

**Alabama Water Pollution  
Control Authority**

**COMPONENT UNIT FINANCIAL STATEMENTS**

**For the Year Ended September 30, 2014**



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**Alabama Water Pollution Control Authority**  
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**September 30, 2014**

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Carr, Riggs & Ingram, LLC  
1117 Boll Weevil Circle  
Enterprise, AL 36330

Mailing Address:  
P.O. Box 311070  
Enterprise, AL 36331

(334) 347-0088  
(334) 347-7650 (fax)  
[www.cricpa.com](http://www.cricpa.com)

## **INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Alabama Water Pollution Control Authority  
Montgomery, Alabama

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, 2014, 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## ***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 the major funds of the Authority, as of September 30, 2014, 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 6 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 U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, 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 March 3, 2015 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 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 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.

Certified Public Accountants

March 3, 2015

## 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 serving 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, 2014. 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 Activity, Statement of Net Position - Proprietary Fund, Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Fund, 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.

The Proprietary Fund statements provide financial information about the Alabama Water Pollution Control Authority which the Alabama Department of Environmental Management 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 of the Authority for the fiscal year. Additions are primarily comprised of loan and investment income and federal awards. Deductions are mainly bond interest expense. Additions minus deductions provide the change in restricted net assets 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 the Financial Statements include organizational description, a summary of significant accounting policies, information on cash and investments, loans receivable, payables to municipalities, long term debt, arbitrage, and related parties.

## Management's Discussion and Analysis

### COMPARATIVE SUMMARY STATEMENTS

#### Statement of Net Position

<i>September 30,</i>	<b>2014</b>	2013 (Restated)	Variance	% increase (decrease)
<b>Assets</b>				
Cash and cash equivalents	\$ 51,217,754	\$ 56,025,072	\$ (4,807,318)	-9%
Receivables	390,350,850	378,550,151	11,800,699	3%
Investments	163,487,518	140,622,010	22,865,508	16%
Unamortized items	7,506,542	7,799,493	(292,951)	-4%
Capital assets	25,323	43,814	(18,491)	-42%
<b>Total assets</b>	<b>612,587,987</b>	583,040,540	29,547,447	5%
<b>Deferred Outflows of Resources</b>				
Deferred charge on refunding	2,293,616	2,760,459	(466,843)	-17%
<b>Liabilities</b>				
Accrued liabilities	4,802,049	5,412,167	(610,118)	-11%
Payable to municipalities	77,356,970	34,914,522	42,442,448	122%
Bonds payable, net	123,189,338	155,993,116	(32,803,778)	-21%
<b>Total liabilities</b>	<b>205,348,357</b>	196,319,805	9,028,552	5%
<b>Net position, restricted</b>	<b>\$ 409,533,246</b>	\$ 389,481,194	\$ 20,052,052	5%

#### Statement of Activities

<i>For the year ended September 30,</i>	<b>2014</b>	2013 (Restated)	Variance	% increase (decrease)
Operating revenue	\$ 18,018,405	\$ 20,809,488	\$ (2,791,083)	-13%
Operating expense	13,081,336	13,642,663	(561,327)	-4%
Operating income	4,937,069	7,166,825	(2,229,756)	-31%
Non-operating revenue	15,114,983	17,966,928	(2,851,945)	-16%
<b>Change in net position</b>	<b>\$ 20,052,052</b>	\$ 25,133,753	\$ (5,081,701)	-20%

## Management's Discussion and Analysis

### **Statement of Cash Flows**

<i>For the year ended</i> <i>September 30,</i>	<b>2014</b>	2013 (Restated)	Variance	% increase (decrease)
Net cash provided by operating activities	\$ 35,372,576	\$ 29,487,912	\$ 5,884,664	20%
Net cash provided by (used in) non-capital and related financing activities	<b>(40,170,172)</b>	(128,194,043)	88,023,871	-69%
Cash flows from capital and related financing activities	<b>(9,722)</b>	(5,352)	(4,370)	82%
Net increase (decrease) in cash and cash equivalents	<b>\$ (4,807,318)</b>	\$ (98,711,483)	\$ 93,904,165	-95%

### **Financial Highlights**

- The Authority closed twenty one new loans totaling \$73,148,220.
- One bond issue was paid off early totaling \$15,470,000.
- Net position increased \$20,052,052 mainly due to the utilization of \$14,356,499 in federal funds transferred to loan recipients.

**Alabama Water Pollution Control Authority**  
**Statement of Net Position**

<i>September 30, 2014</i>	<b>Business-type Activities</b>
<b>Assets</b>	
Current assets:	
Cash and cash equivalents - restricted	\$ 51,217,754
Accrued interest receivable on investments - restricted	819,680
Accrued interest on loans receivable	1,363,881
Current portion of loans receivable	32,330,000
Grants and other receivables	107,733
Prepaid rent	166,282
Total current assets	86,005,330
Noncurrent assets:	
Investments - restricted	163,487,518
Loans receivable less unamortized premium of \$4,745,444	355,729,556
Principal forgiveness	2,139,327
Prepaid rent	5,200,933
Capital assets, net	25,323
Total noncurrent assets	526,582,657
Total assets	612,587,987
<b>Deferred Outflows of Resources</b>	
Deferred charge on refunding	2,293,616
<b>Liabilities</b>	
Current liabilities:	
Current portion of revolving loan bonds	17,465,000
Accrued interest payable	499,624
Accounts payable	82,078
Escheated bonds	55,000
Due to Alabama Department of Environmental Management (ADEM)	3,168,752
Total current liabilities	21,270,454
Long-term liabilities:	
Other post employment benefit obligation	909,385
Accrued arbitrage rebate	87,210
Payables to municipalities	77,356,970
Revolving loan bonds payable	105,724,338
Total long-term liabilities	184,077,903
Total liabilities	205,348,357
<b>Net Position</b>	
Net investment in capital assets	25,323
Restricted for loans and debt service	409,507,923
Total net position	\$ 409,533,246

*See accompanying notes to financial statements.*

**Alabama Water Pollution Control Authority**  
**Statement of Activities**  
**For the Year Ended September 30, 2014**

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>		<b>Net (Expense)</b>
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Revenue and Changes in Net Position</b>
				<b>Business-type Activities</b>
<b>Business-type Activities:</b>				
Water Pollution loans	\$ 14,886,088	\$ 2,585,758	\$ 18,142,031	\$ 5,841,701
<b>General Revenues</b>				
Investment earnings				14,210,351
Change in net position				20,052,052
<b>Net Position - Beginning, as originally stated</b>				389,519,461
<b>Prior Period Adjustments</b>				(38,267)
<b>Net Position - Beginning, as restated</b>				389,481,194
<b>Net Position - ending</b>				\$ 409,533,246

*See accompanying notes to financial statements.*

**Alabama Water Pollution Control Authority**  
**Statement of Net Position**  
**Proprietary Funds**

September 30, 2014

**Business-type Activities - Enterprise Funds**

	Loan Fund	Loan Fee Fund	Total
<b>Assets</b>			
Current assets:			
Cash and cash equivalents - restricted	\$ 49,505,048	\$ 1,712,706	\$ 51,217,754
Accrued interest receivable on investments - restricted	819,680	-	819,680
Accrued interest on loans receivable	1,363,881	-	1,363,881
Current portion of loans receivable	32,330,000	-	32,330,000
Grants and other receivables	107,733	-	107,733
Prepaid rent	-	166,282	166,282
<b>Total current assets</b>	<b>84,126,342</b>	<b>1,878,988</b>	<b>86,005,330</b>
Noncurrent assets:			
Investments - restricted	161,596,922	1,890,596	163,487,518
Loans receivable less unamortized premium of \$4,745,444	355,729,556	-	355,729,556
Principal forgiveness	2,139,327	-	2,139,327
Prepaid rent	-	5,200,933	5,200,933
Capital assets, net	-	25,323	25,323
<b>Total noncurrent assets</b>	<b>519,465,805</b>	<b>7,116,852</b>	<b>526,582,657</b>
<b>Total assets</b>	<b>603,592,147</b>	<b>8,995,840</b>	<b>612,587,987</b>
<b>Deferred Outflows of Resources</b>			
Deferred charge on refunding	2,293,616	-	2,293,616
<b>Liabilities</b>			
Current liabilities:			
Current portion of revolving loan bonds	17,465,000	-	17,465,000
Accrued interest payable	499,624	-	499,624
Accounts payable	71,581	10,497	82,078
Escheated bonds	55,000	-	55,000
Due to ADEM	-	3,168,752	3,168,752
<b>Total current liabilities</b>	<b>18,091,205</b>	<b>3,179,249</b>	<b>21,270,454</b>
Long-term liabilities:			
Other post employment benefit obligation	-	909,385	909,385
Accrued arbitrage rebate	87,210	-	87,210
Payables to municipalities	77,356,970	-	77,356,970
Revolving loan bonds payable	105,724,338	-	105,724,338
<b>Total long-term liabilities</b>	<b>183,168,518</b>	<b>909,385</b>	<b>184,077,903</b>
<b>Total liabilities</b>	<b>201,259,723</b>	<b>4,088,634</b>	<b>205,348,357</b>

-Continued-

*See accompanying notes to financial statements.*

**Alabama Water Pollution Control Authority  
Statement of Net Position  
Proprietary Funds (Continued)**

*September 30, 2014*

**Business-type Activities - Enterprise Funds**

	Loan Fund	Loan Fee Fund	Total
<b>Net Position</b>			
Net investment in capital assets	-	25,323	25,323
Restricted for loans and debt service	404,626,040	4,881,883	409,507,923
<b>Total net position</b>	<b>\$ 404,626,040</b>	<b>\$ 4,907,206</b>	<b>\$ 409,533,246</b>

*See accompanying notes to financial statements.*

**Alabama Water Pollution Control Authority**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**Proprietary Funds**

<i>For the year ended September 30, 2014</i>	<b>Business-type Activities - Enterprise Funds</b>		
	<b>Loan Fund</b>	<b>Loan Fee Fund</b>	<b>Total</b>
<b>Operating Revenues</b>			
Investment earnings	\$ 3,172,680	\$ 9,675	\$ 3,182,355
Interest from loans receivable	12,250,292	-	12,250,292
Administrative fees	-	2,585,758	2,585,758
<b>Total operating revenues</b>	<b>15,422,972</b>	<b>2,595,433</b>	<b>18,018,405</b>
<b>Operating Expenses</b>			
Administration expenses	4,516,971	-	4,516,971
Bond interest expense	4,691,261	-	4,691,261
Bond insurance amortization	268,202	-	268,202
Rental expense	-	166,282	166,282
Depreciation	-	28,213	28,213
Employee benefits	-	655,963	655,963
Miscellaneous	-	1,183,153	1,183,153
Office expense	-	41,697	41,697
Repairs and maintenance	-	545	545
Salaries	-	1,509,423	1,509,423
Travel	-	19,626	19,626
<b>Total operating expenses</b>	<b>9,476,434</b>	<b>3,604,902</b>	<b>13,081,336</b>
<b>Operating income (loss)</b>	<b>5,946,538</b>	<b>(1,009,469)</b>	<b>4,937,069</b>
<b>Nonoperating Revenues (Expenses)</b>			
Federal grant revenue	14,356,499	-	14,356,499
Principal forgiveness expense	(1,804,752)	-	(1,804,752)
State revenue	3,785,532	-	3,785,532
Net decrease in the fair value of investments	(1,209,360)	(12,936)	(1,222,296)
<b>Total nonoperating revenues</b>	<b>15,127,919</b>	<b>(12,936)</b>	<b>15,114,983</b>
<b>Change in net position</b>	<b>21,074,457</b>	<b>(1,022,405)</b>	<b>20,052,052</b>
<b>Net Position - Beginning, as originally stated</b>	<b>383,551,583</b>	<b>5,967,878</b>	<b>389,519,461</b>
<b>Prior Period Adjustment</b>	<b>-</b>	<b>(38,267)</b>	<b>(38,267)</b>
<b>Net Position - Beginning, as restated</b>	<b>383,551,583</b>	<b>5,929,611</b>	<b>389,481,194</b>
<b>Net Position - Ending</b>	<b>\$ 404,626,040</b>	<b>\$ 4,907,206</b>	<b>\$ 409,533,246</b>

*See accompanying notes to financial statements.*

**Alabama Water Pollution Control Authority**  
**Statement of Cash Flows**  
**Proprietary Funds**

*For the year ended September 30, 2014*

**Business-type Activities - Enterprise Funds**

	Loan Fund	Loan Fee Fund	Total
<b>Cash Flows from Operating Activities:</b>			
Interest and dividends received on investments	\$ 2,951,316	\$ 9,675	\$ 2,960,991
Interest paid on revolving loan bonds	(4,879,293)	-	(4,879,293)
Receipts of payments from municipalities	59,816,583	-	59,816,583
Payments to employees and vendors	(17,712)	(166,347)	(184,059)
Escheat	(40,000)	-	(40,000)
Interest received on loans receivable	11,893,222	-	11,893,222
Administration fees	(4,516,971)	2,585,758	(1,931,213)
Payments to municipalities	(28,822,552)	-	(28,822,552)
Payments (to) from ADEM	-	(3,441,103)	(3,441,103)
Net cash provided by (used in) operating activities	36,384,593	(1,012,017)	35,372,576
<b>Cash Flows from Non-capital and Related Financing Activities:</b>			
Grant revenue received	14,415,320	-	14,415,320
Principal forgiveness	(1,883,220)	-	(1,883,220)
State revenue	3,785,532	-	3,785,532
Net (purchases) sales of investment securities	(24,228,942)	141,138	(24,087,804)
Principal paid on revolving loan bonds	(32,400,000)	-	(32,400,000)
Net cash provided by (used in) non-capital and related financing activities	(40,311,310)	141,138	(40,170,172)
<b>Cash Flows from Capital and Related Financing Activities:</b>			
Purchase of capital assets	-	(9,722)	(9,722)
Net decrease in cash and cash equivalents	(3,926,717)	(880,601)	(4,807,318)
<b>Cash and Cash Equivalents</b> - restricted, beginning of year, as originally stated	53,431,765	4,676,244	58,108,009
<b>Prior Period Adjustment</b>	-	(2,082,937)	(2,082,937)
<b>Cash and Cash Equivalents</b> - restricted, beginning of year, as restated	53,431,765	2,593,307	56,025,072
<b>Cash and Cash Equivalents</b> - restricted, end of year	\$ 49,505,048	\$ 1,712,706	\$ 51,217,754

*See accompanying notes to financial statements.*

**Alabama Water Pollution Control Authority**  
**Statement of Cash Flows**  
**Proprietary Funds (Continued)**

*For the year ended September 30, 2014*

**Business-type Activities - Enterprise Funds**

	Loan Fund	Loan Fee Fund	Total
<b>Reconciliation of Operating Income (Loss) to</b>			
<b>Net Cash Provided by (Used in) Operating</b>			
<b>Activities:</b>			
Operating income (loss)	\$ 5,946,538	\$ (1,009,469)	\$ 4,937,069
Bond insurance amortization	268,202	-	268,202
Depreciation	-	28,213	28,213
(Increase) decrease in operating assets:			
Due from Drinking Water Finance Authority (DWFA)	73,859	-	73,859
Due from ADEM	-	108,747	108,747
Other receivables	(17,712)		(17,712)
Accrued interest receivable on investments - restricted	(221,364)	-	(221,364)
Accrued interest receivable on loans receivable	64,315	-	64,315
Loan premium	(421,385)	-	(421,385)
Loans receivable	(11,445,980)	-	(11,445,980)
Prepaid rent	-	166,282	166,282
Increase (decrease) in operating liabilities:			
Accrued interest payable	(141,199)	-	(141,199)
Accrued arbitrage rebate	(46,833)	-	(46,833)
Payables to municipalities	42,442,448	-	42,442,448
Accounts payable	-	4,510	4,510
Due to DWFA	(76,296)	-	(76,296)
Due to ADEM	-	(381,098)	(381,098)
Other post employment benefit obligation	-	70,798	70,798
Net cash provided by (used in) operating activities	\$ 36,384,593	\$ (1,012,017)	\$ 35,372,576

*See accompanying notes to 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.

#### ***Description of Organization***

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.

#### ***Basis of Accounting***

The accompanying financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. In accordance with Governmental Accounting Standards Board Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Authority has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board Opinions, issued on or before and subsequent to November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

#### ***Recently Issued Accounting Pronouncements***

##### Recently Issued and Adopted

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, specifies the information required to be disclosed by governments that extend nonexchange financial guarantees. In addition, this Statement requires new information to be disclosed by governments that receive nonexchange financial guarantees. It requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical

## Alabama Water Pollution Control Authority Notes to Financial Statements

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This Statement also requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities, and also requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. This Statement was effective for reporting periods beginning after June 15, 2013, and the provisions of this Statement are required to be applied retroactively, with the exception of disclosures related to cumulative amounts paid or received in relation to a financial guarantee. The Authority implemented GASB Statement No. 70 for the year ended September 30, 2014. There was no impact on these financial statements as a result of the implementation of GASB Statement No. 70.

#### Recently Issued

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, establishes standards of accounting and financial reporting, but not funding or budgetary standards, for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers through pension plans that are administered through trusts or equivalent arrangements. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans within the scope of the Statement. The requirements of Statement No. 68 apply to the financial statements of all state and local governmental employers whose employees (or volunteers that provide services to state and local governments) are provided with pensions through pension plans that are administered through trusts or equivalent arrangements as described above, and to the financial statements of state and local governmental nonemployer contributing entities that have a legal obligation to make contributions directly to such pension plans. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures related to pensions. Note disclosure and RSI requirements about pensions also are addressed. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The calculation of pension contributions is unaffected by the change. Adoption will result in the restatement of the Authority's Fiscal Year 2014 financial statements to reflect the reporting of net pension liabilities and deferred inflows of resources and deferred outflows of resources for each of its qualified pension plans and the recognition of pension expense in accordance with the provisions of the Statement. Management has not yet determined the financial statement impact of the pronouncement.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* improves financial reporting by addressing accounting and financial reporting for government combinations and disposals of government operations. The term "government combinations" is

## Alabama Water Pollution Control Authority Notes to Financial Statements

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

used to refer to a variety of arrangements including mergers and acquisitions. Mergers include combinations of legally separate entities without the exchange of significant consideration. Government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. Government combinations also include transfers of operations that do not constitute entire legally separate entities in which no significant consideration is exchanged. Transfers of operations may be present in shared service arrangements, reorganizations, redistricting, annexations, and arrangements in which an operation is transferred to a new government created to provide those services. Management has not yet determined the financial statement impact of the pronouncement.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68* amends Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Management has not yet determined the financial statement impact of the pronouncement.

#### ***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.

#### ***Budget 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.

## Alabama Water Pollution Control Authority Notes to Financial Statements

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Highly liquid investments with a maturity of 90 days or less when acquired are classified as cash equivalents. Included in cash equivalents are money market funds and repurchase agreements 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. The repurchase agreements held by the State Treasurer are held in the Authority's name.

#### ***Investments***

Investments are reported at fair value. All investment income, including changes in the fair value of investments, is recognized in the statement of revenues, expenses, and changes in net assets. Repurchase agreements are stated at cost, which approximates market value. 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.

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

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

#### ***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 2.25% to 4% and the effective interest rates range from 2.29% to 4.36%. The loans are typically repaid over a twenty-year period. The stated interest rates for these loans include a 0.75% fee charged to municipalities for administrative costs.

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.

## Alabama Water Pollution Control Authority Notes to Financial Statements

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### ***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.

#### ***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.

#### ***Unamortized Bond Insurance***

Unamortized debt expense related to bond insurance is amortized by using the outstanding principal method over the life of the related debt and is reported as unamortized bond insurance on the Statement of Net Position. Other bond issuance costs are expensed as incurred.

#### ***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, 2014 was \$166,282.

#### ***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.

## Alabama Water Pollution Control Authority Notes to Financial Statements

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The sole source of administrative fees is a 0.75% fee charged to municipalities on the principal amount of the loan made to the municipalities by the Authority, net of bank and trustee fees.

#### ***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 5).

#### ***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.

#### ***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)

#### *Estimates*

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect reported amounts of assets and liabilities at the date of the balance sheet and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

### NOTE 2 – CASH AND INVESTMENTS

#### *Deposits*

As of September 30, 2014, 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 were covered by the Federal Deposit Insurance Corporation (FDIC) or by collateral held with the State Treasurer's office in the name of the State Treasurer under the Security for Alabama Funds Enhancement (SAFE) Act. Under the SAFE Act, financial institutions holding public deposits in excess of the amounts insured by FDIC must pledge collateral to a collateral pool in the name of the State Treasurer. The State Treasurer is responsible for monitoring compliance with the collateralization and reporting requirements of the SAFE Act. If any member financial institution fails, the entire collateral pool becomes available to satisfy claims of governmental entities. If the value of the pool's collateral were inadequate to cover the loss, additional amounts would be assessed on a pro rata basis to the members of the pool. Funds deposited in accordance with the requirements of the SAFE Act are considered fully secured.

#### *Investments*

**Interest Rate Risk** – Interest rate risk is the risk that changes in interest rates will adversely affect 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.

## Alabama Water Pollution Control Authority Notes to Financial Statements

### NOTE 2 – CASH AND INVESTMENTS (Continued)

As of September 30, 2014, 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	\$ 1,668,540	\$ 257,430	\$ 33,066	\$ 1,378,044
Guaranteed Investment Contracts	4,465,000	-	4,465,000	-
U.S. Treasury SLGs	14,185,475	2,821,380	1,016,015	10,348,080
U.S. Treasury Bonds/Notes	137,493,365	127,730,557	4,184,864	5,577,944
Certificate of Deposits	5,675,138	3,970,669	1,704,469	-
<b>Total investments</b>	<b>\$ 163,487,518</b>	<b>\$ 134,780,036</b>	<b>\$ 11,403,414</b>	<b>\$ 17,304,069</b>
Cash Equivalents:				
Money Market Funds	\$ 51,217,754	N/A	N/A	N/A
<b>Total cash equivalents</b>	<b>51,217,754</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total holdings</b>	<b>\$ 214,705,272</b>			

**Custodial Credit Risk** – Custodial credit risk is the risk that in the event of the failure of the counterparty to a transaction, 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, notes, slugs, and strips) totaling \$153,347,380 held in trust by either the Bank of New York, U.S. Bank, or Regions 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 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. The Authority has custodial credit risk relative to repurchase agreements through the State Treasury whose policy requires that the underlying securities held in the counterparty's safekeeping department be in the name of the Authority.

**Concentration of Credit Risk** – Concentration of credit risk is defined as investing 5% or more of total investments in any single issuer. As of September 30, 2014, the Authority did not hold investments with any issuers that comprised 5% or more of the total holdings.

**Credit Risk** – Credit Risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. Nationally recognized statistical rating organizations provide ratings of debt securities' quality based on a variety of factors, such as financial condition of the issuers, which

## Alabama Water Pollution Control Authority Notes to Financial Statements

### NOTE 2 – CASH AND INVESTMENTS (Continued)

provide investors with some idea of the issuer’s ability to meet its obligations. 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, 2014 are collateralized by U.S. Government securities rated AAA by Moody’s Investor Services.

The ratings of total holdings are as follows at September 30, 2014:

Moody's Ratings	Fair Value	Fair Value as a Percent of Total Holdings Value
Exempt from disclosure	\$ 159,022,518	74.07%
Aaa	51,217,754	23.85%
Not Rated	4,465,000	2.08%
	\$ 214,705,272	100.00%

Investment holdings that are exempt from disclosure consist of U.S. Treasury strips, slugs, bonds, notes and certificate of deposits held by financial institutions. Investment holdings that are not rated consist of repurchase agreements and guaranteed investment contracts. Repurchase agreements are not rated by Moody’s Investors Service. The underlying collateral for the repurchase agreements was rated AAA by Moody’s Investors Service at September 30, 2014.

### NOTE 3 – LOANS RECEIVABLE

Loans receivable at September 30, 2014, as discussed below, are as follows:

Completed projects	\$ 261,660,000
Projects in progress	131,145,000
	392,805,000
Less:	
Current portion loans receivable	32,330,000
Unamortized premium	4,745,444
	\$ 355,729,556

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

**NOTE 3 – LOANS RECEIVABLE (Continued)**

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

2015	\$ 32,330,000
2016	33,135,000
2017	33,220,000
2018	30,085,000
2019 and thereafter	264,035,000
	\$ 392,805,000

As of September 30, 2014, the Authority had loans outstanding to ten agencies that, in the aggregate, exceed \$138 million. The outstanding balances of these loans represent approximately 35% of the total loans receivable, as follows:

Loan Recipient	Outstanding Balance
Mobile's C.C. Williams WWTF Improvements	\$ 20,010,000
Dothan 2014 CWSRF Wastewater System Improvement Program	19,245,000
Mobile Sewer Rehabilitation	19,055,000
Mobile Smith WWTF & Regional Force Main, Pump Station & Outfall	18,480,000
Athens Wastewater Treatment Plant Improvements	12,575,000
Sheffield WWTP and Sewer Rehabilitation	11,040,000
Pell City Sanitary Sewer System Upgrade and Rehabilitation	10,655,000
Madison Wastewater Treatment Plant & Interceptors	9,540,000
Decatur Wastewater System Improvements	9,380,000
Atmore WWTP and Collection System Improvements	8,935,000
Total	\$ 138,915,000

**NOTE 4 – CAPITAL ASSETS, NET**

Capital assets, net consist of the following depreciable assets:

	Balance 10/1/13	Additions	Deletions	Balance 9/30/14
Data processing equipment	\$ 182,531	\$ -	\$ -	\$ 182,531
Scientific and technical equipment	967,240	9,722	-	976,962
Communication equipment	151,075	-	-	151,075
Other equipment	97,699	-	-	97,699
	1,398,545	-	-	1,408,267
Less: Accumulated depreciation	1,354,731	28,213	-	1,382,944
Total capital assets, net	\$ 43,814	\$ (18,491)	\$ -	\$ 25,323

## Alabama Water Pollution Control Authority Notes to Financial Statements

### NOTE 5 – APPROPRIATIONS

The U.S. Environmental Protection Agency (EPA) awards ADEM capitalization funds under its annual grant agreement. During the year ended September 30, 2014, the EPA awarded ADEM capitalization funds under its annual grant agreement in the amount of \$15,678,000. During the year ended September 30, 2014, 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 \$15,678,000 at September 30, 2014. The Authority will apply for a federal capitalization grant in 2015. Any grants in 2015 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, 2014:

Year	Grant Amount	Draws prior to 2014	2014 Draws	Total Draws	Amount Available for Future Draws
2013	\$ 14,929,000	\$ -	\$ 14,929,000	\$ 14,929,000	\$ -
2014	15,678,000	-	-	-	15,678,000
	<u>\$ 30,607,000</u>	<u>\$ -</u>	14,929,000	<u>\$ 14,929,000</u>	<u>\$ 15,678,000</u>
Less:					
	Administrative and set-aside expenses		<u>(513,680)</u>		
Total 2014 Draws			<u>\$ 14,415,320</u>		

### NOTE 6 – PAYABLES TO MUNICIPALITIES

As of September 30, 2014, the Authority had \$77,356,970 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.

## Alabama Water Pollution Control Authority Notes to Financial Statements

### NOTE 7 – LONG-TERM DEBT

On January 1, 2003, the Authority issued Refunding Series 2003B Revolving Loan Bonds totaling \$52,650,000. The Series 2003B Bonds include:

\$52,650,000 serial bonds commencing February 15, 2004, and due February 15, 2016, which bear interest rates ranging from 3.00% to 4.38%.

As of September 30, 2014, the Series 2003B bonds were fully paid.

On February 1, 2008, the Authority issued Refunding Series 2008A Revolving Loan Bonds totaling \$44,680,000. The Series 2008A Bonds include:

\$44,680,000 serial bonds commencing August 15, 2008, and due August 15, 2019, 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%.

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 2014:

	<b>Balance 10/1/13</b>		<b>Additions</b>		<b>Reductions</b>	<b>Balance 9/30/14</b>
Revolving fund loan bonds	\$ 154,190,000	\$	-	\$ 32,400,000	\$	121,790,000
Add: Unamortized premiums	1,803,116		-	403,778		1,399,338
Less: Unamortized deferred refunding costs	2,760,459		-	466,843		2,293,616
<b>Total</b>	<b>\$ 153,232,657</b>	<b>\$</b>	<b>-</b>	<b>\$ 32,336,935</b>	<b>\$</b>	<b>120,895,722</b>

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

**NOTE 7 – LONG-TERM DEBT (Continued)**

Long-term debt at September 30, 2014 is payable as follows:

	Principal	Interest	Total
2015	\$ 17,465,000	\$ 3,996,994	\$ 21,461,994
2016	18,415,000	3,511,394	21,926,394
2017	17,895,000	2,963,944	20,858,944
2018	14,730,000	2,385,044	17,115,044
2019	18,885,000	1,934,450	20,819,450
2020-2023	34,400,000	2,774,700	37,174,700
	121,790,000	<u>\$ 17,566,526</u>	<u>\$ 139,356,526</u>
Plus: Unamortized premium	1,399,338		
Less: Current portion	17,465,000		
<b>Total long-term debt</b>	<u><u>\$ 105,724,338</u></u>		

The Authority issued the 2003B Refunding Series revolving loan bonds for the purpose of refunding the Series 1992A Bonds that had an aggregate principal balance of \$54,210,000 on January 1, 2003. The refunding resulted in an accounting loss of approximately \$2,000,000 that has been capitalized and is being amortized, on a straight-line basis, through 2016. Although the refunding resulted in an accounting loss, the Authority reduced its aggregate debt service by approximately \$1 million. As of September 30, 2014, the unamortized deferred refunding costs totaled \$192,310 for the Series 1992A Bonds.

The Authority issued the 2008A Refunding Series revolving loan bonds for the purpose of refunding the Series 1996A and 1996B Bonds that had aggregate principal balances of \$27,690,000 and \$30,180,000 on February 15, 2008, respectively. The refunding resulted in accounting loss of approximately \$489,102 and \$685,136, 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 \$21 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 \$10.4 million. As of September 30, 2014, the unamortized deferred refunding costs totaled \$507,439 for the Series 1996A and 1996B Bonds.

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, 2014, the unamortized deferred refunding costs totaled \$550,745 for the Series 1999 Bonds.

## Alabama Water Pollution Control Authority Notes to Financial Statements

### **NOTE 7 – LONG-TERM DEBT (Continued)**

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, 2014, the unamortized deferred refunding costs totaled \$618,440 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, 2014, the unamortized deferred refunding costs totaled \$424,682 for the Series 2000 Bonds.

### **NOTE 8 – ARBITRAGE REBATE CALCULATIONS**

In accordance with Internal Revenue Code Section 148, and related regulations as the issuer of tax-exempt debt, the Authority has calculated the amount of rebate due to the Internal Revenue Service. The liability is \$87,210 at September 30, 2014.

### **NOTE 9 – 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 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 10 – 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.

This amount was set at a minimum of 50%, 14.98%, 9.27%, 5.55%, 5% and 5% of total grant funds provided by the 2009-ARRA grant, 2010 grant, 2011 grant, 2012 grant, 2013 grant, and 2014 grant,

## Alabama Water Pollution Control Authority Notes to Financial Statements

### NOTE 10 – PRINCIPAL FORGIVENESS (Continued)

respectively. 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 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 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, 2014 totaled \$1,804,752, leaving a remaining balance of \$2,139,327 capitalized as principal forgiveness on the statement of net position as of September 30, 2014.

### NOTE 11 – OTHER POST EMPLOYMENT BENEFIT OBLIGATIONS

The State provides postretirement health care benefits, in accordance with *Code of Alabama 1975*, Section 36-29-10, to all retired state employees through the State Employees' Health Insurance Plan (SEHIP). The retiree portion of the SEHIP is accounted for through the Alabama Retired State Employees' Health Care Trust. Employees covered under this plan who retire from active service and begin receiving monthly benefits from the Employees' Retirement System of Alabama may elect to continue coverage under the group insurance plan by consenting to have deducted from their monthly benefit payment the difference in the total cost of their insurance coverage and the portion authorized to be expended by the SEHIP for coverage of such retired employees. The State Employees' Insurance Board administers SEHIP. In order to fund the ongoing costs of these other postemployment benefits (OPEB), the State has established a trust fund as described below to comply with GASB Statements 43 and 45.

#### A. Plan Descriptions

The Alabama Retired State Employees' Health Care Trust (the Trust) is a single employer defined benefit health care plan established as an irrevocable trust in 2007 by Constitutional Amendment 798. The State Employees' Insurance Board issued a stand-alone financial report that includes the Alabama Retired State Employees' Health Care Trust financial statements and detailed disclosures for the year ended September 30, 2013. A copy may be obtained by writing to:

State Employees' Insurance Board  
P. O. Box 304900  
201 South Union Street, Suite 200  
Montgomery, AL 36130-4900

#### B. Summary of Significant Accounting Policies

**Basis of Accounting** - The Trust is an "other employee benefits trust fund" that operates under the accrual basis of accounting. Plan member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when earned, pursuant to plan requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

## Alabama Water Pollution Control Authority Notes to Financial Statements

### NOTE 11 – OTHER POST EMPLOYMENT BENEFIT OBLIGATIONS (Continued)

**2. Investments** - All plan assets are carried at fair value except short-term investments which are reported at cost, which approximates fair value. Securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates. Mortgage-backed securities are reported based on estimated future principal and interest payments discounted at the prevailing interest rate for similar instruments. Investments not traded on exchanges are valued based on the selling price of similar investments sold in the open market. In those instances where there are no similar investments sold in the open market, an appraisal is performed to determine the fair value of the investments.

#### C. Funding Policy

The State provides health care benefits for retired state employees through SEHIP. For retirees who retired prior to October 1, 2005, the State pays 100 percent of the premium for a retiree who is over 65 and eligible for Medicare. The State pays a portion of the premium for a retiree who is under 65. Under the SEHIP statute, the State contribution per month per retiree is funded on a pay-as-you-go basis through the active employee premiums each agency pays for its active employees. COBRA insurance is also available to state employees who terminate state service, but the employee is liable for the premiums. For retirees who retire other than for disability after October 1, 2005, the employer contribution is less each year under twenty-five years of creditable coverage and more for each year over twenty five. For retirees on or after January 1, 2012, the employer contribution is also less for each year under the Medicare age. The retiree is responsible for the amount of contribution not covered by the State. Also, the State may make additional contributions. Additional funds were contributed during fiscal year 2013 in the amount of \$1,000,000 as authorized by the SEHIP Board. The Medicare Part D and Employer Group Waiver Plan subsidy were \$1,924,000 and \$6,870,000, respectively for fiscal year 2013. The Employer Group Waiver Plan and Medicare Part D retiree drug subsidy for the primary government, the component units, and the fiduciary funds was \$8,620,000, \$92,000, and \$82,000, respectively for fiscal year 2013.

**1. Annual OPEB Cost and Net OPEB Obligation** - Government Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, requires additional reporting and disclosures for OPEB plans. The SEHIP is a single employer plan. The following OPEB amounts are for the Authority's portion of the benefits under the SEHIP:

Annual required contribution (ARC)	\$ 200,561
Interest on net OPEB obligation	38,977
Adjustment to ARC	(33,870)
Annual OPEB cost	205,668
Contributions made	(75,829)
Increase in net OPEB obligation	129,839
Net OPEB obligation, beginning of year	779,546
<u>Net OPEB obligation, end of year</u>	<u>\$ 909,385</u>

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

**NOTE 11 – OTHER POST EMPLOYMENT BENEFIT OBLIGATIONS (Continued)**

Percentage of annual OPEB cost contributed: 37%

**2. Funded Status and Funding Progress** - The schedule of funding progress as shown below presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**Retired State Employees Health Care Trust**  
(Amounts in Thousands)

Actuarial Valuation Date	(A) Actuarial Value of Assets	(B) Actuarial Accrued Liability (AAL)	(B-A) Unfunded AAL	(A/B) Funded Ratio	(C) Covered Payroll	((B-A)/C) UAAL as a % of Covered Payroll
9/30/2011 <sup>^</sup>	\$ 108,723	\$ 3,369,897	\$ 3,261,174	3.2%	\$ 1,506,539	216.5%
9/30/2012	126,670	3,215,956	3,089,286	3.9%	1,385,013	223.1%
9/30/2013*	142,685	3,465,784	3,323,099	4.1%	1,344,092	247.2%

<sup>^</sup> Reflects the impact of the EGWP + Wrap plan and the five year experience study.

\* Reflects Tier II benefit structure for those retired on or after January 1, 2013 and plan changes made for the Affordable Care Act.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

**3. Actuarial Methods and Assumptions** - Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities consistent with the long-term perspective of the calculations.

The actuarial methods and significant assumptions used to determine the ARC for fiscal year 2014 are as follows:

Actuarial Methods for Retired State Employees' Health Care Trust:

Valuation Date:	September 30, 2013
Actuarial Cost Method:	Projected Unit Credit
Asset Valuation Method:	Market Value of Assets

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

**NOTE 11 – OTHER POST EMPLOYMENT BENEFIT OBLIGATIONS (Continued)**

Amortization Method:	Level Percent of Pay
Remaining Amortization Period:	30 Years
Period Closed/Open:	Open

Actuarial Assumptions for Retired State Employees' Health Care Trust:

Actuarial Valuation Date	Investment Rate of Return	Medical Cost Trend Rate*		Ultimate Trend Rate*	Year of Ultimate Trend Rate*
		Medicare Eligible	Pre- Medicare		
9/30/2011	5%	7.5%	9.5%	5%	2017
9/30/2012	5%	7.0%	8.5%	5%	2017
9/30/2013	5%	6.0%	7.8%	5%	2019

\*Includes inflation at 3.00%.

The assumed investment rate of return reflects the fact that as of September 30, 2013 the Plan has \$142,685,282 in trust solely to provide benefits to retirees and their beneficiaries. A policy has been established to make regular contributions representing a partial payment toward the ARC each year. If the Plan starts fully pre-funding benefits, the discount rate may be increased to reflect equity investment the fund may have after full pre-funding begins. This investment rate of return assumption is independent of the inflation assumption.

**4. Trend Information** - The employer contributions and annual OPEB cost of the SEHIP is presented in the table below.

(Amounts in thousands)

	Employer Contribution	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2012	\$ 110,768	\$ 285,221	39%	\$ 700,763
2013	114,618	270,830	42%	856,975
2014	83,361	226,096	37%	999,711

**NOTE 12 – LOAN RECEIVABLE – JEFFERSON COUNTY**

In November 2011, Jefferson County filed for bankruptcy. The Authority held a loan receivable from Jefferson County in the amount of \$11,994,420. As of September 30, 2014, the Authority received \$10,572,113 as a result of the Jefferson County bankruptcy proceedings and an additional \$1,545,532 from the State of Alabama Finance Department. These payments included accrued interest through the date of payment. The bankruptcy resulted in a total loss of \$1,590,000 to the Authority which is recorded in administrative expense on the financial statements. The State of Alabama Finance Department revenue covered \$1,545,532 of the total loss.



## Alabama Water Pollution Control Authority Notes to Financial Statements

### **NOTE 13 – RESTATEMENT**

As of September 30, 2013, cash and cash equivalents was overstated by \$2,082,937. This amount was reclassified to investments, reducing cash and cash equivalents by \$2,082,937 and recording a market value adjustment for \$38,267 for a total amount in investments of \$2,044,670 as of September 30, 2013. This restatement also increased fund balance \$38,267 for the year ended September 30, 2013.

### **NOTE 14 – SUBSEQUENT EVENTS**

The Authority has evaluated subsequent events through March 3, 2015, the date the financial statements were available to be issued, and there were none to disclose.

**Alabama Water Pollution Control Authority  
Schedule of Expenditures of Federal Awards  
September 30, 2014**

<b>Federal Grantor/Pass-Through Grantor/Program Title</b>	<b>CFDA Number</b>	<b>Grantor's Number</b>	<b>Federal Expenditures</b>
<b>Environmental Protection Agency</b>			
Passed through the Alabama Department of Environmental Management			
Capitalization grants for state revolving funds	66.458	CS010001-13	\$ 14,266,478
Capitalization grants for state revolving funds	66.458	CS010001-14	90,021
<b>Total Environmental Protection Agency</b>			<b>14,356,499</b>
<b>Total federal financial assistance</b>			<b>\$ 14,356,499</b>

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

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and presentation of the Single Audit Report of the Alabama Water Pollution Control Authority (the “Authority”) have been designed to conform to generally accepted accounting principles as applicable to governmental units, including the reporting and compliance requirements of the Audits of States, Local Governments, and Non-Profit Organizations and Office of Management and Budget Circular A-133, Compliance Supplement (A-133).

**Reporting Entity** – The Authority consists of the Loan Fund and the Loan Fee Fund, both of which are Enterprise Funds. The Authority included a schedule of federal financial assistance in the Single Audit section.

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

The modified accrual basis of accounting is followed in the Schedule of Expenditures of Federal Awards. 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 2 – 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 March 3, 2015, there were no material questioned or disallowed costs as a result of grant audits in process or completed.

**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 the major funds of the Alabama Water Pollution Control Authority (the "Authority"), as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated March 3, 2015.

***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 audit 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.

### ***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 material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

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

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

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

Certified Public Accountants

March 3, 2015

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY OMB CIRCULAR A-133**

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 Circular A-133 Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the year ended September 30, 2014. 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for the 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 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, 2014.

## ***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 OMB Circular A-133, 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 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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

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

Certified Public Accountants

March 3, 2015

**Alabama Water Pollution Control Authority  
Schedule of Findings and Questioned Costs  
For the Year Ended September 30, 2014**

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

**Financial Statements**

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified \_\_\_ yes   X   no
- Reportable condition(s) identified that are not considered to be material weaknesses? \_\_\_ yes   X   none reported

Noncompliance material to financial statements noted? \_\_\_ yes   X   no

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified? \_\_\_ yes   X   no
- Reportable condition(s) identified that are not considered to be material weakness(es)? \_\_\_ yes   X   none reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? \_\_\_ yes   X   no

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
66.458	Capitalization Grants for Clean Water State Revolving Funds
	Dollar threshold used to distinguish between type A and type B programs? \$ 430,695
	Auditee qualified as low-risk auditee? <span style="float: right;"><u>  X  </u> yes <u>      </u> no</span>

**SECTION II – Financial Statements Findings**

No matters were reported.

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

No matters were reported.



Carr, Riggs & Ingram, LLC  
1117 Boll Weevil Circle  
Enterprise, AL 36330

Mailing Address:  
P.O. Box 311070  
Enterprise, AL 36331

(334) 347-0088  
(334) 347-7650 (fax)  
[www.cricpa.com](http://www.cricpa.com)

March 3, 2015

The Board of Directors of  
Alabama Water Pollution Control Authority

Dear Members of the Board of Directors:

We are pleased to present the results of our audit of the September 30, 2014 financial statements of the Alabama Water Pollution Control Authority (the "Authority"), a component unit of the State of Alabama.

This report to the Board of Directors summarizes our audit, the reports issued and various analyses and observations related to the Authority's accounting and reporting. The document also contains the communications required by our professional standards.

The audit was designed, primarily, to express an opinion on the Authority's September 30, 2014 financial statements. We considered the Authority's current and emerging business needs, along with an assessment of risks that could materially affect the financial statements, and aligned our audit procedures accordingly. We conducted the audit with the objectivity and independence that you, the Board of Directors, expect. We received the full support and assistance of the Authority's personnel.

At Carr, Riggs & Ingram, LLC (CRI), we are continually evaluating the quality of our professionals' work in order to deliver audit services of the highest quality that will meet or exceed your expectations. We encourage you to provide any feedback you believe is appropriate to ensure that we do not overlook a single detail as it relates to the quality of our services.

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

We appreciate this opportunity to meet with you. If you have any questions or comments, please contact me at 334-348-1309 or [hgalloway@cricpa.com](mailto:hgalloway@cricpa.com).

Very truly yours,

A handwritten signature in black ink that reads "Carr, Riggs &amp; Ingram, L.L.C." in a cursive script.

CARR, RIGGS & INGRAM, LLC

Certified Public Accountants

## Required Communications

As discussed with management during our planning process, our audit plan represented an approach responsive to the assessment of risk for the Authority. Specifically, we planned and performed our audit to:

- Perform audit services 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, in order to express an opinion on the Authority's financial statements for the year ended September 30, 2014 and to 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**;
- Perform an audit 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, U.S. Office of Management and Budget (OMB) Circular A-133 "Audits of States, Local Governments, and Non-Profit Organizations" in order to express an opinion on compliance with requirements applicable to each major federal program and on internal control over compliance with the types of compliance requirements described in OMB Circular A-133 Compliance Supplement.
- Communicate directly with the Board of Directors and management regarding the results of our procedures;
- Address with the Board of Directors and management any accounting and financial reporting issues;
- Anticipate and respond to concerns of the Board of Directors and management; and
- Other audit-related projects as they arise and upon request.

## Required Communications

We have audited the financial statements of Alabama Water Pollution Control Authority (the “Authority”) for the year ended September 30, 2014, and have issued our report thereon dated March 3, 2015. Professional standards require that we provide you with the following information related to our audit:

MATTER TO BE COMMUNICATED	AUDITOR’S RESPONSE
<p><b>Auditor’s responsibility under Generally Accepted Auditing Standards</b></p>	<p>As stated in our engagement letter dated October 13, 2014, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America (GAAP) and to express an opinion on compliance and internal control over compliance in accordance with OMB Circular A-133. Our audit of the financial statements does not relieve you or management of your responsibilities.</p> <p>As part of our audit, we considered the internal control of the Authority. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.</p>
<p><b>Client’s responsibility</b></p>	<p>Management, with oversight from those charged with governance, is responsible for establishing and maintaining internal controls, including monitoring ongoing activities; for the selection and application of accounting principles; and for the fair presentation in the financial statements of financial position, results of operations, and cash flows in conformity with the applicable framework. Management is responsible for the design and implementation of programs and controls to prevent and detect fraud.</p>
<p><b>Planned scope and timing of the audit</b></p>	<p>Our initial audit plan was not significantly altered during our fieldwork.</p>
<p><b>Management judgments and accounting estimates</b>  <i>The process used by management in forming particularly sensitive accounting estimates and the basis for the auditor’s conclusion regarding the reasonableness of those estimates.</i></p>	<p>Please see the following section titled “Accounting Policies, Judgments and Sensitive Estimates and CRI Comments on Quality.”</p>
<p><b>Potential effect on the financial statements of any significant risks and exposures</b>  <i>Major risks and exposures facing the Authority and how they are disclosed.</i></p>	<p>We noted no significant risks or exposures that were not appropriately disclosed in the Authority’s financials and footnotes.</p>

## Required Communications

MATTER TO BE COMMUNICATED	AUDITOR'S RESPONSE
<p><b>Significant accounting policies, including critical accounting policies and alternative treatments within generally accepted accounting principles and the auditor's judgment about the quality of accounting principles</b></p> <ul style="list-style-type: none"> <li>• <i>The initial selection of and changes in significant accounting policies or their application; methods used to account for significant unusual transactions; and effect of significant policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.</i></li> <li>• <i>The auditor should also discuss the auditor's judgment about the quality, not just the acceptability, of the Authority's accounting policies as applied in its financial reporting. The discussion should include such matters as consistency of accounting policies and their application, and clarity and completeness of the financial statements, including disclosures. Critical accounting policies and practices applied by the Authority in its financial statements and our assessment of management's disclosures regarding such policies and practices (including any significant modifications to such disclosures proposed by us but rejected by management), the reasons why certain policies and practices are or are not considered critical, and how current and anticipated future events impact those determinations;</i></li> <li>• <i>Alternative treatments within GAAP for accounting policies and practices related to material items, including recognition, measurement, presentation and disclosure alternatives, that have been discussed with client management during the current audit period, the ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the auditor; Furthermore, if the accounting policy selected by management is not the policy preferred by us, discuss the reasons why management selected that policy, the policy preferred by us, and the reason we preferred the other policy.</i></li> </ul>	<p>The significant accounting policies used by the Authority are described in Note 1 to the financial statements. New accounting policies were adopted during the fiscal year as a result of the following recently issued accounting pronouncements:</p> <ul style="list-style-type: none"> <li>• GASB Statement No. 70 Accounting and Financial Reporting for Nonexchange Financial Guarantees</li> </ul> <p>The adoption of GASB 70 did not have a significant impact on the consolidated financial statements or disclosures.</p> <p>We noted no transactions entered into by the Authority during the fiscal year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.</p>

## Required Communications

MATTER TO BE COMMUNICATED	AUDITOR'S RESPONSE
<p><b>Significant difficulties encountered in the audit</b>  <i>Any significant difficulties, for example, unreasonable logistical constraints or lack of cooperation by management.</i></p>	<p>We encountered no significant difficulties in dealing with management in performing and completing our audit.</p>
<p><b>Disagreements with management</b>  <i>Disagreements, whether or not subsequently resolved, about matters significant to the financial statements or auditor's report. This does not include those that came about based on incomplete facts or preliminary information.</i></p>	<p>None.</p>
<p><b>Other findings or issues</b>  <i>Matters significant to oversight of the financial reporting practices by those charged with governance. For example, an entity's failure to obtain the necessary type of audit, such as one under Government Auditing Standards, in addition to GAAS.</i></p>	<p>None.</p>
<p><b>Matters arising from the audit that were discussed with, or the subject of correspondence with, management</b>  <i>Business conditions that might affect risk or discussions regarding accounting practices or application of auditing standards.</i></p>	<p>None</p>
<p><b>Corrected and uncorrected misstatements</b>  <i>All significant audit adjustments arising from the audit, whether or not recorded by the Authority, that could individually or in the aggregate have a significant effect on the financial statements. We should also inform the Authority about uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented, that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Any internal control deficiencies that could have prevented the misstatements.</i></p>	<p>Please see the following section titled "Summary of Audit Adjustments."</p>
<p><b>Major issues discussed with management prior to retention</b>  <i>Any major accounting, auditing or reporting issues discussed with management in connection with our initial or recurring retention.</i></p>	<p>None.</p>

## Required Communications

MATTER TO BE COMMUNICATED	AUDITOR'S RESPONSE
<p><b>Consultations with other accountants</b>  <i>When management has consulted with other accountants about significant accounting or auditing matters.</i></p>	None of which we are aware.
<p><b>Written representations</b>  <i>A description of the written representations the auditor requested (or a copy of the representation letter).</i></p>	See "Management Representation Letter" section.
<p><b>Internal control deficiencies</b>  <i>Any significant deficiencies or material weaknesses in the design or operation of internal control that came to the auditor's attention during the audit.</i></p>	None of which we are aware.
<p><b>Fraud and illegal acts</b>  <i>Fraud involving senior management or those responsible for internal controls, or causing a material misstatement of the financial statements, where the auditor determines there is evidence that such fraud may exist. Any illegal acts coming to the auditor's attention involving senior management and any other illegal acts, unless clearly inconsequential.</i></p>	We are unaware of any fraud or illegal acts involving management or causing material misstatement of the financial statements.
<p><b>Other information in documents containing audited financial statements</b>  <i>The external auditor's responsibility for information in a document containing audited financial statements, as well as any procedures performed and the results.</i></p>	<p>Our responsibility related to documents (including annual reports, websites, etc.) containing the financial statements is to read the other information to consider whether:</p> <ul style="list-style-type: none"> <li>• Such information is materially inconsistent with the financial statements; and</li> <li>• We believe such information represents a material misstatement of fact.</li> </ul> <p>We have not been provided any such items to date and are unaware of any other documents that contain the audited financial statements.</p>
<p><b>Material uncertainties related to events and conditions, specifically going concern issues</b>  <i>Any doubt regarding the Program's ability to continue as a going concern (if extended procedures, communicate results), and any other material uncertainties.</i></p>	No such uncertainties were noted or disclosed.

## Accounting Policies, Judgments and Sensitive Estimates & CRI Comments on Quality

We are required to communicate our judgments about the quality, not just the acceptability, of the Authority's accounting principles as applied in its financial reporting. We are also required to communicate critical accounting policies and sensitive accounting estimates. The Authority may wish to monitor throughout the year the process used to compute and record these accounting estimates. The table below summarizes our communications regarding these matters.

AREA	ACCOUNTING POLICY	CRITICAL POLICY?	JUDGMENTS & SENSITIVE ESTIMATE	COMMENTS ON QUALITY OF ACCOUNTING POLICY & APPLICATION
Cash	The Authority maintains its cash balances in high quality financial institutions. All of the Authority's deposits are insured and collateralized by the Federal Deposit Insurance Corporation ("FDIC") and the Security for Alabama Funds Enhancement ("SAFE") Program operated by the office of the Treasurer of the State of Alabama as authorized by Section 41-14A of the Code of Alabama 1975, as amended	X	No significant judgments or estimates.	The Authority's policy is in accordance with all applicable accounting guidelines.
Depreciation of Property and Equipment, net	The Authority depreciates assets over the expected remaining useful life of the individual asset.	X	Judgments in this area relate to the estimate of the remaining useful life of the asset.	The Authority's recognition methods and disclosures appear appropriate.
Revenue Recognition	The Authority recognizes revenues when earned, and in FY 2014 primarily consist of federal grants and interest from loan receivables.	X	Judgments in this area relate to timing of revenue recognition and adoption of appropriate methods of accounting.	The Authority's revenue recognition is in accordance with all applicable accounting guidelines.

## Accounting Policies, Judgments and Sensitive Estimates & CRI Comments on Quality

AREA	ACCOUNTING POLICY	CRITICAL POLICY?	JUDGMENTS & SENSITIVE ESTIMATE	COMMENTS ON QUALITY OF ACCOUNTING POLICY & APPLICATION
Manual Journal Entries	The Authority records a number of journal entries each month to the fee fund.	X	The nature of these journal entries is inherently more risky than utilizing system generated information with no manual intervention. These journal entries are subject to a more stringent set of controls.	We noted no journal entries considered inappropriate.

## Summary of Audit Adjustments

During the course of our audit, we accumulate differences between amounts recorded by the Authority and amounts that we believe are required to be recorded under GAAP guidelines. Those adjustments are either recorded (corrected) by the Authority or passed (uncorrected).

See the following section titled “Corrected and Uncorrected Audit Adjustments”

### QUALITATIVE MATERIALITY CONSIDERATIONS

In evaluating the materiality of audit differences when they do arise, we consider both quantitative and qualitative factors, for example:

- Whether the difference arises from an item capable of precise measurement or whether it arises from an estimate, and, if so, the degree of imprecision inherent in the estimate.
- Whether the difference masks a change in earnings or other trends.
- Whether the difference changes a net decrease in assets to addition, or vice versa.
- Whether the difference concerns an area of the Authority’s operating environment that has been identified as playing a significant role in the Authority’s operations or viability.
- Whether the difference affects compliance with regulatory requirements.
- Whether the difference has the effect of increasing management’s compensation – for example, by satisfying requirements for the award of bonuses or other forms of incentive compensation.
- Whether the difference involves concealment of an unlawful transaction.

## Management Representation Letter

March 3, 2015

Carr, Riggs & Ingram, L.L.C.  
P.O. Box 311070  
Enterprise, AL 36331

This representation letter is provided in connection with your audit of the financial statements of Alabama Water Pollution Control Authority, which comprise the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information as of September 30, 2014, and the respective changes in financial position and cash flows for the year then ended, and the related notes to the financial statements, for the purpose of expressing opinions as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of March 3, 2015, the following representations made to you during your audit.

### **Financial Statements**

- 1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated October 13, 2014, including our responsibility for the preparation and fair presentation of the financial statements and for preparation of the supplementary information in accordance with the applicable criteria.
- 2) The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
- 3) We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
- 4) We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- 5) Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
- 6) Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.

## Management Representation Letter

- 7) Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements or in the schedule of findings and questioned costs.
- 8) The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
- 9) Guarantees, whether written or oral, under which the Alabama Water Pollution Control Authority is contingently liable, if any, have been properly recorded or disclosed.

### Information Provided

- 10) We have provided you with:
  - a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters and all audit or relevant monitoring reports, if any, received from funding sources.
  - b) Additional information that you have requested from us for the purpose of the audit.
  - c) Unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.
  - d) Minutes of the meetings of Alabama Water Pollution Control Authority or summaries of actions of recent meetings for which minutes have not yet been prepared. There were no minutes for FY 2014 due to there being no Board meetings.
- 11) All material transactions have been recorded in the accounting records and are reflected in the financial statements and the schedule of expenditures of federal awards.
- 12) We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- 13) We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
  - a) Management,
  - b) Employees who have significant roles in internal control, or
  - c) Others where the fraud could have a material effect on the financial statements.
- 14) We have no knowledge of any allegations of fraud or suspected fraud affecting the entity's financial statements communicated by employees, former employees, regulators, or others.
- 15) We have no knowledge of instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
- 16) We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
- 17) We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

### Government—specific

- 18) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

## Management Representation Letter

- 19) We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- 20) The Alabama Water Pollution Control Authority has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
- 21) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and legal and contractual provisions for reporting specific activities in separate funds.
- 22) We have identified and disclosed to you all instances, which have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that we believe have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.
- 23) We have identified and disclosed to you all instances, which have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
- 24) We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
- 25) There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
- 26) As part of your audit, you assisted with preparation of the financial statements and related notes and schedule of expenditures of federal awards. We acknowledge our responsibility as it relates to those nonaudit services, including that we assume all management responsibilities; oversee the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, or experience; evaluate the adequacy and results of the services performed; and accept responsibility for the results of the services. We have reviewed, approved, and accepted responsibility for those financial statements and related notes and schedule of expenditures of federal awards.
- 27) The Alabama Water Pollution Control Authority has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
- 28) The Alabama Water Pollution Control Authority has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- 29) The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
- 30) The financial statements properly classify all funds and activities, in accordance with GASB Statement No. 34.
- 31) All funds that meet the quantitative criteria in GASBS Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.

## Management Representation Letter

- 32) Components of net position (net investment in capital assets; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.
- 33) Investments, derivative instruments, and land and other real estate held by endowments are properly valued.
- 34) Provisions for uncollectible receivables have been properly identified and recorded.
- 35) Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
- 36) Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
- 37) Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
- 38) Deposits and investment securities and derivative instruments are properly classified as to risk and are properly disclosed.
- 39) Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.
- 40) We have appropriately disclosed the Alabama Water Pollution Control Authority's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.
- 41) We are following our established accounting policy regarding which resources (that is, restricted, committed, assigned, or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available. That policy determines the fund balance classifications for financial reporting purposes.
- 42) We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
- 43) With respect to federal award programs:
  - a) We are responsible for understanding and complying with and have complied with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, including requirements relating to preparation of the schedule of expenditures of federal awards.
  - b) We acknowledge our responsibility for presenting the schedule of expenditures of federal awards (SEFA) in accordance with the requirements of OMB Circular A-133 §310.b, and we believe the SEFA, including its form and content, is fairly presented in accordance with OMB Circular A-133 §310.b. The methods of measurement or presentation of the SEFA have not changed from those used in the prior period and we have disclosed to you any significant assumptions and interpretations underlying the measurement or presentation of the SEFA.

## Management Representation Letter

- c) If the SEFA is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the SEFA no later than the date we issue the SEFA and the auditor's report thereon.
- d) We have identified and disclosed to you all of our government programs and related activities subject to OMB Circular A-133 and included in the SEFA made during the audit period for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other direct assistance.
- e) We are responsible for understanding and complying with, and have complied with, the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major program.
- f) We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance requirements applicable to federal programs that provides reasonable assurance that we are managing our federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended.
- g) We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relevant to federal programs and related activities.
- h) We have received no requests from a federal agency to audit one or more specific programs as a major program.
- i) We have complied with the direct and material compliance requirements (except for noncompliance disclosed to you), including when applicable, those set forth in the *OMB Circular A-133 Compliance Supplement*, relating to federal awards and have identified and disclosed to you all amounts questioned and all known noncompliance with the requirements of federal awards.
- j) We have disclosed any communications from grantors and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.
- k) We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.
- l) Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB Circular A-87, *Cost Principles for State, Local, and Tribal Governments*, and OMB's *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*.

## Management Representation Letter

- m) We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.
  - n) We have made available to you all documentation related to compliance with the direct material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
  - o) We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.
  - p) There are no such known instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditor's report.
  - q) No changes have been made in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies or material weaknesses in internal control over compliance subsequent to the date as of which compliance was audited.
  - r) Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.
  - s) The copies of federal program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.
  - t) We have monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of OMB Circular A-133.
  - u) We have taken appropriate action, including issuing management decisions, on a timely basis after receipt of subrecipients' auditor's reports that identified noncompliance with laws, regulations, or the provisions of contracts or grant agreements and have ensured that subrecipients have taken the appropriate and timely corrective action on findings.
  - v) We have considered the results of subrecipient audits and have made any necessary adjustments to our books and records.
  - w) We have charged costs to federal awards in accordance with applicable cost principles.
  - x) We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by OMB Circular A-133 and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
  - y) We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by OMB Circular A-133.
  - z) We are responsible for preparing and implementing a corrective action plan for each audit finding.
- 44) We are in agreement with the adjusting entries you have recommended, and they will be posted to the Authority's accounts.



## Management Representation Letter

No events, including instances of noncompliance, have occurred subsequent to the statement of financial position date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements or in the schedule of findings and questioned costs.

Signature: \_\_\_\_\_

Title: \_\_\_\_\_

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, 2014, 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 that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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. 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.

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.

Certified Public Accountants

March 3, 2015

## Corrected and Uncorrected Audit Adjustments

### Loan Fund

<b>Adjusting Journal Entries JE # 1</b>		<b>4359.4</b>		
To reclass current portion of loan receivable.				
102.104	Current Loan Rec	32,330,000.00		
102.114	Loan Rec		32,330,000.00	
<b>Total</b>		<b>32,330,000.00</b>		<b>32,330,000.00</b>
<b>Adjusting Journal Entries JE # 2</b>		<b>5302</b>		
To adjust current portion of Bonds payable.				
102.209	Bonds Payable	17,465,000.00		
102.205	Current Bonds Payable		17,465,000.00	
<b>Total</b>		<b>17,465,000.00</b>		<b>17,465,000.00</b>
<b>Adjusting Journal Entries JE # 3</b>		<b>4203</b>		
To allocate a portion of the principal forgiveness amounts to expense for FY 2014 based upon the amount of payments made				
101.1.408	Principle Forgiveness Expense	1,804,752.00		
132654.1.106	Principal Forgiveness EPA		1,804,752.00	
<b>Total</b>		<b>1,804,752.00</b>		<b>1,804,752.00</b>
<b>Adjusting Journal Entries JE # 4</b>		<b>5305</b>		
To adjust arbitrage liability to actual at 9/30/14.				
102.401	Auditor Adjustment- Arbitrage	34,798.00		
917104.15.204	Arbitrage rebate accrual Liability		34,798.00	
<b>Total</b>		<b>34,798.00</b>		<b>34,798.00</b>
<b>Adjusting Journal Entries JE # 5</b>		<b>4352.4</b>		
To reclass amortization of deferred refunding costs out of bond issue costs account and reclass bond premium amortization out of bond discount costs for presentation purposes.				
2.25.403	Bond Discount amortization	870,621.00		
2.20.311	Bond premium accretion		403,778.00	
2.25.404	Bond Issue Cost amortization		466,843.00	
<b>Total</b>		<b>870,621.00</b>		<b>870,621.00</b>
<b>Adjusting Journal Entries JE # 6</b>		<b>4103</b>		
To reclass CD total out of Treasury Bonds.				
322352.5.119	Certificate of Deposits	5,675,138.00		
322352.5.112	U S Treasury Bonds		5,675,138.00	
<b>Total</b>		<b>5,675,138.00</b>		<b>5,675,138.00</b>

## Corrected and Uncorrected Audit Adjustments

<b>Adjusting Journal Entries JE # 7</b>		<b>3303-</b>	
To reclassify cash and equivalents out of treasury bond amount from Regions.		<b>PBC</b>	
1.1.101	Cash and Cash Equivalents	40,945,937.00	
1.5.112	U S Treasury Bonds		40,945,937.00
<b>Total</b>		<u><u>40,945,937.00</u></u>	<u><u>40,945,937.00</u></u>

<b>Adjusting Journal Entries JE # 8</b>		<b>7402</b>	
To record professional fee expense and accrued grant revenue and reclass to correct accounts for presentation purposes.			
1.1.108	Grant revenue receivable	90,021.00	
1.30.308	Prior grant revenue receivable	148,842.00	
1.40.502	-ransfer to (from) other accoun	90,021.00	
132668.25.406	Administrative expense	90,021.00	
1.30.703	Accrued Grant Revenue		90,021.00
132668.1.108	Grant revenue receivable		90,021.00
132668.30.308	Prior grant revenue receivable		148,842.00
132668.40.502	-ransfer to (from) other accoun		90,021.00
<b>Total</b>		<u><u>418,905.00</u></u>	<u><u>418,905.00</u></u>

### Fee Fund

<b>Adjusting Journal Entries JE # 1</b>		<b>6101.1</b>	
To reconcile Equity to PY financials			
1500	Due from ADEM	108,747.00	
1600-059-22-224	Miscellaneous	15.00	
3201-03	Unres Fd Bal	729,825.00	
2004-02	Other post employment benefit obligation		838,587.00
<b>Total</b>		<u><u>838,587.00</u></u>	<u><u>838,587.00</u></u>

<b>Adjusting Journal Entries JE # 2</b>		<b>3301</b>	
To close encumbrance expense accounts to the res encumbrance equity account.			
3001-03	Res Encumb	4,972.00	
700-059-21-224	Utilities	518.00	
900-059-21-224	Supplies and Materials	2,730.00	
1000-059-21-224	Trans Eq Ops		4,125.00
500-059-21-224	Repairs and Maintenance		2,250.00
800-059-21-224	Professional		1,845.00
<b>Total</b>		<u><u>8,220.00</u></u>	<u><u>8,220.00</u></u>

## Corrected and Uncorrected Audit Adjustments

<b>Adjusting Journal Entries JE # 3</b>		<b>4602</b>		
To record current year additions to Property and Equipment and reclass 1612 equipment out of 1609 account.				
1609-01	DP Equipment		9,722.00	
1612-01	Scient/Tech		5,352.00	
1609-01	DP Equipment			5,352.00
1609-23	DP Equipment			9,722.00
<b>Total</b>			<b><u>15,074.00</u></b>	<b><u>15,074.00</u></b>
<b>Adjusting Journal Entries JE # 4</b>		<b>4602</b>		
To record CY depreciation.				
1700	Depreciation		28,213.00	
1639-01	A/D DP Equip			3,952.00
1642-01	A/D Scient/Tech			24,261.00
<b>Total</b>			<b><u>28,213.00</u></b>	<b><u>28,213.00</u></b>
<b>Adjusting Journal Entries JE # 5</b>		<b>5306</b>		
To adjust OPEB liability to actual as of 9-30-14				
200-059-22-224	Employee Benefits		129,839.00	
200-059-22-224	Employee Benefits			59,041.00
2004-02	Other post employment benefit obligation			70,798.00
<b>Total</b>			<b><u>129,839.00</u></b>	<b><u>129,839.00</u></b>
<b>Adjusting Journal Entries JE # 6</b>		<b>7302.6</b>		
To reverse PY entry #7 to correct fees in the CY that was already reduced in the PY.				
1600-059-22-224	Miscellaneous		108,747.00	
1500	Due from ADEM			108,747.00
<b>Total</b>			<b><u>108,747.00</u></b>	<b><u>108,747.00</u></b>
<b>Adjusting Journal Entries JE # 7</b>		<b>3306</b>		
To record a prior period adjustment to reallocate treasury bond investments from cash to investments and change recording from book value to market value.				
3201-03	Unres Fd Bal		38,267.00	
1154-01	Treasury SEC-LT			12,993.00
1155-01	US Agcy-LT			24,499.00
1157-01	Mortg Backed			775.00
<b>Total</b>			<b><u>38,267.00</u></b>	<b><u>38,267.00</u></b>
<b>Adjusting Journal Entries JE # 8</b>		<b>3303-PBC</b>		
To reclass and adjust cash and investments held in Regions account to correct accounts and adjust to market value.				
1116-01	Mut/Money Market		141,138.00	
625-059-31	Market Value Adjustment		12,936.00	
1154-01	Treasury SEC-LT			22,892.00
1155-01	US Agcy-LT			99,749.00
1157-01	Mortg Backed			31,433.00
<b>Total</b>			<b><u>154,074.00</u></b>	<b><u>154,074.00</u></b>