THE SEWAGE DISPOSAL BOARD OF THE CITY OF RED BAY
Red Bay, Alabama

Audited Financial Statements and Special Reports

For the Year Ended
September 30, 2024

SPARKS
CPA Firm
Certified Public Accountants

THE SEWAGE DISPOSAL BOARD OF THE CITY OF RED BAY
Red Bay, Alabama
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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

The Board of Directors
The Sewage Disposal Board of the City of Red Bay
Red Bay, Alabama

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities of The Sewage Disposal Board of the City of Red Bay, component unit of the City of Red Bay, as of and for the year ended September 30, 2024, and the related notes to the financial statements, which collectively comprise The Sewage Disposal Board of the City of Red Bay's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, of The Sewage Disposal Board of the City of Red Bay, component unit of the City of Red Bay, as of September 30, 2024, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- exercise professional judgment and maintain professional skepticism throughout the audit.

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of The Sewage Disposal Board of the City of Red Bay's internal control. Accordingly, no such opinion is expressed.

- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Sewage Disposal Board of the City of Red Bay's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5-8, the Schedule of Changes in the Net Pension Liability on page 27, and the Schedule of Employer Contributions on page 28 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2025, on our consideration of The Sewage Disposal Board of the City of Red Bay's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of The Sewage Disposal Board of the City of Red Bay's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Sewage Disposal Board of the City of Red Bay's internal control over financial reporting and compliance.

The Sparks CPA Firm, P.C.

The Sparks CPA Firm, P.C.
Certified Public Accountants
Red Bay, Alabama
April 30, 2025

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

This section of The Sewage Disposal Board of the City of Red Bay's (Sewer Board) annual financial report represents a discussion and analysis of The Sewer Board's financial performance during the fiscal year ended September 30, 2024. The intent of this discussion and analysis is to look at The Sewer Board's performance as a whole. This should be read in conjunction with the notes to the basic financial statements and the financial statements, which follow this section. The Sewer Board's activities are accounted through four enterprise funds and reported as a single enterprise fund.

FINANCIAL HIGHLIGHTS

The assets and deferred outflows of resources of the Sewer Board exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by $1,579,816. Of this amount, $741,071 is unrestricted. The following restrictions have been made on net position: Public Works $11,047, and Capital Projects $85,614.

The Sewer Board had an increase in net position of $374,768 at fiscal year-end. This is a higher increase in net position than the prior year primarily due to a substantial increase in operating revenues over a slight decrease in operating expenses of $76,696 and ($312), respectively. Furthermore, the Sewer Board's net non-operating revenues and expenses increased by $111,408 from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to The Sewer Board's basic financial statements. The Sewer Board's financial statements are comprised of three components: 1) Government-wide financial statements, 2) Fund financial statements and 3) Notes to the basic financial statements. This report also contains required and additional supplementary information in addition to the basic financial statements themselves.

Basic Financial Statements

The financial statements of the Sewer Board report information about the Sewer Board using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities.

The Statement of Net Position – Proprietary Funds present information regarding all of the Sewer Board's assets plus deferred outflows of resources and liabilities plus deferred inflows of resources, with the net effect of the two reported as the net position. It also provides the basis for computing the rate of return, evaluating the Board's capital structure, as well as assessing the liquidity and financial flexibility of the Sewer Board.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds. This statement measures the success of the Sewer Board's operations over the past year. It can be used to determine whether the Sewer Board has successfully recovered all its costs through user fees, other charges, profitability, and credit worthiness.

The other required financial statement is the Statement of Cash Flows – Proprietary Funds. The primary purpose of this statement is to provide information about the Sewer Board's cash receipts and cash payments during the reporting period. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It also provides users with details regarding the source of the cash, what the cash was used for and the change in the cash balance during the reporting period.

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

FINANCIAL ANALYSIS OF THE SEWAGE DISPOSAL BOARD OF THE CITY OF RED BAY

One of the most important questions asked about the Sewer Board's finances is "Is the Sewer Board, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Position – Proprietary Funds and the Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds report information about the Sewer Board's activities in a manner that provides the answer to this question. Both statements report the net position of each fund and the current to prior year changes between them. The net position, the difference between the assets and liabilities, allows one to measure the financial position of each fund. The increases and decreases shown in net position over prior periods indicates whether the Sewer Board's financial health is improving or deteriorating. However, other non-financial factors such as the change in economic conditions, weather, customer growth, and regulatory and legislative mandates must also be considered.

The Sewer Board's net position increased from FY 2023 by $374,768. The summaries below focus on the Sewer Board's net position and changes in net position during the years presented.

	FY 2024	FY 2023	Dollars	Percent	
Current assets	$ 1,047,626	$ 951,497	$ 96,129	10.10	%
Capital assets, net	1,634,147	1,393,471	240,676	17.27	%
Total assets	2,681,773	2,344,968	336,805	14.36	%
Deferred outflows of resources	28,367	41,593	(13,226)	(31.80)	%
Current liabilities	127,846	114,001	13,845	12.14	%
Long-term liabilities	1,001,727	1,065,700	(63,973)	(6.00)	%
Total liabilities	1,129,573	1,179,701	(50,128)	(4.25)	%
Deferred inflows of resources	751	1,812	(1,061)	(58.55)	%
Net position:					
Net investment in capital assets	742,084	428,430	313,654	73.21	%
Restricted	96,661	92,470	4,191	4.53	%
Unrestricted	741,071	684,148	56,923	8.32	%
Total net position	$ 1,579,816	$ 1,205,048	$ 374,768	31.10	%

Changes in the Sewer Board's net position can be determined by reviewing the following condensed Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds for the years presented.

As the next table indicates, operating revenues increased approximately $76,696 from FY 2023 due mostly to an increase in water usage as sewage is directly tied to water usage collected by Red Bay Water and Gas. Operating expenses decreased slightly by ($312). Non-operating revenues (expenses) incurred a $111,408 increase primarily from grant revenues.

		FY 2024		FY 2023		Dollars	Percent
Operating revenues	$	1,086,285	$	1,009,589	$	76,696	7.60%
Operating expenses		805,173		805,485		(312)	(0.04)%
Operating income (loss)		281,112		204,104		77,008	37.73%
Non-operating revenues (expenses)		93,656		(17,752)		111,408	(627.58)%
Increase (decrease) in net position		374,768		186,352		188,416	101.11%
Net position:							
Net position, beginning		1,205,048		1,006,552		198,496	19.72%
Prior Period Adjustment		-		12,144		(12,144)	(100.00)%
Net position, ending	$	1,579,816	$	1,205,048	$	374,768	31.10%

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of September 30, 2024, The Sewage Disposal Board of the City of Red Bay's total capital assets for business-type activities was $1,634,147. The following table summarizes the changes in capital assets and accumulated depreciation from the prior year to current fiscal year.

		Balance 10/01/23	Increase	Decrease	Adjustments		Balance 09/30/24
Capital assets not being depreciated:							
Construction in progress	$	-	153,359	-	-	$	153,359
Total capital assets not being depreciated		-	153,359	-	-		153,359
Capital assets being depreciated:							
Sewer system		1,420,232	171,380	-	1		1,591,613
Mobile equipment		131,106	-	-	-		131,106
Equipment		23,630	23,295	-	(1)		46,924
Total assets being depreciated		1,574,968	194,675	-	-		1,769,643
Less accumulated depreciation for:							
Sewer system		123,405	84,336	-	-		207,741
Mobile equipment		49,186	16,899	-	-		66,085
Equipment		8,906	6,123	-	-		15,029
Total accumulated depreciation		181,497	107,358	-	-		288,855
Total depreciable capital assets, net		1,393,471	87,317	-	-		1,480,788
Business-type activity capital assets, net	$	1,393,471	240,676	-	-	$	1,634,147

Construction in progress is due to the Sewer Board starting Phase II of the Sewer Trunk Line Upgrade during the year. Additionally, the Sewer Board purchased several pumps for the lift stations and a GPR detector.

Debt Administration

At September 30, 2024, The Sewer Board had $977,677 in long-term debt outstanding. Of the total amount listed below $64,542 is due within one year.

The table below shows the activity in long term debt for this fiscal year. This table breaks down the debt by the type of issue.

	Balance 10/01/23	Issued	Retired	Balance 09/30/24	Due Within One Year
Valley State Bank	$ 22,658	-	15,915	6,743	$ 6,743
Bank of NY 2020 CWSRF	555,000	-	25,000	530,000	25,000
Bank of NY 2022 CWSRF	395,000	-	15,000	380,000	15,000
Valley State Bank	77,997	-	17,063	60,934	17,799
Total debt obligations	$ 1,050,655	-	72,978	977,677	$ 64,542

Long-term Debt

In FY 2024, the Sewer Board entered into an agreement with the City of Red Bay to pay 25% of a loan for a 2024 John Deere Backhoe. The Sewer Board also has a joint debt obligation with the City of Red Bay for a Mini Cat Excavator in which the Sewer Board is to pay half of the yearly obligation.

CONTACTING THE SEWER BOARD'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Sewer Board's finances and to demonstrate the Sewer Board's accountability for the funds it receives. If you have questions about this report or need additional financial information, please contact the Superintendent of The Sewage Disposal Board of the City of Red Bay at P.O. Box 2002, Red Bay, Alabama 35582.

BASIC FINANCIAL STATEMENTS

THE SEWAGE DISPOSAL BOARD OF THE CITY OF RED BAY
Statement of Net Position -
Proprietary Funds
September 30, 2024

Assets		
Current assets:		
Cash and cash equivalents	$	861,245
Cash with fiscal agents		85,614
Accrued revenue		87,185
Prepaid insurance		11,047
Inventory		2,535
Total current assets		1,047,626
Capital assets:		
Construction in progress		153,359
Sewer system, net		1,383,872
Mobile equipment, net		65,021
Equipment, net		31,895
Total noncurrent assets		1,634,147
Total assets		2,681,773
Deferred outflows of resources:		
Deferred outflow - pension		28,367
Total deferred outflows of resources		28,367
Liabilities		
Current liabilities:		
Accounts payable		58,709
Note payable, due in less than one year		24,542
Bonds payable, due in less than one year		40,000
Accrued Liabilities		4,595
Total current liabilities		127,846
Noncurrent liabilities		
Note payable, due in more than one year		43,135
Bonds payable, due in more than one year		870,000
Net pension liability		88,592
Total noncurrent liabilities		1,001,727
Total liabilities		1,129,573
Deferred inflows of resources:		
Deferred inflow - pension		751
Total deferred inflows of resources		751
Net position		
Net investment in capital assets		742,084
Restricted for:		
Public works		11,047
Capital projects		85,614
Unrestricted		741,071
Total net position	$	1,579,816

The notes to the financial statements are an integral part of this financial statement.

THE SEWAGE DISPOSAL BOARD OF THE CITY OF RED BAY
Statement of Revenues, Expenditures and Changes in Fund Net Position -
Proprietary Funds
For the Year Ended September 30, 2024

Operating revenues		
Charges for services	$	1,086,285
Total operating revenues		1,086,285
Operating expenses		
Salaries and benefits		119,101
Supplies and maintenance		380,288
Professional services		23,245
License and fees		75,506
Gas, oil, and grease		10,805
Advertising		220
Utilities		88,650
Depreciation expense		107,358
Total operating expenses		805,173
Operating income (loss)		281,112
Non-operating revenues (expenses)		
Miscellaneous revenue		489
Grant funds		178,445
Interest income		744
Transfers in		473,024
Transfers out		(473,024)
Payments on behalf of The City of Red Bay		(71,855)
Interest expense		(14,167)
Total non-operating revenue (expenses)		93,656
Change in net position		374,768
Net position - beginning		1,205,048
Net position - ending	$	1,579,816

The notes to the financial statements are an integral part of this statement.

THE SEWAGE DISPOSAL BOARD OF THE CITY OF RED BAY
Statement of Cash Flows -
Proprietary Fund
For the Year Ended September 30, 2024

Cash flows from operating activities		
Receipts from customers	$	1,095,289
Payments to suppliers		(560,618)
Payments to employees		(106,372)
Net cash provided (used) by operating activities		428,299
Cash flows from noncapital financing activities		
Payments on behalf of the City of Red Bay		(71,855)
Miscellaneous revenue		489
Net cash provided (used) by noncapital financing activities		(71,366)
Cash flows from capital and related financing activities		
Receipts from capital grants		178,445
Transfers in		473,024
Principal payments on capital debt		(72,978)
Interest paid on capital debt		(14,167)
Acquisition of capital assets		(348,034)
Transfers out		(473,024)
Net cash provided (used) in capital and related financing activities		(256,734)
Cash flows from investing activities		
Interest income		744
Net cash provided (used) by investing activities		744
Net increase (decrease) in cash and cash equivalents		100,943
Cash and cash equivalents at beginning of year		845,916
Cash and cash equivalents at end of year	$	946,859
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	$	281,112
Adjustments to reconcile operating income (loss) to net cash Provided (used) by operating activities:		
Depreciation expense		107,358
Changes in assets and liabilities:		
(Increase) decrease in accrued revenue		9,005
Increase (decrease) in accounts payable		22,286
(Increase) decrease in prepaid insurance		(4,191)
Increase (decrease) in accrued liabilities		(14)
(Increase) decrease in deferred outflows - pension		13,226
Increase (decrease) in deferred inflows - pension		(1,061)
Increase (decrease) in net pension liability		578
Net cash provided (used) by operating activities	$	428,299

The notes to the financial statements are an integral part of this statement.

Note 1 – Summary of Significant Accounting Policies

The financial statements of The Sewage Disposal Board of the City of Red Bay (Sewer Board) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Sewer Board's accounting policies are described below:

Reporting Entity

The Sewer Board was incorporated on June 20, 1966, in the State of Alabama for the purpose to acquire, construct, operate, maintain, improve, and extend a sewage disposal plant and system in the City of Red Bay (City) and surrounding area. The Sewer Board consists of five members that are appointed by the City of Red Bay Council. For financial reporting purposes, the Sewer Board is considered a component unit of the City of Red Bay.

Fund Accounting and Measurement Focus

The Sewer Board uses funds to report on its financial position and the results of its operations.

Proprietary Fund Types – Enterprise Funds

The Enterprise Fund is accounted for on the flow of economic resources measurement focus. This means that assets, deferred outflows of resources, and liabilities (whether current or non-current), and deferred inflows of resources are included in the statement of net position. The reported fund equity (net total position) is segregated into net investment in capital assets and restricted and unrestricted net position. The Enterprise Fund type operating statement presents increases (revenues) and decreases (expenses) in net total position.

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

Basis of Accounting

Basis of accounting refers to the timing when revenues and expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus applied. The Sewer Board prepares its financial statements on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred.

Accounting 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, expenses, and expenditures during the reporting period. Actual results could differ from those estimates.

Budgetary Information

The Sewer Board is not required to have a legal budget and thus one is not adopted. Therefore, the budgetary comparison statements have been omitted from the required supplemental information.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposit accounts and certificates of deposit valued at cost. The Sewer Board invests surplus cash in certificates of deposit. All certificates of deposit are treated as cash equivalents.

Receivables and Interfund Transactions and Balances

Receivables are reported net of allowances for uncollectible accounts, where applicable. During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. The receivables and payables are classified as “due from other funds” or “due to other funds” on the balance sheet.

Inventory and Prepaid Items

Inventory is stated at the lower of cost or market, determined on a first-in, first-out basis and are reported as expenditures when consumed rather than when purchased (consumption method).

Capital Assets

Capital assets, which include property, plant and equipment is valued at cost. Donated property, plant and equipment are valued at their estimated fair value on the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capital assets of the Sewer Board are depreciated using the straight-line method of depreciation. Depreciation expense is being computed on the straight-line method, using asset lives as follows:

Aerators	8 – 10 years
Pumps and equipment	5 – 7 years
Mobile equipment	5 – 10 years

Deferred Outflows/Inflows of Resources

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

Deferred outflow of resources – pension – This amount represents the Sewer Board’s deferred outflows of resources reported by the pension plan in which the City participates. See Note 6 for additional details.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

Deferred inflow of resources – pension – This amount represents the Sewer Board’s deferred inflows of resources reported by the pension plan in which the City participates. See Note 6 for additional details.

Compensated Absences

Personal Leave - All full-time employees are granted three paid personal days each year. Personal days are required to be taken in no less than four-hour increments. Personal days may not be carried over from one year to another.

Sick Leave - Each full-time employee accrues four hours per month sick leave (after completing the 90-day introductory period). After being employed with the Sewer Board for one year, each employee will accrue one sick day per month. Any sick leave not taken before the end of the year can be carried over to the next year; however, each employee can only accrue up to 90 days of sick leave hours. Upon retirement, resignation, or termination of employment with the Sewer Board, the employee forfeits all sick leave time accrued. Sick leave is only paid for days absent from work. Because employees do not receive compensation for sick leave accumulated at the time of termination, no liability is recorded.

Vacation - The Sewer Board allots vacation days based on years of service. Each employee must complete the 90-day introductory period before being considered eligible for vacation. After one year of service, full-time employees receive five days of vacation. After five years of service, employees receive ten days of vacation. After ten years of service, employees receive fifteen days of vacation. Management requires each employee to remain away from his or her work duties for one consecutive week annually. Vacation time cannot be carried over from one year to another.

Pensions

The Employees' Retirement System of Alabama (the Plan or ERS) financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to the plan requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. Investments are reported at fair value. Financial statements are prepared in accordance with requirements of the Governmental Accounting Standards Sewer 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.

The Sewer Board is included in the pension calculations and disclosures for the City of Red Bay. Due to the small number of employees, ERS did not separate the Sewer Board from the City; however, the Sewer Board reimburses the City for all related payments. Additionally, the related deferred inflows, deferred outflows, and net pension liability are recorded based on the appropriate proportion relating to each entity. However, since ERS calculations are based on the combined information, disclosures reflect the total of the City's and the Sewer Board's pension calculation.

Net Position

GASB 63 requires the classification of net position into three components: net investment in capital assets, restricted net position, and unrestricted net position. These classifications are defined as follows:

Net investment in capital assets – This component consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted net position – This component consists of net position with constraints placed on the use either by external groups such as creditors (such as through debt covenants), grantors, contributors, or laws and regulations of other governments; or law through constitutional provisions or enabling legislation.

Unrestricted net position – The component of net position consists of all other net positions not meeting the definition of “restricted” or “net investment in capital assets.” The Sewer Board elects to use restricted assets before unrestricted assets when both restricted and unrestricted assets are available for use.

Operating and Non-Operating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating revenues and expenses. 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 these proprietary funds are sanitation and sewage disposal. Operating expenses for these proprietary funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Note 2 – Cash and Cash Equivalents, and Cash with Fiscal Agents

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Sewer Board’s deposits may not be returned, or the Sewer Board will not be able to recover collateral securities in the possession of an outside party. At year-end, the Sewer Board’s carrying amount of deposits was $946,859 and the bank balance was $894,340. The collateral for public entities’ deposits in financial institutions is held in the name of the Alabama State Treasurer under a program established by the Alabama State Legislature. Under this program, the Sewer Board’s funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation. The Sewer Board does not have a written investment policy covering credit risk. The Sewer Board has funds on deposit at Bank Independent and Community Spirit Bank.

The carrying amount of the City’s cash with Fiscal Agents held by financial institutions was $85,614. This amount is not a FDIC insured balance.

Note 3 – Capital Assets

The capital assets previously presented as part of the Sewer Board are directly associated with the City of Red Bay’s debt and bonding agreements. As a result of the Sewer Board meeting the requirements to be a discretely presented component unit of the City, the assets and related accumulated depreciation previously presented as business-type activities of the City have been reclassed/transferred to governmental activities on the City’s financial statements.

Activity for the year ended September 30, 2024 was as follows:

	Balance 10/01/23	Increase	Decrease	Adjustments	Balance 09/30/24
Capital assets not being depreciated:					
Construction in progress	$ -	153,359	-	-	$ 153,359
Total capital assets not being depreciated	-	153,359	-	-	153,359
Capital assets being depreciated:					
Sewer system	1,420,232	171,380	-	1	1,591,613
Mobile equipment	131,106	-	-	-	131,106
Equipment	23,630	23,295	-	(1)	46,924
Total assets being depreciated	1,574,968	194,675	-	-	1,769,643
Less accumulated depreciation for:					
Sewer system	123,405	84,336	-	-	207,741
Mobile equipment	49,186	16,899	-	-	66,085
Equipment	8,906	6,123	-	-	15,029
Total accumulated depreciation	181,497	107,358	-	-	288,855
Total depreciable capital assets, net	1,393,471	87,317	-	-	1,480,788
Business-type activity capital assets, net	$ 1,393,471	240,676	-	-	$ 1,634,147

Note 4 – Long-term Debt

Long-term liability activity for the year ended September 30, 2024 was as follows:

	Balance 10/01/23	Issued	Retired	Balance 09/30/24	Due Within One Year
Valley State Bank	$ 22,658	-	15,915	6,743	$ 6,743
Bank of NY 2020 CWSRF	555,000	-	25,000	530,000	25,000
Bank of NY 2022 CWSRF	395,000	-	15,000	380,000	15,000
Valley State Bank	77,997	-	17,063	60,934	17,799
Total debt obligations	$ 1,050,655	-	72,978	977,677	$ 64,542

Principal requirements to maturity for each of the five subsequent fiscal years and in five-year increments thereafter are as follows:

Year Ending	Bank of NY 2020 CWSRF		Valley State Bank		Bank of NY 2022 CWSRF	
September 30	Principal	Interest	Principal	Interest	Principal	Interest
2025	$ 25,000	11,660	$ 6,743	29	$ 15,000	8,195
2026	25,000	11,110	-	-	15,000	7,865
2027	25,000	10,560	-	-	15,000	7,535
2028	30,000	10,010	-	-	15,000	7,205
2029	30,000	9,350	-	-	20,000	6,820
2030-2034	150,000	36,850	-	-	100,000	27,500
2035-2039	175,000	19,250	-	-	100,000	16,500
2040-2044	70,000	2,310	-	-	100,000	4,400
Total	$ 530,000	111,100	$ 6,743	29	$ 380,000	86,020

Year Ending September 30	Valley State Bank Principal	Valley State Bank Interest
2025	17,799	2,241
2026	18,570	1,470
2027	19,374	666
2028	5,191	37
Total	$ 60,934	4,414

Valley State Bank – Mini-Cat Excavator

The Sewer Board secured a loan in the 2020 fiscal year for $77,446 to aid in the purchase of a new mini-cat excavator. The loan carries a 60-month term with the interest rate of 1.74%. The balance of this note is $6,743 at September 30, 2024.

Valley State Bank – Paving

The Sewer Board secured a loan in the 2023 fiscal year for $90,251 to aid in resurfacing projects. The loan carries a 60-month term with the interest rate of 4.19%. The balance of this note is $60,934 at September 30, 2024.

Bank of New York Mellon – Series 2020 CWSRF-DL Bonds

General Obligation Warrant – payable annually from $25,000 to $35,000 for 20 years beginning August 15, 2022, through August 15, 2041, interest rate is 2.20%. Principal reduction will begin on August 15, 2022. The Sewer Board entered into an agreement with the Alabama Department of Environmental Management to provide the warrants. The total amount of the warrants is $698,000, to be used for the Red Bay Sewer Trunk Line Upgrade – Phase II project. As part of the agreement, the Alabama Department of Environmental Management agreed to $93,000 loan forgiveness recognized as a federal award. The balance of the general obligation warrant at September 30, 2024 was $530,000.

Bank of New York Mellon – Series 2022 CWSRF-DL Bonds

General Obligation Warrant – payable annually from $15,000 to $25,000 for 20 years beginning August 15, 2023, through February 15, 2043, interest rate is 2.20%. Principal reduction will begin on February 15, 2024. The Sewer Board entered into an agreement with the Alabama Water Pollution Control Authority and the Alabama Department of Environmental Management to provide the warrants. The total amount of the warrants is $395,000, to be used for the Red Bay Sewer Trunk Line Upgrade – Phase II project. The balance of the general obligation warrant at September 30, 2024 was $380,000.

Note 5 – Concentration of Revenue

For the 2024 fiscal year, approximately 37.88% of the Sewer Board's service revenue is derived from three industrial customers and one commercial customer.

Note 6 – Employee Retirement

As described in Note 1 – Pensions, ERS calculations are based on the combined information, and the disclosures reflect the total of the City's and the Sewer Board's pension calculation.

General Information about the Pension Plan

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

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

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

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

Act 377 of the Legislature of 2012 established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 ERS members are eligible for retirement after age 62 (56 for State Police) with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a formula method. Under the formula method, Tier 2 members of the ERS (except State Police) are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service up to 80% of their average final compensation. State Police are allowed 2.375% for each year of State Police service in computing the formula method.

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

Act 132 of the Legislature of 2019 allowed employers who participate in the ERS pursuant to *Code of Alabama 1975, Section 36-27-6* to provide Tier 1 retirement benefits to their Tier 2 members. Tier 2 members of employers adopting Act 2019-132 will contribute 7.5% of earnable compensation for regular employees and 8.5% for firefighters and law enforcement officers. A total of 618 employers adopted Act 2019-132 as of September 30, 2023.

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

The ERS serves approximately 884 local participating employers. The ERS membership includes approximately 113,079 participants. As of September 30, 2023, membership consisted of:

Retirees and beneficiaries currently receiving benefits	31,481
Terminated employees entitled to but not yet receiving benefits	2,350
Terminated employees not entitled to a benefit	20,556
Active members	58,659
Post – DROP participants who are still in active service	33
Total	113,079

Contributions. Covered members of the ERS contributed 5% of earnable compensation to the ERS as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, covered members of the ERS were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered members of the ERS are required by statute to contribute 7.50% of earnable compensation. Certified law enforcement, correctional officers, and firefighters of the ERS contributed 6% of earnable compensation as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, certified law enforcement, correctional officers, and firefighters of the ERS were required by statute to contribute 8.25% of earnable compensation. Effective October 1, 2012, certified law enforcement, correctional officers, and firefighters of the ERS are required by statute to contribute 8.50% of earnable compensation. State Police of the ERS contribute 10% of earnable compensation.

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

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

The ERS establishes rates based upon an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year with additional amounts to finance any unfunded accrued liability, the preretirement death benefit, and administrative expenses of the Plan. For the year ended September 30, 2024, the City's active employee contribution rate was 5.38 percent of covered employee payroll, and the City's average contribution rate to fund the normal and accrued liability costs 6.77 percent of pensionable payroll.

City's contractually required contribution rate for the year ended September 30, 2024, was 9.98% of pensionable pay for Tier 1 employees, and 7.07% of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation as of September 30, 2021, a percent of annual pensionable payroll, and actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the City were $130,667 for the year ended September 30, 2024.

*Net Pension Liability***.** The City's net pension liability was measured as of September 30, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as September 30, 2022, rolled forward to September 30, 2023, using standard roll-forward techniques as shown in the following table:

Total pension liability as of 9/30/2022 (a)	$	4,787,458
Discount rate		7.45%
Entry age normal cost* for 10/1/22 – 9/30/23 (c)		135,151
Transfers among employers (d)		48,841
Actual benefit payments for 10/1/22 – 9/30/23 (e)		(251,617)
Total pension liability as of 9/30/23 =[(a)x(1+(b))]+(c)+(d)+[(e)x(1+0.5*(b))]	$	5,067,125

Actuarial assumptions

The total pension liability as of September 30, 2023, was determined based on the annual actuarial funding valuation report prepared as of September 30, 2022. The key actuarial assumptions are summarized below:

Inflation	2.50%
Projected salary increases	3.25% - 6.00% for State and local employees and 4.00% - 7.75% for State Police, including inflation
Investment rate of return*	7.45%, including inflation

*Net of pension plan investment expense

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

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

The actuarial assumptions used in the September 30, 2021, valuation were based on the results of an actuarial experience study for the period October 1, 2015 – September 30, 2020.

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

	Target Allocation	**Long-Term Expected Rate of Return***
Fixed income	15.0%	2.8%
U.S. large stocks	32.0%	8.0%
U.S. mid stocks	9.0%	10.0%
U.S. small stocks	4.0%	11.0%
International developed market stocks	12.0%	9.5%
International emerging market stocks	3.0%	11.0%
Alternatives	10.0%	9.0%
Real estate	10.0%	6.5%
Cash	5.0%	1.5%
Total	**100.00%**	

**Includes assumed rate of inflation of 2.00%.*

Discount rate. The discount rate used to measure the total pension liability was the long-term rate of return, 7.45%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made in accordance with the funding policy adopted by the 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 (a)-(b)**
Balances at 9/30/22	**$ 4,676,545**	**$ 2,916,240**	**$ 1,760,305**
Changes for the year:			
Service cost	118,726	-	118,726
Interest	339,030	-	339,030
Changes of benefit terms	104,571	-	104,571
Differences between expected and actual experience	31,029	-	31,029
Contributions – employer	-	109,245	(109,245)
Contributions – employee	-	93,916	(93,916)
Net investment income	-	378,623	(378,623)
Benefit payments, including refunds of employee contributions	(251,617)	(251,617)	-
Administrative expense	-	-	-
Transfer among employers	48,841	48,841	-
Net changes	390,580	379,008	11,572
Balances at 9/30/23	**$ 5,067,125**	**$ 3,295,248**	**$ 1,771,877**

Sensitivity of the net pension liability to changes in the discount rate

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

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
City of Red Bay net pension liability	$ 2,371,123	$ 1,771,877	$ 1,268,908

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Annual Comprehensive Financial Report for the fiscal year ended September 30, 2023. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2023. 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, 2024, the City and the Sewer Board recognized pension expense of $385,533. At September 30, 2024, the City and the Sewer Board reported deferred outflows of resources and deferred inflows of resources related to pensions of the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 249,738	$ 15,019
Changes of assumptions	58,076	-
Net difference between projected and actual earnings on pension plan investments	128,873	-
Employer contributions subsequent to the measurement date	130,667	-
Total	$ 567,354	$ 15,019

$130,667 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2025. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30	
2025	$ 115,967
2026	112,192
2027	197,809
2028	(6,054)
2029	1,754

Note 7 – Related Party Transactions

There were no related party transactions.

Note 8 – Commitments and Contingencies

Federal Grants - Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Sewer Board’s management expects such amounts, if any, to be immaterial.

The Sewer Board is party to various threatened claims in the ordinary course of their operations. It is not possible at the present time to estimate the outcome of liability, if any, of the Sewer Board with respect to the various claims; however, the Sewer Board anticipates a favorable outcome in these claims.

Note 9 – Subsequent Events

Events that occur after the Statement of Net Position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. The Sewer

Board evaluated the activity through September 30, 2024, which is the date the financial statements were issued and determined that no subsequent events have occurred that require disclosure in the notes to the financial statements. No adjustments were considered necessary to the financial statements.

Note 10 – Effect of Deferred Amounts on Net Position

The unrestricted net position amount of $741,071 includes the effect of deferring the recognition of expenses resulting from the deferred outflow from pensions. A portion of the deferred outflow of resources related to pensions in the amount of $6,533 resulting from the Sewer Board's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2025. The $21,834 balance of deferred outflow of resources related to pension, at September 30, 2024, will be recognized as an expense and will decrease the unrestricted net position over the next 5 years.

The unrestricted net position amount of $741,071 includes the effect of deferring the recognition of revenues resulting from the deferred inflow from pensions. The $751 balance of deferred inflows of resources related to pensions as of September 30, 2024, will be recognized as revenue and will increase the unrestricted net position over the next 4 years.

Note 11 – On Behalf Payments

The City of Red Bay made retirement contributions directly to the Retirement System of Alabama on behalf of The Sewage Disposal Board of the City of Red Bay, which is a discretely presented component unit of the City. For the period October 1, 2023, through September 30, 2024, these payments totaled $7,411 consisting of $3,133 employee contributions and $4,278 employer contributions. The Sewer Board reimbursed the City of Red Bay for these expenditures. Additionally, the Sewer Board paid a total of $71,855 in debt service payments on behalf of the City of Red Bay during the fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION

THE SEWAGE DISPOSAL BOARD OF THE CITY OF RED BAY
Schedule of Changes in the Net Pension Liability
Last 10 Fiscal Years

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Total pension liability										
Service cost	$ 118,726	$ 106,953	$ 98,582	$ 102,131	$ 93,802	$ 99,175	$ 94,435	$ 82,884	$ 84,143	$ 84,075
Interest	339,030	298,782	287,800	275,850	263,100	271,518	253,326	252,990	250,629	237,149
Changes of benefit terms	104,571	8,306	-	-	-	-	-	-	-	-
Differences between expected and actual experience	31,029	359,695	1,209	(29,550)	(47,619)	(72,528)	37,254	(270,712)	(183,559)	-
Changes of assumptions	-	-	116,150	-	-	19,969	-	134,607	-	-
Benefit payments, including refunds of employee contributions	(251,617)	(240,656)	(221,149)	(160,868)	(126,530)	(157,606)	(116,390)	(103,852)	(139,552)	(165,909)
Transfers among employers	48,841	12,635	-	(2,225)	-	(262,645)	(13,279)	16,706	-	-
Net change in total pension liability	390,580	545,715	282,592	185,338	182,753	(102,117)	255,346	112,623	11,661	155,315
Total pension liability - beginning	4,676,545	4,130,830	3,848,238	3,662,900	3,480,147	3,582,264	3,326,918	3,214,295	3,202,634	3,047,319
Total pension liability - ending (a)	$ 5,067,125	$ 4,676,545	$ 4,130,830	$ 3,848,238	$ 3,662,900	$ 3,480,147	$ 3,582,264	$ 3,326,918	$ 3,214,295	$ 3,202,634
Plan fiduciary net position										
Contributions - employer	$ 109,245	$ 92,351	$ 96,390	$ 95,186	$ 106,882	$ 98,736	$ 119,986	$ 117,951	$ 114,297	$ 116,096
Contributions - employee	93,916	73,453	76,795	69,548	69,396	65,212	64,841	54,402	49,371	52,897
Net investment income	378,623	(432,209)	624,121	153,172	66,465	228,002	291,056	203,617	22,801	204,437
Benefit payments, including refunds of employee contributions	(251,617)	(240,656)	(221,149)	(160,868)	(126,530)	(157,606)	(116,390)	(103,852)	(139,552)	(165,909)
Transfers among employers	48,841	12,635	-	(2,225)	-	(262,645)	(13,279)	16,706	-	-
Net change in plan fiduciary net position	379,008	(494,426)	576,157	154,813	116,213	(28,301)	346,214	288,824	46,917	207,521
Plan net position - beginning	2,916,240	3,410,666	2,834,509	2,679,696	2,563,483	2,591,784	2,245,570	1,956,746	1,909,829	1,702,308
Plan net position - ending (b)	$ 3,295,248	$ 2,916,240	$ 3,410,666	$ 2,834,509	$ 2,679,696	2,563,483	$ 2,591,784	$ 2,245,570	$ 1,956,746	$ 1,909,829
Net pension liability (asset) - ending (a) - (b)	$ 1,771,877	$ 1,760,305	$ 720,164	$ 1,013,729	$ 983,204	$ 916,664	$ 990,480	$ 1,081,348	$ 1,257,549	$ 1,292,805
Plan fiduciary net position as a percentage of the total pension liability	65.03%	62.36%	82.57%	73.66%	73.16%	73.66%	72.35%	67.50%	60.88%	59.63%
Covered payroll *	$ 1,365,039	$ 1,238,916	$ 1,270,991	$ 1,188,247	$ 1,241,095	$ 1,184,380	$ 1,122,661	$ 1,075,283	$ 988,090	$ 989,926
Net pension liability (asset) as a percentage of covered payroll	129.80%	142.08%	56.66%	85.31%	79.22%	77.40%	88.23%	100.56%	127.27%	130.60%

*Employer's covered payroll during the measurement period is the total covered payroll. For fiscal year 2024 the measurement period is October 1, 2022 - September 30, 2023.

**The Sewer Board is included in the City of Red Bay, Alabama's pension calculations. This schedule displays the combined amounts for the two entities.

THE SEWAGE BOARD OF THE CITY OF RED BAY
Schedule of Employer Contributions
Last 10 Fiscal Years

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Actuarially determined contribution *	$ 130,667	$ 109,245	$ 90,198	$ 88,150	$ 95,810	$ 100,865	$ 99,025	$ 120,236	$ 118,037	$ 114,479
Contributions in relation to the actuarially determined contribution	130,667	109,245	90,198	88,150	95,810	100,865	99,025	120,236	118,037	114,479
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered payroll **	$ 1,317,760	$ 1,365,039	$ 1,238,916	$ 1,270,991	$ 1,188,247	$ 1,241,095	$ 1,184,380	$ 1,122,661	$ 1,075,283	$ 988,090
Contributions as a percentage of covered payroll	9.92%	8.00%	7.28%	6.94%	8.06%	8.13%	8.36%	10.71%	10.98%	11.59%

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

**Employer's covered payroll for fiscal year 2024 is the total covered payroll for the 12 month period of the underlying fiancial statement.

Notes to schedule
Actuarially determined contribution rates are calculated as of September 30, three years prior to the end of the fiscal year in which contributions are reported. Contributions for the fiscal year 2024 were based on the September 30, 2021 actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percent closed
Remaining amortization period	27.9 years
Asset valuation method	Five year smoothed market
Inflation	2.50%
Salary increases	3.25 - 6.00%, including inflation
Investment rate of return	7.45%, net of pension plan investment expense, including inflation

***The Sewer Board is included in the City of Red Bay, Alabama's pension calculations. This schedule displays the combined amounts for the two entities.

SPECIAL REPORT

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*.

The Board of Directors
The Sewage Disposal Board of the City of Red Bay
Red Bay, 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 business-type activities of The Sewage Disposal Board of the City of Red Bay, as of and for the year ended September 30, 2024, and the related notes to the financial statements, which collectively comprise The Sewage Disposal Board of the City of Red Bay's basic financial statements and have issued our report thereon dated April 30, 2025.

Report on Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as item 2024-001 that we consider to be a material weakness.

Report on Compliance and Other Matters

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

The Sewage Disposal Board of the City of Red Bay's Response to Finding

Government Auditing Standards requires the auditor to perform limited procedures on The Sewage Disposal Board of the City of Red Bay's response to the finding identified in our audit and described in the accompanying schedule of findings and responses. The Sewage Disposal Board of the City of Red Bay's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

The Sparks CPA Firm, P.C.

The Sparks CPA Firm, P.C.
Certified Public Accountants
Red Bay, Alabama
April 30, 2025

THE SEWAGE DISPOSAL BOARD OF THE CITY OF RED BAY
Schedule of Findings and Responses
For the Year Ended September 30, 2024

Section 1: Summary of Auditors' Results

Financial Statements:

Type of auditors' report issued on the financial statements:

Business-type Activities	Unmodified

Internal control over financial reporting:

Material weakness (es) identified?	Yes
Significant deficiency (ies) identified that are not considered to be material weaknesses?	None Noted

Noncompliance material to financial statements noted?	No

Section 2: Financial Statement Findings

Material Weakness

2024-001.

Criteria:

Segregation of duties is necessary to ensure that financial data is initiated, recorded, and processed consistent with management's assertions in the financial statements.

Condition:

The size of the Sewer Board's staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties.

Effect:

The lack of segregation of duties could result in the misappropriation of funds that would not be timely discovered.

Cause:

The small size of the administrative staff.

Recommendation:

The Sewer Board should have segregation of duties among accounting functions; however, we recognize that the expense of acquiring the additional employees might be prohibitive. The situation dictates that the Board of Directors be involved in the financial affairs of the Sewer Board to provide oversight and independent review functions to mitigate the lack of segregation of duties.

Views of Responsible Officials:

The Board of Directors is aware of the lack of segregation of duties due to the small office staff. As a result, the Board of Directors provides oversight and independent review functions.