

ATHENS MUNICIPAL WATER AUTHORITY
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2020

ATHENS MUNICIPAL WATER AUTHORITY

FOR THE YEAR ENDED SEPTEMBER 30, 2020

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ANNUAL FILING AFFIDAVIT

THE STATE OF TEXAS

COUNTY OF HENDERSON

I, _____ of the _____ Athens Municipal Water Authority
(Name of Duly Authorized District Representative)

hereby swear, or affirm, that the district named above has reviewed and approved at a meeting of the Board of Directors of the District on the _____ day of _____, 2022 its annual audit report of the fiscal year or period ended September 30, 2020 and that copies of the annual audit report have been filed in the district office, located at _____ P.O. Box 229, Athens, TX 75751
(Address of District)

The annual filing affidavit and the attached copy of the annual audit report are being submitted to the Texas Commission on Environmental Quality in satisfaction of all annual filing requirements of the Texas Water Code, Section 49.194.

Date _____, 2022

By: _____
(Signature of District Representative)

(Typed Name and Title of above District Representative)

Sworn to and subscribed to before me this _____ day of _____, 2022.

(Signature of Notary)

(SEAL)

Commission expires on _____

Notary Public in and for the State of Texas

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Athens Municipal Water Authority
P.O. Box 229
Athens, Texas 75751

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of Athens Municipal Water Authority (the "AMWA"), as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise Athens Municipal Water Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Athens Municipal Water Authority's 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.

Auditor's 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 auditor's 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.

OFFICE LOCATIONS

TEXAS | Waco | Temple | Hillsboro | Houston
NEW MEXICO | Albuquerque

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Athens Municipal Water Authority, as of September 30, 2020, and the respective changes in financial position 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 management's discussion and analysis and required supplementary information, as listed in 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Athens Municipal Water Authority's basic financial statements. The budgetary comparison schedule – general fund and Texas Supplementary Information as required by the Texas Commission on Environmental Quality, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Texas Supplementary Information is the responsibility of management and was 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 account 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 Texas Supplementary Information is 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 February 7, 2023, on our consideration of Athens Municipal Water Authority'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 the effectiveness of 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 Athens Municipal Water Authority's internal control over financial reporting and compliance.

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
February 7, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

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Management's Discussion and Analysis

As management of the Athens Municipal Water Authority ("AMWA"), we offer readers of the Athens Water Authority's financial statements this narrative overview and analysis of the financial activities of the AMWA for the fiscal year ended September 30, 2020. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements which begin on page 9. All amounts in this discussion and analysis, unless otherwise indicated, are expressed in whole dollars.

Financial Highlights:

- The assets of the AMWA exceeded its liabilities at September 30, 2020 by \$12,406,797. Of this amount unrestricted net position of \$3,732,655 may be used to meet the Authority's ongoing obligations to citizens and creditors.
- Total net position increased by \$757,291. The entire amount was associated with governmental type activities.
- As of the close of the current fiscal year, the AMWA governmental fund reported an ending fund balance of \$6,755,026. This was an increase of \$780,796 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance in the General Fund was \$3,732,655. The AMWA Board has currently committed \$3,022,731 for future capital improvements.
- Property tax values for the 2019 tax rolls increased by \$56,752,437 over the prior tax year (2019).
- Property tax rate is set at \$0.119729/\$100 valuation for the fiscal year.
- AMWA land ingress/egress and associated fees were increased during the year.

Overview of the Financial Statements:

This discussion and analysis is intended to serve as an introduction to the Athens Municipal Water Authority's basic financial statements. The Water Authority's basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the AMWA's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the time of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both government-wide financial statements distinguish functions of the Authority that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of AMWA include general government, conservation and development capital outlay and certain charges for service. The AMWA has no business type activities.

The government-wide financial statements can be found on pages 9 and 10 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The AMWA, like other municipal utility districts, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All funds of the AMWA are in the governmental funds category.

Governmental Funds

Governmental funds are used to account for essentially the same function reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the two.

The AMWA maintains one governmental fund. Information is presented separately in the Governmental fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund.

The Authority adopts an annual budget for its General Fund. A budgetary comparison statement has been provided to demonstrate compliance with this budget and is presented as required supplemental information.

The basic governmental fund financial statements can be found on pages 11 through 14 of this report.

Propriety Funds

The AMWA does not maintain any proprietary funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 15 through 27 of this report.

Other Information - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning budgetary comparisons, and miscellaneous statistical information.

Government-wide Financial Analysis

ATHENS MUNICIPAL WATER AUTHORITY'S NET POSITION

	Government Activities 2020	Government Activities 2019
Current and other assets	\$ 6,867,165	\$ 6,005,309
Capital assets	5,639,840	6,123,969
Total assets	12,507,005	12,219,278
Deferred outflows of resources	17,455	18,361
Accounts payable and other current liabilities	117,119	42,965
Total liabilities	-	42,965
Deferred inflows of resources	544	-
Net position:		
Restricted for pension	11,931	6,475
Net investment in capital assets	5,639,840	6,213,969
Committed for capital improvements	3,022,371	3,022,371
Unrestricted net position	3,732,655	2,951,859
Total net position	\$ 12,406,797	\$ 12,194,674

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. As of September 30, 2020, the Authority's assets exceeded its liabilities by \$12,406,797. The largest portion of the Authority's net position (45.46%) reflects its investment in capital assets. Capital assets are used to provide services to citizens, and they are not available for future spending. Although the investments in capital assets are reported net of related debt, it should be noted that the sources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

ATHENS MUNICIPAL WATER AUTHORITY'S CHANGE IN NET POSITION

	Governmental Activities 2020	Governmental Activities 2019
REVENUES		
Program revenues		
Charges for services	\$ 248,757	\$ 245,350
Total program revenues	<u>248,757</u>	<u>245,350</u>
General revenues:		
Taxes:		
Property taxes	921,389	856,602
Penalty and interest	11,614	13,126
Miscellaneous revenue	40,090	7,939
Investment earnings	126,614	83,110
Sale of capital assets	208,604	-
Total general revenue	<u>1,308,311</u>	<u>960,777</u>
Total revenue	<u>1,557,068</u>	<u>1,206,127</u>
EXPENSES:		
General government	<u>799,777</u>	<u>684,860</u>
Total expense	<u>799,777</u>	<u>684,860</u>
Change in net position	757,291	521,267
Net position October 1	12,194,674	11,673,407
Prior period adjustment	(545,168)	-
Net position September 30	<u>\$ 12,406,797</u>	<u>\$ 12,194,674</u>

Financial Analysis of the General Fund

Governmental Funds

The focus of the AMWA governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Authority's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. At the end of the current fiscal year, the AMWA Governmental funds reported combined ending fund balances of \$6,755,026. Approximately 44.74% of this amount, \$3,022,371, constitutes fund balance committed to capital improvements.

The General Fund is the chief operating fund of the Authority. For the fiscal year ended September 30, 2020, unassigned fund balance of the General Fund was \$3,732,655.

The General Fund's fund balance increased during the current fiscal year \$780,796. Key factors in this increase are as follows:

- Total revenues in excess of total expenditures.
- Total expenditures under budget

General Fund Budgetary Highlights

The General Fund budget was adopted as noted above.

Capital Assets and Debt Administration Capital

Assets

The Authority's investment in capital assets for its governmental type activities at September 30, 2020 amounts to \$5,639,840 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, easements, equipment, computer hardware, vehicles, capitalized software, as well as infrastructure assets such as water lines and water treatment facilities. The total net decrease in the Authority's investment in capital assets for the current fiscal year was due to current depreciation greater than current year asset additions as well as a prior period adjustment to construction in progress.

Additional information on the Authority's capital assets can be found in note E on page 22 of this report.

Long-term Debt

At the end of the current fiscal year, the Authority had no outstanding long-term debt.

Economic Factors and Next Year's Budgets and Rates

- Property tax values increased with the taxable valuations in 2018 increasing by 7.9%.
- The tax rate is set at .119729/\$100 valuation for fiscal year 2020-2021.
- The Authority has embarked on various capital investment in water well farms as future water sources. The Board continues to restrict funds for these and other future capital improvements.

Requests for Information:

This financial report is designed to provide a general overview of the Athens Municipal Water Authority's finances for all of the district's residents, taxpayers, customers, investors, and creditors. This report seeks to demonstrate the Authority's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information, should be addressed to the AMWA, P.O. Box 229, Athens, Texas 75751.

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BASIC FINANCIAL STATEMENTS

ATHENS MUNICIPAL WATER AUTHORITY

STATEMENT OF NET POSITION

SEPTEMBER 30, 2020

	<u>Primary Government</u>
	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 4,769,888
Investments - cash equivalents	2,051,246
Receivables (net of allowance for uncollectibles)	46,031
Capital assets:	
Land, easements and land improvements	1,628,032
Infrastructure, net	2,281,948
Buildings and improvements, net	1,018,890
Machinery and equipment, net	31,810
Vehicles	46,609
Major repair costs	381,579
Construction in progress	250,972
Total assets	<u>12,507,005</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflow related to TCDRS	<u>17,455</u>
Total deferred outflows of resources	<u>17,455</u>
LIABILITIES	
Accounts payable and other current liabilities	112,139
Net pension liability related to TCDRS	<u>4,980</u>
Total liabilities	<u>117,119</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflow related to TCDRS	<u>544</u>
Total deferred inflows of resources	<u>544</u>
NET POSITION	
Net investment in capital assets	5,639,840
Restricted for capital improvements	3,022,371
Restricted for pension - GASB 68	11,931
Unrestricted net position	<u>3,732,655</u>
Total net position	<u>\$ 12,406,797</u>

ATHENS MUNICIPAL WATER AUTHORITY

STATEMENT OF ACTIVITIES

YEAR ENDED SEPTEMBER 30, 2020

	Program Revenues			Net Revenue (Expense) Changes in Net Position Primary Government
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
Primary Government:				
GOVERNMENT ACTIVITIES:				
General government	\$ 799,777	\$ 248,757	\$ -	\$(551,020)
Total government activities	<u>799,777</u>	<u>248,757</u>	<u>-</u>	<u>(551,020)</u>
General Revenues:				
Taxes				
Property taxes levied for general purposes				921,389
Penalty and interest				11,614
Miscellaneous revenue				40,090
Gain on sale of assets				208,604
Investment earnings				<u>126,614</u>
Total general revenues				<u>1,308,311</u>
Change in net position				757,291
Net position - beginning				12,194,674
Prior period adjustment				<u>(545,168)</u>
Net position - ending				<u>\$ 12,406,797</u>

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

ATHENS MUNICIPAL WATER AUTHORITY
BALANCE SHEET
GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2020

	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ 4,769,888
Investments - cash equivalents	2,051,246
Taxes received (net of allowance for uncollectibles)	42,191
Other received (net of allowance for uncollectibles)	<u>3,840</u>
Total assets	\$ <u>6,867,165</u>
LIABILITIES	
Accounts payable	\$ 100,815
Accrued liabilities	<u>11,324</u>
Total liabilities	<u>112,139</u>
FUND BALANCES	
Committed:	
Construction	3,022,371
Unassigned:	
Reported in the general fund	<u>3,732,655</u>
Total fund balance	<u>6,755,026</u>
Total liabilities and fund balance	\$ <u>6,867,165</u>

ATHENS MUNICIPAL WATER AUTHORITY
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET POSITION
 SEPTEMBER 30, 2020

Total Fund Balances - Governmental Funds \$ 6,755,026

Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$9,531,840 and the accumulated depreciation was \$3,863,039. The net effect of including the beginning balances for capital assets (net of depreciation) is to increase (decrease) net position.

5,668,801

Current year capital outlays are expenditures in the fund financial statement, but they should be shown as increases in capital assets in the government-wide financial statements. The net effect of including the 2020 capital outlays is to increase (decrease) net position.

238,602

The 2020 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.

(267,563)

Included in the noncurrent assets/liabilities is the recognition of the AMWA's net position asset/(liability) required by GASB 68 in the amount of \$(4,980), a deferred resource inflow in the amount of \$(544), and a deferred resource outflow in the amount of \$17,455. This resulted in an increase/(decrease) in net position of \$11,931.

11,931

Net Position of Governmental Activities \$ 12,406,797

ATHENS MUNICIPAL WATER AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

	General Fund
REVENUES	
Taxes:	
Property	\$ 921,389
Penalty and interest	11,614
Licenses and permits	196,996
Charges for services	51,761
Investment earnings	126,614
Rents and royalties	17,849
Miscellaneous income	<u>22,241</u>
Total revenues	<u>1,348,464</u>
EXPENDITURES	
General government	537,670
Capital outlay	<u>238,602</u>
Total expenditures	<u>776,272</u>
Excess (deficiency) of revenues over (under) Expenditures	572,192
OTHER FINANCING SOURCES	
Sale of capital assets	<u>208,604</u>
Net changes in fund balance	780,796
Fund balances - October 1 (beginning)	<u>5,974,230</u>
Fund balances - September 30 (ending)	\$ <u>6,755,026</u>

ATHENS MUNICIPAL WATER AUTHORITY
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2020

Total Net Change in Fund Balances - Governmental Funds	\$ 780,796
Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in the capital assets in the government-wide financial statements. The net effect of removing the 2020 capital outlays is to increase (decrease) net position.	238,602
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.	(267,563)
The implementation of GASB 68 required that certain expenditures be de-expended and recorded as deferred resource outflows.	<u>5,456</u>
Change in Net Position of Governmental Activities	\$ <u>757,291</u>

ATHENS MUNICIPAL WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2020

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The Athens Municipal Water Authority (the "AMWA") was originally created and established as a conservation and reclamation district pursuant to Chapter 142, Acts of the 55th Legislature, Regular Session, 1957, as amended by Chapter 157, Acts of the 57th Legislature, Regular Session, 1961. AMWA was converted into a municipal utility district operating under the provisions of Chapter 54 of the Texas Water Code pursuant to an order of the Texas Water Commission dated February 11, 1980.

All significant activities and organizations on which the Athens Municipal Water Authority exercises oversight responsibility have been included in AMWA's financial statements, for the year ended September 30, 2020. The following criteria regarding manifestation of oversight were considered by AMWA in its evaluation of water authority organizations and activities:

- Financial interdependency – Athens Municipal Water Authority is responsible for its debts and is entitled to surpluses. No separate agency receives a financial benefit nor imposes a financial burden on AMWA.
- Election of the government authority – The locally elected AMWA Governing Board is exclusively responsible for all public decisions and accountable for the decisions it makes.
- Accountability of fiscal matters – The responsibility and accountability over all funds is vested in the management of AMWA.
- Ability to significantly influence operations – AMWA has the statutory authority under the provision of the applicable statutes to significantly influence operations. This authority includes, but is not limited to, adoption of the budget, control over all assets, including facilities and properties, short-term borrowing, signing contracts, and developing the programs to be provided.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The statement of net position and the statement of activities are government-wide financial statements. They report information on all funds of the Athens Municipal Water Authority. *Governmental activities* include programs supported primarily by taxes, interest, certain charges for current charges, grants and other intergovernmental revenues.

The statement of activities demonstrates how other people or entities that participate in programs AMWA operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use or directly benefit from goods or services provided by a given function or segment of AMWA. Examples include ingress/egress fees, licenses, and permits, etc. The "grants and contributions" column includes amounts paid by organizations outside AMWA to help meet the operational or capital requirements of a given function. If a revenue is not a program revenue, it is a general revenue used to support all of Athens Municipal Water Authority's functions. Taxes are always general revenues.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

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

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Revenues from local sources consist primarily of property taxes. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometimes require Athens Municipal Water Authority to refund all or part of the unused amount.

D. FUND ACCOUNTING

Athens Municipal Water Authority reports the following major governmental fund:

1. **The General Fund** – The general fund is AMWA’s primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

Proprietary Funds:

There are no proprietary fund types for this entity.

Fiduciary Funds:

There are no fiduciary fund types for this entity.

E. FUND BALANCE

The Governmental Accounting Standards Board has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories list below:

1. **Nonspendable fund balance** – includes amounts that cannot be spent because they are either not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts. It also includes the long-term amount of loans and notes receivable.

2. Restricted Fund Balance – includes amounts that are restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions of enabling legislation.
3. Committed Fund Balance – includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Board Members. Those committed amounts cannot be used for any other purposes unless the Board removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.
4. Assigned Fund Balance – includes amounts that are constrained by AMWA’s intent to be used for specific purposes but are neither restricted nor committed. Intent should be expressed by the Board or by other officials to which the Board has delegated the authority to assign amounts to be used for specific purposes. When it is appropriate for fund balance to be assigned, the Board delegates the responsibility to assign funds to AMWA officials or their designee.
5. Unassigned Fund Balance – is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

AMWA will utilize funds in the following spending order: Restricted, Committed, Assigned and Unassigned.

F. OTHER ACCOUNTING POLICIES

1. Capital assets, which include land, buildings, furniture and equipment and infrastructure assets are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by AMWA as assets with an initial, individual cost of more than \$1,500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Buildings, furniture and equipment of AMWA are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Months</u>
Buildings	264
Improvements	264
Infrastructure	400
Vehicles	60
Office equipment	60
Computer equipment	60

2. There are no restrictions on assets as of September 30, 2020.
3. In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans for future water sources that are subject to change.
4. When AMWA incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.

G. USE OF ESTIMATES

The presentation of financial statements, in conformity with General Accepted Accounting Principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates

H. PENSIONS – TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM

The fiduciary net position of the Texas County and District Retirement System (TCDRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes, for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, pension expense, and information about assets, liabilities and additions to/deductions from TCERS's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET POSITION

Exhibit C-2 provides the reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net position for governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in governmental funds. The details of capital assets and long-term debt at the beginning of the year were as follows:

<u>Capital Assets at the Beginning of the Year</u>	<u>Historical Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Cost at the Beginning of the Year</u>	<u>Change in Net Position</u>
Land	\$ 1,628,032	\$ -	\$ 1,628,032	
Buldings & improvements	1,445,967	367,446	1,078,521	
Machinery & equipment	297,767	192,630	105,137	
Infrastructure	5,665,709	3,214,597	2,451,112	
Major repairs	481,995	88,366	393,629	
Construction in progress	<u>12,370</u>	<u>-</u>	<u>12,370</u>	
Totals	\$ <u>9,531,840</u>	\$ <u>3,863,039</u>		
Change in net position				<u>5,668,801</u>
Net adjustment to net position				\$ <u><u>5,668,801</u></u>

B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

Exhibit C-4 provides a reconciliation between the net changes in fund balance as shown on the governmental fund statement of revenues, expenditures, and changes in fund balance and the changes in net assets of governmental activities as reported on the government-wide statement of activities. One element of that reconciliation explains that current year capital outlays in the fund financial statements but should be shown as increases in capital assets in the government-wide statements. This adjustment affects both the net position balance and the change in net position. The details of this adjustment are as follows:

	Amount	Adjustments to Changes in Net Position	Adjustments to Net Position
<u>Current Year Capital Outlay</u>			
Land	\$ -		
Buildings & improvements	-		
Furniture and equipment	-		
Major repairs	-		
Infrastructure	-		
Construction in progress	<u>238,602</u>		
Total capital outlay	<u>238,602</u>	<u>238,602</u>	<u>238,602</u>
Total adjustment to net position		<u>\$ 238,602</u>	<u>\$ 238,602</u>

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY DATA

The Governing Board adopts an "appropriated budget" for the General Fund. AMWA is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. AMWA compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit D-1.

The following procedures are followed in establishing the budgetary data reflected in the financial statements:

1. Prior to September 30, AMWA prepares a budget for the next succeeding fiscal year beginning October 1. The operating budget includes proposed expenditures and the means of financial them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.
3. Prior to October 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Because AMWA has a policy of careful budgetary control, several amendments were necessary during the year. However, none of these were significant.
4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budget amounts are as amended by the Board. All budget appropriations lapse at year end. A reconciliation of fund balances for both appropriated budget and nonappropriated budget special revenue funds is as follows:

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

N/A

C. DEFICIT FUND EQUITY

N/A

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSIT AND INVESTMENTS

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires AMWA to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit.

State statutes authorize AMWA to invest in (1) obligations of, or guaranteed by, governmental entities as permitted by Government Code 2256.009.; (2) Certificates of deposit and share certificates as permitted by Government Code 2256.010.; (3) Fully collateralized repurchase agreements permitted by Government Code 2256.011.; (4) A securities lending program as permitted by Government Code 2256.0115.; (5) Banker's acceptances as permitted by Government Code 2256.012.; (6) Commercial paper as permitted by Government Code 2256.013.; (7) No load money market mutual funds and no load mutual funds as permitted by Government Code 2256.014.; (8) A guaranteed investment contract as an investment vehicle for bond proceeds, provided it meets the criteria and eligibility requirements established by Government Code 2256.015.; and (9) Public funds investment pools as permitted by Government Code 2256.016.

In compliance with the Public Funds Investment Act, AMWA has adopted an investment policy. AMWA is in substantial compliance with the requirements of the Act. The risks that AMWA may be subject to are:

- a. Custodial Credit Risk – Deposits: This is the risk that in the event of a bank failure, AMWA's deposits, including checking, money market accounts and certificates of deposit, may not be returned to it.

The funds of AMWA must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with AMWA's agent bank in an amount sufficient to protect AMWA funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance. During 2019-2020, AMWA's combined deposits were fully insured by federal depository insurance or collateralized with securities pledged to AMWA and held by AMWA's agent.

- b. Custodial Credit Risk – Investments: This is the risk that, in the event of the failure of the counterparty, AMWA will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Any investment that is both uninsured and unregistered is exposed to custodial credit risk if the investment is held by the counterparty, or if the investment is held by the counterparty's trust department or agent, but not in the name of the investor government. Investments are subject to custodial credit risk only if they are evidenced by securities that exist in physical or book entry form. Positions in external investment pools are not subject to custodial credit risk.
- c. Interest Rate Risk – Interest rate risk occurs when potential purchasers of debt securities do not agree to pay face value for those securities if interest rates rise. Investments with interest rates that are fixed for longer periods are likely to be subject to more variability in their fair values as a result of future changes in interest rates.

- d. Concentration of Credit Risk – Concentration risk is defined as positions of five percent or more in the securities of a single issuer. This is the issuer of the underlying investment, and not a pool. This does not apply to U.S. Government securities.

CASH DEPOSITS

At September 30, 2020, the amount of the AMWA's cash balance in the checking accounts was \$2,112,967.

INVESTMENTS – CASH EQUIVALENTS

The AMWA's investments at September 30, 2020, are shown below:

<u>Investment Type</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Certificates of deposit	\$ 2,051,246	\$ 2,051,246	0.3911
Money market account	<u>2,658,786</u>	<u>2,658,786</u>	0.0833
Total investments	\$ <u>4,710,032</u>	\$ <u>4,710,032</u>	

B. PROPERTY TAXES

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the Athens Municipal Water Authority in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period.

C. DELINQUENT TAXES RECEIVABLE

Delinquent taxes are recorded in the general fund based on rates adopted for the year of the levy allowances for uncollectible tax receivables within the general fund are based on historical experience in collecting property taxes. AMWA is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

D. DISAGGREGATION OF RECEIVABLES

Receivables at September 30, 2020 were as follows:

	<u>Property Taxes - Net</u>	<u>Other</u>	<u>Total Receivables</u>
Governmental Activities:			
General fund	\$ 42,191	\$ 3,840	\$ 46,031
Total - governmental activities	<u>\$ 42,191</u>	<u>\$ 3,840</u>	<u>\$ 46,031</u>
Amounts not scheduled for collection during the subsequent year	\$ -	\$ -	\$ -

E. CAPITAL ASSET ACTIVITY

Capital asset activity for Athens Municipal Water Authority for the year ended September 30, 2020, was as follows:

	Beginning Balance	Additions	Retirements/ Adjustments	Ending Balance
Nondepreciable Capital Assets				
Land	\$ 1,628,032	\$ -	\$ -	\$ 1,628,032
Construction in progress	12,370	238,602	-	250,972
Subtotal nondepreciable assets	1,640,402	238,602	-	1,879,004
Depreciable Capital Assets				
Building & improvements	1,445,967	-	-	1,445,967
Furniture & equipment	322,950	-	-	322,950
Infrastructure	5,665,709	-	-	5,665,709
Major repairs	481,995	-	-	481,995
Subtotal depreciable assets	7,916,621	-	-	7,916,621
Total at historical cost	9,557,023	238,602	-	9,795,625
Less Accumulated Depreciation for:				
Building & improvements	367,446	59,631	-	427,077
Furniture & equipment	217,813	26,718	-	244,531
Infrastructure	3,214,597	169,164	-	3,383,761
Major repairs	88,366	12,050	-	100,416
Total accumulated depreciation	3,888,222	267,563	-	4,155,785
Governmental Activities Capital Assets, Net	<u>\$ 5,668,801</u>	<u>\$ (28,961)</u>	<u>\$ -</u>	<u>\$ 5,639,840</u>
Depreciation expense was charged to governmental functions as follows:				
General government			<u>\$ 267,563</u>	
Total depreciation expense			<u>\$ 267,563</u>	

F. LITIGATION

N/A

G. PRIOR PERIOD ADJUSTMENT

A prior period adjustment was posted in the amount of \$545,168 in order to write off the construction in progress beginning balance that had been carried forward for several years. This adjustment decreased construction in progress by \$545,168 and decreased net position by \$545,168 in the government wide financials only.

H. SUBSEQUENT EVENTS

The AMWA has evaluated subsequent events through February 7, 2023, the date which the financial statements were available for distribution. There were none noted.

I. COMMITMENTS

1. The AMWA has made a commitment to participate in an intergovernmental bid package designed to provide incentives for the Texas Parks and Wildlife Foundation to "...a state-of-the art fish hatchery, research facility, visitors' center, and associated facilities..." near Lake Athens. The Texas Parks and Wildlife Foundation chose the intergovernmental bid from Athens. The AMWA's obligation is summarized as follows:

Cash Obligation:		
Land purchase	\$	145,500
Cash contributions		450,000 (to be paid \$15,000 per year)
Constructure of improvements		<u>570,000</u>
Total estimated cash		<u>1,165,500</u>
In-Kind Obligation:		
Raw water for life of facility		500,000 (estimated 25 years)
Less: obligation Previously satisfied	(460,000)
Operation and maintenance of raw water supply/discharge system for 15 years		97,500
Less: obligation previously satisfied	(<u>97,500</u>)
Total estimated in-kind		<u>40,000</u>
Total estimated amount		<u>\$ 1,125,500</u>

AMWA did not fund any of this obligation for the current year. Through agreed-upon adjustments and cash outlay of \$1,165,000 in prior years there is no amount due in future cash requirements. Approximately \$40,000 in in-kind obligations is to be extinguished in future years. The facility started operations in the fall of 1996 and is now utilizing in-kind obligations for another year.

J. RETIREMENT PLAN

Plan Description

AMWA participates in a nontraditional defined benefit pension plan in the statewide TCDRS. The Board of Trustees of TCDRS is responsible for the administration of the statewide agent, multiple-employer, public employee retirement system consisting of nontraditional defined benefit pension plans. TCDRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tcdrs.org.

All full-time and part-time non-temporary employees participate in the plan, regardless of the number of hours they work in a year. Employees in a temporary position are not eligible for membership.

Benefits Provided

TCDRS provides retirement, disability and survivor benefits for all eligible employees. Benefit terms are established by the TCDRS Act. The benefit terms may be amended as of January 1, each year, but must remain in conformity with the Act.

Members can retire at age 60 and above with 8 or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equals 75 or more. Members are vested after ten years of service but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the employer within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. By law, employee accounts earn 7% interest. At retirement, death or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

Employees covered by benefit terms

At the December 31, 2019 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	2
Inactive employees entitled to but not yet receiving benefits	-
Active employees	<u>3</u>
	<u>5</u>

Contributions

The contribution rates for employees in TCDRS are either 4%, 5%, 6%, or 7% of employee gross earnings, as adopted by the employer's governing body. Participating employers are required to contribute at actuarially determined rates to ensure adequate funding for each employer's plan. Under the state law governing TCDRS, the contribution rate for each entity is determined annually by the actuary and approved by the TCDRS Board of Trustees. The replacement life entry age actuarial cost method is used in determining the contribution rate. The actuarially determined rate is the estimated amount necessary to fund benefits in an orderly manner for each participant over his or her career so that sufficient funds are accumulated by the time benefit payments begin, with an additional amount to finance any unfunded accrued liability.

Employees for AMWA were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for AMWA were 4.56% and 4.56% in calendar years 2020 and 2019, respectively. AMWA's contributions to TCDRS for the year ended September 30, 2020, were \$10,212, and were equal to the required contributions.

Net Pension Liability

AMWA's Net Pension Liability (NPL) was measured as of December 31, 2019, and the Total Pension Liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of that date. This liability is funded by the single Enterprise Fund.

Actuarial Assumptions

The Total Pension Liability in the December 31, 2019, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.75% per year
Overall payroll growth	0.0% per year
Investment Rate of Return	8.0%, net of admin. and investment expenses, including inflation

AMWA has no automatic cost-of-living adjustments ("COLA") and one is not considered to be substantively automatic. Therefore, no assumption for future COLA's is included in the actuarial valuation. Each year, AMWA may elect an ad-hoc COLA for its retirees.

Mortality rates for active members, retirees, and beneficiaries were based on the following:

Depositing members	90% of the RP-2014 Active Employee Mortality Table for males and 90% of the RP-2014 Active Employee Mortality Table for females, projected with 110% of the MP-2014 Ultimate scale after 2014.
Service retirees, beneficiaries and non-depositing members	130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.
Disabled retirees	130% of the RP-2014 Disabled Annuitant Mortality Table for males and 115% of the RP-2014 Disabled Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.

All actuarial assumptions that determined the TPL as of December 31, 2019, were based on the results of an actuarial experience study for the period January 1, 2013 – December 31, 2016, except where required to be different by GASB 68.

The long-term expected rate of return on pension plan investments is 8.10%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TCDRS Board of Trustees.

The long-term expected rate of return on TCDRS is determined by adding inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions and information below are based on April 2020 information for a 10-year time horizon. The valuation assumption for long-term expected return is re-assessed at a minimum of every four years and is set based on a 30-year time horizon; the most recent analysis was performed in 2017. The target allocation and best estimates of geometric real rates return for each major asset class are summarized in the following table:

Asset Class	Benchmark	Target Allocation ⁽¹⁾	Geometric Real Rate of Return (Expected minus Inflation) ⁽²⁾
US Equities	Dow Jones U.S. Total Stock Market Index	14.50%	5.20%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index ⁽³⁾	20.00%	8.20%
Global Equities	MSCI World (net) Index	2.50%	5.50%
Int'l Equities - Developed Markets	MSCI World Ex USA (net) Index	7.00%	5.20%
Int'l Equities - Emerging Markets	MSCI Emerging Markets (net) Index	7.00%	5.70%
Investment-Grade Bonds	Bloomberg Barclays U.S. Aggregate Bond Index	3.00%	-0.20%
Strategic Credit	FTSE High-Yield Cash-Pay Capped Index	12.00%	3.14%
Direct Lending	S&P/LSTA Leveraged Loan Index	11.00%	7.16%
Distressed Debt	Cambridge Associates Distressed Securities Index ⁽⁴⁾	4.00%	6.90%
REIT Equities	67% FTSE NAREIT All Equity REITs Index + 33% S&P Global REIT (net) Index	3.00%	4.50%
Master Limited Partnerships (MLPs)	Alerian MLP Index	2.00%	8.40%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index ⁽⁵⁾	6.00%	5.50%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	8.00%	2.30%

(1) Target asset allocation adopted at the June 2020 TCDRS Board meeting.

(2) Geometric real rates of return equal the expected return minus the assumed inflation rate of 1.80%, per C/iffwater's capital market assumptions.

(3) Includes vintage years 2006-present of Quarter Pooled Horizon IRRs.

(4) Includes vintage years 2005-present of Quarter Pooled Horizon IRRs.

(5) Includes vintage years 2007-present of Quarter Pooled Horizon IRRs.

Discount Rate

The discount rate used to measure the TPL was 8.1%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the TPL.

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2019	\$ 72,292	\$ 60,405	\$ 11,886
Changes for the year:			
Service cost	18,833	-	18,833
Interest on total pension liability ⁽¹⁾	7,369	-	7,369
Effect of plan changes ⁽²⁾	-	-	-
Effect of economic/demographic gains or losses	4,581	-	4,581
Effect of assumptions changes or inputs	-	-	-
Refund of contributions	-	-	-
Benefit payments	(311)	(311)	-
Administrative expenses	-	(75)	75
Member contributions	-	16,317	(16,317)
Net investment income	-	9,893	(9,893)
Employer contributions	-	10,629	(10,629)
Other ⁽³⁾	-	926	(925)
Balance at 12/31/2020	<u>\$ 102,764</u>	<u>\$ 97,784</u>	<u>\$ 4,980</u>

(1) Reflects the change in the liability due to the time value of money. TCDRS does not charge fees or interest.

(2) No plan changes valued.

(3) Relates to allocation of system-wide items.

Sensitivity Analysis

The following presents the NPL of AMWA, calculated using the discount rate of 8.1%, as well as what AMWA's NPL would be if it were calculated using a discount rate that is 1-percentage-point lower (7.1%) or 1-percentage-point higher (9.1%) than the current rate:

	1% Decrease 7.1%	Current Discount Rate 8.1%	1% Increase 9.1%
Total pension liability	\$ 116,110	\$ 102,764	\$ 91,444
Fiduciary net position	<u>97,784</u>	<u>97,784</u>	<u>97,784</u>
Net pension liability/(asset)	<u>\$ 18,326</u>	<u>\$ 4,980</u>	<u>\$ (6,340)</u>

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TCDRS financial report. The report may be obtained on the Internet at www.tcdrs.org.

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

For the year ended September 30, 2020, AMWA recognized pension expense of \$4,762. At September 30, 2019, AMWA reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resource
Differences between expected and actual economic experience	\$ 10,327	\$ -
Changes in actuarial assumptions	367	-
Difference between projected and actual investment earnings	-	544
Contributions subsequent to the measurement date	<u>6,761</u>	<u>-</u>
Total	<u>\$ 17,455</u>	<u>\$ 544</u>

\$6,761 reported as deferred outflows of resources related to the pension resulting from contributions subsequent to the measurement date will be recognized as a reduction of the NPL for the year ending September 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to the pension will be recognized in pension expenses as follows:

Year Ended December 31,	
2020	\$ 1,674
2021	1,567
2022	1,696
2023	787
2024	1,567
Thereafter	2,859

REQUIRED SUPPLEMENTARY INFORMATION

ATHENS MUNICIPAL WATER AUTHORITY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
ACTUAL COMPARED TO BUDGETARY BASIS - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2020

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(GAAP Basis)</u>	<u>Final Budget</u>
				<u>Positive or</u>
				<u>(Negative)</u>
REVENUES				
Taxes:				
Property	\$ 907,720	\$ 907,720	\$ 921,389	\$ 13,669
Penalty and interest	7,500	7,500	11,614	4,114
Licenses and permits	184,790	184,790	196,996	12,206
Charges for services	50,500	50,500	51,761	1,261
Investment earnings	56,911	56,911	126,614	69,703
Rents and royalties	21,331	21,331	17,849	(3,482)
Miscellaneous income	-	-	22,241	22,241
	<u>1,228,752</u>	<u>1,228,752</u>	<u>1,348,464</u>	<u>119,712</u>
EXPENDITURES				
General government	511,980	601,380	537,670	63,710
Capital outlay	<u>1,050,000</u>	<u>1,187,000</u>	<u>238,602</u>	<u>948,398</u>
	<u>1,561,980</u>	<u>1,788,380</u>	<u>776,272</u>	<u>1,012,108</u>
Excess (deficiency) of revenues over (under) expenditures	(333,228)	(559,628)	572,192	1,131,820
OTHER FINANCING SOURCES				
Sale of capital assets	8,000	8,000	208,604	200,604
Net change in fund balance	(325,228)	(551,628)	780,796	1,332,424
Fund balances - October 1 (beginning)	<u>5,974,230</u>	<u>5,974,230</u>	<u>5,974,230</u>	
Fund balance - September 30 (ending)	\$ <u>5,649,002</u>	\$ <u>5,422,602</u>	\$ <u>6,755,026</u>	

ATHENS MUNICIPAL WATER AUTHORITY

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

FOR THE YEAR ENDED SEPTEMBER 30, 2020

	2019	2018	2017	2016
Total Pension Liability				
Service cost	\$ 18,833	\$ 17,937	\$ 18,025	\$ 11,766
Interest total pension liability	7,369	5,282	3,200	874
Changes of benefit terms	-	-	-	2,817
Difference between expected and actual	4,581	1,959	4,385	2,556
Change of assumptions	-	-	496	-
Benefit payments, including refunds of employee contributions	(311)	(311)	(311)	(52)
Net change in total pension liability	30,472	24,867	25,795	17,961
Total pension liability - beginning	72,291	47,424	21,630	3,668
Total pension liability - ending (a)	<u>\$ 102,763</u>	<u>\$ 72,291</u>	<u>\$ 47,425</u>	<u>\$ 21,629</u>
Plan Fiduciary Net Position				
Contributions - employer	\$ 10,629	\$ 8,218	\$ 7,526	\$ 5,546
Contributions - employee	16,317	12,899	12,251	6,890
Net investment income	9,893	(504)	2,799	310
Benefit payments, including refunds of employee contributions	(311)	(311)	(311)	(52)
Administrative expenses	(75)	(49)	(26)	(3)
Other	926	625	260	274
Net change in plan fiduciary net position	37,379	20,878	22,499	12,965
Plan fiduciary net position - beginning	60,405	39,527	17,028	4,063
Plan fiduciary net position - ending (b)	<u>97,784</u>	<u>60,405</u>	<u>39,527</u>	<u>17,028</u>
Net pension liability - ending (a) - (b)	<u>\$ 4,980</u>	<u>\$ 11,886</u>	<u>\$ 7,898</u>	<u>\$ 4,601</u>
Plan fiduciary net position as a percentage of total pension liability	95.15%	83.56%	83.35%	78.73%
Covered payroll	\$ 233,099	\$ 201,855	\$ 181,670	\$ 175,334
Net pension liability/(asset) as a percentage of covered payroll	2.14%	5.89%	4.35%	2.62%

ATHENS MUNICIPAL WATER AUTHORITY

SCHEDULE OF PENSION CONTRIBUTIONS

FOR THE YEAR ENDED SEPTEMBER 30, 2020

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Actuarially determined contributions	\$ 10,212	\$ 9,160	\$ 8,334	\$ 7,081	\$ 5,775
Contributions in relation to actuarially determined contribution	(10,212)	(9,160)	(8,334)	(7,081)	(5,775)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 223,956	\$ 201,852	\$ 181,674	\$ 175,334	\$ 179,289
Contributions as a percentage of covered employee payroll	4.56%	4.54%	4.59%	4.04%	3.22%

ATHENS MUNICIPAL WATER AUTHORITY

NOTES TO SCHEDULE OF PENSION CONTRIBUTIONS

FOR THE YEAR ENDED SEPTEMBER 30, 2020

Valuation Date: Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which contributions are reported.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry age
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	14.3 years (based on contribution rate calculated in 12/31/2019 valuation)
Asset Valuation Method	5-years, smoothed market
Inflation	2.75%
Salary Increases	Varies by age and service. 4.9% average over career including inflation.
Investment Rate of Return	8.0%, net of administrative and investment expenses, including inflation.
Retirement Age	Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61.
Mortality	130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.
Changes in Assumptions and Methods Reflected in the Schedule of Employer Contributions	2015: New inflations, mortality and other assumptions were reflected. 2017: New mortality assumptions were reflected.
Changes in Plan Provisions Reflected in the Schedule of Employer Contributions	2015: No changes in plan provisions were reflected in the Schedule. 2016: No changes in plan provisions were reflected in the Schedule. 2017: Employer contributions reflect that the member contribution rate was increased to 7%. Also, new Annuity Purchase Rates were reflected for benefits earned after 2017. 2018: No changes in plan provisions were reflected in the Schedule. 2019: No changes in plan provisions were reflected in the Schedule.

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TEXAS SUPPLEMENTARY INFORMATION

ATHENS MUNICIPAL WATER AUTHORITY
SERVICES AND RATES
SEPTEMBER 30, 2020

1. Services Provided by the AMWA during the Fiscal Year:

<input type="checkbox"/> Retail Water	<input checked="" type="checkbox"/> Wholesale Water	<input type="checkbox"/> Drainage
<input type="checkbox"/> Retail Wastewater	<input type="checkbox"/> Wholesale Sewer	<input type="checkbox"/> Irrigation
<input type="checkbox"/> Parks/Recreation	<input type="checkbox"/> Fire Protection	<input type="checkbox"/> Security
<input type="checkbox"/> Solid Waste/Garbage	<input type="checkbox"/> Flood Control	<input type="checkbox"/> Roads
<input type="checkbox"/> Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)		
<input type="checkbox"/> Other _____		

2. Retail Service Providers:

N/A

3. Total water consumption during the fiscal year (rounded to the nearest thousand):

Gallons pumped into system:	480,926,000	Water Accountability Ratio:
		(Gallons billed/Gallons pumped)
Gallons billed to customers	480,926,000	100%

4. Standby Fees (authorized only under TWC Section 49.231):Does the AMWA have Debt Service standby fees? Yes___ No X

If yes, date of the most recent commission Order: _____

Does the AMWA have Operation and Maintenance standby fees? Yes___ No X

If yes, Date of the most recent commission Order: _____

5. Location of AMWA:County(ies) in which AMWA is located: HendersonIs the AMWA located entirely within one county Yes X No___Is the AMWA located within a city? Entirely X Partly___ Not at All___City(ies) in which AMWA is located: Athens, TXIs the AMWA located with a city's extra territorial jurisdiction (ELJ)? Entirely___ Partly___ Not at All XETJ's in which AMWA located. N/AAre Board members appointed by an office outside the AMWA? Yes___ No XIf Yes, by whom? N/A

ATHENS MUNICIPAL WATER AUTHORITY
OPERATING EXPENDITURES - GENERAL FUND
SEPTEMBER 30, 2020

Operating expenditures

Payroll & related	\$ 279,177
Travel & training	954
Repair & maintenance	49,245
Insurance	50,790
Miscellaneous	214
Professional fees:	
Auditing & accounting	8,400
Legal services	22,797
Other professional fees	49,300
Contracted services	
Appraisal	17,777
Tax collector	6,939
Other contracted services	11,676
Utilities	16,721
Operating supplies	22,358
Office supplies	1,322
Capital outlay	<u>238,602</u>
Total expenditures	\$ <u><u>776,272</u></u>

ATHENS MUNICIPAL WATER AUTHORITY
 TEMPORARY INVESTMENTS
 SEPTEMBER 30, 2020

<u>Item</u>	<u>Identification or Certificate Numbeerr</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balances at End of Year</u>	<u>Accrued Int. Receivable at End of Year</u>
Tax fund:					
	Checking	1.80%	Monthly	\$ 1,218,203	\$ -
	CD #0650	0.75%	9/19/21	678,530	-
	CD #0608	2.10%	9/15/21	682,256	-
	CD #703	2.20%	9/19/21	690,460	-
	Checking	1.90%	Monthly	<u>2,658,786</u>	<u>-</u>
Total				\$ <u>5,928,235</u>	\$ <u>-</u>
Revenue fund:					
	Checking	1.80%	Monthly	\$ 888,779	\$ -
	Checking	0.00%		4,120	-
Total				\$ <u>892,899</u>	\$ <u>-</u>
Total - all funds				\$ <u>6,821,134</u>	\$ <u>-</u>

ATHENS MUNICIPAL WATER AUTHORITY
TAXES LEVIED AND RECEIVABLE
SEPTEMBER 30, 2020

	<u>Tax Fund</u>	<u>Other AMWA Taxes</u>
Taxes receivable, beginning of year	\$ 36,823	\$ -
2019 original tax levy	928,010	-
(less adjustments)	(5,410)	-
Total to be accounted for	959,423	-
Tax collections:		
Current year	906,850	-
Prior year	8,161	-
Total collections	915,011	-
Taxes receivable, end of year	44,412	-

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Property Valuation	\$ 775,092,183	\$ 720,431,233	\$ 699,877,465	\$ 695,974,225
Tax Rates per \$100 Valuation:				
Maintenance and operations	0.119729	0.119729	0.119729	0.119729
Total tax rate	0.119729	0.119729	0.119729	0.119729
Original tax levy	\$ 928,010	\$ 862,565	\$ 837,956	\$ 833,283
Percentage of taxes Collected to taxes levied	98.60%	99.31%	98.06%	96.99%

ATHENS MUNICIPAL WATER AUTHORITY
REVENUE BONDS PAYABLE - BY YEARS
SEPTEMBER 30, 2020

N/A

ATHENS MUNICIPAL WATER AUTHORITY
CHANGES IN REVENUE BONDS PAYABLE
SEPTEMBER 30, 2020

N/A

ATHENS MUNICIPAL WATER AUTHORITY

COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES - FIVE YEARS FIVE YEARS ENDED SEPTEMBER 30, 2020

	Amounts				
	2020	2019	2018	2017	2016
Government revenue:					
Property taxes	\$ 921,389	\$ 856,602	\$ 832,820	\$ 820,498	\$ 835,577
Water service	248,757	245,353	246,047	231,331	236,182
Penalties & interest	11,614	13,126	12,769	13,110	9,259
Investment	126,614	83,110	25,674	21,266	19,401
Sale of assets	208,604	-	2,500	-	-
Miscellaneous	40,090	7,936	7,936	7,294	1,515
Total operating revenues	<u>1,557,068</u>	<u>1,206,127</u>	<u>1,127,746</u>	<u>1,093,499</u>	<u>1,101,934</u>
Governmental expenditure:					
Office supplies	1,322	629	841	1,062	1,255
Operating supplies	15,884	17,548	8,856	7,828	3,470
Small tools & security	2,832	2,041	2,913	2,342	60
Subscriptions, books, periodicals	540	939	874	1,028	701
Professional services	49,300	-	4,957	18,029	22,988
Communication expenditure	10,220	7,553	-	-	-
Travel & training	954	272	614	474	1,150
Advertising	3,102	1,076	-	1,832	-
Payroll & related	279,177	226,600	210,758	189,071	193,757
Other contractual services	11,676	-	3,915	-	1,200
Accounting & audit expenditure	8,400	8,400	8,650	9,400	9,400
Outside legal expenditure	14,804	7,282	12,972	-	-
Federal/State licensing	-	-	1,650	-	-
Henderson County Collection	6,939	6,905	17,058	6,897	6,917
Appraisal expenditure	17,777	15,788	6,913	17,304	24,081
Water Board Meeting expenditure	5,333	6,160	-	-	-
Election expenditure	-	-	-	-	5,945
Miscellaneous	214	-	1,745	24,441	17,443
Bad debts expenditure	-	-	-	156	-
Repair & maintenance	49,245	83,626	30,682	50,188	135,794
Insurance expenditure	50,790	41,064	38,047	30,196	25,641
Postage	-	341	436	424	537
Interlocal expenditure	-	-	200,000	200,000	200,000
Utilities	9,161	10,634	16,391	13,903	9,194
Capital outlay	<u>238,602</u>	<u>105,110</u>	<u>139,415</u>	<u>1,001,336</u>	<u>620,845</u>
Total expenditure	<u>776,272</u>	<u>541,968</u>	<u>707,687</u>	<u>1,575,911</u>	<u>1,280,378</u>
Expenditure revenues over (under) expenditures	<u>\$ 780,796</u>	<u>\$ 664,159</u>	<u>\$ 420,059</u>	<u>\$ (482,412)</u>	<u>\$ (178,444)</u>

Amounts				
2020	2019	2018	2017	2016
59.17%	71.02%	73.85%	75.03%	75.83%
15.98%	20.34%	21.82%	21.16%	21.43%
0.75%	1.09%	1.13%	1.20%	0.84%
8.13%	6.89%	2.27%	1.94%	1.76%
13.40%	0.00%	0.23%	0.00%	0.00%
2.57%	0.66%	0.70%	0.67%	0.14%
<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>
0.08%	0.12%	0.06%	0.10%	0.11%
1.02%	3.24%	0.78%	0.72%	0.31%
0.18%	0.38%	0.26%	0.21%	0.01%
0.03%	0.17%	0.07%	0.09%	0.06%
3.17%	- %	0.44%	1.65%	2.09%
0.66%	1.39%	- %	- %	- %
0.06%	0.05%	0.05%	0.04%	0.10%
0.20%	0.20%	- %	0.17%	- %
17.93%	41.82%	18.69%	17.29%	17.58%
0.75%	- %	0.35%	- %	0.11%
0.54%	1.55%	0.77%	0.86%	0.85%
0.95%	1.34%	1.15%	- %	- %
- %	- %	0.15%	- %	- %
0.45%	1.27%	1.41%	0.63%	0.63%
1.14%	2.91%	0.61%	1.58%	2.19%
0.34%	1.14%	- %	- %	- %
- %	- %	- %	- %	0.54%
0.01%	- %	0.13%	2.24%	1.58%
- %	- %	- %	0.01%	- %
3.16%	15.43%	2.72%	4.59%	12.32%
3.26%	7.58%	3.73%	2.76%	2.33%
- %	0.06%	0.04%	0.04%	0.05%
- %	- %	17.73%	18.29%	18.15%
0.59%	1.96%	1.35%	1.27%	0.83%
<u>15.32%</u>	<u>19.39%</u>	<u>12.26%</u>	<u>91.57%</u>	<u>56.35%</u>
<u>49.85%</u>	<u>44.93%</u>	<u>62.75%</u>	<u>144.11%</u>	<u>116.19%</u>
<u>50.15%</u>	<u>55.07%</u>	<u>37.25%</u>	<u>(44.11%)</u>	<u>(16.19%)</u>

ATHENS MUNICIPAL WATER AUTHORITY
BOARD MEMBERS, KEY PERSONNEL, AND CONSULTANTS
SEPTEMBER 30, 2020

ATHENS MUNICIPAL WATER AUTHORITY
P.O. Box 229
ATHENS, TEXAS 75751
903-675-5131

Submission Date of the Most Recent AMWA Registration Form 6/1/16

Limit on Fees of Office that a Director may receive during a fiscal year:
(Set by Board Resolution - TWC Section 49.060) \$150

<u>Names</u>	<u>Term of Office (Elected or Appointed) or Date Hired</u>	<u>Fees of Office Paid* (FYE date)</u>	<u>Expense Reimbursements (FYE date)</u>	<u>Title at Year End</u>
Board Members:				
Mike Peek	5/2019 - 5/2022	\$ -	\$ -	President
Ed Gatlin	5/2019 - 8/2019	-	-	Vice-President
Donald Foster	5/2016 - 5/2020	-	-	Secretary
Milburn Chaney	5/2016 - 5/2020	-	-	Director
Frank Lunceford	5/2016 - 5/2020	-	-	Director
Key Personnel:				
William Casey, Executive Director		\$ 93,150		
Ed Gatlin, Exective Director		8,931		
Consultants:				
Kugle, Skelton & Bennett, PC	\$ 14,028			Attorneys
Velvin & Weeks	-			Engineers
Henderson County Tax Assessor	6,905			Tax Collector
Smith, Lambright & Associates, PC	6,000			Auditor
Henderson County Appraisal District	15,782			Tax Assessor
Holdredge, Shaddox, & Habibelahian	2,400			Accountants

COMPLIANCE AND INTERNAL CONTROL

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

Athens Municipal Water Authority
Athens, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, and the major fund of Athens Municipal Water Authority, as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise Athens Municipal Water Authority's basic financial statements, and have issued our report thereon dated February 7, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Athens Municipal Water Authority'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 Athens Municipal Water Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Athens Municipal Water Authority'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

OFFICE LOCATIONS

TEXAS | Waco | Temple | Hillsboro | Houston
NEW MEXICO | Albuquerque

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Athens Municipal Water Authority'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*.

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.

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
February 7, 2023



Governing Board
Athens Municipal Water Authority
P.O. Box 229
Athens, Texas 75751

We have audited the financial statements of Athens Municipal Water Authority as of and for the year ended September 30, 2020, and have issued our report thereon dated February 7, 2023. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated August 8, 2022, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of Athens Municipal Water Authority solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, and, as appropriate, our firm have complied with all relevant ethical requirements regarding independence.

As a part of the engagement we assisted in preparing the financial statements, and related notes to the financial statements of Athens Municipal Water Authority in conformity with U.S. generally accepted accounting principles based on information provided by you. These nonaudit services do not constitute an audit under *Government Auditing Standards* and such services were not conducted in accordance with *Government Auditing Standards*.

OFFICE LOCATIONS

TEXAS | Waco | Temple | Hillsboro | Houston
NEW MEXICO | Albuquerque



In order to ensure we maintain our independence for performing these nonaudit services certain safeguards were applied to this engagement. Management assumed responsibility for the financial statements and related notes to the financial statements and any other nonaudit services we provided. Management acknowledged in the management representation letter our assistance with the preparation of the financial statements and related notes to the financial statements and that these items were reviewed and approved prior to their issuance and accepted responsibility for them. Further, the nonaudit services were overseen by an individual within management that has the suitable skill, knowledge, or experience; evaluated the adequacy and results of the services; and accepted responsibility for them.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by Athens Municipal Water Authority is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during the year. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are:

Management's estimate of the useful lives of capital assets is based on the expected lifespan of the asset in accordance with standard guidelines. We evaluated the key factors and assumptions used to develop the estimate of useful lives and determined that it is reasonable in relation to the financial statements taken as a whole and in relation to the applicable opinion units.

Management's estimate of the net pension asset is based on actuarial assumptions which are determined by the demographics of the plan and future projections that the actuarial makes based on historical information of the plan and the investment market. We evaluated the key factors and assumptions used to develop the net pension asset and determined that it is reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting Athens Municipal Water Authority's financial statements relate to the net pension liability. The disclosures in the financial statements are neutral, consistent, and clear.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. Management has corrected all identified misstatements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures.

None of the misstatements identified by us as a result of our audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole or applicable opinion units.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to Athens Municipal Water Authority's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the management representation letter dated February 7, 2023.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with Athens Municipal Water Authority, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as Athens Municipal Water Authority's auditors.

New Accounting Pronouncements

Significant new accounting standards issued by the Governmental Accounting Standards Board (GASB) not yet implemented by the Water Authority include the following:

Statement No. 87, *Leases* – This Statement will improve the accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities previously classified as operating leases. It establishes a single model for lease accounting based on the principle that leases are financing the right to use an underlying asset. Under the Statement a lessee is required to recognize a lease liability and an intangible right-to-use asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resource, enhancing the relevance and consistency of information about leasing activities. This Statement will become effective for the Water Authority in fiscal year 2022.

Statement No. 96, *Subscription-Based Information Technology Arrangements* – This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. This Statement will become effective for the Water Authority in fiscal year 2024.

Restriction on Use

This report is intended solely for the information and use of the Board of Managers and management of Athens Municipal Water Authority and is not intended to be and should not be used by anyone other than these specified parties.

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
February 7, 2023