

CITY OF SPANISH FORT, ALABAMA
GENERAL PURPOSE FINANCIAL STATEMENTS
FISCAL YEAR ENDED SEPTEMBER 30, 2022

CITY OF SPANISH FORT, ALABAMA
GENERAL PURPOSE FINANCIAL STATEMENTS

SEPTEMBER 30, 2022

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FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Members
of the City Council
City of Spanish Fort, Alabama

Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Spanish Fort, Alabama as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Spanish Fort, Alabama, as of September 30, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Spanish Fort, Alabama'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.

Auditors' 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. 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 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, we:

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, the Schedule of Changes in the Net Pension Liability and the Schedule of Employer Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management'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 the 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 part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Governmental Auditing Standards*, we have also issued our report dated March 27, 2023, on our consideration of the City of Spanish Fort, Alabama's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Spanish Fort, Alabama's internal control over financial reporting and compliance.

Certified Public Accountants

March 27, 2023
Fairhope, Alabama

BASIC FINANCIAL STATEMENTS

CITY OF SPANISH FORT, ALABAMA

STATEMENT OF NET POSITION

SEPTEMBER 30, 2022

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 17,776,185
Loan proceeds receivable	16,101
Receivables, net	509,353
Capital assets, net	44,240,022
Total assets	<u>62,541,661</u>
DEFERRED OUTFLOWS OF RESOURCES	
Employer retirement contributions and net difference between projected and actual earnings on plan investments	1,045,361
Loss on defeasance	168,690
Total deferred outflows of resources	<u>1,214,051</u>
Total assets and deferred outflows of resources	<u>\$ 63,755,712</u>
LIABILITIES	
Accounts payable and accrued expenses	\$ 112,223
Long-term liabilities	
Due within one year	912,677
Due in more than one year, net	6,033,751
Total liabilities	<u>7,058,651</u>
DEFERRED INFLOWS OF RESOURCES	
Net difference between projected and actual earnings on plan investments	510,616
Total deferred inflows of resources	<u>510,616</u>
Total liabilities and deferred inflows of resources	<u>7,569,267</u>
NET POSITION	
Net investment in capital assets	38,369,455
Restricted for:	
Construction and road maintenance	936,107
Unrestricted	16,880,883
Total net position	<u>56,186,445</u>
Total liabilities and net position	<u>\$ 63,755,712</u>

See independent auditors' report and notes to the financial statements.

CITY OF SPANISH FORT, ALABAMA

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2022

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position Primary Governmental Activities
Primary Government					
Governmental activities:					
General	\$ 4,007,424	\$ 1,198,563	\$ 213,962	\$ 9,595,212	\$ 7,000,313
Police	3,155,709	219,310	2,901	-	(2,933,498)
Fire	255,735	91,049	-	-	(164,686)
Public works	477,012	-	-	-	(477,012)
Library	260,733	-	-	-	(260,733)
Building	309,984	222,803	-	-	(87,181)
Senior Center	73,366	-	-	-	(73,366)
Interest on long term debt	336,977	-	-	-	(336,977)
Total governmental activities	<u>\$ 8,876,940</u>	<u>\$ 1,731,725</u>	<u>\$ 216,863</u>	<u>\$ 9,595,212</u>	<u>2,666,860</u>
General revenues:					
Taxes					
Sales					
Real estate					
Liquor					
Other					
Intergovernmental					
Investment earnings					
Value of assets received from Fire Department merger					
Other					
Total general revenues					<u>13,501,276</u>
Change in net position					16,168,136
Net position, beginning					40,018,309
Net position, ending					<u>\$ 56,186,445</u>

See independent auditors' report and notes to the financial statements.

CITY OF SPANISH FORT, ALABAMA

FUND BALANCE SHEETS
GOVERNMENTAL FUNDS

SEPTEMBER 30, 2022

	Major Fund		Nonmajor Funds	Total Governmental Funds
	General	Capital Projects Athletic Fund	Other Governmental	
ASSETS				
Cash	\$ 16,817,364	\$ 22,334	\$ 936,487	\$ 17,776,185
Receivables - Intergovernmental	509,353	-	-	509,353
Loan proceeds receivable	16,101	-	-	16,101
TOTAL ASSETS	<u>\$ 17,342,818</u>	<u>\$ 22,334</u>	<u>\$ 936,487</u>	<u>\$ 18,301,639</u>
LIABILITIES				
Accounts payable	\$ 70,162	\$ -	\$ -	\$ 70,162
TOTAL LIABILITIES	<u>70,162</u>	<u>-</u>	<u>-</u>	<u>70,162</u>
FUND BALANCES				
Restricted				
Construction and road maintenance	-	22,334	913,773	936,107
Assigned	2,345,954	-	-	2,345,954
Unassigned	14,926,702	-	22,714	14,949,416
TOTAL FUND BALANCES	<u>17,272,656</u>	<u>22,334</u>	<u>936,487</u>	<u>18,231,477</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 17,342,818</u>	<u>\$ 22,334</u>	<u>\$ 936,487</u>	<u>\$ 18,301,639</u>

See independent auditors' report and notes to the financial statements.

CITY OF SPANISH FORT, ALABAMA

RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO NET POSITION OF
GOVERNMENTAL ACTIVITIES

SEPTEMBER 30, 2022

Fund balances as reported on page 6	\$ 18,231,477
Net Position reported for governmental activities in the Statement of Net Position (page 4) are different from Fund Balances for governmental activities because:	
Capital assets used in governmental activities are financial resources and are not reported in fund financial financial statements	52,186,574
Depreciation is provided for the above capital assets in government-wide reporting, but not in fund financial statements	(7,946,552)
Long-term liabilities, including warrants payable, capital lease obligations and notes payable are not due and payable in the current period and are not reported in fund financial statements	
Obligations under capital leases	(98,715)
Warrants payable	(5,940,542)
Net pension liability	(907,171)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds	534,745
Deferred loss on the early retirement of debt is not reported in the fund financial statements but is recognized for government wide reporting	168,690
Accrued interest payable is not due and payable in the current period and therefore not reported in fund financial statements	<u>(42,061)</u>
Net Position of Governmental Activities as reported on page 4	<u><u>\$ 56,186,445</u></u>

See independent auditors' report and notes to the financial statements.

CITY OF SPANISH FORT, ALABAMA

STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES

FOR THE YEAR ENDED SEPTEMBER 30, 2022

	Major Fund		Non Major Funds	Total
	General	Capital Projects	Other	Governmental
		Athletic Fund	Governmental	Funds
REVENUES				
Local taxes	\$ 7,949,521	\$ -	\$ 29,373	\$ 7,978,894
Licenses, permits and fees	1,421,364	-	-	1,421,364
Fines	219,310	-	-	219,310
State of Alabama	145,331	-	225,921	371,252
Grants	9,812,075	-	-	9,812,075
Other revenues	385,854	13	8	385,875
Total revenues	19,933,455	13	255,302	20,188,770
EXPENDITURES				
General government	3,170,043	-	2,188	3,172,231
Building department	280,097	-	-	280,097
Police department	2,946,766	-	-	2,946,766
Public works	421,951	-	-	421,951
Library	260,733	-	-	260,733
Senior Center	73,366	-	-	73,366
Fire department	172,792	-	-	172,792
Capital outlay	10,164,518	-	-	10,164,518
Contributions	89,682	-	-	89,682
Debt service				
Principal	508,203	-	384,616	892,819
Interest	110,231	-	58,057	168,288
Total expenditures	18,198,382	-	444,861	18,643,243
EXCESS OF EXPENDITURES OVER (UNDER) REVENUES BEFORE OTHER FINANCING SOURCES (USES)	1,735,073	13	(189,559)	1,545,527
OTHER FINANCING SOURCES (USES)				
Debt proceeds	115,111	-	-	115,111
Transfers (to) from other funds	(442,673)	-	442,673	-
Total other financing sources (uses)	(327,562)	-	442,673	115,111
NET CHANGE IN FUND BALANCES	1,407,511	13	253,114	1,660,638
Fund balances, beginning of year	15,865,145	22,321	683,373	16,570,839
FUND BALANCES, END OF YEAR	\$ 17,272,656	\$ 22,334	\$ 936,487	\$ 18,231,477

See independent auditors' report and notes to the financial statements.

CITY OF SPANISH FORT, ALABAMA

RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2022

Net change in fund balances - total governmental funds, page 8	\$ 1,660,638
<p>Amounts reported for governmental activities in the Statement of Activities are different from the Statements of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds because:</p>	
<p>Governmental funds report capital outlays as expenditures while governmental activities report depreciation and amortization expense to allocate those expenditures over the life of the assets.</p>	
Capital outlays for the year	10,164,518
Depreciation expense for the year	(972,275)
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the fund financial statements.</p>	
Value of assets received from Fire Department merger	4,856,304
<p>Bond and other debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of long-term liabilities is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.</p>	
Principal payments on long term debt	892,819
Debt Proceeds	(115,111)
<p>Some expenditures reported in governmental funds are to be paid on a long-term basis and therefore are not reported as expenses in the Statement of Activities</p>	
Change in deferred outflows of resources- loss on defeasance	(168,689)
Pension expense	<u>(150,068)</u>
Change in Net Position of Governmental Activities, page 5	<u><u>\$ 16,168,136</u></u>

NOTES TO THE FINANCIAL STATEMENTS

CITY OF SPANISH FORT, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2022

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Spanish Fort, Alabama (the City) was incorporated on July 19, 1993. The City operates under a Mayor - Council form of government and its members are elected by district.

The accounting policies of the City conform to accounting principles generally accepted in the United States of America as applicable to municipal governments. The following is a summary of the more significant policies.

A. REPORTING ENTITY

The financial statements of the City have been prepared in conformity with the accounting principles generally accepted in the United States of America as specified by the Governmental Accounting Standards Board (GASB). In June 1999, GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. This statement, known as the "Reporting Model" statement, affects the way the City prepares and presents financial information. The Statement was developed to make annual reports easier to understand and more useful to the people who use government financial information to make decisions.

The criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships and/or a significant economic benefit exists, regardless of whether the City is able to exercise oversight responsibilities. Based upon the application of these criteria, this report includes financial statements of the funds and account groups required to account for those financial activities for which the City has the ability to influence and control through its legislative processes and/or with which special financing relationships exist.

Potential Component Units

The following entities were considered for inclusion in the City's financial statements as potential component units. However, the City has determined they do not meet all the criteria currently required by Governmental Accounting Standards for inclusion as component units. Thus, the City has chosen not to present the entities within its financial statements. However, separately issued audited financial statements are available for each entity and may be obtained from the City Clerk's office.

The Cooperative District of the City of Spanish Fort- Hwy. 181 Public Facilities is a legally separate, tax exempt entity. The District encompasses a retail area called the "The Eastern Shore Centre", and it collects a fee that is assessed on all retail sales in the District. The fee will repay warrants used to finance the construction of certain public infrastructure in the District. In the event that the debt is satisfied, the fee will be used as directed by the governing body of the City. Under any circumstance, the fee is to be used to support the District and its properties.

CITY OF SPANISH FORT, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Cooperative District of the City of Spanish Fort- Hwy. 98 Public Facilities is a legally separate, tax exempt entity. The District encompasses a retail area called the “Spanish Fort Town Center” and collects a fee that is assessed on all retail transactions in the District. The fee will repay warrants used to finance the construction of certain public infrastructure in the District. In the event that the debt is satisfied, the fee will be used as directed by the governing body of the City. Under any circumstance, the fee is to be used to support the District and its properties.

The City of Spanish Fort has no legal obligation for debts of the Districts and receives no direct financial benefit from the Districts. Each District issues a separate financial statement available from the City Clerk of the City of Spanish Fort.

B. BASIS OF PRESENTATION – GOVERNMENT-WIDE AND FUND LEVEL

Government-wide

The basic financial statements include government-wide and fund financial statements. The previous reporting model emphasized fund types, while the new model focuses on the City as a whole and major funds. Government-wide and fund financial statements categorize primary activities as governmental or business type. In the Statement of Net Position, governmental and business-type activities (a) are presented on a consolidated basis, and (b) reflect full accrual accounting, which incorporates long-term assets and receivables as well as long-term debt and obligations. Receivables and payables between activities are eliminated in the government-wide presentation through the caption “Internal Balances” on the Statement of Net Position.

The Statement of Activities reflects both the gross and net cost per functional category (public works, police, etc.) which are otherwise being supported by general government revenues (taxes, licenses and permits, etc.). The Statement of Activities reduces gross expenses, including depreciation, by related program revenues. The program revenues must be directly associated with a function or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

Fund Level

The governmental fund level financial statements are presented on a current financial resource and modified accrual basis of accounting. Since governmental fund level financial statements are presented on a different basis of accounting and measurement focus than governmental activities in the government-wide presentation, a summary is presented to explain adjustments necessary to reconcile fund level statements to the government-wide presentation.

CITY OF SPANISH FORT, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2022

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped into broad fund categories as follows:

Governmental Funds:

General Fund – The General Fund is used to account for all revenues and expenditures applicable to the general operations of city government which are not properly accounted for in another fund. All general operating revenues which are not restricted or designated as to use by outside sources are recorded in the General Fund. The General Fund will be a major fund.

Capital Projects Athletic Fund- Capital Project Funds are used to account for the financial resources designated to construct major improvements other than those financed by special assessments. This fund will be a major fund.

Special Revenue Fund – The Special Revenue Fund is an operating fund for which the use of revenues is restricted or designated by outside sources.

Capital Projects Fund – Capital Project Funds are used to account for the financial resources designated to construct major improvements other than those financed by special assessments.

C. CAPITAL ASSETS

The accounting treatment over capital assets depends on whether the assets are used by governmental funds or proprietary funds and in fund level or government-wide reporting.

In government-wide reporting, all capital assets are reported as capital assets for governmental-type activities. The City has not established a minimum capitalization threshold at this time. Depreciation is provided on all capital assets at the government-wide level.

In fund level reporting, capital assets are reported as expenditures by governmental funds.

Capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at estimated acquisition value at the date of donation.

CITY OF SPANISH FORT, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Depreciation is allocated as an expense in the Statement of Activities (government-wide level) and accumulated depreciation is reflected in the Statement of Net Position (government-wide level). Depreciation has been provided over the estimated useful lives using the straight line rates as follows:

Buildings	40 years
Streets	40 years
Vehicles	5 years
Other equipment	5 – 10 years

Cost of fixed assets includes interest during the construction period.

D. BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis, revenues are recognized when they become susceptible to accrual, when they become both "measurable" and "available" to finance expenditures of the current period. The City uses a 60-day availability period except for FEMA disaster recovery grants which are recognized using a 12-month availability period.

Taxes collected by an intermediary are considered "measurable" when in the hand of the intermediary collecting governments and may be recognized as revenue at that time.

Expenditures other than interest on general long-term debt are recorded at the time liabilities are incurred. Revenues susceptible to accrual are those which are measurable and available to finance expenditures of the current period.

E. IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

Recently Issued Accounting Principles

GASB Statement No. 87, *Leases*, was issued to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The requirements of GASB Statement No. 87 are effective for fiscal year 2022. The City identified no significant leases in the current year which would necessitate application of GASB Statement No. 87.

CITY OF SPANISH FORT, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, was issued to (1) enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The requirements of GASB Statement No. 89 are effective for the fiscal year 2022. The City implemented GASB 89 in fiscal year 2022 with no significant impact to its financial statements.

GASB Statement 92, *Omnibus 2020*, was issued as guidance addressing various accounting and financial reporting issues identified during the implementation and application of GASB Statement No. 87, *Leases*, GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statement 67 and 68*, as amended, Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, GASB Statement No. 84, *Fiduciary Activities*, and the measurement of liabilities and assets, if any, related to asset retirement obligations in a government acquisition. The various requirements of GASB Statement No. 92 are effective as early as the fiscal year 2022. The City implemented GASB 92 in fiscal year 2022 with no significant impact to its financial statements.

GASB Statement 96, *Subscription-Based Information Technology Arrangements*, was issued to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end by (1) defining a SBITA, (2) establishing that a SBITA results in a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability, (3) provide the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA, and (4) note disclosures regarding a SBITA. The requirements of GASB Statement No. 96 are effective for the fiscal year 2023. The City is currently evaluating the impact that this statement may have on its financial statements.

GASB Statement No. 100, *Accounting Changes and Error Corrections*—an amendment of GASB Statement No. 62, was issued to define *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, along with the accounting, reporting, and disclosures relating to these changes. The requirements of GASB Statement No. 100 are effective for the fiscal year 2023. The City is currently evaluating the impact that this statement may have on its financial statements.

CITY OF SPANISH FORT, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2022

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. DEFERRED INFLOWS OF RESOURCES AND DEFERRED OUTFLOWS OF RESOURCES RELATED TO PENSIONS

Deferred inflows of resources and deferred outflows of resources related to pensions that are derived from the difference between projected and actual earnings on the respective pension plan investments are amortized to pension expense over a closed five-year period. Deferred inflows of resources and deferred outflows of resources related to pensions that are derived from differences between expected and actual experience with regard to economic or demographic factors (difference between expected and actual experience) in the measurement of the respective pension plan's total pension liability are amortized to pension expense over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the respective pension plan (active and inactive employees) determined as of the beginning of the measurement period. Contributions to the pension plan from the employer subsequent to the measurement date of net pension liability and before the end of the reporting period are reported as a deferred outflow of resources related to pensions and amortized over twelve months. This contribution is included as an increase in the respective pension plan fiduciary net position in the subsequent fiscal year.

G. DEFERRED OUTFLOWS OF RESOURCES FROM CURRENT REFUNDING OR ADVANCE REFUNDING OF DEBT

For the governmental activities, in the government-wide statements, the difference between the reacquisition price (new debt) and the carrying value of the old debt on refunded debt transactions is recorded as a deferred outflow of resources and amortized over the shorter of the remaining life of the old debt or the life of the new debt.

H. PROPERTY TAX

All ad valorem taxes levied by the state, county and any municipality in Baldwin County are assessed and collected by the Revenue Commissioner of Baldwin County. The Baldwin County property tax calendar requires the Revenue Commissioner to assess and attach taxes as enforceable liens on property as of September 30 and taxes are due October 1 through December 31. Property taxes not paid by January 1 are considered delinquent. Tax collections received by the County Revenue Commissioner are remitted to the City on a monthly basis. In accordance with implementation of GASB Statement No. 33, revenue is recorded based upon taxes assessed and considered available.

CITY OF SPANISH FORT, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

J. NET POSITION AND EQUITY CLASSIFICATIONS

Government-wide Financial Statements

Equity is classified as net position and displayed in three components:

- Net investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net position - Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) the City's own laws through its enabling legislation and other provisions of its laws and regulations.
- Unrestricted net position - All other net position that do not meet the definition of "restricted" or "net investment in capital assets."

CITY OF SPANISH FORT, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2022

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements

The fund equity of the governmental fund financial statements is classified as fund balance. In March 2009, GASB adopted a standard that establishes a hierarchy based on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds.

Fund balance is classified into one of the following four components:

- Restricted fund balance – Consists of fund balances with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) the City’s own laws through its enabling legislation and other provisions of its laws and regulations.
- Committed fund balance – Consists of fund balances that are useable only for specific purposes by formal action of the government’s highest level of decision making authority. The City’s highest level of decision making lies with the Mayor and the members of the governing body. In order to establish, modify or rescind a fund balance commitment, the Mayor and governing body must pass a law by formal action committing the funds, by passage of a resolution.
- Assigned fund balance – Consists of fund balances that are intended to be used for specific purposes but are neither restricted nor committed. Intent should be expressed by (1) the governing body itself, or (2) a subordinate high-level body or official who the governing body has delegated the authority to assign amounts to be used for specific purposes. The Mayor and governing body have the power to assign fund balance amounts to specific purposes. The governing body must vote to grant authorization of assigned fund balances to specific purposes.
- Unassigned fund balances – All other fund balances that do not meet the definition of “restricted, committed or assigned fund balances.”

The City considers unrestricted amounts to have been spent when an expenditure is incurred for the purpose for which restricted or unrestricted fund balance is available. The City considers unassigned amounts to have been spent when an expenditure is incurred for the purpose for which amounts in any of those unrestricted fund balance classifications could be used.

CITY OF SPANISH FORT, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2022

NOTE 2 CAPITAL ASSETS

Changes in capital assets, during the fiscal year, were as follows:

<u>Governmental Activities</u>	<u>Balance 10/1/2021</u>	<u>Additions</u>	<u>Reclassifications/ Retirements</u>	<u>Balance 9/30/2022</u>
Capital assets not subject to depreciation				
Land	\$ 5,344,170	\$ 9,259,976	\$ -	\$ 14,604,146
Construction in progress	5,698,812	129,335	(432,051)	5,396,096
	<u>11,042,982</u>	<u>9,389,311</u>	<u>(432,051)</u>	<u>20,000,242</u>
Capital assets subject to depreciation				
Buildings and improvements	12,760,121	2,307,508	-	15,067,629
Streets and drainage	10,085,223	471,040	-	10,556,263
Equipment and vehicles	3,346,621	3,285,014	(69,195)	6,562,440
Total	<u>26,191,965</u>	<u>6,063,562</u>	<u>(69,195)</u>	<u>32,186,332</u>
Less accumulated depreciation for:				
Buildings and improvements	(2,675,804)	(325,824)	-	(3,001,628)
Streets and drainage	(1,918,554)	(223,272)	-	(2,141,826)
Equipment and vehicles	(2,449,114)	(423,179)	69,195	(2,803,098)
Total accumulated depreciation	<u>(7,043,472)</u>	<u>(972,275)</u>	<u>69,195</u>	<u>(7,946,552)</u>
Capital assets subject to depreciation, net	<u>19,148,493</u>	<u>5,091,287</u>	<u>-</u>	<u>24,239,780</u>
Total capital assets, net	<u>\$ 30,191,475</u>	<u>\$ 14,480,598</u>	<u>\$ (432,051)</u>	<u>\$ 44,240,022</u>

Depreciation was charged to governmental activities as follows:

General government	\$ 414,071
Capital projects	181,369
Building	29,888
Fire	82,943
Police	208,942
Public works	55,062
Total	<u>\$ 972,275</u>

CITY OF SPANISH FORT, ALABAMA
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2022

NOTE 3 LONG TERM DEBT

The City has the following general obligation debt outstanding at September 30, 2022:

General obligation refunding warrants 2014A dated January 15, 2014, at fixed interest rate of 2.86%, payable monthly, principal payable February 15, 2014 through December 15, 2028.	\$ 3,392,850
General obligation warrant, 2012 dated October 19, 2012, at a fixed interest rate of 2.29%, payable semi-annually, principal payable October 15, 2015 through October 15, 2027.	2,307,692
General obligation warrant, 2021-CWSRF-DL (Partial Principal Forgiveness Loan), dated January 1, 2021, at a per annum rate interest rate of 2.20%, payable semi-annually, principal payable in annual installments from February 15, 2022 through February 15, 2041.	240,000
	\$ 5,940,542

The changes in general long term debt during the fiscal year were:

	Balance 10/1/2021	Additions	Reductions	Balance 9/30/2022	Due Within One Year
General Obligation					
Warrants	\$ 6,816,965	\$ -	\$ 876,423	\$ 5,940,542	\$ 890,350
Net pension liability	718,314	188,857	-	907,171	-
Obligations under capital lease	-	115,111	16,396	98,715	22,327
Total	\$ 7,535,279	\$ 303,968	\$ 892,819	\$ 6,946,428	\$ 912,677

The following is a summary of the debt service requirements to maturity as of September 30, 2022, including interest payments:

September 30,	Principal	Interest	Total
2023	\$ 890,350	\$ 144,879	\$ 1,035,229
2024	904,716	121,462	1,026,178
2025	919,497	97,432	1,016,929
2026	934,707	73,072	1,007,779
2027	950,358	48,272	998,630
2028-2032	1,205,914	38,153	1,244,067
2033-2037	75,000	10,725	85,725
2038-2041	60,000	2,640	62,640
Total	\$ 5,940,542	\$ 536,635	\$ 6,477,177

CITY OF SPANISH FORT, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

NOTE 4 CAPITAL LEASES

As of September 30, 2022, the City has one capital lease obligation through one bank for the purchase of a stormwater camera. Total minimum lease payments are as follows:

Year	Total
2023	\$ 24,460
2024	24,460
2025	24,460
2026	24,460
2027 and thereafter	6,115
Total minimum lease payments	103,955
Less amount representing interest	(5,240)
Present value of minimum lease payments	\$ 98,715

The assets acquired through outstanding capital leases are shown below

	Total
Buildings	\$ 115,111
Less: accumulated depreciation	(8,633)
Total	\$ 106,478

NOTE 5 PENSION PLAN

Plan Description

The ERS, an agent multiple-employer public employee retirement plan, was established as of October 1, 1945, pursuant to the *Code of Alabama 1975, Title 36, Chapter 27* (Act 515 of the Legislature of 1945). The purpose of the ERS is to provide retirement allowances and other specified benefits for state employees, State Police, and, on an elective basis, to all cities, counties, towns, and quasi-public organizations. The responsibility for the general administration and operation of ERS is vested in its Board of Control which consists of 15 trustees. Act 390 of the Legislature of 2021 created two additional representatives to the ERS Board of Control Effective October 1, 2021. The Plan is administered by the Retirement Systems of Alabama (RSA). The *Code of Alabama 1975, Title 36, Chapter 27* grants the authority to establish and amend the benefit terms to the ERS Board of Control. The Plan issues a publicly available financial report that can be obtained at www.rsa-al.gov.

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

1. The Governor, ex officio.
2. The State Treasurer, ex officio.
3. The State Personnel Director, ex officio.
4. The State Director of Finance, ex officio.
5. Three vested members of ERS appointed by the Governor for a term of four years, no two of whom are from the same department of state government nor from any department of

CITY OF SPANISH FORT, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2022

NOTE 5 PENSION PLAN (CONTINUED)

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

Benefits Provided

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

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

CITY OF SPANISH FORT, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2022

NOTE 5 PENSION PLAN (CONTINUED)

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

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

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

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

	<u>Number</u>
Retired members or their beneficiaries currently receiving benefits	9
Vested inactive members	1
Non-vested inactive members	15
Active members	<u>50</u>
Total	<u><u>75</u></u>

Contributions

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

CITY OF SPANISH FORT, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2022

NOTE 5 PENSION PLAN (CONTINUED)

Employers participating in the ERS pursuant to *Code of Alabama 1975, Section 36-27-6* were not required by statute to increase covered member contribution rates but were provided the opportunity to do so through Act 2011-676. By adopting Act 2011-676 Tier 1 regular members contribution rates increased from 5% to 7.5% of earnable compensation and Tier 1 firefighters and law enforcement officers increased from 6% to 8.5% of earnable compensation.

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

The ERS establishes rates based upon an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year with additional amounts to finance any unfunded accrued liability, the preretirement death benefit, and administrative expenses of the Plan. For the year ended September 30, 2022 the City's active employee contribution rate was 5% for Tier 1 – Regular, 6% for Tier 1 – FLC, 7.5% for Tier 2 – Regular and 8.5% for Tier 2 - FLC of covered employee payroll, and the City's average contribution rate to fund the normal and accrued liability costs was 3.99% of pensionable payroll.

The City's contractually required contribution rate for the year ended September 30, 2022, was 6.97% of pensionable pay for Tier 1 employees, and 4.17% of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation as of September 30, 2019, a percent of annual pensionable payroll, and actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the City were \$317,779 for the year ended September 30, 2022.

CITY OF SPANISH FORT, ALABAMA
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2022

NOTE 5 PENSION PLAN (CONTINUED)

Net Pension Liability

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

	<u>Expected</u>	<u>Actual Before Act 2019-132</u>	<u>Actual After Act 2019-132</u>	<u>Actual After 2020 Experience Study</u>
(a) Total Pension Liability as of September 30, 2020	\$ 5,371,394	\$ 5,741,205	\$ 5,884,225	\$ 6,200,053
(b) Discount rate	7.70%	7.70%	7.70%	7.45%
(c) Entry Age Normal Cost for the period October 1, 2020 to September 30, 2021	191,457	191,457	217,587	240,207
(d) Transfers Among Employers:	-	(54,564)	(54,564)	(54,564)
(e) Actual Benefit Payments and Refunds for the period October 1, 2020 to September 30, 2021	<u>(224,767)</u>	<u>(224,767)</u>	<u>(224,767)</u>	<u>(224,767)</u>
(f) Total Pension Liability as of September 30, 2021 [(a) x (1+(b))] + (c) + (d) + [(e) x (1/.05*(b))]	<u>\$ 5,743,028</u>	<u>\$ 6,086,751</u>	<u>\$ 6,266,913</u>	<u>\$ 6,614,460</u>
(g) Difference between Expected and Actual		\$ 343,723		
(h) Less Liability Transferred for Immediate Recognition:		\$ (54,564)		
(i) Difference between Expected and Actual - Experience (Gain)/Loss		\$ 398,287		
(j) Difference between Actual TPL Before and After Act 2019-132 - Benefit Change (Gain)/Loss			\$ 180,162	
(k) Difference between Actual TPL Before and After 2020 Experience Study - Assumption Change (Gain)/Loss				\$ 347,547

CITY OF SPANISH FORT, ALABAMA
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2022

NOTE 5 PENSION PLAN (CONTINUED)

Actuarial Assumptions - The total pension liability in the September 30, 2021, was determined on the annual actuarial funding valuation reported prepared as of September 30, 2020. The key actuarial assumptions are summarized below:

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

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

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

The actuarial assumptions used in the September 30, 2020 valuation were based on the results of an actuarial experience study for the period October 1, 2015 – September 20, 2020.

CITY OF SPANISH FORT, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2022

NOTE 5 PENSION PLAN (CONTINUED)

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

	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return*</u>
Fixed Income	15.0%	2.8%
U.S. Large Stocks	32.0%	8.0%
U.S. Mid Stocks	9.0%	10.0%
U.S. Small Stocks	4.0%	11.0%
Inter'ntl Developed Mkt Stks	12.0%	9.5%
Inter'ntl Emerging Mkt Stks	3.0%	11.0%
Alternatives	10.0%	9.0%
Real Estate	10.0%	6.5%
Cash	5.0%	1.5%

*Includes assumed rate of inflation of 2.0%

Discount Rate - The discount rate used to measure the total pension liability was the long term rate of return, 7.45%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made in accordance with the funding policy adopted by the RSA Board of Control. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current pan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CITY OF SPANISH FORT, ALABAMA
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2022

NOTE 5 PENSION PLAN (CONTINUED)

Changes in Net Pension Liability

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at September 30, 2020	\$ 5,371,394	\$ 4,653,080	\$ 718,314
Changes for the year:			
Service cost	191,457	-	191,457
Interest	404,944	-	404,944
Changes of benefit terms	180,162	-	180,162
Changes of assumptions	347,547	-	347,547
Differences between expected and actual experience	398,287	-	398,287
Contributions - employer	-	147,244	(147,244)
Contributions - employee	-	150,917	(150,917)
Net investment income	-	1,035,379	(1,035,379)
Benefit payments, including refunds of employee contributions	(224,767)	(224,767)	-
Administrative expense	-	-	-
Transfers among employers	(54,564)	(54,564)	-
Net Changes	<u>1,243,066</u>	<u>1,054,209</u>	<u>188,857</u>
Balances at September 30, 2021	<u>\$ 6,614,460</u>	<u>\$ 5,707,289</u>	<u>\$ 907,171</u>

Sensitivity of the net pension liability to changes in the discount rate - The following table presents the Board's net pension liability calculated using the discount rate of 7.45%, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.45%) or 1-percentage-point higher (8.45%) than the current rate:

	1% Decrease (6.45%)	Current Rate (7.45%)	1% Increase (8.45%)
Net pension liability	\$ 1,832,563	\$ 907,171	\$ 143,337

Pension plan fiduciary net position - Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2021. The supporting actuarial information is included in the GASB Statement No. 68 Report for the RSA prepared as of September 30, 2021. The auditor's report on the Schedule of Changes in Fiduciary Net Position by Employer and accompanying notes is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

CITY OF SPANISH FORT, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

NOTE 5 PENSION PLAN (CONTINUED)

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

For the year ended September 30, 2022, the City recognized pension expense of \$317,779. At September 30, 2022, the City reported deferred outflows of resources and deferred inflows of resources related to pensions of the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 498,735	\$ 95,986
Changes of assumptions	389,284	-
Net difference between projected and actual earnings on plan investments	-	414,630
Employer contributions subsequent to measurement date *	157,342	-
Total	<u>\$ 1,045,361</u>	<u>\$ 510,616</u>

* \$157,342 reported as deferred outflows of resources related to pensions resulting from System contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Amounts reported as deferred outflows of resources and deferred inflows of resources to pensions will be recognized as an increase (decrease) in pension expense as follows:

Year Ending September 30,	
2023	\$ 71,433
2024	82,352
2025	35,981
2026	(4,104)
2027	112,720
Thereafter	79,021
	<u>\$ 377,403</u>

CITY OF SPANISH FORT, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2022

NOTE 6 RISK MANAGEMENT AND CONTINGENCIES

Various lawsuits are pending against the City. City management believes that the potential adverse impact of these claims is mitigated by insurance and will not be material to the financial statements of the City.

The City receives Federal and State grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under the terms of the grant. City management believes such disallowances, if any, will be immaterial.

NOTE 7 MERGER OF SPANISH FORT FIRE DEPARTMENT

On August 1, 2022, the Spanish Fort Fire Department transferred its assets to the City in the amount of \$4,856,304. The City agreed to assume the future operations of the fire department. All income and receipts as well as the related expenses and costs associated with the operation of the fire department are included in the government activities and treated as a separate department under the general fund.

NOTE 8 SUBSEQUENT EVENTS

The City has evaluated subsequent events through March 27, 2023, the date which the financial statements were available to be issued. There were no material subsequent events which require disclosure at September 30, 2022.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SPANISH FORT, ALABAMA
 REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
 SEPTEMBER 30, 2022

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Local taxes	\$ 6,636,000	\$ 6,636,000	\$ 7,949,521	\$ 1,313,521
Licenses, permits and fees	1,509,500	1,509,500	1,421,364	(88,136)
Fines	112,000	112,000	219,310	107,310
State of Alabama	136,100	136,100	145,331	9,231
Grants	4,339,080	4,339,080	9,812,075	5,472,995
Other revenues	383,900	383,900	385,854	1,954
TOTAL REVENUES	13,116,580	13,116,580	19,933,455	6,816,875
EXPENDITURES				
General government	4,431,000	4,431,000	3,170,043	(1,260,957)
Building department	337,500	337,500	280,097	(57,403)
Police department	2,896,100	2,896,100	2,946,766	50,666
Public works	610,142	610,142	421,951	(188,191)
Library department	279,400	279,400	260,733	(18,667)
Senior Center	70,200	70,200	73,366	3,166
Fire department	-	-	172,792	172,792
Contributions	-	-	89,682	89,682
Capital outlays	5,191,580	5,191,580	10,164,518	4,972,938
Debt service	1,089,000	1,089,000	618,434	(470,566)
TOTAL EXPENDITURES	14,904,922	14,904,922	18,198,382	3,293,460
EXCESS OF EXPENDITURES OVER (UNDER) REVENUES BEFORE OTHER FINANCING SOURCES (USES)				
	(1,788,342)	(1,788,342)	1,735,073	3,523,415
OTHER FINANCING SOURCES (USES)				
Debt proceeds	-	-	115,111	115,111
Transfers to other funds	-	-	(442,673)	(442,673)
Total other financing sources (uses)	-	-	(327,562)	(327,562)
NET CHANGE IN FUND BALANCE	\$ (1,788,342)	\$ (1,788,342)	1,407,511	\$ 3,195,853
Fund Balance, beginning of year			15,865,145	
FUND BALANCE, END OF YEAR			\$ 17,272,656	

See independent auditors' report and note to budgetary comparison schedule.

CITY OF SPANISH FORT, ALABAMA

NOTE TO BUDGETARY COMPARISON SCHEDULE

SEPTEMBER 30, 2022

NOTE 1 BUDGETS AND BUDGETARY ACCOUNTING

The City Council follows these procedures in establishing the budgetary data reflected in the financial statements:

- (1) Each September the Mayor submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year. Line item budgets are used for administrative control. The level of control for the detailed budgets is at the function level.
- (2) Public hearings are conducted to obtain taxpayer comments.
- (3) The budget is legally enacted through passage of a resolution.
- (4) Reports are submitted to the City Council showing approved budget and actual operations.
- (5) The Mayor is authorized to transfer budgeted amounts within departments within any fund; however, any revisions that alter the total expenditures must be approved by the City Council.
- (6) Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP).

CITY OF SPANISH FORT, ALABAMA

SCHEDULES OF CHANGES IN THE NET PENSION LIABILITY

LAST 10 FISCAL YEARS ENDING SEPTEMBER 30

Total pension liability	2021	2020	2019
Service cost	\$ 191,457	\$ 173,590	\$ 179,680
Interest	404,944	387,902	355,905
Changes of benefit terms	180,162	-	-
Differences between expected and actual experience	398,287	(129,666)	64,297
Changes of assumptions	347,547	-	-
Benefit payments, including refunds of employee contributions	(224,767)	(253,437)	(188,000)
Transfer among employees	(54,564)	28,595	36,384
Net change in total pension liability	<u>1,243,066</u>	<u>206,984</u>	<u>448,266</u>
Total pension liability- beginning	<u>5,371,394</u>	<u>5,164,410</u>	<u>4,716,144</u>
Total pension liability- ending (a)	<u><u>\$ 6,614,460</u></u>	<u><u>\$ 5,371,394</u></u>	<u><u>\$ 5,164,410</u></u>
Plan fiduciary net position			
Contributions- employer	\$ 147,244	\$ 125,667	\$ 120,746
Contributions- member	150,917	152,200	212,621
Net investment income	1,035,379	250,086	106,627
Benefit payments, including refunds of employee	(224,767)	(253,437)	(188,000)
Transfers among employers	(54,564)	28,595	36,384
Net change in plan fiduciary net position	<u>1,054,209</u>	<u>303,111</u>	<u>288,378</u>
Plan net position- beginning	<u>4,653,080</u>	<u>4,349,969</u>	<u>4,061,591</u>
Plan net position- ending (b)	<u><u>\$ 5,707,289</u></u>	<u><u>\$ 4,653,080</u></u>	<u><u>\$ 4,349,969</u></u>
Net pension liability (asset)- ending (a) - (b)	\$ 907,171	\$ 718,314	\$ 814,441
Plan fiduciary net position as a percentage of the total pension liability	86.29%	86.63%	84.23%
Covered-employee payroll *	\$ 2,486,586	\$ 2,111,352	\$ 1,957,253
Net pension liability (asset) as a percentage of covered-employee payroll	36.48%	34.02%	41.61%

*Employer's covered payroll during the measurement period is the total covered payroll. For FY 2022 the measurement period is October 1, 2020 - September 30, 2021. GASB issued a Statement "Pension Issues" in March 2016 to redefine covered payroll for FY 2017.

**This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

CITY OF SPANISH FORT, ALABAMA

SCHEDULES OF CHANGES IN THE NET PENSION LIABILITY

LAST 10 FISCAL YEARS ENDING SEPTEMBER 30

2018	2017	2016	2015	2014
\$ 181,308	\$ 180,401	\$ 156,891	\$ 138,724	\$ 146,624
319,980	281,739	242,829	216,441	193,855
-	-	-	-	-
71,064	126,451	30,239	43,112	-
30,170	-	220,075	-	-
(74,716)	(72,633)	(83,882)	(52,971)	(63,336)
22,209	(21,485)	28,202		
550,015	494,473	594,354	345,306	277,143
4,166,129	3,671,656	3,077,302	2,731,996	2,454,853
<u>\$ 4,716,144</u>	<u>\$ 4,166,129</u>	<u>\$ 3,671,656</u>	<u>\$ 3,077,302</u>	<u>\$ 2,731,996</u>
\$ 105,373	\$ 116,650	\$ 106,559	\$ 96,150	\$ 91,797
141,459	197,979	104,143	88,741	83,111
335,818	388,331	262,967	28,538	244,167
(74,716)	(72,633)	(83,882)	(52,971)	(63,336)
22,209	(21,485)	28,202	9,237	-
530,143	608,842	417,989	169,695	355,739
3,531,448	2,922,606	2,504,617	2,334,922	1,979,183
<u>\$ 4,061,591</u>	<u>\$ 3,531,448</u>	<u>\$ 2,922,606</u>	<u>\$ 2,504,617</u>	<u>\$ 2,334,922</u>
\$ 654,553	\$ 634,681	\$ 749,050	\$ 572,685	\$ 397,074
86.12%	84.77%	79.60%	81.39%	85.47%
\$ 1,892,593	\$ 1,860,752	\$ 1,824,951	\$ 1,562,554	\$ 1,562,554
34.58%	34.11%	41.04%	36.65%	25.41%

CITY OF SPANISH FORT, ALABAMA
SCHEDULES OF EMPLOYER CONTRIBUTIONS
LAST 10 FISCAL YEARS ENDING SEPTEMBER 30

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution*	\$ 157,342	\$ 147,244	\$ 125,667	\$ 127,988	\$ 112,375	\$ 114,011	\$ 106,555	\$ 96,055
Contributions in relation to the actuarially determined contribution*	157,342	147,244	125,667	127,988	112,375	114,011	106,555	96,055
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll**	\$ 2,719,564	\$ 2,486,586	\$ 2,111,352	\$ 1,957,253	\$ 1,892,593	\$ 1,860,752	\$ 1,824,951	\$ 1,562,554
Contributions as a percentage of covered-employee payroll	5.79%	5.92%	5.95%	6.54%	5.94%	6.13%	5.84%	6.15%

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

**Employer's covered payroll for FY2022 is the total covered payroll for the 12-month period of the underlying financial statements.

CITY OF SPANISH FORT, ALABAMA
SCHEDULES OF EMPLOYER CONTRIBUTIONS
LAST 10 FISCAL YEARS ENDING SEPTEMBER 30

NOTES TO SCHEDULE

Actuarially determined contribution rates are calculated as of September 30, three years prior to the end of the fiscal year in which contributions are reported. Contributions for the fiscal year 2022 were based on the September 30, 2019 actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age
Amortization method	Level percent closed
Remaining amortization period	15.7 years
Asset valuation method	Five year smoothed market
Inflation	2.75%
Salary increases	3.25- 5.00 %, including inflation
Investment rate of return	7.70%, net of pension plan investment expense, including inflation

**This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

COMPLIANCE AND INTERNAL CONTROL SECTION



REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF GENERAL PURPOSE FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Mayor and Members
of the City Council
City of Spanish Fort, Alabama

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Spanish Fort, Alabama, as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the City of Spanish Fort, Alabama's basic financial statements, and have issued our report thereon dated March 27, 2023.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Spanish Fort, Alabama's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Spanish Fort, Alabama's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Spanish Fort, Alabama'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 over financial reporting that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Certified Public Accountants

March 27, 2023
Fairhope, Alabama