

TOWN OF LOXLEY, ALABAMA

FINANCIAL STATEMENTS

SEPTEMBER 30, 2021

**TOWN OF LOXLEY, ALABAMA
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FOR THE YEAR ENDED SEPTEMBER 30, 2021**

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Town Council Members
The Town of Loxley, Alabama

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Loxley (the Town), as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Loxley, as of September 30, 2021, and the respective changes in financial position, and, where applicable, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Pension Schedules and Budgetary Comparison Schedule – General Fund, as outlined the table of contents, 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 requires 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 the missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The combining non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 13, 2022, on our consideration of the Town of Loxley'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 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Loxley's internal control over financial reporting and compliance.

Warren Averett, LLC

Foley, Alabama
June 13, 2022

BASIC FINANCIAL STATEMENTS

**TOWN OF LOXLEY, ALABAMA
STATEMENT OF NET POSITION
SEPTEMBER 30, 2021**

	Primary Government		
	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 5,809,794	\$ 2,548,877	\$ 8,358,671
Receivables, net	300,046	361,175	661,221
Due from other governments	274,917	-	274,917
Interfund balances	13,370	(13,370)	-
Prepaid items	57,586	57,565	115,151
Inventory	3,847	-	3,847
Restricted assets			
Cash and cash equivalents	-	309,725	309,725
Capital assets			
Non-depreciable	1,032,838	1,525,879	2,558,717
Depreciable, net	12,262,956	8,581,566	20,844,522
TOTAL ASSETS	19,755,354	13,371,417	33,126,771
DEFERRED OUTFLOWS OF RESOURCES			
Charges on advance refunding	-	60,812	60,812
Pension related	613,126	157,276	770,402
TOTAL DEFERRED OUTFLOWS	613,126	218,088	831,214
LIABILITIES			
Accounts payable	140,850	66,529	207,379
Accrued liabilities	84,845	28,781	113,626
Unearned revenue	93,046	-	93,046
Line of credit	-	237,894	237,894
Current portion of long-term debt	106,109	755,186	861,295
Payable from restricted assets			
Customer deposits	-	246,259	246,259
Non-current liabilities			
Long-term debt, net	532,103	4,545,368	5,077,471
Net pension liability	1,784,820	446,205	2,231,025
TOTAL LIABILITIES	2,741,773	6,326,222	9,067,995
DEFERRED INFLOWS OF RESOURCES			
Pension related	46,052	11,513	57,565
TOTAL DEFERRED INFLOWS	46,052	11,513	57,565
NET POSITION			
Net investment in capital assets	12,657,582	4,867,703	17,525,285
Restricted			
Debt service	-	63,466	63,466
Operations from court	192,773		
Public safety	502,827	-	502,827
Capital projects	281,423	-	281,423
Unrestricted	3,946,050	2,320,601	6,266,651
TOTAL NET POSITION	\$ 17,580,655	\$ 7,251,770	\$ 24,832,425

See notes to the financial statements.

**TOWN OF LOXLEY, ALABAMA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

Function/program activities	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Governmental activities							
General government	\$ 3,316,621	\$ 892,357	\$ 1,377,038	\$ -	\$ (1,047,226)	\$ -	\$ (1,047,226)
Public safety	2,479,615	241,512	-	-	(2,238,103)	-	(2,238,103)
Sanitation and streets	518,450	360,050	-	1,193,738	1,035,338	-	1,035,338
Culture and recreation	546,823	-	-	-	(546,823)	-	(546,823)
Debt service interest	22,423	-	-	-	(22,423)	-	(22,423)
Total governmental activities	6,883,932	1,493,919	1,377,038	1,193,738	(2,819,237)	-	(2,819,237)
Business-type activities							
Water and sewer	2,498,969	3,317,363	-	227,156	-	1,045,550	1,045,550
Total business-type activities	2,498,969	3,317,363	-	227,156	-	1,045,550	1,045,550
Total primary government	\$ 9,382,901	\$ 4,811,282	\$ 1,377,038	\$ 1,420,894	(2,819,237)	1,045,550	(1,773,687)
General revenues							
Taxes							
Property taxes					556,418	-	556,418
Sales and other local taxes					5,503,454	-	5,503,454
Utility service equivalents					374,989	-	374,989
Investment earnings					-	506	506
Miscellaneous					158,840	(41,238)	117,602
Total general revenues and transfers					6,593,701	(40,732)	6,552,969
CHANGE IN NET POSITION					3,774,464	1,004,818	4,779,282
NET POSITION, BEGINNING					13,806,191	6,246,952	20,053,143
NET POSITION, ENDING					\$ 17,580,655	\$ 7,251,770	\$ 24,832,425

See notes to the financial statements.

**TOWN OF LOXLEY, ALABAMA
GOVERNMENTAL FUNDS
BALANCE SHEET
SEPTEMBER 30, 2021**

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 5,029,614	\$ 780,180	\$ 5,809,794
Receivables	300,046	-	300,046
Due from other governments	274,917	-	274,917
Due (to)/ from other funds	4,654	8,716	13,370
Inventory	3,847	-	3,847
Prepaid items	57,586	-	57,586
TOTAL ASSETS	\$ 5,670,664	\$ 788,896	\$ 6,459,560
LIABILITIES			
Accounts payable	\$ 136,204	\$ 4,646	\$ 140,850
Accrued liabilities	84,845	-	84,845
Bond deposits	93,046	-	93,046
Total liabilities	314,095	4,646	318,741
FUND BALANCE			
Nonspendable - inventory	3,847	-	3,847
Nonspendable - prepaids	57,586	-	57,586
Restricted			
Public works	-	281,423	281,423
Public safety	-	502,827	502,827
Operations of court	192,773	-	192,773
Assigned	1,671,282	-	1,671,282
Unassigned	3,431,081	-	3,431,081
Total fund balances	5,356,569	784,250	6,140,819
TOTAL LIABILITIES AND FUND BALANCE	\$ 5,670,664	\$ 788,896	\$ 6,459,560

See notes to the financial statements.

**TOWN OF LOXLEY, ALABAMA
GOVERNMENTAL FUNDS
RECONCILIATION OF THE BALANCE SHEET TO THE
STATEMENT OF NET POSITION
SEPTEMBER 30, 2021**

Fund balance, total governmental funds \$ 6,140,819

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

Capital assets used in governmental activities are not financial resources; therefore, they are not reported in the governmental funds.

Governmental non-depreciable assets	1,032,838	
Governmental depreciable assets	20,718,045	
Less accumulated depreciation	<u>(8,455,089)</u>	
		13,295,794

Deferred inflows of resources and deferred outflows of resources related to pensions and OPEB are not available/receivable or due/payable, respectively, in the current period; therefore, they are not reported in the governmental funds.

Deferred outflows of resources – pension related	613,126	
Deferred inflows of resources – pension related	<u>(46,052)</u>	
		567,074

Long-term liabilities are not due and payable in the current period; therefore, they are not reported in the governmental funds.

General obligation warrants and notes payable	(638,212)	
Net pension liability	<u>(1,784,820)</u>	
		<u>(2,423,032)</u>

Net position of governmental activities \$ 17,580,655

See notes to the financial statements.

**TOWN OF LOXLEY, ALABAMA
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
Property taxes	\$ 358,692	\$ 197,726	\$ 556,418
Sales and other local taxes	5,823,512	54,931	5,878,443
Licenses, fees and permits	818,987	-	818,987
Intergovernmental	1,299,085	77,953	1,377,038
Charges for services	433,420	-	433,420
Fines and forfeitures	241,512	-	241,512
Miscellaneous	136,872	21,968	158,840
Total revenues	<u>9,112,080</u>	<u>352,578</u>	<u>9,464,658</u>
EXPENDITURES			
Current			
General governmental	2,833,777	-	2,833,777
Public safety	2,107,665	85,001	2,192,666
Sanitation and streets	398,688	-	398,688
Culture and recreation	478,535	-	478,535
Capital outlay	784,370	89,986	874,356
Debt Service			
Principal	116,570	-	116,570
Interest	22,423	-	22,423
Total expenditures	<u>6,742,028</u>	<u>174,987</u>	<u>6,917,015</u>
NET CHANGE IN FUND BALANCE	<u>2,370,052</u>	<u>177,591</u>	<u>2,547,643</u>
FUND BALANCE, BEGINNING	<u>2,986,517</u>	<u>606,659</u>	<u>3,593,176</u>
FUND BALANCE, ENDING	<u>\$ 5,356,569</u>	<u>\$ 784,250</u>	<u>\$ 6,140,819</u>

See notes to the financial statements.

**TOWN OF LOXLEY, ALABAMA
GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

Net change in fund balance – governmental funds	\$ 2,547,643
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is depreciated/amortized over the estimated useful lives of the assets.

Expenditures for capital assets	874,356	
Donated capital assets	1,193,738	
Loss on disposal of capital assets	(9,923)	
Less current year depreciation	<u>(745,204)</u>	
		1,312,967

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Principal payments	<u>116,570</u>	116,570
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Some expenses reported in the statement of activities do not require the use of current financial resources; therefore, they are not reported as expenditures in governmental funds:

Change in net pension liability and related deferred inflows and outflows related to pensions		<u>(202,716)</u>
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Change in net position of governmental activities	<u><u>\$ 3,774,464</u></u>
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See notes to the financial statements.

**TOWN OF LOXLEY, ALABAMA
 PROPRIETARY FUND
 STATEMENT OF NET POSITION
 SEPTEMBER 30, 2021**

ASSETS

Current assets	
Cash and cash equivalents	\$ 2,548,877
Receivables, net	361,175
Prepaid items	57,565
Restricted cash	<u>309,725</u>
Total current assets	3,277,342
Capital assets	
Non-depreciable	1,525,879
Depreciable, net	<u>8,581,566</u>
Total capital assets	<u>10,107,445</u>
TOTAL ASSETS	<u>13,384,787</u>

DEFERRED OUTFLOWS OF RESOURCES

Charges on advanced refunding	60,812
Pension related	<u>157,276</u>
TOTAL DEFERRED OUTFLOWS	<u>218,088</u>

LIABILITIES

Current liabilities	
Accounts payable	66,529
Due to other funds	13,370
Accrued expenses	28,781
Current portion of long term debt	755,186
Unearned revenue	237,894
Payable from restricted assets - customer deposits	<u>246,259</u>
Total current liabilities	1,348,019
Non-current liabilities	
Long-term debt, net	4,545,368
Net pension liability	<u>446,205</u>
Total non-current liabilities	<u>4,991,573</u>
TOTAL LIABILITIES	<u>6,339,592</u>

DEFERRED INFLOWS OF RESOURCES

Pension related	<u>11,513</u>
TOTAL DEFERRED INFLOWS	<u>11,513</u>

NET POSITION

Net investment in capital assets	4,867,703
Restricted for debt service	63,466
Unrestricted	<u>2,320,601</u>
TOTAL NET POSITION	<u>\$ 7,251,770</u>

See notes to the financial statements.

**TOWN OF LOXLEY, ALABAMA
 PROPRIETARY FUND
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 FOR THE YEAR ENDED SEPTEMBER 30, 2021**

OPERATING REVENUES	
Charges for services	\$ 3,317,363
OPERATING EXPENSES	
Personal services	884,219
Operating	875,498
Depreciation	<u>492,303</u>
Total operating expenses	<u>2,252,020</u>
OPERATING INCOME	1,065,343
NON-OPERATING REVENUES (EXPENSES)	
Interest expense	(246,949)
Interest income	506
Miscellaneous	<u>(41,238)</u>
Total non-operating expenses	<u>(287,681)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	
Capital contributions	<u>227,156</u>
CHANGE IN NET POSITION	1,004,818
NET POSITION AT BEGINNING OF YEAR	<u>6,246,952</u>
NET POSITION AT END OF YEAR	<u><u>\$ 7,251,770</u></u>

See notes to the financial statements.

**TOWN OF LOXLEY, ALABAMA
 PROPRIETARY FUND
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED SEPTEMBER 30, 2021**

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers/users	\$ 3,500,112
Payments to suppliers	(1,001,162)
Payments to employees	(801,235)
Miscellaneous income	<u>(41,238)</u>
Net cash provided by operating activities	1,656,477

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

Change in interfund balances	13,370
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CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisitions of capital assets	(485,647)
Capital contributions	227,156
Proceeds from long-term debt	369,769
Principal paid on long-term debt	(738,879)
Interest paid on long-term debt	<u>(246,949)</u>

Net cash used in capital and related financing activities	(874,550)
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CASH FLOWS FROM INVESTING ACTIVITIES

Interest income	<u>506</u>
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NET INCREASE	795,803
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CASH AND CASH EQUIVALENTS:

AT BEGINNING OF YEAR	<u>2,062,799</u>
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AT END OF YEAR	<u><u>\$ 2,858,602</u></u>
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CASH AND CASH EQUIVALENTS AT END OF YEAR CONSIST OF:

Cash and cash equivalents	\$ 2,548,877
Restricted cash	<u>309,725</u>
Total cash and cash equivalents	<u><u>\$ 2,858,602</u></u>

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating income	\$ 1,065,343
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	492,303
Miscellaneous revenue	(41,238)
Decrease (increase) in assets:	
Accounts receivable	(68,649)
Prepaid expenses	(8,783)
Deferred outflows	4,831
Increase (decrease) in liabilities:	
Accounts payable	(121,067)
Accrued expenses	4,186
Customer deposits	13,504
Unearned revenue	237,894
Net pension liability	81,922
Deferred inflows	<u>(3,769)</u>

Net cash provided by operating activities	<u><u>\$ 1,656,477</u></u>
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See notes to the financial statements.

TOWN OF LOXLEY, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

1. DESCRIPTION OF TOWN AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Town

The Town of Loxley (the Town) was first incorporated in 1957 and exists as a Mayor-Council form of municipal government. All registered voters elect the Mayor and five Council members; each of the five Council members is elected at large. The Mayor serves as chairperson of public meetings and executes certain documents authorized by charter, ordinance or resolution. Each elected official serves a four-year term of office.

The Town provides its residents and businesses with the full range of municipal services contemplated by state law or local charter. Included are police and fire services, culture, recreation, community services, licensing and permitting, general administration, water and sewer utilities, public works and maintenance.

The financial statements of the Town have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The following is a summary of the more significant accounting policies of the Town:

The Reporting Entity

As required by GAAP in the United States, these financial statements present the Town's the primary government. In evaluating the Town as a reporting entity, management has considered all potential component units for which the Town may or may not be financially accountable and, as such, be included within the Town's financial statements. Management utilized criteria set forth in GASB guidance for determining financial accountability of potential component units in evaluating all potential component units. The Town (primary government) is financially accountable if it appoints a voting majority of the potential component unit's governing board and 1) it is able to impose its will on the organization or 2) there is a potential for the organization to provide specific financial benefit to or impose specific financial burden on the Town. In addition, component units can be other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Government-Wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the Town as a whole) and fund financial statements. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees and charges for support.

TOWN OF LOXLEY, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

1. DESCRIPTION OF TOWN AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Government-Wide and Fund Financial Statements – Continued

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate fund financial statements are provided for governmental and proprietary funds. Major individual governmental funds and the major enterprise fund are reported as separate columns in the fund financial statements.

Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within six months of the end of the current fiscal period, except for property taxes, for which the period is 60 days. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

Franchise taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Sales taxes, gasoline taxes and other intergovernmental revenues collected and held by the state at year-end on behalf of the Town, are also recognized as revenue. All other revenue items are considered to be measurable and available only when cash is received by the government.

**TOWN OF LOXLEY, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

1. DESCRIPTION OF TOWN AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Presentation

The financial transactions of the Town are recorded in individual funds. Each fund is a separate accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are other charges between the government's utility function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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 September 30, and taxes are due October 1 through December 31. Property taxes not paid by January 1 are considered delinquent. All amounts remitted to the Town within the bill paying period are included in revenue. Taxes collected within the fiscal year but remitted to the Town after the fiscal year-end are accrued in both the government-wide and fund financial statements.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town's enterprise funds are charges to customers for utility services. The Town also recognizes as operating revenues, the portion of tap fees intended to recover the cost of connecting customers to the system. Operating expenses for enterprise funds include the cost of service, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first and then unrestricted resources, as they are needed.

The following two broad classifications are used to categorize the fund types used by the Town:

Governmental

Governmental funds focus on the determination of financial position and changes in financial position (sources, uses, and balances of financial resources) and not net income.

**TOWN OF LOXLEY, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

1. DESCRIPTION OF TOWN AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Governmental

General Fund – This is the Town's primary operating fund and is used to account for all financial resources except those required to be accounted for in another fund.

Gas Tax Fund is a special revenue fund used to account for and report the receipt of state gas tax distributions restricted to expenditures for striping, signing, and other traffic safety functions, as well as street cleaning and other street maintenance functions.

Police Forfeiture Fund is a special revenue fund used to account for forfeitures from local, state and other sources.

Volunteer Fire Department is a special revenue fund used to account for and report the receipt of property and other taxes and Federal, State and County assistance, which are to be used for all activity of the volunteer fire department except salaries, fund raising and food or beverages.

Proprietary

Proprietary funds focus on the determination of net income, changes in net position, financial position and cash flows. The Town's only proprietary fund is an enterprise fund, as fees are charged to external users for services.

Utility Fund accounts for activities related to the provision of water and sewer services to the residents and businesses of Loxley. It operates the water distribution and sewer systems.

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Fund Balance

Cash and Cash Equivalents

Each fund's cash on hand, demand deposits, and short-term investments are considered cash and cash equivalents. For purposes of these statements, all highly-liquid investments (including restricted assets) with a maturity of three months or less when purchased are considered to be cash equivalents.

Receivables and Payables

Interfund transactions are reflected as loans, services provided, reimbursements or transfers. Loans between funds outstanding at the end of the fiscal year are referred to as either "due to other funds" or "due from other funds" (i.e., the current portion of interfund loans) or "advances" (i.e., the non-current portion of interfund loans). Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide columnar presentation.

All enterprise fund receivables are shown net of an allowance for uncollectible accounts.

**TOWN OF LOXLEY, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

1. DESCRIPTION OF TOWN AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position or Fund Balance – Continued

Inventories

Inventory held by the General Fund is valued at cost and has been included as non-spendable fund balance in the fund financial statements to indicate that it is not available for appropriation.

Restricted Assets

Certain resources of the Utilities Fund are classified as restricted assets because their use is limited by applicable bond covenants or loan agreements.

Additionally, deposits received from customers are classified as restricted assets. This money is restricted for use as payment of the final customer bill, refund to a good-standing customer or returned to the customer upon settlement of the final bill.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (roads, bridges, curbs and sidewalks, drainage systems, lighting systems and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements.

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. The Town's policy is to capitalize assets costing \$2,000 or more. The costs of normal maintenance and repairs, that do not add to the value of the asset or materially extend the life of the asset, are not capitalized.

Property, plant and equipment of the primary government are depreciated using the straight-line method over the following estimated useful lives:

Utility, Plant and Improvements	5-40 Years
Improvements to Land	10-25 Years
Transportation Equipment	5-12 Years
Machinery and Equipment	5-25 Years
Town Buildings	10-50 Years
Infrastructure	20-40 Years

**TOWN OF LOXLEY, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

1. DESCRIPTION OF TOWN AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position or Fund Balance – Continued

Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or enterprise statement of net position. Debt premiums and discounts are amortized over the life of the debt using the straight-line method. Debt is reported net of the applicable premium or discount. Debt issuance costs are reported as expenses in the period incurred.

In the fund financial statements, governmental fund types recognize debt premiums and discounts, as well as issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. As of September 30, 2021, the Town has deferred outflows of resources related to pensions and a deferred charge on advance refundings in the Utility fund.

In addition to liabilities, the statement of financial position will report a separate section for *deferred inflows of resources*. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. As of September 30, 2021, the Town has deferred inflows of resources related to pensions.

Net Pension Liability

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

**TOWN OF LOXLEY, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

1. DESCRIPTION OF TOWN AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position or Fund Balance – Continued

Governmental Fund Balances

The Town classifies fund balances in the governmental funds as follows:

Nonspendable fund balances – Cannot be spent either because they are not in spendable form or because they are legally or contractually required to be maintained intact.

Restricted fund balances – Amounts that can be spent only for specific purposes because of the Town Code, state or federal laws, or externally imposed conditions by grantors or creditors. The General Fund has restricted amounts associated with the operations of the municipal court. One of the restricted funds in the special revenue fund is for public safety and is to be used by the volunteer fire department. These funds include amounts received from Baldwin County for the one and one-half mill ad valorem tax, which can be used for any purpose except salaries, food/beverages and fund-raising projects. Also, in the special revenue fund are gas tax receipts and earnings from the Alabama Trust Fund. State gas tax receipts can be used for resurfacing, restoring and rehabilitating roads, streets and bridges. Trust Fund earnings can be used for capital improvements and renovation of capital improvements. Other restricted funds in the special revenue are drug forfeiture funds which are to be used by the police department

Committed fund balances – Amounts that can be used only for specific purposes determined by a formal action by the Town Council. The Town Council is the highest level of decision-making authority for the Town. Commitments may be established, modified or rescinded only through ordinances or resolutions approved by Town Council.

Assigned fund balances – Amounts that are designated by the Town Council for a particular purpose, but are not spendable until a budget ordinance is passed or there is a majority vote approval by the Town Council. For the year ended September 30, 2020, assigned amounts consist of funds designated by the Town Council for the library, volunteer fire department and special projects.

Unassigned fund balances – Represent the residual positive fund balance within the General Fund, which has not been assigned to other funds and has not been restricted, committed, or assigned. In funds other than the General Fund, unassigned fund balances are limited to negative residual balances.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources (committed, assigned and unassigned) as they are needed. When unrestricted resources (committed, assigned and unassigned) are available for use in the General Fund or any other governmental fund, it is the Town's policy to use committed resources first, then assigned and then unassigned as needed. The Town does not have a formal minimum fund balance requirement.

**TOWN OF LOXLEY, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

**1. DESCRIPTION OF TOWN AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –
CONTINUED**

**Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position or Equity –
Continued**

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted by ordinance for all governmental and proprietary funds. However, budgets for the proprietary fund is not legally required to be reported on and is not included in these financial statements. All appropriations lapse at fiscal year-end except for appropriations related to multi-year capital projects. The Town Council works with Town Management to prepare a proposed working budget for the fiscal year commencing the following October 1. The budget includes proposed expenditures and the means of financing them for the upcoming year. Council budget meetings are conducted to obtain manager and taxpayer input. The budget is enacted through Town Council action. The Town Council may amend the budget through resolution as needed. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP). Budgetary data, if any, for capital projects are budgeted on an annual basis. Large capital projects that span more than one fiscal year are not budgeted for as they are generally accounted for by special financing that approximates the project expenditures.

**TOWN OF LOXLEY, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

3. DEPOSITS AND INVESTMENTS

On September 30, 2021, the Town had investments in U.S. Treasury money market mutual funds through its trustee agreement for various bond related funds. As of September 30, 2021, the fair value of these restricted accounts was \$63,466.

Investment Risk- The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk- State statutes authorize the Town's investments. State statutes authorize the Town to invest in deposit accounts and certificates of deposits with banks, U.S. Government obligations and its agencies or instrumentalities, direct obligations of the state or SEC registered mutual funds holding like securities. The Town has no investment policy that further limits investment choices.

Custodial Credit Risk- The Town is a participant in the Security for Alabama Funds Enhancement (SAFE) Program, a multiple financial institution collateral pool, administered by the State of Alabama. The program, by law, provides administration of pledged collateral coverage for all governments and agencies in the state and requires qualified financial institutions to provide collateral to the administrator adequate to secure all deposits of public funds in that financial institution. The State guarantees deposits identified as "public funds" will be adequately secured by insurance or collateral. Any collateral shortages of one financial institution are assessed to other member institutions.

4. RECEIVABLES

As of September 30, 2021, the Town has approximately \$300,000 in accounts receivable in the General fund, most of which relates to franchise fees, sales and gas taxes, and other miscellaneous fee based revenues.

As of September 30, 2021, the Town has approximately \$275,000 in due from other governments in the General fund which relate to state and federal grants.

As of September 30, 2021, the Town has approximately \$366,000 in accounts receivable in the Utility fund related to water and sewer customer charges which is net of an allowance for uncollectible accounts of approximately \$5,000.

TOWN OF LOXLEY, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

5. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2021, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases/ Transfers</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 800,758	\$ -	\$ 49,224	\$ 849,982
Construction in progress	48,879	183,856	(49,879)	182,856
Total capital assets not being depreciated	849,637	183,856	(655)	1,032,838
Capital assets being depreciated:				
Property improvements	171,318	-	-	171,318
Buildings and equipment	8,630,518	307,552	(245,286)	8,692,784
Infrastructure	10,277,257	1,576,686	-	11,853,943
Total capital assets being depreciated	19,079,093	1,884,238	(245,286)	20,718,045
Less accumulated depreciation:				
Property improvements	(62,147)	(9,392)	-	(71,539)
Buildings and equipment	(6,283,117)	(425,611)	236,018	(6,472,710)
Infrastructure	(1,600,639)	(310,201)	-	(1,910,840)
Total accumulated depreciation	(7,945,903)	(745,204)	236,018	(8,455,089)
Total capital assets being depreciated, net	11,133,190	1,139,034	(9,268)	12,262,956
Governmental activities, net	<u>\$ 11,982,827</u>	<u>\$ 1,322,890</u>	<u>\$ (9,923)</u>	<u>\$ 13,295,794</u>
Business-type activities				
Capital assets not being depreciated:				
Land	\$ 494,294	\$ -	\$ -	\$ 494,294
Construction in progress	597,720	433,865	-	1,031,585
Total capital assets not being depreciated	1,092,014	433,865	-	1,525,879
Capital assets being depreciated:				
Utility Systems	16,361,721	-	(8,533)	16,353,188
Buildings and equipment	1,152,715	52,077	(54,241)	1,150,551
Total capital assets being depreciated	17,514,436	52,077	(62,774)	17,503,739
Less accumulated depreciation:				
Utility Systems	(7,772,640)	(398,066)	8,533	(8,162,173)
Buildings and equipment	(720,005)	(94,236)	54,241	(760,000)
Total accumulated depreciation	(8,492,645)	(492,302)	62,774	(8,922,173)
Total capital assets being depreciated, net	9,021,791	(440,225)	-	8,581,566
Business-type activities, net	<u>\$ 10,113,805</u>	<u>\$ (6,360)</u>	<u>\$ -</u>	<u>\$ 10,107,445</u>

**TOWN OF LOXLEY, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

5. CAPITAL ASSETS – CONTINUED

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities

General government	\$ 270,205
Public safety	286,949
Transportation	119,762
Culture and recreation	68,288
	<u>68,288</u>
Total depreciation expense – governmental activities	<u>\$ 745,204</u>

Business-type activities

Utility Fund	\$ 492,302
	<u>492,302</u>
Total depreciation expense – business-type activities	<u>\$ 492,302</u>

The Town recognized a developer contribution in the governmental activities of infrastructure in the amount of \$1,193,109 during the year.

6. RISK MANAGEMENT

The Town is exposed to various risks of loss related to tort; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town purchases insurance through commercial carriers and coverage which includes workers' compensation, comprehensive general liability, and automobile physical damage. The Town maintains minimal deductibles for insurance policies purchased through these carriers.

There has been no significant reduction in insurance coverage from prior fiscal year. Insurance coverage has been sufficient to cover all claims made in the prior three fiscal years.

**TOWN OF LOXLEY, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

7. LONG-TERM DEBT

Changes in Long-Term Debt Liabilities

The following is a summary of changes in long-term debt liabilities of the Town:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities					
General obligation warrants	\$ 139,200	\$ -	\$ (45,000)	\$ 94,200	\$ 46,800
Notes payable	615,582	-	(71,570)	544,012	59,309
Total governmental activities	<u>\$ 754,782</u>	<u>\$ -</u>	<u>\$ (116,570)</u>	<u>\$ 638,212</u>	<u>\$ 106,109</u>
Business-type activities					
General obligation warrants	\$ 3,448,127	\$ -	\$ (146,260)	\$ 3,301,867	\$ 156,328
Revenue warrants	1,820,000	-	(550,000)	1,270,000	565,000
Notes payable	378,599	369,769	(21,382)	726,986	20,858
Capital lease	31,394	-	(12,452)	18,942	13,000
Line of credit	12,634	-	(12,634)	-	-
Unamortized bond discounts	(22,056)	-	3,849	(18,207)	-
Total business-type activities	<u>\$ 5,668,698</u>	<u>\$ 369,769</u>	<u>\$ (738,879)</u>	<u>\$ 5,299,588</u>	<u>\$ 755,186</u>

Description of Long-Term Debt Outstanding

All long-term debt is considered direct borrowings. All of the Town's debt terms include provisions that in the event of default, which is defined as the Town not paying according to terms of the agreements, then the entire amount of loan can be made current, debt payment schedule accelerated and/or the interest rate will be increased.

Governmental Activities:

\$199,750 - note payable to Regions Bank for a building to be used by the Police Department, requiring monthly payments of \$1,410 through August 2029; bearing 3.268% interest; secured by the building. Balance as of September 30, 2021, is \$117,676.

\$133,900 - note payable to Citizens Bank for a Freightliner garbage truck, requiring monthly payments of \$2,406 through March 2021; bearing 3% interest; secured by the truck. Remaining balance of the note was paid in March 2021

\$128,331 - note payable to United Bank for a grapple truck, requiring monthly payments of \$1,696 through October 2022; bearing 2.969% interest; secured by the truck. Balance as of September 30, 2021, is \$21,990.

TOWN OF LOXLEY, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

7. LONG-TERM DEBT – CONTINUED

Governmental Activities – Continued:

\$447,500 - note payable to Community Bank for the purchase of land, requiring monthly payments of \$3,015, through December 2024; bearing 2.63% interest; secured by the land. Balance as of September 30, 2021, is \$404,347.

\$114,800 - 2017 General Obligation Warrant to the USDA for four police vehicles, requiring annual payments of \$21,000 to \$24,800 through January 2022; bearing 3.375% interest; secured by vehicles. Balance as of September 30, 2021, is \$24,800.

\$111,400 - 2019 General Obligation Warrant to the USDA for four police vehicles, requiring annual payments of \$21,000 to \$23,400 through January 2024; 3.50% interest; secured by vehicles. Balance as of September 30, 2021 is \$69,400.

Business-Type Activities:

\$875,000 Series 2006 General Obligation Warrants dated October 12, 2006, due in semi-annual installments from \$5,000 to \$25,000 plus monthly interest at 4.20%; maturity date is November 2036. Balance as of September 30, 2021, is \$580,000.

\$770,000 Series 2007 General Obligation Warrants dated February 22, 2007, due in semi-annual installments from \$5,000 to \$25,000 plus monthly interest at 4.01%; maturity date is November 2036. Balance as of September 30, 2021, is \$515,000.

\$560,000 Series 2007-B General Obligation Warrants dated June 28, 2007, due in semi-annual installments from \$5,000 to \$20,000 plus monthly interest at 4.35%; maturity date is November 2036. Balance as of September 30, 2021, is \$385,000.

\$460,000 Series 2008 General Obligation Warrants dated March 18, 2008, due in semi-annual installments from \$5,000 to \$20,000 plus monthly interest at 3.75%; maturity date is November 2036. Balance as of September 30, 2021, is \$316,667.

\$1,600,000 Series 2018 General Obligation Warrants dated May 29, 2018, due in monthly payments of \$9,530; bearing interest at 3.50%; maturity date is June 2039. Balance as of September 30, 2021, is \$1,505,200.

\$3,355,000 Series 2011A Utility Revenue Warrants dated August 1, 2011, secured by Net System Revenues, due in annual installments from \$235,000 to \$320,000 plus semi-annual interest varying from 2.00% to 3.50%; maturity date is September 2023. Balance as of September 30, 2021, is \$640,000.

\$1,355,000 Series 2011B Utility Revenue Warrants dated August 1, 2011, secured by Net System Revenues, due in annual installments from \$95,000 to \$140,000 plus semi-annual interest varying from 2.00% to 5.00%; maturity date is September 2023. Balance as of September 30, 2021, is \$270,000.

**TOWN OF LOXLEY, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

7. LONG-TERM DEBT – CONTINUED

Business-Type Activities – Continued:

\$1,180,000 Series 2014 Utility Revenue Warrants dated April 1, 2014, secured by Net System Revenues, due in annual installments from \$90,000 to \$125,000 plus semi-annual interest varying from 0.500% to 2.90%; maturity date is September 2024. Balance as of September 30, 2021, is \$360,000.

\$92,664 - note payable to United Bank for four vehicles, monthly payments of \$1,677 through November 2020; 3.25% interest; secured by vehicles. Remaining balance of the note was paid in November 2020.

\$79,671 - note payable to United Bank for three vehicles, monthly payments of \$1,810 through February 2023; 4.25% interest; secured by vehicles. Balance as of September 30, 2021 is \$30,434.

Interim construction note payable to Community Bank for the wastewater treatment plant, loan is required to be paid in full in March 2023; 2.54% interest; secured by proceeds from USDA loan. Balance as of September 30, 2021, is 696,552.

\$71,914 - lease to Caterpillar Financial for backhoe loader; monthly payments of \$1,132 through March 2023, at an interest rate of 4.20%. Balance as of September 30, 2021, is \$18,942.

Under the terms of the debit agreements described above, the Town is required to comply with certain financial covenants and ratios described in each agreement. As of September 30, 2021, the Town was in compliance with all covenants.

Annual Requirements to Amortize Debt Outstanding

The annual requirements to amortize all debt outstanding as of September 30, 2021, are as follows:

<u>Year Ending September 30</u>	General Obligation Warrants and Notes Payable - Governmental Activities	
	<u>Principal</u>	<u>Interest</u>
2022	\$ 106,109	\$ 17,416
2023	65,353	14,300
2024	389,028	3,563
2025	14,660	2,260
2026	15,146	1,774
2027-2029	47,916	2,242
Total	<u>\$ 638,212</u>	<u>\$ 41,555</u>

**TOWN OF LOXLEY, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

7. LONG-TERM DEBT – CONTINUED

Annual Requirements to Amortize Debt Outstanding – Continued

<u>Year Ending September 30</u>	General Obligation Warrants, Revenue Warrants, Capital Lease and Notes Payable - Business-Type Activities	
	<u>Principal</u>	<u>Interest</u>
2022	\$ 755,186	\$ 169,451
2023	1,456,317	141,473
2024	290,638	113,513
2025	168,101	103,340
2026	175,523	95,184
2027-2031	1,001,947	355,955
2032-2036	1,157,600	192,694
2037-2040	312,483	14,774
Total	<u>\$ 5,317,795</u>	<u>\$ 1,186,384</u>

**TOWN OF LOXLEY, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

8. PENSION PLAN

The Employees' Retirement System of Alabama (ERS), an agency multiple-employer plan, was established October 1, 1945, under the provisions of Act 515 of the Legislature of 1945 for the purpose of providing retirement allowances and other specified benefits for state employees, State Police, and on an elective basis, to all cities, towns and quasi-public organizations. The responsibility for the general administration and operation of ERS is vested in its Board of Control. The ERS Board of Control consists of 13 trustees. The plan is administered by the Retirement Systems of Alabama (RSA). Title 36-Chapter 27 of the Code of Alabama 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.

Benefits Provided

State law established 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 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 are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service.

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 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 are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service.

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.

Employee membership data related to the Plan, as of September 30, 2021, was as follows:

Retired members or their beneficiaries currently receiving benefits	18
Vested inactive members	3
Non-vested inactive members	12
Active members	<u>57</u>
Total	<u><u>90</u></u>

**TOWN OF LOXLEY, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

8. PENSION PLAN – CONTINUED

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. ERS local participating employers are not required by statute to increase contribution rates for their members. Tier 2 covered members of the ERS contribute 6% of earnable compensation to the ERS as required by statute. Tier 2 certified law enforcement, correctional officers and firefighters of the ERS are required by statute to contribute 7% of earnable compensation. These contribution rates are the same for Tier 2 local participating employers.

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

The Town's contractually required contribution rate for the year ended September 30, 2021, was 9.50% of pensionable pay for Tier 1 employees and 7.47% of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation dated September 30, 2017, a percent of annual pensionable payroll and actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the Town were \$218,242 for the year ended September 30, 2021.

Net Pension Liability

The Town's net pension liability was measured as of September 30, 2020 (for the reporting period September 30, 2021), and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as September 30, 2019, rolled forward to September 30, 2020, using standard roll-forward techniques.

**TOWN OF LOXLEY, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

8. PENSION PLAN – CONTINUED

Actuarial Assumptions

The total pension liability as of September 30, 2020, was determined based on the annual actuarial funding valuation report prepared as of September 30, 2019. The key actuarial assumptions are summarized below:

Inflation	2.75%
Salary increases	3.25% - 5.00%
Investment rate of return*	7.70%
*Net of pension plan investment expense.	

Mortality rates were based on the sex distinct RP-2000 Blue Collar Mortality Table Projected with Scale BB to 2020 with an adjustment of 125% at all ages for males and 120% for females ages 78 and older. The rates of mortality for the period after disability retirement are according to the sex distinct RP-2000 Disabled Retiree Mortality Table Projected with Scale BB to 2020 with an adjustment of 130% at all ages for females.

The actuarial assumptions used in the September 30, 2018 valuation were based on the results of an investigation of the economic and demographic experience for the ERS based upon participant data as of September 30, 2015. The Board of Control accepted and approved these changes in September 2016, which became effective at the beginning of fiscal year 2016.

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

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Fixed Income	17.00%	4.40%
U.S. Large Stocks	32.00%	8.00%
U.S. Mid Stocks	9.00%	10.00%
U.S. Small Stocks	4.00%	11.00%
International Developed Mkt Stocks	12.00%	9.50%
International Emerging Mkt Stocks	3.00%	11.00%
Alternatives	10.00%	10.10%
Real Estate	10.00%	7.50%
Cash Equivalents	3.00%	1.50%
Total	100%	

*Includes assumed rate of inflation of 2.50%.

TOWN OF LOXLEY, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

8. PENSION PLAN – CONTINUED

Discount Rate

The discount rate used to measure the total pension liability was the long-term rate of return of 7.70%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made in accordance with the funding policy adopted by the ERS Board of Control. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a)-(b)
Reporting Period Ending September 30, 2020 (measurement date of 9/30/19)	\$ 6,277,698	\$ 4,456,283	\$ 1,821,415
Changes:			
Service cost	181,381	-	181,381
Interest	470,991	-	470,991
Change in benefit terms	208,583	-	208,583
Differences between projected and actual experience	120,991	-	120,991
Contributions – employer	-	177,421	(177,421)
Contributions – employee	-	138,515	(138,515)
Net investment income	-	256,400	(256,400)
Benefit payments, including refunds of employee contributions	(321,874)	(321,874)	-
Transfers among employers	67,355	67,355	-
Net changes	<u>727,427</u>	<u>317,817</u>	<u>409,610</u>
Reporting Period Ending September 30, 2021 (measurement date of 9/30/20)	<u>\$ 7,005,125</u>	<u>\$ 4,774,100</u>	<u>\$ 2,231,025</u>

**TOWN OF LOXLEY, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

8. PENSION PLAN – CONTINUED

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

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

	1% Decrease 6.70%	Current Discount Rate 7.70%	1% Increase 8.70%
Net Pension Liability	\$ 3,073,697	\$ 2,231,025	\$ 1,522,852

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, 2020. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2020. The auditor’s report on the Schedule of Changes in Fiduciary Net Position by Employer and accompanying notes is also available. The additional financial and actuarial information is available at <http://www.rsa-al.gov/index.php/employers/financial-reports/gasb-68-reports/>.

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

For the year ended September 30, 2021, the Town recognized pension expense of \$457,477. At September 30, 2021, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
City Contributions Subsequent to the Measurement Date	\$ 218,242	\$ -
Differences between Expected and Actual Experience	334,082	57,565
Changes in assumptions	73,925	-
Net difference between Projected and Actual Earnings on Pension Plan investments	144,153	-
Total	\$ 770,402	\$ 57,565

**TOWN OF LOXLEY, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

8. PENSION PLAN – CONTINUED

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

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

Year ended September 30

2022	\$ 94,592
2023	125,211
2024	135,629
2025	87,918
2026	44,816
Thereafter	<u>6,429</u>
	<u>\$ 494,595</u>

9. COMMITMENTS AND CONTINGENCIES

Grants

The Town participates in a number of federal and state assisted programs, such as the Disaster Funding Agreement, Disadvantaged Small Community Grants, Capitalization Grants for the State Revolving Fund and others. Amounts received or receivable from grantor agencies are subject to audit and adjustment by these grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures, which may be disallowed by the granting agencies, cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

Legal Issues

The Town is a defendant in various lawsuits and claims. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the Town's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the Town.

**TOWN OF LOXLEY, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

10. TAX ABATEMENTS

The Town enters into economic development incentive agreements with entities that propose to locate businesses within the Town, or expand businesses within the Town, which are expected to provide stimulus to the Town's economy. These incentive agreements are authorized under Amendment 772 of the Constitution of Alabama. These agreements provide for full or partial abatement of sales, fuel, use and/or property taxes. Property taxes are abated through reductions of assessed values and the abatement typically last for ten years. Sales, gas and use taxes are abated through a refund agreement whereby the Town collects sales tax from the business and then refunds a percentage back to the business. As of September 30, 2021, the Town has four sales tax-type agreements in use. Two agreements have an original term of five years at a 50% refund rate and an additional five years at a 40% refund rate. The third agreement has a twenty-year term with a 37.5% refund rate for sales tax and a 25% refund rate for fuel tax. The fourth agreement has a term until the maximum incentive of \$225,000 is reached with a 50% refund rate.

Sales, fuel and use tax revenue was reduced by \$830,445 for the year ending September 30, 2021 under incentive agreements entered into by the Town.

REQUIRED SUPPLEMENTARY INFORMATION

**TOWN OF LOXLEY, ALABAMA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE NET PENSION
LIABILITY AND RELATED RATIOS – UNAUDITED**

Reporting Period ending Measurement Date	9/30/21 9/30/20	9/30/20 9/30/19	9/30/19 9/30/18	9/30/18 9/30/17	9/30/17 9/30/16	9/30/16 9/30/15	9/30/15 9/30/14
Total Pension Liability							
Service cost	\$ 181,381	\$ 163,933	\$ 150,729	\$ 137,642	\$ 139,612	\$ 135,914	\$ 141,183
Interest	470,991	422,066	390,390	378,390	372,814	357,193	344,254
Change benefit terms	208,583	-	-	-	-	-	-
Differences between expected and actual experience	120,991	179,634	171,812	(13,032)	(137,049)	38,760	-
Change in assumptions	-	-	29,873.00	-	152,104	-	-
Benefit payments	(321,874)	(297,884)	(302,698)	(298,746)	(311,666)	(361,555)	(285,836)
Transfers among employers	67,355	179,633	1,568	(47,431)	-	-	-
Net change in total pension liability	727,427	647,382	441,674	156,823	215,815	170,312	199,601
Total pension liability – beginning	6,277,698	5,630,316	5,188,642	5,031,819	4,816,004	4,645,692	4,446,091
Total pension liability – ending (a)	\$ 7,005,125	\$ 6,277,698	\$ 5,630,316	\$ 5,188,642	\$ 5,031,819	\$ 4,816,004	\$ 4,645,692
Plan Fiduciary Net Position							
Contributions – employer	\$ 177,421	\$ 180,721	\$ 135,390	\$ 137,072	\$ 139,209	\$ 134,039	\$ 127,757
Contributions – member	138,515	136,622	113,200	108,323	90,595	86,101	83,888
Net investment income	256,400	109,072	353,603	442,388	327,786	39,227	367,966
Benefit payments	(321,874)	(297,884)	(302,698)	(298,746)	(311,666)	(361,555)	(285,836)
Transfers among employers	67,355	179,633	1,568	(47,431)	-	(30,982)	(9,833)
Net change in plan fiduciary net position	317,817	308,164	301,063	341,606	245,924	(133,170)	283,942
Plan fiduciary net position – beginning	4,456,283	4,148,119	3,847,056	3,505,450	3,259,526	3,392,696	3,108,754
Plan fiduciary net position – ending (b)	\$ 4,774,100	\$ 4,456,283	\$ 4,148,119	\$ 3,847,056	\$ 3,505,450	\$ 3,259,526	\$ 3,392,696
Net pension liability – ending (a)-(b)	\$ 2,231,025	\$ 1,821,415	\$ 1,482,197	\$ 1,341,586	\$ 1,526,369	\$ 1,556,478	\$ 1,252,996
Plan fiduciary net position as a percentage of the total pension liability	68.15%	70.99%	73.67%	74.14%	69.67%	67.68%	73.03%
Covered payroll	\$ 2,719,526	\$ 2,314,616	\$ 2,058,529	\$ 1,815,166	\$ 1,626,052	\$ 1,608,885	\$ 1,528,410
Net pension liability as a percentage of covered payroll	82.04%	78.69%	62.26%	65.18%	89.59%	95.11%	78.18%

Notes to schedule: Employer's covered payroll during the measurement period is the total covered payroll.

See notes to required supplementary information.

**TOWN OF LOXLEY, ALABAMA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS – UNAUDITED
LAST SIX FISCAL YEARS**

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 218,242	\$ 193,190	\$ 182,519	\$ 142,719	\$ 143,535	\$ 145,238	\$ 139,514
Contributions in relation to the actuarially determined contributions	<u>218,242</u>	<u>193,190</u>	<u>182,519</u>	<u>142,719</u>	<u>143,535</u>	<u>145,238</u>	<u>139,514</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 2,946,344	\$ 2,719,526	\$ 2,314,616	\$ 2,058,529	\$ 1,815,166	\$ 1,626,052	\$ 1,608,885
Contributions as a percentage of covered employee payroll	7.41%	7.10%	7.89%	6.93%	7.91%	8.93%	8.67%

Notes:

This Schedule is based on the 12-month period of the underlying financial statement.

See notes to required supplementary information.

**TOWN OF LOXLEY, ALABAMA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND – UNAUDITED
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes	\$ 368,712	\$ 368,712	\$ 358,692	\$ (10,020)
Sales and other local taxes	4,390,550	4,390,550	5,823,512	1,432,962
Licenses, fees and permits	698,000	698,000	818,987	120,987
Intergovernmental	-	-	1,299,085	1,299,085
Charges for services	629,700	629,700	433,420	(196,280)
Fines and forfeits	146,000	146,000	241,512	95,512
Miscellaneous	69,624	69,624	136,872	67,248
Total revenues	<u>6,302,586</u>	<u>6,302,586</u>	<u>9,112,080</u>	<u>2,809,494</u>
EXPENDITURES				
Current				
General governmental	1,645,865	1,645,865	2,833,777	(1,187,912)
Public safety	2,097,250	2,097,250	2,107,665	(10,415)
Sanitation and streets	297,600	297,600	398,688	(101,088)
Culture and recreation	498,150	498,150	478,535	19,615
Capital outlay	1,194,600	1,194,600	784,370	410,230
Debt service				
Principal	167,736	167,736	116,570	51,166
Interest	29,656	29,656	22,423	7,233
Total expenditures	<u>5,930,857</u>	<u>5,930,857</u>	<u>6,742,028</u>	<u>(811,171)</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>371,729</u>	<u>371,729</u>	<u>2,370,052</u>	<u>1,998,323</u>
NET CHANGE IN FUND BALANCE	<u>371,729</u>	<u>371,729</u>	<u>2,370,052</u>	<u>1,998,323</u>
FUND BALANCE, BEGINNING	<u>-</u>	<u>-</u>	<u>2,986,517</u>	<u>2,986,517</u>
FUND BALANCE, ENDING	<u>\$ 371,729</u>	<u>\$ 371,729</u>	<u>\$ 5,356,569</u>	<u>\$ 4,984,840</u>

OTHER SUPPLEMENTARY INFORMATION

COMBINING FUND STATEMENTS

NON-MAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

The Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts or for major capital projects) that are legally restricted to expenditure for specified purposes.

Police Forfeiture Fund

To account for funds from forfeitures from local, state, and other sources.

Volunteer Fire Department Fund

To account for the receipt of property and other taxes and Federal, State and County assistance which are to be used for all activity of the volunteer fire department except salaries, fund raising, and food or beverages.

Gas Tax Fund

To account for and report the receipt of state gas tax distributions restricted to expenditures for striping, signing, and other traffic safety functions, as well as street cleaning and other street maintenance functions.

**TOWN OF LOXLEY, ALABAMA
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
SEPTEMBER 30, 2021**

	Special Revenue Funds			Total Nonmajor Governmental Funds
	Police Forfeiture	Volunteer Fire Department	Gas Tax	
ASSETS				
Cash and cash equivalents	\$ 95,099	\$ 403,608	\$ 281,473	\$ 780,180
Due (to) from other funds	-	8,766	(50)	8,716
TOTAL ASSETS	\$ 95,099	\$ 412,374	\$ 281,423	\$ 788,896
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable	\$ -	\$ 4,646	\$ -	\$ 4,646
Total liabilities	-	4,646	-	4,646
Fund balance				
Restricted				
Public works	-	-	281,423	281,423
Public safety	95,099	407,728	-	502,827
Total fund balance	95,099	407,728	281,423	784,250
TOTAL LIABILITIES AND FUND BALANCE	\$ 95,099	\$ 412,374	\$ 281,423	\$ 788,896

**TOWN OF LOXLEY, ALABAMA
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

	Special Revenue Funds			Total Nonmajor Governmental Funds
	Police Forfeiture	Volunteer Fire Department	Gas Tax	
REVENUES				
Property taxes	\$ -	\$ 197,726	\$ -	\$ 197,726
Sales and other local taxes	-	20,832	34,099	54,931
Intergovernmental	19,562	39,370	19,021	77,953
Miscellaneous	-	21,958	10	21,968
Total revenues	19,562	279,886	53,130	352,578
EXPENDITURES				
Current				
Public safety	-	85,001	-	85,001
Capital outlay	-	73,986	16,000	89,986
Total expenditures	-	158,987	16,000	174,987
EXCESS OF REVENUES OVER EXPENDITURES	19,562	120,899	37,130	177,591
FUND BALANCE, BEGINNING	75,537	286,829	244,293	606,659
FUND BALANCE, ENDING	\$ 95,099	\$ 407,728	\$ 281,423	\$ 784,250

COMPLIANCE SECTION

**TOWN OF LOXLEY, ALABAMA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

Federal or State Agency Pass-Through Entity Program Title	Federal Assistance Listing Number	Contract/Grant Number	Expenditures	Passed Through to Subrecipients
U.S. Department of Homeland Security - Federal Emergency Management Agency (FEMA)				
Disaster Grant - Public Assistance	97.036	4563DR-AL	\$ 1,007,824	\$ -
U.S. DEPARTMENT OF AGRICULTURE				
Water and Waste Disposal Systems for Rural Communities	10.760	Sewer Treatment Plant	369,769	-
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Passed Through From: Alabama Department of Economic and Community Affairs				
Community Development Block Grant	14.228	SM-CM-PF-19-022	103,008	-
U.S. DEPARTMENT OF TREASURY				
Passed Through From: Alabama Department of Transportation				
Federal-Aid Highway Program	20.205	TAPNU-TA21 (909)	35,000	-
Federal-Aid Highway Program	20.205	HSIP-STPOA-0016 (524)	90,470	-
Total Highway Planning and Construction Cluster			<u>125,470</u>	-
U.S. DEPARTMENT OF TREASURY				
COVID-19 State & Local Fiscal Recovery Fund	21.027	America Rescue Plan Act	124,148	-
Passed Through From: Alabama Department of Finance				
COVID-19 Coronavirus Relief Fund	21.019	Cares Act Reimbursemen	48,581	-
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,778,800</u>	<u>\$ -</u>

TOWN OF LOXLEY, ALABAMA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2021

1. BASIS OF PRESENTATION

The information in the Schedule of Expenditures of Federal Awards (the schedule) is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Since the schedule presents only a select portion of the operations of the Town, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Town.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule includes the federal grant activity of the Town under programs of the federal government for the year ended September 30, 2021. Expenditures reported on the schedule are reported on the modified accrual basis of accounting. The Town did not elect to utilize the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

3. EXPENDITURES INCURRED IN PRIOR FISCAL YEAR

Total Federal Assistance Listing No. 97.036 expenditures of approximately \$162,000 were incurred in a prior fiscal year and obligated by FEMA in the current fiscal year.

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

To the Honorable Mayor and Town Council Members
The Town of Loxley, Alabama

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Loxley, Alabama (the Town), as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated June 13, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town'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; therefore, material weaknesses or significant deficiencies may exist that have not been identified. We consider the following deficiencies (2021-001, 2021-002, 2021-003) described in the accompanying schedule of findings and responses to be a material weaknesses.

Compliance and Other Matters

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

Town of Loxley, Alabama's Response to Findings

The Town's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Town's response was not subject to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

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.

Warren Averett, LLC

Foley, Alabama
June 13, 2022

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM
GUIDANCE**

Honorable Mayor and
Members of the Town Council
Town of Loxley, Alabama

Report on Compliance for the Major Federal Program

We have audited Town of Loxley, Alabama ("the Town")'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Town's major federal program for the year ended September 30, 2021. The Town's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Town's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Town's compliance.

Opinion on the Major Federal Program

In our opinion, Town of Loxley, Alabama complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2021.

Report on Internal Control over Compliance

Management of the Town, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

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

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Warren Averett, LLC

Foley, Alabama
June 13, 2022

**TOWN OF LOXLEY, ALABAMA
SCHEDULE FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued: Unmodified Opinion
Internal control over financial reporting:
Material weakness(es) identified? yes no
Significant deficiency (ies) identified that are
not considered to be material weakness(es)? yes none reported
Noncompliance material to financial statements
noted? yes no

FEDERAL AWARDS

Internal control over major programs:
Material weakness(es) identified? yes no
Significant deficiency(ies) identified that are
not considered to be material weakness(es)? yes none reported
Type of auditors' report issued on compliance
for major programs: Unmodified Opinion
Any audit findings disclosed that are required
to be reported in accordance with the Uniform
Guidance yes no

IDENTIFICATION OF MAJOR PROGRAM

U. S. Department of Homeland Security– Disaster Grants-
Public Assistance CFDA #97.036
Dollar threshold used to distinguish
between type A and type B programs: \$ 750,000
Auditee qualified as low-risk auditee? yes no

**TOWN OF LOXLEY, ALABAMA
SCHEDULE FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

SECTION II - FINANCIAL STATEMENT FINDINGS

FINDING 2021-001 – RECONCILIATION OF GRANT ACTIVITIES

Criteria

The Town's internal control over financial reporting is designed to allow for management and employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, a material misstatement on a timely basis. Pursuant to GASB Statement No. 33, recipients of expenditure-driven grants should recognize revenue as qualifying expenditures are incurred.

Condition

Town staff was unable to provide auditors with a schedule of grant revenues and expenditures, including unearned revenues and receivables, that reconciled to the accounting records and other supporting documentation.

Cause

Reconciliation of grant activities for financial reporting purposes was not prepared and reviewed on a timely basis by appropriately experienced and trained personnel. The Town does not have written policy for grant administration activities, that to provide the guidance necessary to facilitate financial reporting of grant activities in accordance with U.S. general accepted accounting procedures as well as preparation of the Schedule of Expenditures of Financial Awards (SEFA) required by the Uniform Guidance.

Effect

Various audit adjustments were proposed and accepted by management to properly reconcile grant activity for financial reporting purposes and to prepare the SEFA.

Recommendation

We recommend that management adopts written policies and procedures for identifying and reconciling expenditure-driven grant revenues with related qualifying expenditures. These policies should reflect who is responsible for preparing and reviewing the reconciling schedule of grant activities for financial reporting purposes as well as preparation of the SEFA.

**TOWN OF LOXLEY, ALABAMA
SCHEDULE FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

FINDING 2021-002 – COMPREHENSIVE ACCOUNTING POLICIES AND PROCEDURES

Criteria

The Town's internal control over financial reporting is designed to allow for management and employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, a material misstatement on a timely basis. An important element of internal control over cash is the completion of the bank reconciliations to allow Town staff to identify any differences between the bank balances and general ledger balances and resolve such differences in a timely manner.

Condition

The Town does not have written policy that outlines the nature and types of general ledger and account reconciliation reviews that should take place on a monthly, quarterly and year end basis in a centralized location. Errors in the financial close process resulted in audit adjustments to reconcile differences and to record the actual year-end balances for capital assets and expenditures, accounts payable, accrued payroll, long-term debt, receivables and revenues, and expenditures. In total, a net adjustment of revenues and expenditures totally approximately \$195,000 was recorded in the general fund. In addition, we noted the bank reconciliations were not evidenced with an appropriate review.

Cause

There is not sufficient time for Town staff to accomplish a robust review of the final trial balances, due to the lack of cohesive and comprehensive accounting policies and procedures that identify all tasks, particularly year end closing considerations and inadequate staffing for the volume of activities to be performed and reviewed.

Effect

The system of internal control over financial accounting and reporting is not functioning as designed for the year ended September 30, 2021.

Recommendation

The Town should adopt a comprehensive and cohesive set of written policies outlining accounting and financial reporting procedures and activities. These policies should outline the personnel responsible for performing and reviewing each task as well as the timeframe for completion. In addition, management should establish more effective review and reconciliation policies and procedures, as a customary part of the accounting process, to perform more frequent reviews of the general ledger activity throughout the year.

**TOWN OF LOXLEY, ALABAMA
SCHEDULE FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

FINDING 2021-003: SEGREGATION OF DUTIES

Criteria

Segregation of duties is one of the key concepts of internal controls. It is also one of the most effective internal controls in preventing and detecting fraudulent activity; contributing to a company's system of checks and balances. The concept of properly segregated responsibilities is to have no single employee handling more than one of the following functions: (1) custody of assets; (2) record keeping; (3) authorization; and (4) reconciliation.

Condition

While obtaining our understanding of the Town's internal controls and accounting processes and procedures, it came to our attention that there are specific duties not properly segregated due to limited personnel. In an effort to mitigate the risk associated with this deficiency in controls, the Town could institute additional compensating controls, such as increased reviews and reconciliations.

Cause

There is inadequate staffing for the volume of activities to be performed and reviewed.

Effect

The lack of adequate segregation of accounting duties could adversely affect the Town's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

Recommendation

We recommend that management continue to evaluate the roles and responsibilities of its personnel to determine if duties can be reassigned or redirected, when practical, in an effort to better segregate duties. If necessary, it may be beneficial to engage an external accountant to assist in monthly bookkeeping and reconciling. Compensating controls should be evaluated on a routine basis to ensure that the controls are consistently performed, operating effectively, and functioning as intended.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There are no audit findings required to be reported in accordance with the Uniform Guidance.

Town Clerk – Treasurer
Melissa Lawrence

P. O. Box 9
LOXLEY, ALBAMA 36551

Council Members
Richard Lee Wilson
Jeffrey T. Knight
Katherine Q. Breeden
Chris McCall
Kasey Childress

OFFICE: (251) 964-5162
FAX: (251) 964-5371

SCHEDULE OF PRIOR YEAR FINDINGS

Findings 2020-001 and Finding 2020-002 are repeated in Finding 2021-002. Finding 2020-003 is repeated in Finding 2021.003.

CORRECTIVE ACTION PLAN

The findings from the June 13, 2022 schedule of findings and questioned costs is discussed below. The findings are numbered consistently with the number assigned in the schedule.

Name of Contact Person for Completing Corrective Action Plan:

Melissa Lawrence
(251) 964-5162
melissal@townofloxley.org

FINDING 2021-001

Tow staff was unable to provide auditors with a schedule of grant revenues and expenditures, including unearned revenues and receivables, that reconciled to the accounting records and other supporting documentation.

Management's Response

In order to prevent this from happening in the future, policies and procedures surrounding the grant revenue accrual process will be reviewed by the accounting personnel.

FINDING 2021-002

Errors in the financial close process resulted in audit adjustments to reconcile differences and to record the actual year-end balances for capital assets and expenditures, accounts payable, accrued payroll, long-term debt, receivables and revenues, and expenditures. In total, a net adjustment of revenues and expenditures totally approximately \$195,000 was recorded in the general fund. In addition, we noted the bank reconciliations were not evidenced with an appropriate review.

Management's Response

The Town will evaluate its financial close process and add in additional staffing reviews and reconciliations to ensure balances are properly recorded for September 30, 2022.

FINDING 2021-003

The Town's staffing does not provide the adequate segregation of accounting duties.

Management's Response

The Town will evaluate including additional levels of reviews to compensate for the lack of segregation of duties.