

**Alabama Water Pollution
Control Authority**

COMPONENT UNIT FINANCIAL STATEMENTS

For the Year Ended September 30, 2015



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Alabama Water Pollution Control Authority
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September 30, 2015

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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

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, 2015, 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, 2015, 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 9, 2016 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 9, 2016

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, 2015. For more detailed information, please refer to the financial statements including the Notes to the Financial Statements.

Overview of the Financial Statements

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

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>	2015	2014 (Restated)	Variance	% increase (decrease)
Assets				
Cash and cash equivalents	\$ 44,391,319	\$ 51,217,754	\$ (6,826,435)	-13%
Receivables	384,375,503	390,350,850	(5,975,347)	-2%
Investments	177,105,912	163,487,518	13,618,394	8%
Unamortized items	6,990,973	7,506,542	(515,569)	-7%
Capital assets	9,629	25,323	(15,694)	-62%
Total assets	612,873,336	612,587,987	285,349	0%
Deferred Outflows of Resources				
Deferred charge on refunding	1,826,773	2,293,616	(466,843)	-20%
Liabilities				
Accrued liabilities	2,135,620	3,892,664	(1,757,044)	-45%
Payable to municipalities	72,312,142	77,356,970	(5,044,828)	-7%
Bonds payable, net	105,413,611	123,189,338	(17,775,727)	-14%
Total liabilities	179,861,373	204,438,972	(24,577,599)	-12%
Net position, restricted	\$ 434,838,736	\$ 410,442,631	\$ 24,396,105	6%

Statement of Activities

<i>For the year ended September 30,</i>	2015	2014 (Restated)	Variance	% increase (decrease)
Operating revenue	\$ 17,515,643	\$ 18,018,405	\$ (502,762)	-3%
Operating expense	8,583,020	13,010,538	(4,427,518)	-34%
Operating income	8,932,623	5,007,867	3,924,756	78%
Non-operating revenue	15,463,482	15,114,983	348,499	2%
Change in net position	\$ 24,396,105	\$ 20,122,850	\$ 4,273,255	21%

Management's Discussion and Analysis

Statement of Cash Flows

<i>For the year ended September 30,</i>	2015	2014 (Restated)	Variance	% increase (decrease)
Net cash provided by operating activities	\$ 8,455,908	\$ 35,301,778	\$ (26,845,870)	-76%
Net cash provided by (used in) non-capital and related financing activities	(15,275,704)	(40,170,172)	24,894,468	-62%
Cash flows from capital and related financing activities	(6,639)	(9,722)	3,083	-32%
Net increase (decrease) in cash and cash equivalents	\$ (6,826,435)	\$ (4,878,116)	\$ (1,948,319)	40%

Financial Highlights

- The Authority closed seven new loans totaling \$30,485,000.
- Net position increased \$24,396,105 mainly due to the utilization of \$15,294,637 in federal funds transferred to loan recipients.

Alabama Water Pollution Control Authority
Statement of Net Position

<i>September 30, 2015</i>	Business-type Activities
Assets	
Current assets:	
Cash and cash equivalents - restricted	\$ 44,391,319
Accrued interest receivable on investments - restricted	727,013
Accrued interest on loans receivable	1,312,744
Current portion of loans receivable	33,550,000
Grants and other receivables	309,350
Prepaid rent	166,282
Total current assets	80,456,708
Noncurrent assets:	
Investments - restricted	177,105,912
Loans receivable less unamortized premium of \$4,173,604	348,476,396
Principal forgiveness	1,790,040
Prepaid rent	5,034,651
Capital assets, net	9,629
Total noncurrent assets	532,416,628
Total assets	612,873,336
Deferred Outflows of Resources	
Deferred charge on refunding	1,826,773
Liabilities	
Current liabilities:	
Current portion of revolving loan bonds	18,415,000
Accrued interest payable	438,924
Accounts payable	320,858
Escheated bonds	55,000
Due to Alabama Department of Environmental Management (ADEM)	1,198,817
Total current liabilities	20,428,599
Long-term liabilities:	
Accrued arbitrage rebate	122,021
Payables to municipalities	72,312,142
Revolving loan bonds payable	86,998,611
Total long-term liabilities	159,432,774
Total liabilities	179,861,373
Net Position	
Net investment in capital assets	9,629
Restricted for loans and debt service	434,829,107
Total net position	\$ 434,838,736

See accompanying notes to financial statements.

Alabama Water Pollution Control Authority
Statement of Activities
For the Year Ended September 30, 2015

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position
				Business-type Activities
Business-type Activities:				
Water Pollution loans	\$ 10,362,297	\$ 2,678,752	\$ 17,742,960	\$ 10,059,415
General Revenues				
Investment earnings				14,336,690
Change in net position				24,396,105
Net Position - Beginning, as originally stated				409,533,246
Prior Period Adjustments				909,385
Net Position - Beginning, as restated				410,442,631
Net Position - Ending				\$ 434,838,736

See accompanying notes to financial statements.

Alabama Water Pollution Control Authority
Statement of Net Position
Proprietary Funds

September 30, 2015

Business-type Activities - Enterprise Funds

	Loan Fund	Loan Fee Fund	Total
Assets			
Current assets:			
Cash and cash equivalents - restricted	\$ 42,477,497	\$ 1,913,822	\$ 44,391,319
Accrued interest receivable on investments - restricted	727,013	-	727,013
Accrued interest on loans receivable	1,312,744	-	1,312,744
Current portion of loans receivable	33,550,000	-	33,550,000
Grants and other receivables	309,350	-	309,350
Prepaid rent	-	166,282	166,282
Total current assets	78,376,604	2,080,104	80,456,708
Noncurrent assets:			
Investments - restricted	176,000,776	1,105,136	177,105,912
Loans receivable less unamortized premium of \$4,173,604	348,476,396	-	348,476,396
Principal forgiveness	1,790,040	-	1,790,040
Prepaid rent	-	5,034,651	5,034,651
Capital assets, net	-	9,629	9,629
Total noncurrent assets	526,267,212	6,149,416	532,416,628
Total assets	604,643,816	8,229,520	612,873,336
Deferred Outflows of Resources			
Deferred charge on refunding	1,826,773	-	1,826,773
Liabilities			
Current liabilities:			
Current portion of revolving loan bonds	18,415,000	-	18,415,000
Accrued interest payable	438,924	-	438,924
Accounts payable	308,962	11,896	320,858
Escheated bonds	55,000	-	55,000
Due to ADEM	-	1,198,817	1,198,817
Total current liabilities	19,217,886	1,210,713	20,428,599
Long-term liabilities:			
Accrued arbitrage rebate	122,021	-	122,021
Payables to municipalities	72,312,142	-	72,312,142
Revolving loan bonds payable	86,998,611	-	86,998,611
Total long-term liabilities	159,432,774	-	159,432,774
Total liabilities	178,650,660	1,210,713	179,861,373

-Continued-

See accompanying notes to financial statements.

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

September 30, 2015

Business-type Activities - Enterprise Funds

	Loan Fund	Loan Fee Fund	Total
Net Position			
Net investment in capital assets	-	9,629	9,629
Restricted for loans and debt service	427,819,929	7,009,178	434,829,107
Total net position	\$ 427,819,929	\$ 7,018,807	\$ 434,838,736

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, 2015</i>	Business-type Activities - Enterprise Funds		
	Loan Fund	Loan Fee Fund	Total
Operating Revenues			
Investment earnings	\$ 2,930,999	\$ 3,065	\$ 2,934,064
Interest from loans receivable	11,902,827	-	11,902,827
Administrative fees	-	2,678,752	2,678,752
Total operating revenues	14,833,826	2,681,817	17,515,643
Operating Expenses			
Administration expenses	2,966,332	-	2,966,332
Bond interest expense	3,971,105	-	3,971,105
Bond insurance amortization	156,116	-	156,116
Rental expense	-	166,282	166,282
Depreciation	-	22,333	22,333
Employee benefits	-	170,574	170,574
Miscellaneous	-	582,273	582,273
Office expense	-	85,316	85,316
Repairs and maintenance	-	2,398	2,398
Salaries	-	446,119	446,119
Travel	-	13,617	13,617
Utilities	-	555	555
Total operating expenses	7,093,553	1,489,467	8,583,020
Operating income	7,740,273	1,192,350	8,932,623
Nonoperating Revenues (Expenses)			
Federal grant revenue	15,294,637	-	15,294,637
Principal forgiveness expense	(1,779,277)	-	(1,779,277)
State revenue	2,448,323	-	2,448,323
Net decrease in the fair value of investments	(510,067)	9,866	(500,201)
Total nonoperating revenues (expenses)	15,453,616	9,866	15,463,482
Change in Net Position	23,193,889	1,202,216	24,396,105
Net Position - Beginning, as originally stated	404,626,040	4,907,206	409,533,246
Prior Period Adjustment	-	909,385	909,385
Net Position - Beginning, as restated	404,626,040	5,816,591	410,442,631
Net Position - Ending	\$ 427,819,929	\$ 7,018,807	\$ 434,838,736

See accompanying notes to financial statements.

Alabama Water Pollution Control Authority
Statement of Cash Flows
Proprietary Funds

For the year ended September 30, 2015

Business-type Activities - Enterprise Funds

	Loan Fund	Loan Fee Fund	Total
Cash Flows from Operating Activities:			
Interest and dividends received on investments	\$ 3,023,666	\$ 3,065	\$ 3,026,731
Interest paid on revolving loan bonds	(3,996,994)	-	(3,996,994)
Receipts of payments from municipalities	35,395,864	-	35,395,864
Payments to employees and vendors	-	(100,636)	(100,636)
Interest received on loans receivable	11,382,124	-	11,382,124
Administration fees	(2,966,332)	2,678,752	(287,580)
Payments to municipalities	(33,704,828)	-	(33,704,828)
Payments (to) from ADEM	(90,021)	(3,168,752)	(3,258,773)
Net cash provided by (used in) operating activities	9,043,479	(587,571)	8,455,908
Cash Flows from Non-capital and Related Financing Activities:			
Grant revenue received	15,289,558	-	15,289,558
Principal forgiveness	(1,429,990)	-	(1,429,990)
State revenue	2,448,323	-	2,448,323
Net (purchases) sales of investment securities	(14,913,921)	795,326	(14,118,595)
Principal paid on revolving loan bonds	(17,465,000)	-	(17,465,000)
Net cash provided by (used in) non-capital and related financing activities	(16,071,030)	795,326	(15,275,704)
Cash Flows from Capital and Related Financing Activities:			
Purchase of capital assets	-	(6,639)	(6,639)
Net increase (decrease) in cash and cash equivalents	(7,027,551)	201,116	(6,826,435)
Cash and Cash Equivalents - restricted, beginning of year	49,505,048	1,712,706	51,217,754
Cash and Cash Equivalents - restricted, end of year	\$ 42,477,497	\$ 1,913,822	\$ 44,391,319

-Continued-

See accompanying notes to financial statements.

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

For the year ended September 30, 2015

Business-type Activities - Enterprise Funds

	Loan Fund	Loan Fee Fund	Total
Reconciliation of Operating Income to Net Cash			
Provided by (Used in) Operating Activities:			
Operating income	\$ 7,740,273	\$ 1,192,350	\$ 8,932,623
Bond insurance amortization	156,116	-	156,116
Depreciation	-	22,333	22,333
(Increase) decrease in operating assets:			
Due from Drinking Water Finance Authority (DWFA)	(106,517)	-	(106,517)
Due from ADEM	(90,021)	-	(90,021)
Accrued interest receivable on investments - restricted	92,667	-	92,667
Accrued interest receivable on loans receivable	51,137	-	51,137
Loan premium	(571,840)	-	(571,840)
Loans receivable	6,605,000	-	6,605,000
Prepaid rent	-	166,282	166,282
Increase (decrease) in operating liabilities:			
Accrued interest payable	(60,700)	-	(60,700)
Accrued arbitrage rebate	34,811	-	34,811
Payables to municipalities	(5,044,828)	-	(5,044,828)
Accounts payable	-	1,399	1,399
Due to DWFA	237,381	-	237,381
Due to ADEM	-	(1,969,935)	(1,969,935)
Net cash provided by (used in) operating activities	\$ 9,043,479	\$ (587,571)	\$ 8,455,908

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.

Impact of Recently Issued Accounting Pronouncements

Recently Issued and Adopted

In Fiscal Year 2015, the Authority adopted three (3) new statements of financial accounting standards issued by the GASB:

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*

Alabama Water Pollution Control Authority Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*
- GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*

GASB Statement No. 68 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, 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. There was no impact on these financial statements as a result of the implementation of GASB Statement No. 68.

GASB Statement No. 69 improves financial reporting by addressing accounting and financial reporting for government combinations and disposals of government operations. The term “government combinations” is 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. There was no impact on the Authority’s financial statements as a result of the implementation of Statement No. 69.

GASB Statement No. 71 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. There was no impact on the Authority’s financial statements as a result of the implementation of Statement No. 71.

Alabama Water Pollution Control Authority Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. Statement No. 72 requires the Authority to use valuation techniques which are appropriate under the circumstances and are either a market approach, a cost approach or an income approach.

GASB Statement No. 72 establishes a hierarchy of inputs used to measure fair value consisting of three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs, such as management's assumption of the default rate among underlying mortgages of a mortgage-backed security. Statement No. 72 also contains note disclosure requirements regarding the hierarchy of valuation inputs and valuation techniques that was used for the fair value measurements. The Authority has not completed the process of evaluating the impact of Statement No. 72 on its financial statements.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The requirements of this statement extend the approach to accounting and financial reporting established in Statement No. 68 to all pensions to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement No. 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities. The provisions of Statement No. 73 that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement No. 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of Statement No. 73 for pension plans that are within the scope of Statement No. 67 or for pensions that are within the scope of Statement No. 68 are effective for fiscal years beginning after June 15, 2015. Earlier application is encouraged. The Authority has not completed the process of evaluating the impact of Statement No. 73 on its financial statements.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The scope of this statement includes defined benefit and defined contribution OPEB plans administered through trusts that meet specified criteria. This statement establishes financial reporting standards for state and local governmental other postemployment benefit ("OPEB") plans. The Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. Statement No. 74 is

Alabama Water Pollution Control Authority Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

effective for financial statements for fiscal years beginning after June 15, 2016. Earlier application is encouraged. The Authority has not completed the process of evaluating the impact of Statement No. 74 on its financial statements.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB). This statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employees.

This Statement also establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB plans this statement identifies the methods and assumptions that are required to 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. Note disclosures and required supplementary information are also addressed by the statement. This statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 75 is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged. The Authority has not completed the process of evaluating the impact of Statement No. 75 on its financial statements.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. It also amends Statement No. 62, *Codification of accounting and financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, paragraph 64, 74, and 82. The provisions of Statement No. 76 are effective for financial statements for periods beginning after June 15, 2015. Earlier application is permitted. The Authority has not completed the process of evaluating the impact of Statement No. 76 on its financial statements.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*. For financial reporting purposes, this statement defines a tax abatement and contains required disclosures about a reporting government's own tax abatement agreements and those that are entered into by other governments and that reduce the reporting government's tax revenues. The requirements of GASB Statement No. 77 are effective for financial statements for periods beginning after December 15, 2015. Earlier application is encouraged. The Authority has not completed the process of evaluating the impact of Statement No. 77 on its financial statements.

Alabama Water Pollution Control Authority Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows/inflows of Resources

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

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will *not* be recognized as an inflow of resources (revenue) until that time. The Authority did not have any items that qualify as deferred inflows of resources.

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.

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.

Alabama Water Pollution Control Authority Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans Receivable, Payables to Municipalities, and Loan Premium

The Authority issues loans to eligible municipalities or their agencies through the purchase of the municipalities' revenue or general obligation bonds or warrants with the loan disbursements being made as the municipalities' construction expenditures are incurred. The loans to municipalities are in excess of the expenditures made by the Authority. The excess of these loans receivables over the payments to municipalities is classified as a loan premium. This loan premium, which allows the Authority to recover certain costs associated with the loan, is amortized into income on the interest method over the life of the loan. The stated interest rates for these loans range from 2.2% to 4% and the effective interest rates range from 2.303% 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.

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.

Alabama Water Pollution Control Authority Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2015 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.

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.

Alabama Water Pollution Control Authority Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2015, 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

Alabama Water Pollution Control Authority Notes to Financial Statements

NOTE 2 – CASH AND INVESTMENTS (Continued)

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.

As of September 30, 2015, 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	\$ 1,657,174	\$ 163,825	\$ 13,501	\$ 1,479,848
Guaranteed Investment Contracts	4,465,000	-	4,465,000	-
U.S. Treasury SLGs	12,380,755	1,439,350	7,197,865	3,743,540
U.S. Treasury Bonds/Notes	153,880,997	149,236,420	564,031	4,080,546
Certificate of Deposits	4,721,986	4,721,986	-	-
Total investments	177,105,912	\$ 155,561,581	\$ 12,240,397	\$ 9,303,934
Cash equivalents:				
Money Market Funds	44,391,319	N/A	N/A	N/A
Total holdings	\$ 221,497,231			

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 \$167,918,927 held in trust by either the Bank of New York, U.S. Bank, or Regions Bank in a fiduciary capacity.

Alabama Water Pollution Control Authority Notes to Financial Statements

NOTE 2 – CASH AND INVESTMENTS (Continued)

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, 2015, 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 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, 2015 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, 2015:

Moody's Ratings	Fair Value	Fair Value as a Percent of Total Holdings Value
Exempt from disclosure	\$ 172,640,912	77.94%
Aaa	44,391,319	20.04%
Not Rated	4,465,000	2.02%
	\$ 221,497,231	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, 2015.

Alabama Water Pollution Control Authority
Notes to Financial Statements

NOTE 3 – LOANS RECEIVABLE

Loans receivable at September 30, 2015, as discussed below, are as follows:

Completed projects	\$	277,530,000
Projects in progress		108,670,000
		386,200,000
Less:		
Current portion loans receivable		33,550,000
Unamortized Premium		4,173,604
		\$ 348,476,396

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

2016	\$	33,550,000
2017		34,080,000
2018		30,960,000
2019		31,705,000
2020 and thereafter		255,905,000
		\$ 386,200,000

As of September 30, 2015, the Authority had loans outstanding to ten agencies that, in the aggregate, exceed \$134 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	\$ 19,225,000
Mobile Sewer Rehabilitation	18,875,000
Dothan 2014 CWSRF Wastewater System Improvement Program	18,475,000
Mobile Smith WWTF & Regional Force Main, Pump Station & Outfall	17,685,000
Athens Wastewater Treatment Plant Improvements	11,980,000
Sheffield WWTP and Sewer Rehabilitation	10,605,000
Pell City Sanitary Sewer System Upgrade and Rehabilitation	10,190,000
Guntersville Eastlake WWTP Improvements	9,575,000
Decatur Wastewater System Improvements	8,970,000
Dothan Little Choctawhatchee WWTF Upgrade and Interceptors	8,505,000
Total	
	\$ 134,085,000

Alabama Water Pollution Control Authority
Notes to Financial Statements

NOTE 4 – CAPITAL ASSETS, NET

Capital assets, net consist of the following depreciable assets:

	Balance				Balance
	10/01/14	Additions	Deletions		9/30/2015
Data processing equipment	\$ 192,253	\$ 5,829	\$ 97,507	\$	100,575
Scientific and technical equipment	967,240	-	200,841		766,399
Communication equipment	151,075	-	38,022		113,053
Other equipment	97,699	810	17,566		80,943
	1,408,267	6,639	353,936		1,060,970
Less: Accumulated depreciation	1,382,944	22,333	353,936		1,051,341
Total capital assets, net	\$ 25,323	\$ (15,694)	\$ -	\$	9,629

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, 2015, the EPA awarded ADEM capitalization funds under its annual grant agreement in the amount of \$15,597,000. During the year ended September 30, 2015, 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 \$15,597,000 at September 30, 2015. The Authority will apply for a federal capitalization grant in 2016. Any grants in 2016 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, 2015:

Alabama Water Pollution Control Authority
Notes to Financial Statements

NOTE 5 – APPROPRIATIONS (Continued)

Year	Grant Amount	Draws prior to 2015	2015 Draws	Total Draws	Amount Available for Future Draws
2014	\$ 15,678,000	\$ -	\$ 15,678,000	\$ 15,678,000	\$ -
2015	15,597,000	-	-	-	15,597,000
	<u>\$ 31,275,000</u>	<u>\$ -</u>	15,678,000	<u>\$ 15,678,000</u>	<u>\$ 15,597,000</u>
Less:					
	Administrative and set-aside expenses		(388,443)		
<u>Total 2015 Draws</u>			<u>\$ 15,289,557</u>		

NOTE 6 – PAYABLES TO MUNICIPALITIES

As of September 30, 2015, the Authority had \$72,312,142 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.

NOTE 7 – LONG-TERM DEBT

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 2010A Revolving Loan Bonds totaling \$36,440,000. The Series 2010A Bonds include:

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

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

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

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

Alabama Water Pollution Control Authority
Notes to Financial Statements

NOTE 7 – LONG-TERM DEBT (Continued)

\$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 2015:

	Balance 10/01/14	Additions	Reductions	Balance 9/30/2015
Revolving fund loan bonds	\$ 121,790,000	\$ -	\$ 17,465,000	\$ 104,325,000
Add: Unamortized premiums	1,399,338	-	310,727	1,088,611
Total	\$ 123,189,338	\$ -	\$ 17,775,727	\$ 105,413,611

Long-term debt at September 30, 2015 is payable as follows:

	Principal	Interest	Total
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	12,850,000	1,254,900	14,104,900
2021-2023	21,550,000	1,519,800	23,069,800
	104,325,000	\$ 13,569,532	\$ 117,894,532
Plus: Unamortized premium	1,088,611		
Less: Current Portion	18,415,000		
Total long-term debt	\$ 86,998,611		

Summary of changes in deferred outflows related to debt for 2015:

	Balance 10/01/14	Additions	Reductions	Balance 9/30/2015
Unamortized deferred refunding costs	\$ 2,293,616	\$ -	\$ 466,843	\$ 1,826,773

Alabama Water Pollution Control Authority Notes to Financial Statements

NOTE 7 – LONG-TERM DEBT (Continued)

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, 2015, the unamortized deferred refunding costs totaled \$38,464 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, 2015, the unamortized deferred refunding costs totaled \$406,789 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, 2015, the unamortized deferred refunding costs totaled \$489,551 for the Series 1999 Bonds.

The Authority issued the 2010B Refunding Series revolving loan bonds for the purpose of refunding the Series 1998A and 1998B Bonds that had aggregate principal balances of \$39,535,000 and \$40,410,000 on August 15, 2010, respectively. The refunding resulted in accounting losses of approximately \$492,910 and \$537,824, respectively, that has been capitalized and is being amortized on a straight-line basis, through 2020. Although the refunding resulted in an accounting loss, the Authority reduced its aggregate debt service by approximately \$23 million over the next 11 years and obtained an economic gain (the difference between the present values of the old and new debt service requirements) of approximately \$11.7 million. As of September 30, 2015, the unamortized deferred refunding costs totaled \$515,367 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

Alabama Water Pollution Control Authority Notes to Financial Statements

NOTE 8 – ARBITRAGE REBATE CALCULATIONS

between the present values of the old and new debt service requirements) of approximately \$7.3 million. As of September 30, 2015, the unamortized deferred refunding costs totaled \$376,602 for the Series 2000 Bonds.

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 \$122,021 at September 30, 2015.

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 Authority does not maintain any employees of their own. Salary expense on the Loan Fee Fund is related to services provided by the employees of ADEM, which is allocated to the Authority. As the Authority has no employees, no liability for pension costs or other post-employment benefits is recognized by the Authority. As disclosed in note 11, the Authority has recorded a prior period adjustment to remove the other post-employment benefit liability previously recorded.

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 14.98%, 9.27%, 5.55%, 5%, 5%, and 10% of total grant funds provided by the 2010 grant, 2011 grant, 2012 grant, 2013 grant, 2014 grant and 2015 grant, 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, 2015 totaled \$1,779,277, leaving a remaining balance of \$1,790,040 capitalized as principal forgiveness on the statement of net position as of September 30, 2015.



Alabama Water Pollution Control Authority Notes to Financial Statements

NOTE 11 – PRIOR PERIOD ADJUSTMENT

A prior period adjustment was made to remove the liability for other post-employment benefits as of September 30, 2014. The adjustment reduced long-term liabilities \$909,385 and decreased operating expense \$70,798 for the year ended September 30, 2014. This restatement also increased fund balance \$909,385 at September 30, 2014. See Note 9 for additional information.

NOTE 12 – SUBSEQUENT EVENTS

The Authority has evaluated subsequent events through March 9, 2016, 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, 2015**

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Grantor's Number	Federal Expenditures
Environmental Protection Agency			
Passed through the Alabama Department of Environmental Management			
Capitalization grants for state revolving funds	66.458	CS010001-14	\$ 15,199,537
Capitalization grants for state revolving funds	66.458	CS010001-15	95,100
Total Environmental Protection Agency			15,294,637
Total federal financial assistance			\$ 15,294,637

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 9, 2016, 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, 2015, 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 9, 2016.

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 9, 2016

**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, 2015. 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 about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Authority, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2015.

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 9, 2016

**Alabama Water Pollution Control Authority
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2015**

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? \$ 458,839
	Auditee qualified as low-risk auditee? <u> X </u> yes <u> </u> no

SECTION II – Financial Statements Findings

No matters were reported.

SECTION III – Federal Award Findings and Questioned Costs

No matters were reported.