

**Alabama Drinking Water  
Finance Authority**

**COMPONENT UNIT FINANCIAL STATEMENTS**

**For the Year Ended September 30, 2015**



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**Alabama Drinking Water Finance Authority**  
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**September 30, 2015**

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## **INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Alabama Drinking Water Finance Authority  
Montgomery, Alabama

We have audited the accompanying financial statements of the business-type activities and the major funds of the Alabama Drinking Water Finance 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 Drinking Water Finance Authority (the Authority) was established in 1997 to provide a self-perpetuating source of low interest loans for the construction of public water treatment and distribution facilities needed to meet the public health goals of the Safe Drinking Water Act. 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 basic 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 Funds statements provide financial information about the Alabama Drinking Water Finance Authority which the Alabama Department of Environmental Management operates like a business.

Statement of Net Position - Proprietary Funds – Includes all assets, liabilities, and deferred outflows 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 is 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 Fund – 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 position for the fiscal year. The change in restricted net position plus the beginning restricted net position results in the restricted net position available for the perpetuation of the Authority.

The Notes to the Financial Statements include an 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>2015</b>	2014 (Restated)	Variance	% increase (decrease)
<b>Assets</b>				
Cash and cash equivalents	\$ 31,823,110	\$ 30,121,868	\$ 1,701,242	6%
Receivables	186,598,610	229,241,379	(42,642,769)	-19%
Investments	80,331,625	78,486,913	1,844,712	2%
Unamortized items	3,571,790	3,947,783	(375,993)	-10%
<b>Total assets</b>	<b>302,325,135</b>	341,797,943	(39,472,808)	-12%
<b>Deferred Outflows of Resources</b>				
Deferred charge on refunding	1,751,773	1,832,373	(80,600)	-4%
<b>Liabilities</b>				
Accrued liabilities	1,173,142	1,687,108	(513,966)	-30%
Payable to municipalities	24,412,067	30,321,126	(5,909,059)	-19%
Bonds payable, net	60,452,458	107,899,410	(47,446,952)	-44%
<b>Total liabilities</b>	<b>86,037,667</b>	139,907,644	(53,869,977)	-39%
<b>Net position, restricted</b>	<b>\$ 218,039,241</b>	\$ 203,722,672	\$ 14,316,569	7%

#### Statement of Activities

<i>For the year ended September 30,</i>	<b>2015</b>	2014 (Restated)	Variance	% increase (decrease)
Operating revenue	\$ 10,152,772	\$ 11,514,747	\$ (1,361,975)	-12%
Operating expense	7,450,705	8,333,365	(882,660)	-11%
Operating income	2,702,067	3,181,382	(479,315)	-15%
Non-operating revenue	11,614,502	9,088,716	2,525,786	28%
<b>Change in net position</b>	<b>\$ 14,316,569</b>	\$ 12,270,098	\$ 2,046,471	17%

## Management's Discussion and Analysis

### Statement of Cash Flows

<i>For the year ended September 30,</i>	<b>2015</b>	2014 (Restated)	Variance	% increase (decrease)
Net cash provided by operating activities	\$ <b>41,512,062</b>	\$ 15,804,902	\$ 25,707,160	163%
Net cash provided by (used in) non-capital and related financing activities	<b>(39,810,820)</b>	(13,942,314)	(25,868,506)	186%
Net increase (decrease) in cash and cash equivalents	<b>\$ 1,701,242</b>	\$ 1,862,588	\$ (161,346)	-9%

### Financial Highlights

- The Authority closed 23 new loans totaling \$13,615,000.
- One refunding bond issue was completed. The net effect was the defeasance of \$61,505,000 in old debt and replacing it with \$15,720,000 in new debt while realizing an economic gain of approximately \$3.9 million. Their savings was realized in the form of an interest rate reduction from a range of 4% to 5.25% to a range of 2% to 5%.
- Net position increased \$14,316,569 mainly due to the utilization of \$16,299,154 in federal funds transferred to loan recipients.

**Alabama Drinking Water Finance Authority**  
**Statement of Net Position**

<i>September 30, 2015</i>	<b>Business-type Activities</b>
<b>Assets</b>	
Current assets:	
Cash and cash equivalents - restricted	\$ 31,823,110
Accrued interest receivable on investments - restricted	281,273
Accrued interest receivable on loans receivable	627,909
Current portion of loans receivable	14,735,000
Grants and other receivables	504,057
Total current assets	47,971,349
Noncurrent assets:	
Investments - restricted	80,331,625
Loans receivable less unamortized premium of \$3,049,629	170,450,371
Principal forgiveness	3,571,790
Total noncurrent assets	254,353,786
Total assets	302,325,135
<b>Deferred Outflows of Resources</b>	
Deferred charge on refunding	1,751,773
<b>Liabilities</b>	
Current liabilities:	
Accounts payable	12,441
Current portion of revolving loan bonds	4,240,000
Accrued interest payable	229,179
Other payables	106,578
Due to Alabama Department of Environmental Management (ADEM)	824,944
Total current liabilities	5,413,142
Long-term liabilities:	
Payables to municipalities	24,412,067
Revolving loan bonds payable	56,212,458
Total long-term liabilities	80,624,525
Total liabilities	86,037,667
<b>Net Position</b>	
Restricted for loans and debt service	218,039,241
Total net position	\$ 218,039,241

*See accompanying notes to financial statements.*

**Alabama Drinking Water Finance Authority**  
**Statement of Activities**  
**For the Year Ended September 30, 2015**

<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>				
Drinking water loans	\$ 11,851,982	\$ 1,439,082	\$ 16,299,154	\$ 5,886,254
<b>General Revenues</b>				
Investment earnings				8,430,315
Change in net position				14,316,569
<b>Net Position</b> - Beginning, as originally stated				203,389,097
<b>Prior Period Adjustments</b>				333,575
<b>Net Position</b> - Beginning, as restated				203,722,672
<b>Net Position</b> - Ending				\$ 218,039,241

*See accompanying notes to financial statements.*

**Alabama Drinking Water Finance Authority**  
**Statement of Net Position**  
**Proprietary Funds**

<i>September 30, 2015</i>	<b>Business-type Activities - Enterprise Funds</b>		
	<b>Loan Fund</b>	<b>Loan Fee Fund</b>	<b>Total</b>
<b>Assets</b>			
Current assets:			
Cash and cash equivalents - restricted	\$ 28,839,775	\$ 2,983,335	\$ 31,823,110
Accrued interest receivable on investments - restricted	281,273	-	281,273
Accrued interest receivable on loans receivable	627,909	-	627,909
Current portion of loans receivable	14,735,000	-	14,735,000
Grants and other receivables	504,057	-	504,057
<b>Total current assets</b>	<b>44,988,014</b>	<b>2,983,335</b>	<b>47,971,349</b>
Noncurrent assets:			
Investments - restricted	78,236,703	2,094,922	80,331,625
Loans receivable less unamortized premium of \$3,049,629	170,450,371	-	170,450,371
Principal forgiveness	3,571,790	-	3,571,790
<b>Total noncurrent assets</b>	<b>252,258,864</b>	<b>2,094,922</b>	<b>254,353,786</b>
<b>Total assets</b>	<b>297,246,878</b>	<b>5,078,257</b>	<b>302,325,135</b>
<b>Deferred Outflows of Resources</b>			
Deferred charge on refunding	1,751,773	-	1,751,773
<b>Liabilities</b>			
Current liabilities:			
Accounts Payable	-	12,441	12,441
Current portion of revolving loan bonds	4,240,000	-	4,240,000
Accrued interest payable	229,179	-	229,179
Other payables	106,578	-	106,578
Due to ADEM	-	824,944	824,944
<b>Total current liabilities</b>	<b>4,575,757</b>	<b>837,385</b>	<b>5,413,142</b>
Long-term liabilities:			
Payables to municipalities	24,412,067	-	24,412,067
Revolving loan bonds payable	56,212,458	-	56,212,458
<b>Total long-term liabilities</b>	<b>80,624,525</b>	<b>-</b>	<b>80,624,525</b>
<b>Total liabilities</b>	<b>85,200,282</b>	<b>837,385</b>	<b>86,037,667</b>
<b>Net Position</b>			
Restricted for loans and debt service	\$ 213,798,369	\$ 4,240,872	\$ 218,039,241

*See accompanying notes to financial statements.*

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

<i>For the year ended September 30, 2015</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	\$ 2,253,364	\$ 16,485	\$ 2,269,849
Interest from loan receivable	6,443,841	-	6,443,841
Administrative fees	-	1,439,082	1,439,082
<b>Total operating revenues</b>	<b>8,697,205</b>	<b>1,455,567</b>	<b>10,152,772</b>
<b>Operating Expenses</b>			
Administration expense	2,186,140	-	2,186,140
Bond interest expense	3,593,911	-	3,593,911
Bond insurance amortization	199,172	-	199,172
Employee benefits	-	275,760	275,760
Office expense	-	149,124	149,124
Other expenses	-	277,334	277,334
Salaries	-	769,264	769,264
<b>Total operating expenses</b>	<b>5,979,223</b>	<b>1,471,482</b>	<b>7,450,705</b>
<b>Operating income (loss)</b>	<b>2,717,982</b>	<b>(15,915)</b>	<b>2,702,067</b>
<b>Nonoperating Revenues (Expenses)</b>			
Federal grant revenue	16,299,154	-	16,299,154
Principal forgiveness expense	(4,401,277)	-	(4,401,277)
Net decrease in the fair value of investments	(286,119)	2,744	(283,375)
<b>Total nonoperating revenues (expenses)</b>	<b>11,611,758</b>	<b>2,744</b>	<b>11,614,502</b>
<b>Change in Net Position</b>	<b>14,329,740</b>	<b>(13,171)</b>	<b>14,316,569</b>
<b>Net Position - Beginning, as originally stated</b>	<b>199,468,629</b>	<b>3,920,468</b>	<b>203,389,097</b>
<b>Prior Period Adjustment</b>	<b>-</b>	<b>333,575</b>	<b>333,575</b>
<b>Net Position - Beginning, as restated</b>	<b>199,468,629</b>	<b>4,254,043</b>	<b>203,722,672</b>
<b>Net Position - Ending</b>	<b>\$ 213,798,369</b>	<b>\$ 4,240,872</b>	<b>\$ 218,039,241</b>

*See accompanying notes to financial statements.*

**Alabama Drinking Water Finance 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
<b>Cash Flows from Operating Activities:</b>			
Interest and dividends received on investments	\$ 2,327,283	\$ 16,485	\$ 2,343,768
Interest paid on revolving loan bonds	(3,863,834)	-	(3,863,834)
Premium on bonds issued	2,379,192	-	2,379,192
Receipts of payments from municipalities	52,229,136	-	52,229,136
Payments to employees and vendors	205,590	(649,569)	(443,979)
Interest received on loans receivable	6,105,799	-	6,105,799
Administration fees	(2,186,140)	1,439,082	(747,058)
Payments to municipalities	(15,249,059)	-	(15,249,059)
Payments (to) from ADEM	(71,013)	(1,170,890)	(1,241,903)
Net cash provided by (used in) operating activities	41,876,954	(364,892)	41,512,062
<b>Cash Flows from Non-capital and Related Financing Activities:</b>			
Grant revenue received	16,287,267	-	16,287,267
Principal forgiveness expense	(4,275,000)	-	(4,275,000)
Net (purchases) sales of investment securities	(3,030,540)	902,453	(2,128,087)
Revolving loan bond proceeds	15,720,000	-	15,720,000
Principal paid on revolving loan bonds	(65,415,000)	-	(65,415,000)
Net cash used in non-capital and related financing activities	(40,713,273)	902,453	(39,810,820)
Net increase in cash and cash equivalents	1,163,681	537,561	1,701,242
<b>Cash and Cash Equivalents - restricted, beginning of year</b>	27,676,094	2,445,774	30,121,868
<b>Cash and Cash Equivalents - restricted, end of year</b>	\$ 28,839,775	\$ 2,983,335	\$ 31,823,110

-Continued-

*See accompanying notes to financial statements.*

**Alabama Drinking Water Finance 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
<b>Reconciliation of Operating Income to Net Cash</b>			
<b>Provided by (Used in) Operating Activities:</b>			
Operating income (loss)	\$ 2,717,982	\$ (15,915)	\$ 2,702,067
Bond insurance amortization	199,172	-	199,172
Premium on bonds issued	2,379,192	-	2,379,192
Loan premium amortization	(560,868)	-	(560,868)
(Increase) decrease in operating assets:			
Due from ADEM	(71,013)	-	(71,013)
Due from WPCA	(237,381)	-	(237,381)
Other receivables	207,173	-	207,173
Accrued interest receivable on investments - restricted	73,919	-	73,919
Accrued interest receivable on loans receivable	222,826	-	222,826
Loans receivable and other receivables	43,020,000	-	43,020,000
Increase (decrease) in operating liabilities:			
Accounts payable	-	(3,031)	(3,031)
Accrued interest payable	(269,923)	-	(269,923)
Payables to municipalities	(5,909,059)	-	(5,909,059)
Other payables	(1,583)	-	(1,583)
Due to ADEM	-	(345,946)	(345,946)
Due to WPCA	106,517	-	106,517
Net cash provided by (used in) operating activities	\$ 41,876,954	\$ (364,892)	\$ 41,512,062

*See accompanying notes to financial statements.*

# Alabama Drinking Water Finance Authority

## Notes to Financial Statements

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Alabama Drinking Water Finance 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 1997 to issue revolving loan bonds and lend the bond proceeds to eligible municipalities at below market interest rates to pay for certain costs of planning, designing, acquiring or constructing certain sanitary drinking water and related facilities. The Federal Water Quality Act of 1987, as amended by the Federal Safe Drinking Water Act Amendment of 1996 (SDWA), provides for the implementation of a state revolving loan 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 recipient agency of the federal grant and has been 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 Authority (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and the Governmental Entities that Use Proprietary Fund Accounting*, the Authority has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Authority (FASB) pronouncements and Accounting Principles Authority 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:

## Alabama Drinking Water Finance Authority Notes to Financial Statements

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

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*
- 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 these financial statements as a result of the implementation of GASB Statement No. 71.

## Alabama Drinking Water Finance 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 effective for financial statements for fiscal years beginning after June 15, 2016. Earlier application is

## Alabama Drinking Water Finance Authority Notes to Financial Statements

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

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 Drinking Water Finance 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 Drinking Water Finance 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 (municipalities) 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 rate for these loans range from 2.20% to 3.95% and the effective interest rates range from 2.37% to 4.4%. 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 trustee 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.

#### ***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 Drinking Water Finance 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 Clean 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 Drinking Water Finance 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, 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 the 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 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 Drinking Water Finance Authority Notes to Financial Statements

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

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 SLGs	\$ 8,056,630	\$ 1,212,900	\$ 757,340	\$ 6,086,390
U.S. Treasury Bonds/Notes	71,035,714	70,035,052	273,394	727,268
Certificate of Deposits	1,239,281	1,239,281	-	-
<b>Total investments</b>	<b>80,331,625</b>	<b>\$ 72,487,233</b>	<b>\$ 1,030,734</b>	<b>\$ 6,813,658</b>
Cash Equivalents:				
Money Market Funds	31,823,110	N/A	N/A	N/A
<b>Total holdings</b>	<b>\$ 112,154,735</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, and slugs) totaling \$79,092,344 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 the result of investing 5% or more of total investments in any one 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

## Alabama Drinking Water Finance Authority Notes to Financial Statements

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

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	\$ 80,331,625	71.63%
Aaa	31,823,110	28.37%
	\$ 112,154,735	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.

### NOTE 3 – LOANS RECEIVABLE

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

Completed projects	\$ 138,995,000
Projects in progress	49,240,000
	188,235,000
Less:	
Current portion loans receivable	14,735,000
Unamortized Premium	3,049,629
Loans receivable, net	\$ 170,450,371

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

**Alabama Drinking Water Finance Authority**  
**Notes to Financial Statements**

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

2016		\$	14,735,000
2017			15,470,000
2018			16,000,000
2019			16,210,000
2020 and thereafter			125,820,000
			\$ 188,235,000

As of September 30, 2015, the Authority's ten largest outstanding loans, in the aggregate, exceeded \$78 million. The outstanding balances of these loans represent approximately 42% of the total loans receivable, as follows:

Loan Recipient	Outstanding Balance
Shelby County South Water Treatment Plant	\$ 18,080,000
Warrior River Phase 1 Improvements	14,815,000
Albertville Water Treatment & Distribution Improvements	10,240,000
Madison Water System Improvements	6,015,000
Florence AMR & Wilson Lake Intake Improvements	5,825,000
Birmingham Water Line Improvements and SolarBee Installation	5,335,000
Tuscaloosa Water System Improvements	4,810,000
Harvest-Monrovia Water Improvements	4,795,000
South Alabama Utilities Water System Improvements - AMR System	4,495,000
Shelby County South Water Treatment Plant (Supplemental)	4,345,000
	\$ 78,755,000

**NOTE 4 – CAPITAL ASSETS, NET**

Capital assets, net consist of the following depreciable assets at September 30, 2015:

	Balance 10/01/14	Additions	Deletions	Balance 9/30/2015
Data processing equipment	\$ 181,448	\$ -	\$ 181,448	\$ -
Scientific and technical equipment	276,004	-	185,473	90,531
	457,452	-	366,921	90,531
Less: Accumulated depreciation	457,452	-	366,921	90,531
Total capital assets, net	\$ -	\$ -	\$ -	\$ -

## Alabama Drinking Water Finance 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, 2015, the EPA awarded ADEM capitalization funds under its annual grant agreement in the amount of \$16,781,000. 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 federal capitalizing grants. As of September 30, 2015, the Authority had yet to receive any state matching funds.

The amount of unused federal capitalization grants was approximately \$17,443,703 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:

Year	Grant Amount	Draws prior to 2015	2015 Draws	Total Draws	Amount Available for Future Draws
2013	\$ 10,438,000	\$ 10,020,480	\$ 417,520	\$ 10,438,000	\$ -
2014	16,892,000	-	16,229,297	16,229,297	662,703
2015	16,781,000	-	-	-	16,781,000
	<u>\$ 44,111,000</u>	<u>\$ 10,020,480</u>	16,646,817	<u>\$ 26,667,297</u>	<u>\$ 17,443,703</u>
Less:					
	Administrative and set-aside expenses		(774,297)		
Total 2015 Draws			<u>\$ 15,872,520</u>		

### NOTE 6 – PAYABLES TO MUNICIPALITIES

As of September 30, 2015, the authority had \$24,412,067 in payables to municipalities. These payables represent loans on projects in progress at year end. Loan funds are advanced as work is completed on each project.

## Alabama Drinking Water Finance Authority Notes to Financial Statements

### NOTE 7 – LONG-TERM DEBT

On December 1, 2004, the Authority issued Series 2004A Revolving Fund Loan Bonds totaling \$24,880,000. The Series 2004A Bonds include:

\$17,035,000 serial bonds commencing February 15, 2008, and due August 15, 2028, which bear interest at rates ranging from 4.00% to 4.63%.

\$7,845,000 term bonds due August 15, 2026, which bears interest at 4.50%.

As of September 30, 2015, the Series 2004A bonds were fully paid.

On October 1, 2005, the Authority issued Series 2005A Revolving Fund Loan Bonds totaling \$42,580,000. The Series 2005A Bonds include:

\$27,095,000 serial bonds commencing August 15, 2008, and due August 15, 2024, which bear interest at rates ranging from 4.00% to 5.25%.

\$15,485,000 term bonds due August 15, 2028, which bears interest at 4.00%.

As of September 30, 2015, the Series 2005A bonds were fully paid.

On February 1, 2012, the Authority issued Refunding Series 2012A Revolving Loan Bonds totaling \$45,210,000. The Series 2012 A Bonds include:

\$45,210,000 serial bonds commencing August 15, 2012, and due August 15, 2024, which bear interest rates ranging from 0.05% to 4.00%.

On December 1, 2013, the Authority issued Refunding Series 2013A Revolving Loan Bonds totaling \$10,035,000. The Series 2013 A Bonds include:

\$10,035,000 serial bonds commencing August 15, 2017, and due August 15, 2027, which bear interest rates ranging from 3.00% to 3.75%.

On January 1, 2015, the Authority issued Refunding Series 2015A Revolving Loan Bonds totaling \$15,720,000. The Series 2015 A Bonds include:

\$15,720,000 serial bonds commencing August 15, 2016, and due August 15, 2027, which bear interest rates ranging from 2.00% to 5.00%.

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.

**Alabama Drinking Water Finance Authority**  
**Notes to Financial Statements**

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

Summary of changes in long-term debt for 2015:

	Balance 10/01/14	Additions	Reductions	Balance 9/30/2015
Revolving fund loan bonds	\$ 107,350,000	\$ 15,720,000	\$ 65,415,000	\$ 57,655,000
Add: Unamortized premiums	549,410	2,422,042	173,994	2,797,458
<b>Total</b>	<b>\$ 107,899,410</b>	<b>\$ 18,142,042</b>	<b>\$ 65,588,994</b>	<b>\$ 60,452,458</b>

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

	Principal	Interest	Total
2016	\$ 4,240,000	\$ 1,833,434	\$ 6,073,434
2017	6,030,000	1,667,034	7,697,034
2018	6,625,000	1,420,184	8,045,184
2019	6,835,000	1,197,134	8,032,134
2020	5,775,000	1,004,734	6,779,734
2021-2025	23,330,000	2,581,126	25,911,126
2026-2027	4,820,000	200,950	5,020,950
	57,655,000	\$ 9,904,596	\$ 67,559,596
Plus: Unamortized premium	2,797,458		
Less: Current Portion	4,240,000		
<b>Total long-term debt</b>	<b>\$ 56,212,458</b>		

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	1,832,373	106,094	186,694	1,751,773

The Authority issued the 2012A Refunding Series revolving loan bonds for the purpose of refunding the Series 1998A Bonds, the Series 2000A & B Bonds, the Series 2000C Bonds, and the Series 2002A Bonds, which had an aggregate principal balance of \$69,870,000 on February 13, 2012. The refunding resulted in an accounting loss of approximately \$2,046,205 that has been capitalized and is being amortized on a straight-line basis, through 2024. Although the refunding resulted in an accounting loss, the Authority reduced its aggregate debt service by approximately \$23.1 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 \$15.9 million. As of September 30, 2015, the unamortized deferred refunding costs totaled \$1,452,115 for the Series 1998A, 2000A & B, Series 2000C, and 2002A Bonds.

## Alabama Drinking Water Finance Authority Notes to Financial Statements

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

The Authority issued the 2013A Refunding Series revolving loan bonds for the purpose of refunding the Series 2003A Bonds, which had an aggregate principal balance of \$29,305,000 on December 1, 2013. The refunding resulted in an accounting loss of approximately \$230,659 that has been capitalized and is being amortized on a straight-line basis, through 2027. Although the refunding resulted in an accounting loss, the Authority reduced its aggregate debt service by approximately \$19.2 million over the next 14 years and obtained an economic gain (the difference between the present values of the old and new debt service requirements) of approximately \$6.7 million. As of September 30, 2015, the unamortized deferred refunding costs totaled \$199,805 for the Series 2003A Bonds.

The Authority issued the 2015A Refunding Series revolving loan bonds for the purpose of refunding the Series 2004A Bonds, which had an aggregate principal balance of \$23,345,000 on January 1, 2015. The refunding resulted in an accounting loss of approximately \$106,094 that has been capitalized and is being amortized on a straight-line basis, through 2027. Although the refunding resulted in an accounting loss, the Authority reduced its aggregate debt service by approximately \$7.6 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 \$3.9 million. As of September 30, 2015, the unamortized deferred refunding costs totaled \$99,853 for the Series 2004A 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 obtained an arbitrage calculation during the year ended 2015. Per the calculation received there are no amounts due to or from the Internal Revenue Service 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.

## Alabama Drinking Water Finance Authority Notes to Financial Statements

### **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 30%, 5.55%, 20%, 20% and 20% of total grant funds provided by the 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 \$4,401,277, leaving a remaining balance of \$3,571,790 capitalized as principal forgiveness on the statement of net position as of September 30, 2015.

### **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 \$333,575 and decreased operating expense \$64,475 for the year ended September 30, 2014. This restatement also increased fund balance \$333,575 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 Drinking Water Finance Authority  
Schedule of Expenditures of Federal Awards  
September 30, 2015**

Federal Grantor/Pass Through Grantor/Program Title	CFDA Number	Grantor's Number	Federal Expenditures
<b>Environment Protection Agency</b>			
Passed through the Alabama Department of Environmental Management			
Capitalization grants for state revolving funds	66.468	FS984472-14	\$ 16,299,154
<b>Total federal financial assistance</b>			<b>\$ 16,299,154</b>

## Alabama Drinking Water Finance 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 Drinking Water Finance 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 Drinking Water Finance 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 Drinking Water Finance 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 Drinking Water Finance Authority  
Montgomery, Alabama

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

We have audited Alabama Drinking Water Finance 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 Drinking Water Finance 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**

66.468 Capitalization Grants for Drinking Water State Revolving Funds

Dollar threshold used to distinguish between type A and type B programs? \$ 488,975

Auditee qualified as low-risk auditee?   X   yes        no

**SECTION II – Financial Statements Findings**

No matters were reported.

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

No matters were reported.