)

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

<b>Fiscal year ending September 30,</b>	<b>Amount to be Recognized</b>
2024	\$ 202,257
2025	165,129
2026	115,205
2027	309,556
2028	7,292
Thereafter	4,960
Total	\$ 804,399

**The Water Works and Sewer Board of the City of Prichard  
Notes to Financial Statements**

**NOTE 5: PENSION PLAN (CONTINUED)**

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

	<b>Total Pension Liability</b>	<b>Fiduciary Net Position</b>	<b>Net Pension Liability</b>
<b>Balance, beginning of period</b>	\$ 8,129,098	\$ 7,898,715	\$ 230,383
<b>Changes for the year, increase/(decrease)</b>			
Service cost	175,051	-	175,051
Interest	359,311	-	359,311
Benefit payments	(574,664)	(574,664)	-
Differences between expected and actual experience	610,214	-	610,214
Changes in assumptions	(916,986)	-	(916,986)
Employee contributions	-	70,812	(70,812)
Employer contributions	-	-	-
Net investment income	-	(1,139,286)	1,139,286
Administrative expenses	-	(18,326)	18,326
<b>Net changes</b>			
Net changes	(347,074)	(1,661,464)	1,314,390
<b>Balance, end of period</b>	<u>\$ 7,782,024</u>	<u>\$ 6,237,251</u>	<u>\$ 1,544,773</u>

The sensitivity of the net pension liability to changes in discount rate is shown below.

**Sensitivity to Changes in Discount Rate**

	<b>1% decrease 4.50%</b>	<b>Discount Rate 5.50%</b>	<b>1% increase 6.50%</b>
<b>Net pension liability</b>	\$ 2,461,759	\$ 1,544,773	\$ 781,182

***Pension Plan Financial Statements***

The Board does not issue separate financial statements for the pension plan. The basic financial statements include a statement of net position and a statement of changes in the fiduciary net position.

## **The Water Works and Sewer Board of the City of Prichard Notes to Financial Statements**

### **NOTE 6: RISK MANAGEMENT**

The Board 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 Board purchases separate commercial insurance coverage for workers' compensation, liability, and property damage. Coverage for workers' compensation and automobile claims are limited to a maximum of \$1,000,000. Coverage for general liability claims is a maximum of \$2,000,000.

The commercial insurance carried is a claims incurred policy for which the Board is covered for claims originating against the Board during the policy period. The amount of coverage is dependent on the date of the liability-imposing event. The Board has maintained continuous coverage and does not believe it has any exposure to events which occurred prior to the year ended September 30, 2023.

### **NOTE 7: COMMITMENTS AND CONTINGENCIES**

The Board is involved in certain litigation in the ordinary course of business. Management does not anticipate these claims to have a significant adverse impact on the Board's financial position.

At September 30, 2023 the Board had open construction commitments of approximately \$335,753.

### **NOTE 8: PRIOR PERIOD ADJUSTMENT**

Subsequent to the issuance of the prior year financial statements, the Board determined that expenses had been improperly capitalized in prior years. As a result, beginning net position and capital assets decreased by \$2,452,574.

### **NOTE 9: SUBSEQUENT EVENTS**

Management's evaluation of subsequent events through May 7, 2025, which is the date the financial statements were available to be issued, revealed no significant matters to be recorded or disclosed, except as noted below.

On November 10, 2023, a court action was entered by the Synovus Corporate Trust against the Board for failure to pay the required interest and principal payments due on the Water and Sewer Bonds Series 2019. As a result, an order was granted appointing a receiver to exercise all rights and power with respect to the operation and control of the Board.

## **Required Supplementary Information**

**The Water Works and Sewer Board of the City of Prichard**  
**Required Supplementary Information**  
**Schedules of Defined Benefit Pension Plans**  
**September 30, 2023**

**Schedule of Changes in Net Pension Liability**

Measurement period ending	9/30/2022	9/30/2021	9/30/2020	9/30/2019	9/30/2018	9/30/2017	9/30/2016	9/30/2015
Fiscal year ending	9/30/2023	9/30/2022	9/30/2021	9/30/2020	9/30/2019	9/30/2018	9/30/2017	9/30/2016
<b>Total Pension Liability</b>								
Service cost	\$ 175,051	\$ 208,795	\$ 198,006	\$ 173,247	\$ 323,542	\$ 289,009	\$ 77,652	\$ 52,162
Interest	359,311	338,237	336,623	385,319	415,299	398,187	379,928	377,898
Benefit payments	(574,664)	(536,546)	(498,014)	(584,908)	(518,660)	(483,365)	(493,885)	(503,685)
Difference between expected and actual experience	610,214	344,300	56,259	(632,430)	(551,458)	116,976	188,703	(10,315)
Change in assumptions	(916,986)	183,460	(51,445)	1,050,620	(9,307)	(31,804)	(38,153)	388,935
Net Change in Total Pension Liability	(347,074)	538,246	41,429	391,848	(340,584)	289,003	114,245	304,995
Total Pension Liability, beginning of period	8,129,098	7,590,852	7,549,423	7,157,575	7,498,159	7,209,156	7,094,911	6,789,916
Total Pension Liability, end of period	\$ 7,782,024	\$ 8,129,098	\$ 7,590,852	\$ 7,549,423	\$ 7,157,575	\$ 7,498,159	\$ 7,209,156	\$ 7,094,911
<b>Fiduciary Net Position</b>								
Employee contributions	\$ 70,812	\$ 48,495	\$ 59,554	\$ 55,766	\$ 67,778	\$ 84,283	\$ 58,004	\$ 13,157
Employer contributions	-	711,094	303,442	325,338	432,405	439,049	262,367	213,049
Net investment income	(1,139,286)	711,226	449,162	359,245	221,127	369,443	360,234	(12,877)
Benefit payments	(574,664)	(536,546)	(498,014)	(584,908)	(518,660)	(483,365)	(493,885)	(503,685)
Administration expenses	(18,326)	(17,556)	(17,556)	(17,606)	(17,596)	(17,556)	(17,636)	(17,596)
Net Change in Fiduciary Net Position	(1,661,464)	916,713	296,588	137,835	185,054	391,854	169,084	(307,952)
Fiduciary Net Position, beginning of period	7,898,715	6,982,002	6,685,414	6,547,579	6,362,525	5,970,671	5,801,587	6,109,539
Fiduciary Net Position, end of period	\$ 6,237,251	\$ 7,898,715	\$ 6,982,002	\$ 6,685,414	\$ 6,547,579	\$ 6,362,525	\$ 5,970,671	\$ 5,801,587
<b>Net Pension Liability</b>								
Net Pension Liability	\$ 1,544,773	\$ 230,383	\$ 608,850	\$ 864,009	\$ 609,996	\$ 1,135,634	\$ 1,238,485	\$ 1,293,324
<b>End of Period Assumptions</b>								
Long-term rate of return	5.50%	4.50%	4.50%	4.50%	5.50%	5.50%	5.50%	5.50%
Discount rate	5.50%	4.50%	4.50%	4.50%	5.50%	5.50%	5.50%	5.50%
Salary increase assumption	5.00%	5.00%	5.00%	5.00%	3.00%	3.00%	3.00%	3.00%
Retirement age assumption	55 + 20	55 + 20	55 + 20	55 + 20	55 + 20	55 + 20	55 + 20	55 + 20
Plan changes	years service	years service	years service	years service	years service	years service	years service	years service
	none	none	none	none	none	none	none	none

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

See independent auditor's report

**The Water Works and Sewer Board of the City of Prichard  
Required Supplementary Information  
Schedule of Defined Benefit Pension Plans  
September 30, 2023**

**Schedule of Net Pension Liability Ratios**

<b>Measurement period ending</b>	<b>9/30/2022</b>	<b>9/30/2021</b>	<b>9/30/2020</b>	<b>9/30/2019</b>	<b>9/30/2018</b>	<b>9/30/2017</b>	<b>9/30/2016</b>	<b>9/30/2015</b>
<b>Fiscal year ending</b>	<b>9/30/2023</b>	<b>9/30/2022</b>	<b>9/30/2021</b>	<b>9/30/2020</b>	<b>9/30/2019</b>	<b>9/30/2018</b>	<b>9/30/2017</b>	<b>9/30/2016</b>
Total Pension Liability	\$ 7,782,024	\$ 8,129,098	\$ 7,590,852	\$ 7,549,423	\$ 7,157,575	\$ 7,498,159	\$ 7,209,156	\$ 7,094,911
Fiduciary Net Position	6,237,251	7,898,715	6,982,002	6,685,414	6,547,579	6,362,525	5,970,671	5,801,587
Net Pension Liability	<u>\$ 1,544,773</u>	<u>\$ 230,383</u>	<u>\$ 608,850</u>	<u>\$ 864,009</u>	<u>\$ 609,996</u>	<u>\$ 1,135,634</u>	<u>\$ 1,238,485</u>	<u>\$ 1,293,324</u>
Fiduciary net position as a percentage of total pension liability	80.15%	97.17%	91.98%	88.56%	91.48%	84.85%	82.82%	81.77%
Covered payroll	<u>\$ 1,517,246</u>	<u>\$ 1,062,053</u>	<u>\$ 1,231,003</u>	<u>\$ 1,201,283</u>	<u>\$ 795,632</u>	<u>\$ 1,697,262</u>	<u>\$ 1,442,824</u>	<u>\$ 318,406</u>
Net pension liability as a percentage of covered payroll	101.81%	21.69%	49.46%	71.92%	76.67%	66.91%	85.84%	406.19%

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

See independent auditor's report

**The Water Works and Sewer Board of the City of Prichard**  
**Required Supplementary Information**  
**Schedule of Defined Benefit Pension Plans**  
**September 30, 2023**

**Schedule of Employer (ER) Contributions for GASB 67 and 68**

Measurement period ending	9/30/2022	9/30/2021	9/30/2020	9/30/2019	9/30/2018	9/30/2017	9/30/2016	9/30/2015
Fiscal year ending	9/30/2022	9/30/2021	9/30/2020	9/30/2019	9/30/2018	9/30/2017	9/30/2016	9/30/2015
<b>Contributions</b>								
Actuarially determined ER contributions	\$ 274,049	\$ 325,366	\$ 330,032	\$ 296,798	\$ 457,621	\$ 430,804	\$ 260,847	\$ 211,545
ER contributions received by the plan	-	711,094	303,442	325,338	432,405	439,049	262,367	213,049
<b>Contribution deficiency (excess)</b>	<b>\$ 274,049</b>	<b>\$ (385,728)</b>	<b>\$ 26,590</b>	<b>\$ (28,540)</b>	<b>\$ 25,216</b>	<b>\$ (8,245)</b>	<b>\$ (1,520)</b>	<b>\$ (1,504)</b>
<b>Ratios</b>								
Covered employee payroll	\$ 1,517,246	\$ 1,062,053	\$ 1,231,003	\$ 1,201,283	\$ 795,632	\$ 1,697,262	\$ 1,442,824	\$ 318,406
ER contributions received as a percentage of covered employee payroll	0.00%	66.95%	24.65%	27.08%	54.35%	25.87%	18.18%	66.91%
<b>ADC Assumptions</b>								
Long-term rate of return on assets	5.50%	4.50%	4.50%	4.50%	5.50%	5.50%	5.50%	5.50%
Interest rate	5.50%	4.50%	4.50%	4.50%	5.50%	5.50%	5.50%	5.50%
Salary increase assumption	5.00%	5.00%	5.00%	5.00%	3.00%	3.00%	3.00%	3.00%
Retirement age assumption	55 + 20	55 + 20	55 + 20	55 + 20	55 + 20	55 + 20	55 + 20	55 + 20
Plan changes	years service none	years service none	years service none	years service none	years service none	years service none	years service none	years service none

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

See independent auditor's report

**The Water Works and Sewer Board of the City of Prichard  
Required Supplementary Information  
Schedules of Defined Benefit Pension Plans  
Year Ended September 30, 2023**

**Schedule of Money-Weighted Investment Returns**

<b>Measurement period ending</b>	<b>9/30/2022</b>	<b>9/30/2021</b>	<b>9/30/2020</b>	<b>9/30/2019</b>	<b>9/30/2018</b>	<b>9/30/2017</b>	<b>9/30/2016</b>	<b>9/30/2015</b>	<b>9/30/2014</b>
<b>Fiscal year ending</b>	<b>9/30/2023</b>	<b>9/30/2022</b>	<b>9/30/2021</b>	<b>9/30/2020</b>	<b>9/30/2019</b>	<b>9/30/2018</b>	<b>9/30/2017</b>	<b>9/30/2016</b>	<b>9/30/2015</b>
Annual money-weighted rate of return on plan investments, net of investment expense	-15.02%	9.95%	6.88%	5.56%	3.50%	6.18%	6.34%	0.22%	6.02%

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

See independent auditor's report

## **Other Supplementary Information**

**The Water Works and Sewer Board of the City of Prichard**  
**Other Supplementary Information**  
**Schedule of the Calculation for Maintaining Adequate Rates for the 2019 Series**  
**Water and Sewer Bond Indenture, Section 11.5**  
**Year Ended September 30, 2023**

A - Annual Net Income - 2019 Series Bond Trust Indenture, Section 11.5	\$	18,676
B - 2023 Fiscal Year Debt Service X 1.20% - 2019 Series Bond Trust Indenture, Section 11.5 - \$2,718,763 X 1.20%		<u>3,262,516</u>
Comparison of A above to B above or (A - B) =	\$	<u><u>(3,243,840)</u></u>

\* According to the 2019 Series Water and Sewer Bond Indenture, Section 11.5, the comparison above should not result in less than zero.

**A- Annual Net Income**

System Revenues - page 9, Trust Indenture		\$ 12,743,965
Cost of Water Purchased - page 6, Trust Indenture	4,264,326	
All other operating expenses - page 6, Trust Indenture	9,266,139	
Excluding depreciation and amortization - page 6, Trust Indenture	<u>(1,849,669)</u>	
Total Operating Expenses, page 6, Trust Indenture		(11,680,796)
Investment income, page 6, Trust Indenture		(544,392)
Grant income, page 6, Trust Indenture		<u>(500,101)</u>
Annual Net Income - page 2, Trust Indenture		<u><u>\$ 18,676</u></u>

**B - 2023 Fiscal Year Debt Service**

Total debt service for the 2023 Fiscal Year per the 2019 Series Bond Trust Indenture, page 3		\$ 2,718,763
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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***

Board of Directors  
The Water Works and Sewer Board of the City of Prichard  
Prichard, 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 business-type activities, of The Water Works and Sewer Board of the City of Prichard (Board) as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements and have issued our report thereon dated May 7, 2025.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Board'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 Board's internal control. Accordingly, we do not express an opinion on the effectiveness of Board'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 a 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 were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings as items 2023-001, 2023-002, 2023-003, 2023-004, 2023-005, 2023-007. 2023-008 and 2023-009 that we consider to be material weaknesses.

## **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Board'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as item 2023-006.

## **Board's Responses to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on the Board's responses to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Board's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

## **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, Rigg & Ingram, L.L.C.*

Certified Public Accountants  
Panama City Beach, Florida  
May 7, 2025

**The Water Works and Sewer Board of the City of Prichard**  
**Schedule of Findings**  
**For the Year Ended September 30, 2023**

2023-001 Significant Audit Adjustments (initially reported in 2023)

Condition: Adjustments to the financial records had to be proposed by the auditors for the financial statements to conform to GAAP.

Criteria: The requirement is for the Board to prepare their financial statements in accordance with GAAP.

Effect: Financial statements are not in conformity with GAAP prior to adjustment.

Cause: Adjustments were necessary for the Board prepared financial statement to be in accordance with GAAP.

Recommendation: While we realize it would not likely be financially feasible to implement procedures necessary to eliminate all proposed audit adjustments, we recommend striving to reduce the number of adjustments needed as much as possible.

Views of responsible officials and planned corrective action: We will do as you recommend.

2023-002 Accounts Receivable Subledger Does Not Agree to the General Ledger (initially reported in 2023)

Condition: The Accounts Receivable Subledger does not agree to the general ledger.

Criteria – Subledgers for accounts should agree to the related balance on the general ledger.

Effect – Balance of accounts receivable on the general ledger cannot be reconciled back to the individual accounts which make up the balance. This may lead to an incorrect balance being reported on the financial statements.

Cause: Customers who have had balances written off and service terminated still appear on the accounts receivable subledger.

Recommendation: A review of all customer accounts on the subledger should be performed and those for which balances have been written off should be removed and the remaining balance agreed to the amount posted to the general ledger.

Views of responsible officials and planned corrective action: We will do as you recommend.

2023-003 Review of Bank Reconciliations (initially reported in 2023)

Condition: Bank reconciliations were not prepared on a timely basis or independently reviewed and signed off.

Criteria: Bank reconciliations should be prepared monthly, reviewed by someone other than the preparer and signed off as reviewed along with the date of the preparation and the date of the review.

Effect: Errors may not be caught and corrected on a timely basis. Lack of an independent review may lead to fraudulent activity not being detected.

**The Water Works and Sewer Board of the City of Prichard**  
**Schedule of Findings (Continued)**  
**For the Year Ended September 30, 2023**

Cause: Bank reconciliations were not being prepared within 30-45 days after month end. There was no sign off present on the statements that they had been independently reviewed.

Recommendation: Bank accounts should be reconciled monthly and reviewed by someone other than the preparer. Date of the preparation/review and signature of the preparer/reviewer should be included on the reconciliation.

Views of responsible officials and planned corrective action: We will do as you recommend.

2023-004 Lack of Formal Documentation on Financial Closing Procedures (initially reported 2023)

Condition: There are no formal written policies on accounting policies and procedures for financial closing procedures. The general ledger had not been formally closed out until the fiscal year 2023 audit had begun.

Criteria: The Board should have written accounting policies and procedures for steps taken regarding financial closing procedures to include reconciling accounts, posting accruals and closing out the general ledger on a timely basis.

Effect: Accounts may not be properly reconciled or reported when monthly or year-end financial statements are created from the general ledger system.

Cause: The Board did not document written policies for financial closing procedures.

Recommendation: The Board should document specific procedures to be followed at month and year-end for financial closing. This should include reconciling the subledgers to the general ledger and posting any necessary accruals.

Views of responsible officials and planned corrective action: We will do as you recommend.

2023-005 No Formal Inventory for Capital Assets (Initially reported in 2023)

Condition: Year-end inventory of capital assets is not being taken to determine that any additions or deletions of assets are being properly recorded on the general ledger.

Criteria: A yearly inventory of capital assets should be taken, and the results of that inventory should be reconciled to the balances on the general ledger.

Effect: Capital asset balances on the general ledger may not be correct and lead to possible misstatement on the financial statements.

Cause: The Board has not implemented a policy for a formal inventory of capital assets.

**The Water Works and Sewer Board of the City of Prichard**  
**Schedule of Findings (Continued)**  
**For the Year Ended September 30, 2023**

Recommendation: Once a year the staff should perform an inventory of capital assets and compare to the current schedule of assets and the general ledger balances for agreement. Any differences should be adjusted on both the schedule of assets and on the general ledger.

Views of responsible officials and planned corrective action: We will do as you recommend.

2023-006 Bond Covenants Are Not Being Met (initially reported 2023)

Condition: Bond covenants under the Water and Sewer Revenue Bonds Series 2019 are not being met.

Criteria: All bond covenants should be met in accordance with those included in the Water and Sewer Revenue Bond Series 2019.

Effect: Noncompliance with the covenants can lead to legal actions on the part of the trustee to declare the Bonds to be immediately due and payable or to appoint a receiver to administer and operate the system to ensure payment of the Bonds is met.

Cause: The Board did not meet the covenants as provided under the Water and Sewer Revenue Bond Series 2019.

Recommendation: At the time of our audit the Trustee had already instituted legal actions against the Board and a Receiver has been put in place to administer and operate the system. Therefore no further corrective actions can be taken to remedy the noncompliance.

Views of responsible officials and planned corrective action: With the appointment of the receiver the Board is currently working with the bond trustees regarding the default on the bond covenants.

2023-007 Lack of Reconciliation Between the CUSI System and the General Ledger (initially reported 2023)

Condition: There is no formal reconciliation between the CUSI system and the general ledger resulting in the 4<sup>th</sup> cycle billing for April 2023 not posted to the general ledger.

Criteria: Billings per the CUSI system should be reconciled to the postings in the general ledger for the revenue related accounts.

Effect: Billing cycles could be missed resulting in incorrect balances in the revenue and receivable accounts on the general ledger.

Cause: A reconciliation process has not been implemented to compare the monthly CUSI billings and collections against the amounts posted to the related general ledger accounts.

Recommendation: A monthly reconciliation should be prepared comparing billings and collections per the CUSI system to the general ledger postings. Someone other than the preparer should also review this reconciliation and sign off their approval.

Views of responsible officials and planned corrective action: We will do as you recommend.

**The Water Works and Sewer Board of the City of Prichard  
Schedule of Findings (Continued)  
For the Year Ended September 30, 2023**

2023-008 ACH transactions Lack Signature of Approval (initially reported 2023)

Condition: ACH transactions journal vouchers only include the signature of the preparer.

Criteria: ACH transaction journal vouchers should be signed by both a preparer and a reviewer.

Effect: ACH transactions recorded in the general ledger could contain errors due to a lack of a second review.

Cause: The Accountant prepares the journal vouchers which are reviewed by the Operations Manager but not formally signed off as reviewed and approved.

Recommendation: ACH journal vouchers should be signed off by the preparer and the reviewer prior to the release of the funds from the bank account.

Views of responsible officials and planned corrective action: With the appointment of the receiver all payments including those paid through ACH are processed by the accountant and approved by the receiver prior to payment.

2023-009 Incorrect Capitalization and Payment of Expenses (initially reported 2023)

Condition: Invoices were capitalized for costs that were not additions to capital assets or for actual expenses incurred for the benefit of the water and sewer system.

Criteria: Costs expected to provide long-lasting benefits over one year should only be considered as capital additions. Invoices should only be paid for actual work done for the benefit of the Board.

Effect: Balance sheets in prior years were materially incorrect as they included costs that should not have been capitalized or expenses paid to vendors for services not actually performed. This resulted in a prior period adjustment for the year ending September 30, 2023.

Cause: The Board of Directors did not properly oversee the work of vendors who were charged with the repairs and maintenance of the water and sewer system to determine if the work had been done and properly invoiced to the Board.

Recommendation: All material work on the water and sewer system by vendors should be overseen by the Board of Directors and management and documented. Documentation should include information on what specific work was done including physical observations and photographs displaying the work. This documentation should be presented to the Board at monthly meetings for full review and approval prior to payment of invoices to the related vendor.

Views of responsible officials and planned corrective action: With the appointment of the receiver all payments are processed by the accountant and approved by the receiver prior to payment. Currently, there is no board of directors.