

**Alabama Water Pollution  
Control Authority**

**COMPONENT UNIT FINANCIAL STATEMENTS**

**For the Year Ended September 30, 2020**



**CRI** CARR  
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**Alabama Water Pollution Control Authority**  
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**September 30, 2020**

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## **INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Alabama Water Pollution Control Authority  
Montgomery, Alabama

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the business-type activities and the major funds of the Alabama Water Pollution Control Authority (the "Authority"), a component unit of the State of Alabama, as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority'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 Authority'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.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Authority, as of September 30, 2020, 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.

### ***Other Matters***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 4 through 7 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 the Authority's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards 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 January 13, 2021 on our consideration of the 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 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 Authority'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 Authority's internal control over financial reporting and compliance.

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

CARR, RIGGS & INGRAM, L.L.C.

Enterprise, Alabama  
January 13, 2021

## Management's Discussion and Analysis

The Alabama Water Pollution Control Authority (the Authority) was established in 1987 to provide a self-perpetuating source of low interest loans for the construction of public wastewater treatment and transport facilities needed to meet water quality standards and provide capacity for future growth. The Authority is operated by the Alabama Department of Environmental Management (ADEM) who serves as agent for the Authority. The following discussion provides an overview of the financial position and results of operation for the Authority as of September 30, 2020. For more detailed information, please refer to the financial statements including the Notes to the Financial Statements.

### ***Overview of the Financial Statements***

The Authority operates as a Proprietary Fund and presents the following financial statements: Statement of Net Position, Statement of Activities, Statement of Net Position - Proprietary Funds, Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds, and Statement of Cash Flows - Proprietary Funds. The statements are prepared using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of when cash is received or expended. Investments are reported at fair market value or amortized cost.

The Proprietary Fund statements provide financial information about the Alabama Water Pollution Control Authority which ADEM operates like a business.

Statement of Net Position - Proprietary Funds - Includes all assets, deferred outflows, and liabilities of the Authority and provides a snapshot of the financial position of the Authority at the end of the fiscal year. Assets plus deferred outflows less liabilities results in net position that are restricted and used in assuring the perpetuation of the Authority. Net position are comprised primarily of loans receivable that are not obligated to a bond issue and cash or short term investments pledged to loans that are in the process of closing.

Statement of Changes in Net Position - Proprietary Funds - Reports all additions and deductions for the fiscal year. Additions are primarily comprised of loan interest and investment income and federal awards. Deductions are mainly bond interest expense and administrative expenses. Additions minus deductions provide the change in restricted net position for the fiscal year. The change in restricted net position plus the beginning restricted net position results in the restricted net position available for the perpetuation of the Authority.

The Notes to Financial Statements include organizational description, a summary of significant accounting policies, information on cash and investments, loans receivable, payables to municipalities, long term debt, and related parties, among others.

## Management's Discussion and Analysis

### COMPARATIVE SUMMARY STATEMENTS

#### Statement of Net Position

<i>September 30,</i>	<b>2020</b>	2019	Variance	% increase (decrease)
<b>Assets</b>				
Cash and cash equivalents	\$ 17,108,910	\$ 17,742,241	\$ (633,331)	-4%
Receivables	408,905,871	363,540,102	45,365,769	12%
Investments	250,171,887	257,680,485	(7,508,598)	-3%
Unamortized items	6,121,785	8,243,084	(2,121,299)	-26%
Capital assets	8,941	13,480	(4,539)	-34%
<b>Total assets</b>	<b>682,317,394</b>	647,219,392	35,098,002	5%
<b>Deferred Outflows of Resources</b>				
Deferred charge on refunding	319,780	532,128	(212,348)	-40%
<b>Liabilities</b>				
Accrued liabilities	321,949	427,285	(105,336)	-25%
Payable to municipalities	112,589,567	89,156,272	23,433,295	26%
Bonds payable, net	21,689,654	34,642,550	(12,952,896)	-37%
<b>Total liabilities</b>	<b>134,601,170</b>	124,226,107	10,375,063	8%
<b>Net position, restricted</b>	<b>\$ 548,036,004</b>	\$ 523,525,413	\$ 24,510,591	5%

#### Statement of Activities

<i>For the year ended September 30,</i>	<b>2020</b>	2019	Variance	% increase (decrease)
Operating revenue	\$ 15,634,483	\$ 17,258,834	\$ (1,624,351)	-9%
Operating expense	5,961,197	6,301,799	(340,602)	-5%
Operating income	9,673,286	10,957,035	(1,283,749)	-12%
Non-operating revenue	14,837,305	18,035,259	(3,197,954)	-18%
<b>Change in net position</b>	<b>\$ 24,510,591</b>	\$ 28,992,294	\$ (4,481,703)	-15%

## Management's Discussion and Analysis

### Statement of Cash Flows

<i>For the year ended</i> <i>September 30,</i>	<b>2020</b>	2019	Variance	% increase (decrease)
Net cash provided by (used in) operating activities	\$ (13,241,365)	\$ 31,968,828	\$ (45,210,193)	-141%
Net cash provided by (used in) non-capital and related financing activities	<b>12,611,049</b>	(28,112,495)	40,723,544	-145%
Cash flows from capital and related financing activities	<b>(3,015)</b>	(5,711)	2,696	-100%
Net increase (decrease) in cash and cash equivalents	<b>\$ (633,331)</b>	\$ 3,850,622	\$ (4,483,953)	-116%

### Financial Highlights

- The Authority closed eight new loans totaling \$84,115,000.
- Net position increased \$24,510,591 mainly due to the utilization of \$17,366,454 in federal funds transferred to loan recipients.

### Statement of Net Position

<i>September 30,</i>	<b>2019</b>	2018	Variance	% increase (decrease)
<b>Assets</b>				
Cash and cash equivalents	\$ 17,742,241	\$ 13,891,619	\$ 3,850,622	28%
Receivables	<b>363,540,102</b>	357,296,030	6,244,072	2%
Investments	<b>257,680,485</b>	226,256,868	31,423,617	14%
Unamortized items	<b>8,243,084</b>	7,101,642	1,141,442	16%
Capital assets	<b>13,480</b>	14,319	(839)	-6%
Total assets	<b>647,219,392</b>	604,560,478	42,658,914	7%
<b>Deferred Outflows of Resources</b>				
Deferred charge on refunding	<b>532,128</b>	744,476	(212,348)	-29%
<b>Liabilities</b>				
Accrued liabilities	<b>427,285</b>	438,599	(11,314)	-3%
Payable to municipalities	<b>89,156,272</b>	61,116,793	28,039,479	46%
Bonds payable, net	<b>34,642,550</b>	49,216,443	(14,573,893)	-30%
Total liabilities	<b>124,226,107</b>	110,771,835	13,454,272	12%
Net position, restricted	<b>\$ 523,525,413</b>	\$ 494,533,119	\$ 28,992,294	6%



## Management's Discussion and Analysis

### **Statement of Activities**

<i>For the year ended September 30,</i>	<b>2019</b>	2018	Variance	% increase (decrease)
Operating revenue	<b>\$ 17,258,834</b>	\$ 16,329,389	\$ 929,445	6%
Operating expense	<b>6,301,799</b>	5,864,887	436,912	7%
Operating income	<b>10,957,035</b>	10,464,502	492,533	5%
Non-operating revenue	<b>18,035,259</b>	8,884,789	9,150,470	103%
Change in net position	<b>\$ 28,992,294</b>	\$ 19,349,291	\$ 9,643,003	50%

### **Statement of Cash Flows**

<i>For the year ended September 30,</i>	<b>2019</b>	2018	Variance	% increase (decrease)
Net cash provided by operating activities	<b>\$ 31,968,828</b>	\$ (17,869,141)	\$ 49,837,969	-279%
Net cash provided by (used in) non-capital and related financing activities	<b>(28,112,495)</b>	15,820,611	(43,933,106)	-278%
Cash flows from capital and related financing activities	<b>(5,711)</b>	(16,446)	10,735	-100%
Net increase (decrease) in cash and cash equivalents	<b>\$ 3,850,622</b>	\$ (2,064,976)	\$ 5,915,598	-286%

### **Financial Highlights**

- The Authority closed eight new loans totaling \$58,690,000.
- Net position increased \$28,992,294 mainly due to the utilization of \$17,357,886 in federal funds transferred to loan recipients.

**Alabama Water Pollution Control Authority**  
**Statement of Net Position**  
**September 30, 2020**

	<b>Business-type Activities</b>
<b>Assets</b>	
Current assets:	
Cash and cash equivalents - restricted	\$ 17,108,910
Accrued interest receivable on investments - restricted	365,946
Accrued interest on loans receivable	1,081,818
Current portion of loans receivable	25,750,000
Grants and other receivables	142,947
Prepaid rent	166,282
Total current assets	44,615,903
Noncurrent assets:	
Investments - restricted	250,171,887
Loans receivable, less unamortized premium of \$3,454,840	381,565,160
Principal forgiveness	1,752,262
Prepaid rent	4,203,241
Capital assets, net	8,941
Total noncurrent assets	637,701,491
Total assets	682,317,394
<b>Deferred Outflows of Resources</b>	
Deferred charge on refunding	319,780
<b>Liabilities</b>	
Current liabilities:	
Current portion of revolving loan bonds	10,795,000
Accrued interest payable	99,675
Accounts payable	1,897
Escheated bonds	55,000
Due to Alabama Department of Environmental Management (ADEM)	165,263
Due to municipality	2,723,769
Other payables	114
Total current liabilities	13,840,718
Long-term liabilities:	
Payables to municipalities	109,865,798
Revolving loan bonds payable	10,894,654
Total long-term liabilities	120,760,452
Total liabilities	134,601,170
<b>Net Position</b>	
Net investment in capital assets	8,941
Restricted for loans and debt service	548,027,063
Total net position	\$ 548,036,004

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

**Alabama Water Pollution Control Authority**  
**Statement of Activities**  
**For the Year Ended September 30, 2020**

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>		<b>Net Revenue (Expense) and Changes in Net Position</b>
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Business-type Activities</b>
<b>Business-type Activities:</b>				
Water Pollution loans	\$ 9,368,927	\$ 2,966,829	\$ 17,366,454	\$ 10,964,356
<b>General Revenues</b>				
Investment earnings				13,546,235
Change in net position				24,510,591
<b>Net Position - Beginning</b>				<b>523,525,413</b>
<b>Net Position - Ending</b>				<b>\$ 548,036,004</b>

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

**Alabama Water Pollution Control Authority**  
**Statement of Net Position**  
**Proprietary Funds**  
**September 30, 2020**

	<b>Business-type Activities - Enterprise Funds</b>		
	<b>Loan Fund</b>	<b>Loan Fee Fund</b>	<b>Total</b>
<b>Assets</b>			
Current assets:			
Cash and cash equivalents - restricted	\$ 15,591,677	\$ 1,517,233	\$ 17,108,910
Accrued interest receivable on investments - restricted	365,946	-	365,946
Accrued interest on loans receivable	1,081,818	-	1,081,818
Current portion of loans receivable	25,750,000	-	25,750,000
Grants and other receivables	142,947	-	142,947
Prepaid rent	-	166,282	166,282
<b>Total current assets</b>	<b>42,932,388</b>	<b>1,683,515</b>	<b>44,615,903</b>
Noncurrent assets:			
Investments - restricted	250,171,887	-	250,171,887
Loans receivable, less unamortized premium of \$3,454,840	381,565,160	-	381,565,160
Principal forgiveness	1,752,262	-	1,752,262
Prepaid rent	-	4,203,241	4,203,241
Capital assets, net	-	8,941	8,941
<b>Total noncurrent assets</b>	<b>633,489,309</b>	<b>4,212,182</b>	<b>637,701,491</b>
<b>Total assets</b>	<b>676,421,697</b>	<b>5,895,697</b>	<b>682,317,394</b>
<b>Deferred Outflows of Resources</b>			
Deferred charge on refunding	319,780	-	319,780
<b>Liabilities</b>			
Current liabilities:			
Current portion of revolving loan bonds	10,795,000	-	10,795,000
Accrued interest payable	99,675	-	99,675
Accounts payable	-	1,897	1,897
Escheated bonds	55,000	-	55,000
Due to ADEM	-	165,263	165,263
Due to municipality	2,723,769	-	2,723,769
Other Payables	114	-	114
<b>Total current liabilities</b>	<b>13,673,558</b>	<b>167,160</b>	<b>13,840,718</b>
Long-term liabilities:			
Payables to municipalities	109,865,798	-	109,865,798
Revolving loan bonds payable	10,894,654	-	10,894,654
<b>Total long-term liabilities</b>	<b>120,760,452</b>	<b>-</b>	<b>120,760,452</b>
<b>Total liabilities</b>	<b>134,434,010</b>	<b>167,160</b>	<b>134,601,170</b>
<b>Net Position</b>			
Net investment in capital assets	-	8,941	8,941
Restricted for loans and debt service	542,307,467	5,719,596	548,027,063
<b>Total net position</b>	<b>\$ 542,307,467</b>	<b>\$ 5,728,537</b>	<b>\$ 548,036,004</b>

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

**Alabama Water Pollution Control Authority**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**Proprietary Funds**  
**For the Year Ended September 30, 2020**

	Business-type Activities - Enterprise Funds		
	Loan Fund	Loan Fee Fund	Total
<b>Operating Revenues</b>			
Investment earnings	\$ 3,357,796	\$ -	\$ 3,357,796
Interest from loans receivable	9,309,858	-	9,309,858
Administrative fees	-	2,966,829	2,966,829
<b>Total operating revenues</b>	<b>12,667,654</b>	<b>2,966,829</b>	<b>15,634,483</b>
<b>Operating Expenses</b>			
Administration expenses	3,230,743	1,518,907	4,749,650
Bond insurance amortization	109,453	-	109,453
Rental expense	-	166,282	166,282
Depreciation	-	7,553	7,553
Office expense	-	16,720	16,720
Other expenses	-	903,723	903,723
Travel	-	7,816	7,816
<b>Total operating expenses</b>	<b>3,340,196</b>	<b>2,621,001</b>	<b>5,961,197</b>
<b>Operating income (loss)</b>	<b>9,327,458</b>	<b>345,828</b>	<b>9,673,286</b>
<b>Nonoperating Revenues (Expenses)</b>			
Federal grant revenue	17,366,454	-	17,366,454
Principal forgiveness expense	(2,210,017)	-	(2,210,017)
Bond interest expense	(1,197,713)	-	(1,197,713)
Net increase in the fair value of investments	878,581	-	878,581
<b>Total nonoperating revenues</b>	<b>14,837,305</b>	<b>-</b>	<b>14,837,305</b>
<b>Change in net position</b>	<b>24,164,763</b>	<b>345,828</b>	<b>24,510,591</b>
<b>Net Position - Beginning</b>	<b>518,142,704</b>	<b>5,382,709</b>	<b>523,525,413</b>
<b>Net Position - Ending</b>	<b>\$ 542,307,467</b>	<b>\$ 5,728,537</b>	<b>\$ 548,036,004</b>

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

**Alabama Water Pollution Control Authority**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended September 30, 2020**

	<b>Business-type Activities - Enterprise Funds</b>		
	<b>Loan Fund</b>	<b>Fund</b>	<b>Total</b>
<b>Cash Flows from Operating Activities:</b>			
Investment earnings	\$ 3,440,870	\$ -	\$ 3,440,870
Receipts of payments from municipalities	37,762,968	-	37,762,968
Payments to vendors	-	(2,284,166)	(2,284,166)
Interest received on loans receivable	9,919,312	-	9,919,312
Administration fees	(3,230,743)	2,966,829	(263,914)
Payments to municipalities	(61,644,021)	-	(61,644,021)
Payments paid to ADEM	-	(172,414)	(172,414)
Net cash provided by (used in) operating	(13,751,614)	510,249	(13,241,365)
<b>Cash Flows from Non-capital and Related Financing Activities:</b>			
Grant revenue received	17,366,454	-	17,366,454
Payments to municipalities - Principal forgiveness	962,316	-	962,316
Redemption of investment securities, net	8,387,179	-	8,387,179
Principal paid on revolving loan bonds	(12,850,000)	-	(12,850,000)
Interest paid on revolving loan bonds	(1,254,900)	-	(1,254,900)
Net cash provided by non-capital and related financing activities	12,611,049	-	12,611,049
<b>Cash Flows from Capital and Related Financing Activities:</b>			
Purchase of capital assets	-	(3,015)	(3,015)
Net increase (decrease) in cash and cash equivalents	(1,140,565)	507,234	(633,331)
<b>Cash and Cash Equivalents - restricted, beginning of year</b>	16,732,242	1,009,999	17,742,241
<b>Cash and Cash Equivalents - restricted, end of year</b>	\$ 15,591,677	\$ 1,517,233	\$ 17,108,910

-Continued-

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

**Alabama Water Pollution Control Authority**  
**Statement of Cash Flows**  
**Proprietary Funds (Continued)**  
**For the Year Ended September 30, 2020**

<b>Business-type Activities - Enterprise Funds</b>			
	<b>Loan Fund</b>	<b>Loan Fee Fund</b>	<b>Total</b>
<b>Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities:</b>			
Operating income	\$ 9,327,458	\$ 345,828	\$ 9,673,286
Adjustments to reconcile operating income to cash provided by (used in) operating activities:			
Bond insurance amortization	109,452	-	109,452
Loan premium amortization	(566,822)	-	(566,822)
Depreciation	-	7,553	7,553
(Increase) decrease in operating assets:			
Due from Drinking Water Finance Authority (DWFA)	(138,297)	-	(138,297)
Accrued interest receivable on investments - restricted	83,074	-	83,074
Accrued interest receivable on loans receivable	(41,040)	-	(41,040)
Loans receivable	(45,920,000)	-	(45,920,000)
Prepaid rent	-	166,282	166,282
Increase (decrease) in operating liabilities:			
Payables to municipalities	20,709,526	-	20,709,526
Accounts payable	-	(2,263)	(2,263)
Due to DWFA	(20,000)	-	(20,000)
Due to ADEM	-	(7,151)	(7,151)
Due to municipality	2,723,769	-	2,723,769
Other payables	(18,734)	-	(18,734)
Net cash provided by (used in) operating activities	\$ (13,751,614)	\$ 510,249	\$ (13,241,365)

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

## **Alabama Water Pollution Control Authority Notes to Financial Statements**

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

The accounting policies of the Alabama Water Pollution Control Authority (the "Authority") have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following notes to the financial statements are an integral part of the Authority's financial statements.

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

The Authority, a component unit of the State of Alabama, was created by the State of Alabama's Legislature in 1989 to issue revolving loan bonds and lend the bond proceeds to eligible municipalities at below market interest rates to pay for the construction of wastewater treatment and collection facilities. The Water Quality Act of 1987 (Clean Water Act) requires the implementation of a state revolving fund (SRF) program to accept the federal capitalization grants and the required 20% state matching funds which are provided by the Federal and State governments. The Alabama Department of Environmental Management (ADEM) is the agency designated by the State of Alabama to administer the revolving loan program.

The Authority does not have any full time employees. Instead, ADEM charges the Authority for time spent on revolving loan program activities by employees of ADEM, and the Authority reimburses ADEM for such costs. The charges include the salaries and benefits of the employees, as well as indirect costs allocated to the Authority based on direct salary costs. Employees charging time to the Authority are covered by the benefits of ADEM.

#### ***Authority-wide and Fund Financial Statements***

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues are classified into two categories: charges for services and operating grants and contributions. Charges for services refer to direct recovery from customers for services rendered. Grants and contributions refer to revenues restricted for specific programs whose use may be restricted further to operational or capital items. The general revenues section displays revenue collected that helps support all functions of government and contribute to the change in the net position for the fiscal year. Revenues that are not classified as program revenues are presented as general revenues.

The fund financial statements follow and report additional and detailed information about operations for the proprietary funds individually.



# Alabama Water Pollution Control Authority

## Notes to Financial Statements

### Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Under the Alabama Constitution, money may only be drawn from the Treasury by a legal appropriation. However, the Authority operates under a continuous appropriation because the funding of the matching funds approved by the voters contains its own appropriation authority. Therefore, the Authority's operations are not included in the State's annual budget.

#### ***Measurement Focus, Basis of Accounting, and Financial Statement Presentation***

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The Authority is reported as a proprietary fund. The Authority's proprietary fund financial statements are reported using 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. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating revenues and expenses of the Authority general result from providing loans to Alabama municipalities to finance water and sewer system upgrades. The principal operating revenues of the Authority are comprised of investment earnings, administrative fees, and interest income from loans. Operating expenses consist primarily of administrative salaries, other expenses, and interest expense on bonds. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

##### ***Cash and Cash Equivalents***

The Authority's cash and cash equivalents are considered highly liquid investments with a maturity of 90 days or less when acquired. Included in the cash equivalents are money market funds held by the State Treasurer. Money market funds are held by a counterparty or by its trust department but not in the Authority's name

##### ***Investments***

Investments are reported at fair value or amortized cost. All investment income, including changes in the fair value of investments, is recognized in the statement of revenues, expenses, and changes in net assets. The Authority has adopted a formal written investment policy. However, as disclosed in Note 2, investments and underlying collateral are limited to U.S. Government Securities and AAA rated investments.

## Alabama Water Pollution Control Authority Notes to Financial Statements

### Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### ***Loans Receivable, Payables to Municipalities, and Loan Premium***

The Authority issues loans to eligible municipalities or their agencies through the purchase of the municipalities' revenue or general obligation bonds or warrants with the loan disbursements being made as the municipalities' construction expenditures are incurred. The loans to municipalities are in excess of the expenditures made by the Authority. The excess of these loans receivables over the payments to municipalities is classified as a loan premium. This loan premium, which allows the Authority to recover certain costs associated with the loan, is amortized into income on the interest method over the life of the loan. The stated interest rates for these loans range from 2.20% to 3.50% and the effective interest rates range from 2.21% to 4.52%. The loans are typically repaid over a twenty-year period. The stated interest rates for loans bound prior to October 1, 2018 include a 0.75% fee charged to municipalities for administrative costs. The stated interest rates for loans bound on or subsequent to October 1, 2018 include a 2.10% fee charged to municipalities for administrative costs with the exception of two municipality loans that closed on November 1, 2018, which were already being processed as of October 1, 2018.

Payables to municipalities represent amounts committed by the Authority to fund qualifying projects conducted by the municipalities.

No provision for uncollectible accounts has been made, as all loans are current, and Management believes that all loans will be repaid according to the loan terms.

#### ***Restricted Assets***

Under each bond indenture, certain funds and bank accounts are required to be established and controlled by a trustee. The accounts of the trust funds are maintained on the cash receipts and disbursements basis and are adjusted for financial statement purposes to reflect accrued receivables and payables. Additional restricted assets are held by the State of Alabama on behalf of the Authority until the disbursement of the assets to municipalities occurs.

#### ***Prepaid Rent***

In 2008, the Authority paid \$6,485,000 in prepaid rent to the State of Alabama for the use of newly renovated laboratory facilities. This amount is amortized to rental expense over a period of 39 years, the estimated life of the associated building, or \$166,282, annually. Amortization expense recognized during the year ended September 30, 2020 was \$166,282.

#### ***Capital Assets***

Capital assets are recorded at cost and are being depreciated over their estimated useful lives. The estimated useful life of the Authority's capital assets is three years. Depreciation is calculated using the straight-line method. The Authority maintains a capitalization threshold of five hundred dollars. The cost of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized.

## Alabama Water Pollution Control Authority Notes to Financial Statements

### Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### ***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 a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Authority has one item that qualifies for reporting in this category, the deferred charge on refunding reported in the statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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. The Authority did not have any items that qualify as deferred inflows of resources.

#### ***Bond Discount***

Bond discounts on long-term debt are amortized on the interest method over the life of the debt to which it relates.

#### ***Classification of Net Position***

The Authority's net position is divided into two components:

- *Net investment in capital assets* – This component of net position consists of the historical cost of capital assets, net of accumulated depreciation, and is reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt should also be included in this component of net position.
- *Restricted* – This component of net position consists of assets that are restricted by debt covenants, contributors, contractual provisions, or enabling legislation, reduced by liabilities related to those assets. The Authority's restricted net position as reported in the statement of net position consists of cash and investments which are restricted for loans and debt service.

## **Alabama Water Pollution Control Authority Notes to Financial Statements**

### **Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### ***Revenues and Expenses***

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority are interest earnings on loans and investments. Due to the nature of the Authority's business, obtaining and making loans, interest which is typically nonoperating is deemed to be operating revenue. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

#### ***Administrative Fees***

The sole source of administrative fees is a fee charged to municipalities on the principal amount of the loan made to the municipalities by the Authority, net of bank and trustee fees. The administrative fee is .75% for loans bound prior to October 1, 2018 and 2.10% for loans bound on or subsequent to October 1, 2018 with the exception of two municipality loans that closed on November 1, 2018 which were already being processed as of October 1, 2018. These two loans have an administrative fee of .75%.

#### ***Grant Revenue***

Grants received are recognized as nonoperating revenues in the accounting period in which they are earned and become measurable. The federal capitalization grant is awarded in the form of a letter of credit. Funds are drawn from the federal capitalization grant only after the originating expenditure to the municipality has been approved. Since expenditure is the primary factor for determining eligibility, revenue is recognized when the funds are expended.

The State appropriation is awarded to the Authority by the State legislature each year. In accordance with federal law, the appropriation must be at least 20% of the federal capitalization grant. The State's appropriation is not expended upon receipt; therefore, the State's appropriation is deferred upon receipt and recognized as revenue as a constant percentage of each federal grant draw. Such percentage is dependent on the actual appropriation (see Note 3).

#### ***Interfund Transfers***

The Authority has the ability to transfer and receive funds from the Drinking Water State Revolving Fund and ADEM.

#### ***Concentration of Credit Risk***

All of the loans to municipalities represent receivables from municipalities located in the State of Alabama.

## Alabama Water Pollution Control Authority Notes to Financial Statements

### Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### ***Estimates***

The preparation of financial statements in conformity with GAAP requires management to make various estimates. Actual results could differ from those estimates.

#### ***Subsequent Events***

Management has evaluated subsequent events through the date that the financial statements were available to be issued, January 13, 2021. See Note 7 for relevant disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements, except as noted.

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

In May 2020, the GASB issued Statement No. 95 (GASB 95), *Postponement of the Effective Date of Certain Authoritative Guidance*. GASB 95 provides temporary relief to governments and other stakeholders in light of the COVID-19 pandemic by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later. GASB 95 had no impact on the Authority's financial statements.

The GASB has issued statements that will become effective in future years. These statements are as follows:

In January 2017, the GASB issued Statement No. 84 (GASB 84), *Fiduciary Activities*. GASB 84 establishes specific criteria for identifying fiduciary activities and the requirements for financial statement reporting. The focus of the criteria is on whether a government is controlling the assets of the fiduciary activity and the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. GASB 84 describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. In addition, recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred which compels the government to disburse fiduciary resources should also be reported. GASB 84 will be effective for the fiscal years beginning after December 15, 2019.

In June 2017, the GASB issued Statement No. 87 (GASB 87), *Leases*. The objective of GASB 87 is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. GASB 87 increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB 87,

## Alabama Water Pollution Control Authority Notes to Financial Statements

### **Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

a lessee is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of GASB 87 are effective for reporting periods beginning after June 15, 2021.

In June 2018, the GASB issued Statement No. 89 (GASB 89), *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objectives of GASB 89 are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. GASB 89 requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The requirements of GASB 89 are effective for reporting periods beginning after December 15, 2020.

In August 2018, the GASB issued Statement No. 90 (GASB 90), *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*. The primary objectives of GASB 90 are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. GASB 90 defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. The requirements of GASB 90 are effective for reporting periods beginning after December 15, 2019. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

In May 2019, the GASB issued Statement No. 91 (GASB 91), *Conduit Debt Obligations*. The primary objectives of GASB 91 are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. GASB 91 achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The requirements of GASB 91 are effective for reporting periods beginning after December 15, 2021.

## Alabama Water Pollution Control Authority Notes to Financial Statements

### **Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

In January 2020, the GASB issued Statement No. 92 (GASB 92), *Omnibus 2020*. The objectives of GASB 92 are to enhance the comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The requirements of GASB 92 are effective for reporting periods beginning after June 15, 2021.

In March 2020, the GASB issued Statement No. 93 (GASB 93), *Replacement of Interbank Offered Rates*. The purpose of GASB 93 is to address accounting and financial reporting implications that result from the replacement of interbank offered rate (IBOR) – most notably, the London Interbank Offered Rate (LIBOR). GASB 93 achieves this objective by (1) providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment, (2) clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate, (3) clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable, (4) removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap, (5) identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of the interest rate swap, and (6) clarifying the definition of reference rate, as it is used in Statement 53, as amended. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021.

In March 2020, the GASB issued Statement No. 94 (GASB 94), *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of GASB 94 is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in GASB 94, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in GASB 94 as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. GASB 94 also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in GASB 94, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. GASB 94 is effective for fiscal years beginning after June 15, 2022.

## Alabama Water Pollution Control Authority Notes to Financial Statements

### **Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

In May 2020, the GASB issued Statement No. 96 (GASB 96), *Subscription-Based Information Technology Arrangements*. GASB 96 provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). GASB 96 (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. GASB 96 is effective for fiscal years beginning after June 15, 2022.

In June 2020, the GASB issued statement No. 97 (GASB 97), *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. The primary objectives of GASB 97 are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension or OPEB plans as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans that meet the definition of a pension plan and for benefits provided through those plans. The requirements for GASB 97 are effective for reporting periods beginning after June 15, 2021.

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

### **Note 2: DETAILED NOTES**

#### ***Deposits and Investments***

As of September 30, 2020, cash consisted of non-interest bearing deposits held by the State Treasurer and financial institutions in the name of the Authority. The Authority's deposits at year-end were entirely covered by federal depository insurance (FDIC) or by the Security for Alabama Funds Enhancement ("SAFE") Program.

The SAFE Program was established by the Alabama Legislature and is governed by the provisions contained in the *Code of Alabama 1975*, Sections 41-14A-1 through 41-14A-14. Under the SAFE Program all public funds are protected through a collateral pool administered by the Alabama State Treasurer's Office. Under this program, financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by the FDIC. If the securities pledged fail to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance.



**Alabama Water Pollution Control Authority**  
**Notes to Financial Statements**

**Note 2: DETAILED NOTES (Continued)**

***Deposits and Investments (Continued)***

*Custodial Credit Risk* – Custodial credit risk for deposits is the risk in the event of the failure of a depository financial institution a government may not be able to recover deposits. Monies placed on deposit with financial institutions in the form of demand deposits, time deposits or certificate of deposits are defined as public deposits. The financial institutions in which the Authority places its deposits are certified as “qualified public depositories,” as required under the SAFE program.

For an investment, this is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority has U.S. Government securities (bonds, slugs, and strips) totaling \$250,171,887 held in trust by either the Bank of New York or U.S. Bank in a fiduciary capacity. These securities are bond reserve funds and are held under a trust agreement between the Authority and the trustee bank for the benefit of the bondholder and are not deemed to have significant custodial credit risk. The securities are approved by bond insurers and are held in the name of the Trustee for the bond issue for the benefit of bondholder.

*Interest Rate Risk* – Interest rate risk is the possibility that interest rates will rise and reduce the fair value of an investment. The fair value of fixed-maturity investments fluctuates in response to changes in market interest rates. Increases in prevailing interest rates generally translate into decreases in the fair value of those instruments. The fair value of interest sensitive instruments may also be affected by the creditworthiness of the issuer, prepayment options, relative values of alternative investments, and other general market conditions. Certain fixed maturity investments have call provisions that could result in shorter maturity periods. However, the Authority’s intent is to hold all securities to maturity, and as such, fixed maturity investments are classified as held to maturity. Investments are classified in the following table as if they were held to maturity.

As of September 30, 2020, the Authority had the following investment holdings and maturities:

	Market	Investment Maturities		
		Less than 3 years	3-6 years	Greater than 6 years
Investments:				
U.S. Treasury Strips	\$ 1,724,029	\$ 1,724,029	\$ -	\$ -
U.S. Treasury SLGs	10,348,080	10,348,080	-	-
U.S. Treasury Bonds/Notes	238,099,778	117,370,848	120,728,930	-
Total investments	250,171,887	\$ 129,442,957	\$ 120,728,930	\$ -
Cash equivalents:				
Money Market Funds	17,108,910	N/A	N/A	N/A
Total holdings	\$ 267,280,797			

## Alabama Water Pollution Control Authority Notes to Financial Statements

### Note 2: DETAILED NOTES (Continued)

#### *Deposits and Investments (Continued)*

*Credit Risk* – Section 150: *Investments* of the GASB Codification requires that governments provide information about credit risk associated with their investments by disclosing the credit rating of investments in debt securities as described by nationally recognized statistical rating organizations.

The bond indenture agreements authorize the Authority to invest in “eligible investments.” “Eligible investments” are defined as (a) any debt securities that are direct, general obligations of the United States of America; (b) any debt securities where the payment of the principal and of interest on which is unconditionally guaranteed by the United States of America; and (c) repurchase agreements collateralized by securities of the type described in the preceding clauses (a) and (b) above with any commercial bank, of such broker/dealer subject to the Securities Investors’ Protection Corporation jurisdiction or any commercial bank if such broker/dealer or bank has an uninsured, unsecured, and unguaranteed obligation rated “Prime-1” or “A-3” or better by Moody’s Investors Service, Inc. and “A-1” or “A-” or better by Standard & Poor’s Corporation. All of the investments and cash equivalents held by the Authority for the year ended September 30, 2020 are collateralized by U.S. Government securities rated AAA.

*Concentration Risk* – Section 150: *Investments* of the GASB Codification requires disclosures of investments in any one issuer that represents five percent or more of total investments, excluding investments issued or explicitly guaranteed by the U.S government, investments in mutual funds, external investments pools and other pooled investments. As of September 30, 2020, the Authority did not hold investments with any issuers that comprised 5% or more of the total holdings, other than the U.S. Treasury.

The ratings of total holdings are as follows at September 30, 2020:

<b>Moody's Ratings</b>	<b>Recorded Amount</b>	<b>Recorded Amount as a as a Percent of Total Holdings Value</b>
Exempt from disclosure	\$ 250,171,887	93.60%
Aaa	17,108,910	6.40%
	<b>\$ 267,280,797</b>	<b>100.00%</b>

Investment holdings that are exempt from disclosure consist of U.S. Treasury strips, slugs, and bonds held by financial institutions.

*Fair Value* – GASB Codification Section 3100: *Fair Value Measurements* establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

## Alabama Water Pollution Control Authority Notes to Financial Statements

### Note 2: DETAILED NOTES (Continued)

#### *Deposits and Investments (Continued)*

The three levels of the fair value hierarchy under the codification are described as follows:

Level 1 (L1): Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Authority has the ability to access.

Level 2 (L2): Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 (L3): Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following table sets forth by level, within the fair value hierarchy, the Authority's assets at fair value as of September 30, 2020:

Investment Type	Level 1	Level 2	Level 3	Total
US Treasury obligations	\$ 1,724,029	\$ 12,641,110	\$ -	\$ 14,365,139
Federal agency obligations	-	235,806,748	-	235,806,748
<b>Total investments at fair value</b>	<b>\$ 1,724,029</b>	<b>\$ 248,447,858</b>	<b>\$ -</b>	<b>\$ 250,171,887</b>

Investments recorded at amortized cost, such as money market funds, are excluded from the table above.

**Alabama Water Pollution Control Authority**  
**Notes to Financial Statements**

**Note 2: DETAILED NOTES (Continued)**

***Loans Receivable***

Loans receivable at September 30, 2020, as discussed below, are as follows:

Completed projects	\$	159,555,000
Projects in progress		251,215,000
		410,770,000
Less:		
Current portion loans receivable		25,750,000
Unamortized Premium		3,454,840
		\$ 381,565,160

Loans mature at various intervals. The schedule of principal payments on loans maturing in subsequent years follows:

2021	\$	25,750,000
2022		25,535,000
2023		23,265,000
2024		23,685,000
2025 and thereafter		312,535,000
		\$ 410,770,000

As of September 30, 2020, the Authority had loans outstanding to ten agencies that, in the aggregate, exceed \$185 million. The outstanding balances of these loans represent approximately 50% of the total loans receivable, as follows:

<b>Loan Recipient</b>	<b>Outstanding Balance</b>
Dothan Omussee Creek WWTP Improvements	\$ 34,245,000
Mobile CWSRF Master Plan Phase I (2019-2023)	32,260,000
Mobile Upgrades and Various Sewer Rehabilitation	28,945,000
Tuscaloosa Sanitary Sewer Improvements	19,015,000
Anniston (SUPPL) Choccolocco Creek WWTP Biosolids Improvements and	17,255,000
Mobile Various Sanitary Sewer System Improvements	16,625,000
Prattville Pine Creek and Autauga Creek WWTP Improvements	16,080,000
Mobile's C.C. Williams WWTF Improvements	15,000,000
Dothan 2014 CWSRF Wastewater System Improvement Program	14,350,000
Mobile Smith WWTF & Regional Force Main, Pump Station & Outfall	13,355,000
Total	
	\$ 207,130,000

**Alabama Water Pollution Control Authority**  
**Notes to Financial Statements**

**Note 2: DETAILED NOTES (Continued)**

***Capital Assets, Net***

Capital assets, net consist of the following depreciable assets:

	<b>Balance 09/30/19</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 9/30/20</b>
Data processing equipment	\$ 60,038	\$ 3,015	\$ 5,558	\$ 57,495
Scientific and technical equipment	702,834	-	2,675	700,159
Communication equipment	81,564	-	-	81,564
Other equipment	80,942	-	-	80,942
	925,378	3,015	8,233	920,160
Less: accumulated depreciation	911,899	7,553	8,233	911,219
Total capital assets, net	\$ 13,479	\$ (4,538)	\$ -	\$ 8,941

***Payables to Municipalities***

As of September 30, 2020, the Authority had \$112,589,567 in payables to municipalities. These payables represent approved loans on projects in progress at year end. Loan funds are advanced as work is completed on each project.

***Long Term Debt***

On August 15, 2010, the Authority issued Refunding Series 2010A Revolving Loan Bonds totaling \$36,440,000. The Series 2010A Bonds include:

\$36,440,000 serial bonds commencing August 15, 2011, and due August 15, 2023, which bear interest rates ranging from 3.00% to 4.00%.

On August 15, 2010, the Authority issued Refunding Series 2010B Revolving Loan Bonds totaling \$64,750,000. The Series 2010B Bonds include:

\$64,750,000 serial bonds commencing August 15, 2012, and due August 15, 2021, which bear interest rates ranging from 2.00% to 3.00%.

On December 1, 2010, the Authority issued Refunding Series 2010C Revolving Loan Bonds totaling \$36,850,000. The Series 2010C Bonds include:

\$36,850,000 serial bonds commencing August 15, 2011, and due August 15, 2023, which bear interest rates ranging from 2.00% to 4.00%.

**Alabama Water Pollution Control Authority**  
**Notes to Financial Statements**

**Note 2: DETAILED NOTES (Continued)**

***Long Term Debt (Continued)***

All bond issues contain provisions in which the Authority may, at its option and without premium, redeem amounts equal to amounts on deposit in the Capitalized Interest Account and the Bond Proceeds Account, generally within three years of the second payment date.

All bonds are insured by a municipal bond insurance policy for the total of the principal and interest. The bond insurer (AMBAC Indemnity) will not insure payment on acceleration or the payment of any redemption, prepayment, acceleration premium or any risk other than nonpayment.

Summary of changes in long-term debt for 2020:

	<b>Balance 09/30/19</b>		<b>Additions</b>		<b>Reductions</b>		<b>Balance 9/30/2020</b>
Revolving fund loan bonds	\$ 34,400,000	\$	-	\$	12,850,000	\$	<b>21,550,000</b>
Add: Unamortized premiums	242,550		-		102,896		<b>139,654</b>
<b>Total</b>	<b>\$ 34,642,550</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>12,952,896</b>	<b>\$</b>	<b>21,689,654</b>

Long-term debt at September 30, 2020 is payable as follows:

	<b>Principal</b>		<b>Interest</b>		<b>Total</b>
2021	\$ 10,795,000	\$	797,400	\$	11,592,400
2022	3,450,000		430,200		3,880,200
2023	7,305,000		292,200		7,597,200
	21,550,000		\$ 1,519,800		<b>23,069,800</b>
Plus: Unamortized premium	139,654				
Less: Current Portion	10,795,000				
<b>Total long-term debt</b>	<b>\$ 10,894,654</b>				

Summary of changes in deferred outflows related to debt for 2020:

	<b>Balance 09/30/19</b>		<b>Additions</b>		<b>Reductions</b>		<b>Balance 9/30/2020</b>
Unamortized deferred refunding costs	\$ 532,128	\$	-	\$	212,348	\$	<b>319,780</b>

## Alabama Water Pollution Control Authority Notes to Financial Statements

### Note 2: DETAILED NOTES (Continued)

#### *Long-Term Debt (Continued)*

The Authority issued the 2010A Refunding Series revolving loan bonds for the purpose of refunding the Series 1999 Bonds that had an aggregate principal balance of \$42,615,000 on August 15, 2010. The refunding resulted in accounting loss of approximately \$795,521 that has been capitalized and is being amortized, on a straight-line basis, through 2023. Although the refunding resulted in an accounting loss, the Authority reduced its aggregate debt service by approximately \$16.6 million over the next 13 years and obtained an economic gain (the difference between the present values of the old and new debt service requirements) of approximately \$7.4 million. As of September 30, 2020, the unamortized deferred refunding costs totaled \$183,582 for the Series 1999 Bonds.

The Authority issued the 2010B Refunding Series revolving loan bonds for the purpose of refunding the Series 1998A and 1998B Bonds that had aggregate principal balances of \$39,535,000 and \$40,410,000 on August 15, 2010, respectively. The refunding resulted in accounting losses of approximately \$492,910 and \$537,824, respectively that has been capitalized and is being amortized on a straight-line basis, through 2020. Although the refunding resulted in an accounting loss, the Authority reduced its aggregate debt service by approximately \$23 million over the next 11 years and obtained an economic gain (the difference between the present values of the old and new debt service requirements) of approximately \$11.7 million. As of September 30, 2020, the unamortized deferred refunding costs were fully amortized for the Series 1998A and 1998B Bonds.

The Authority issued the 2010C Refunding Series revolving loan bonds for the purpose of refunding the Series 2000 Bonds that had an aggregate principal balance of \$43,370,000 on December 1, 2010, respectively. The refunding resulted in an accounting loss of approximately \$608,991 that has been capitalized and is being amortized on a straight-line basis, through 2023. Although the refunding resulted in an accounting loss, the Authority reduced its aggregate debt service by approximately \$17.3 million over the next 13 years and obtained an economic gain (the difference between the present values of the old and new debt service requirements) of approximately \$7.3 million. As of September 30, 2020, the unamortized deferred refunding costs totaled \$136,198 for the Series 2000 Bonds.

#### *Principal Forgiveness*

Beginning in fiscal year 2009, the capitalization funds provided to ADEM from the EPA required the recipient (ADEM) to use a portion of the funds provided by the grant to provide additional subsidization in the form of principal forgiveness, negative interest rate loans, or grants.

The required principal forgiveness portions are set as a certain percent of total grant funds awarded and is outlined in the grant agreements and uniform guidance compliance supplements. Required percentages vary depending on the issuance year of the grant awards. The principal forgiveness amount was allocated amongst qualifying projects for the municipalities. This amount is recognized as a receivable on the statement of net assets at the time a loan is issued and is included in the total amount payable to municipalities. Principal forgiveness is stated separately from the associated loans receivable as it is not required to be repaid by the municipalities. As the work is completed on

**Alabama Water Pollution Control Authority**  
**Notes to Financial Statements**

**Note 2: DETAILED NOTES (Continued)**

***Principal Forgiveness (Continued)***

these projects and the loan funds are advanced to the municipalities, a percentage of the total principal forgiveness amount is expensed in relation to the total amount paid to the respective municipalities. Principal forgiveness expense recognized during the year ended September 30, 2020 totaled \$2,210,017, leaving a remaining balance of \$1,752,262 capitalized as principal forgiveness on the statement of net position as of September 30, 2020.

**Note 3: APPROPRIATIONS**

The U.S. Environmental Protection Agency (EPA) awards ADEM capitalization funds under its annual grant agreement. During the year ended September 30, 2020, the EPA awarded ADEM capitalization funds under its annual grant agreement in the amount of \$17,770,000 with a budget and project period beginning October 1, 2020. The EPA also awarded an additional grant award in the amount of \$68,000 with a budget and project period beginning October 1, 2020 under the same terms as the annual grant agreement. During the year ended September 30, 2020, the State of Alabama did not appropriate any funds from the State General Fund to the Authority.

The federal capitalizing grants require a state appropriation of at least 20% of the awarded federal capitalization grant. In the absence of such an appropriation, the EPA allows the required match to be satisfied by using a portion of the proceeds from the revolving fund loan bonds. The Authority has chosen to use bond proceeds as the required match for the capitalizing grants. The Authority has also recognized as income only the percentage of State match actually received in relation to the federal grant drawn.

The amount of unused federal capitalization grants was approximately \$357,916 at September 30, 2020. The Authority will apply for a federal capitalization grant in 2021. Any grants in 2021 and subsequent years are subject to approval on a yearly basis.

The following summarizes the capitalization grant awarded, amounts drawn on each grant, and balances available for future loans as of September 30, 2020:

Year	Grant Amount	Draws prior to 2020	2020 Draws	Total Draws	Amount Available for Future Draws
2018	\$ 17,948,000	\$ 17,230,080	\$ 717,920	\$ 17,948,000	\$ -
2019	17,767,000	-	17,409,084	17,409,084	357,916
	<u>\$ 35,715,000</u>	<u>\$ -</u>	18,127,004	<u>\$ 35,357,084</u>	<u>\$ 357,916</u>
Less:					
	Administrative and set-aside expenses		(760,550)		
<b>Total 2020 Draws</b>			<b>\$ 17,366,454</b>		



## **Alabama Water Pollution Control Authority Notes to Financial Statements**

### **Note 4: ARBITRAGE REBATE CALCULATIONS**

In accordance with Internal Revenue Code Section 148, and related regulations as the issuer of tax-exempt debt, the Authority performed an arbitrage calculation during the year ended 2020 and determined there are no amounts due to or from the Internal Revenue Service at September 30, 2020.

### **Note 5: RELATED PARTIES**

ADEM acts as an agent for the Authority and is authorized to administer the revolving loan fund program in accordance with applicable federal and state laws.

The Authority does not maintain any employees of their own. Salary expense on the Loan Fee Fund is related to services provided by the employees of ADEM, which is allocated to the Authority. As the Authority has no employees, no liability for pension costs or other post-employment benefits is recognized by the Authority.

The director of ADEM is the vice president of the Authority. ADEM receives a portion of the federal capitalization grants as reimbursement for administrative costs.

### **Note 6: COMMITMENTS AND CONTINGENCIES**

Beginning in March 2020, the United States economy began suffering adverse effects from the COVID-19 pandemic including financial markets, supply chains, businesses, and communities. Specific to the Authority, COVID-19 may impact various parts of its 2021 operations and financial results. Management believes the Authority is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events are still developing.

### **Note 7: SUBSEQUENT EVENTS**

Subsequent events have been evaluated through the date of issuance of these financial statements.

The Authority's board met on September 24, 2020 and authorized the resolution calling for the redemption and payment of all of the Alabama Water Pollution Control Authority's Revolving Fund Loan Refunding Bonds, Series 2010-A, dated July 13, 2010, and Revolving Fund Loan Refunding Bonds, Series 2010-C, dated December 15, 2010, and the liquidation of bonds and other actions related thereto. The action approved is to redeem the authority's Series 2010-A and Series 2010-C Bonds which are to be paid in full on November 25, 2020.

**Alabama Water Pollution Control Authority  
Schedule of Expenditures of Federal Awards  
September 30, 2020**

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Grantor's Number	Passed through to Subrecipients	Total Federal Expenditures
<b>Environmental Protection Agency</b>				
Passed through the Alabama Department of Environmental Management				
Capitalization Grants for Clean Water State Revolving Funds	66.458	CS010001-18	\$ 310,134	\$ 310,134
Capitalization Grants for Clean Water State Revolving Funds	66.458	CS010001-19	17,056,320	17,056,320
<b>Total Clean Water State Revolving Fund Cluster</b>			<b>\$ 17,366,454</b>	<b>17,366,454</b>
<b>Total Federal Expenditures</b>				<b>\$ 17,366,454</b>

*See the independent auditors' report and accompanying notes to schedule of expenditures of federal awards.*

## **Alabama Water Pollution Control Authority Notes to Schedule of Expenditures of Federal Awards**

### **Note 1: BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (the schedule) summarizes the federal expenditures of the Authority under programs of the federal government for the year ended September 30, 2020. The amounts reported as federal expenditures were obtained from the Authority's trial balance. Because the schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, changes in net position and cash flows of the Authority.

For purposes of the schedule, federal awards include all grants, contracts, and similar agreements entered into directly with the federal government and other pass-through entities. Payments received for goods or services provided as a vendor do not constitute federal awards for purposes of the schedule. The Authority has obtained Catalog of Federal Domestic Assistance (CFDA) numbers to ensure that all programs have been identified in the schedule. Federal programs with different CFDA numbers that are closely related because they share common compliance requirements are defined as a cluster by the Uniform Guidance. One cluster is separately identified in the schedule and is the following:

#### **Clean Water State Revolving Fund Cluster**

This cluster includes awards that enable States to encourage construction of wastewater treatment facilities to meet enforceable requirements of the Clean Water Act, increase the emphasis on nonpoint source pollution control and protection of estuaries, and establish permanent financing institutions in each State to provide continuing sources of financing to maintain water quality.

### **Note 2: RELATIONSHIP OF THE SCHEDULE TO PROGRAM FINANCIAL REPORTS**

The amounts reflected in the financial reports submitted to the awarding Federal, State and/or pass-through agencies and the SEFA may differ. Some of the factors that may account for any difference include the following:

- The Authority's fiscal year end may differ from the program's year end.
- Accruals recognized in the SEFA, because of year-end procedures, may not be reported in the program financial reports until the next program reporting period.
- Fixed asset purchases and the resultant depreciation charges are recognized as fixed assets in the Authority's financial statements and as expenditures in the program financial reports.

### **Note 3: FEDERAL PASS-THROUGH FUNDS**

The Authority is the sub-recipient of federal funds that have been subjected to testing and are reported as expenditures and listed as federal pass-through funds.

## **Alabama Water Pollution Control Authority Notes to Schedule of Expenditures of Federal Awards**

### **Note 4: BASIS OF ACCOUNTING**

This schedule was prepared on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related liability is incurred. In applying the susceptible-to-accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of such revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the Authority; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and substantially irrevocable; i.e., revocable only for failure to comply with prescribed compliance requirements, such as with equal employment opportunity. These resources are reflected as revenues at the time of receipt or earlier if they meet the availability criteria.

### **Note 5: CONTINGENCIES**

Grant monies received and disbursed by the Authority are for specific purposes and are subject to review by the grantor agencies. Such audits may result in requests for reimbursement due to disallowed expenditures. Based upon prior experience, the Authority does not believe that such disallowance, if any, would have a material effect on the financial position of the Authority. As of September 30, 2020, there were no material questioned or disallowed costs as a result of grant audits in process or completed.

### **Note 6: INDIRECT COST**

The Authority operates under predetermined fixed indirect cost rates that are effective through September 30, 2020. The base rate for indirect cost recoveries is 36.32% for the year ended September 30, 2020.

### **Note 7: NONCASH ASSISTANCE**

The Authority did not receive any federal noncash assistance for the fiscal year ended September 30, 2020.

### **Note 8: DE MINIMUS**

The Authority has elected to not use the 10% de Minimis indirect cost rate for the fiscal year ended September 30, 2020.

## **Alabama Water Pollution Control Authority Notes to Schedule of Expenditures of Federal Awards**

### **Note 9: SUBRECIPIENTS**

The Authority provided federal funds to subrecipients totaling \$17,366,454 for the fiscal year ended September 30, 2020.

### **Note 10: LOANS AND LOAN GUARANTEES**

The Authority did not have any loans or loan guarantee programs required to be reported on the schedule.

### **Note 11: FEDERALLY FUNDED INSURANCE**

The Authority did not have any federally funded insurance required to be reported on the schedule for the fiscal year ended September 30, 2020.

**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***

Board of Directors  
Alabama Water Pollution Control Authority  
Montgomery, Alabama

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and each major fund of the Alabama Water Pollution Control Authority (the "Authority"), a component unit of the State of Alabama, as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated January 13, 2021.

***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audits procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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.

We noted a certain deficiency in internal control that we reported to management of the Authority in a separate letter dated January 13, 2021.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that is 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.

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

CARR, RIGGS & INGRAM, L.L.C.

Enterprise, Alabama  
January 13, 2021

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

Board of Directors  
Alabama Water Pollution Control Authority  
Montgomery, Alabama

***Report on Compliance for Each Major Federal Program***

We have audited Alabama Water Pollution Control Authority's (the "Authority") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the year ended September 30, 2020. The Authority's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditors' Responsibility***

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

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

***Opinion on Each Major Federal Program***

In our opinion, the Authority, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2020.



## ***Report on Internal Control over Compliance***

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

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

CARR, RIGGS & INGRAM, L.L.C.

Enterprise, Alabama  
January 13, 2021

**Alabama Water Pollution Control Authority  
Schedule of Findings and Questioned Costs  
For the Year Ended September 30, 2020**

**Section I - Summary of Auditors' Results**

***Financial Statements***

- |  |            |
|--|------------|
| 1. Type of auditors' report issued   | Unmodified |
| 2. Internal control over financial reporting:                                    |            |
| a. Material weaknesses identified?   | No         |
| b. Significant deficiencies identified not considered to be material weaknesses? | None noted |
| c. Noncompliance material to the financial statements noted?                     | No         |

***Federal Awards***

- |  |            |
|--|------------|
| 1. Type of auditors' report issued on compliance for major programs  | Unmodified |
| 2. Internal control over major programs:   |            |
| a. Material weaknesses identified?   | No         |
| b. Significant deficiencies identified not considered to be material weaknesses?                             | None noted |
| 3. Any audit findings disclosed that are required to be reported in accordance with 2CFR section 200.516(a)? | None noted |

4. Identification of major programs

CFDA Number	Federal Program
66.458	Capitalization Grants for Clean Water State Revolving Funds Cluster

- |  |           |
|--|-----------|
| 5. Dollar threshold used to distinguish between type A and type B programs | \$750,000 |
| 6. Auditee qualified as low-risk under 2CFR 200.520                        | Yes       |

**Section II – Financial Statements Findings**

No matters were reported.

**Section III – Federal Award Findings and Questioned Costs**

No matters were reported.

**Alabama Water Pollution Control Authority  
Summary Schedule of Prior Audit Findings  
For the Year Ended September 30, 2020**

There were no audit findings reported in the prior year

## Independent Auditors' Management Letter

Members of the  
Board of Directors of the  
Alabama Water Pollution Control Authority

In planning and performing our audit of the financial statements of Alabama Water Pollution Control Authority (the "Authority") as of and for the year ended September 30, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing our audit procedures 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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. However, during our audit we became aware of the matter noted below that is an opportunity for strengthening internal controls and operating efficiency. We previously reported on the Authority's internal control in our letter dated January 13, 2021. This letter does not affect our report dated January 13, 2021 on the financial statements of the Authority.

We will review the status of this comment during our next audit engagement. We have already discussed this comment with management, and we will be pleased to discuss the comment in further detail at your convenience, to perform any additional study of this matter, or to assist you in implementing the recommendation. Our comment is summarized as follows:

**Password Security** – The Authority's password security policy does not follow best practice such as having complexity and expiration. We recommend that management consider implementing a password policy to include greater security concerning passwords used by employees.

This communication is intended solely for the information and use of the Board of Directors and management, and is not intended to be and should not be used by anyone other than these specified parties.

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

CARR, RIGGS & INGRAM, L.L.C.

Enterprise, Alabama  
January 13, 2021