Alabama Drinking Water Finance Authority

COMPONENT UNIT FINANCIAL STATEMENTS

September 30, 2021

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Alabama Drinking Water Finance Authority
Montgomery, Alabama

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the major funds of Alabama Drinking Water Finance Authority (the "Authority"), a component unit of the State of Alabama, as of and for the year ended September 30, 2021, 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 Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Authority, as of September 30, 2021, 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 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2022 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

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

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

Enterprise, Alabama
January 13, 2022

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 who serves as agent for the Authority. The following discussion provides an overview of the financial position and results of operation for the Authority as of September 30, 2021. 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 or amortized cost.

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 for the fiscal year. Additions are primarily comprised of loan interest and investment income and federal awards. Deductions are mainly bond interest expense and administrative expenses. Additions minus deductions provide the change in restricted net position for the fiscal year. The change in restricted net position plus the beginning restricted net position results in the restricted net position available for the perpetuation of the Authority.

The Notes to 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, and related parties, among others.

COMPARATIVE SUMMARY STATEMENTS

Statement of Net Position

September 30,	**2021**	2020	Variance	% increase (decrease)
Assets				
Cash and cash equivalents	**$ 21,188,327**	$ 35,929,013	$ (14,740,686)	-41%
Receivables	**345,253,859**	280,496,652	64,757,207	23%
Investments	**91,197,700**	89,403,960	1,793,740	2%
Unamortized items	**8,752,498**	6,182,712	2,569,786	42%
Capital assets	**387**	2,443	(2,056)	-84%
Total assets	**466,392,771**	412,014,780	54,377,991	13%
Deferred Outflows of Resources				
Deferred charge on refunding	**148,754**	807,901	(659,147)	-82%
Liabilities				
Accrued liabilities	**328,038**	162,740	165,298	102%
Payable to municipalities	**110,026,838**	65,315,532	44,711,306	68%
Bonds payable, net	**15,348,748**	29,069,181	(13,720,433)	-47%
Total liabilities	**125,703,624**	94,547,453	31,156,171	33%
Net position, restricted	**$ 340,837,901**	$ 318,275,228	$ 22,562,673	7%

Statement of Activities

For the years ended September 30,	**2021**	2020	Variance	% increase (decrease)
Operating revenue	**$ 10,631,350**	$ 9,720,756	$ 910,594	9%
Operating expense	**6,581,708**	5,102,966	1,478,742	29%
Operating income	**4,049,642**	4,617,790	(568,148)	-12%
Non-operating revenue	**18,513,031**	23,190,212	(4,677,181)	-20%
Change in net position	**$ 22,562,673**	$ 27,808,002	$ (5,245,329)	-19%

Statement of Cash Flows

For the years ended September 30,	**2021**	2020	Variance	% increase (decrease)
Net cash provided by (used in) operating activities	**$ (17,548,428)**	$ (46,192,989)	$ 28,644,561	-62%
Net cash provided by (used in) non-capital and related financing activities	**2,807,742**	66,048,987	(63,241,245)	96%
Net increase (decrease) in cash and cash equivalents	**$ (14,740,686)**	$ 19,855,998	$ (34,596,684)	174%

Financial Highlights

- The Authority closed 30 new loans totaling $110,030,000.
- Net position increased $22,562,673 mainly due to the utilization of $20,784,200 in federal funds transferred to loan recipients and an additional $532,276 in federal funds used to pay administrative and set-aside loan fee fund expenses.

Statement of Net Position

September 30,	**2020**	2019	Variance	% increase (decrease)
Assets				
Cash and cash equivalents	**$ 35,929,013**	$ 16,073,015	$ 19,855,998	124%
Receivables	**280,496,652**	243,953,856	36,542,796	15%
Investments	**89,403,960**	135,937,783	(46,533,823)	-34%
Unamortized items	**6,182,712**	5,427,912	754,800	14%
Capital assets	**2,443**	6,292	(3,849)	-61%
Total assets	**412,014,780**	401,398,858	10,615,922	3%
Deferred Outflows of Resources				
Deferred charge on refunding	**807,901**	996,676	(188,775)	-19%
Liabilities				
Accrued liabilities	**162,740**	186,903	(24,163)	-13%
Payable to municipalities	**65,315,532**	76,601,531	(11,285,999)	-15%
Bonds payable, net	**29,069,181**	35,139,874	(6,070,693)	-17%
Total liabilities	**94,547,453**	111,928,308	(17,380,855)	-16%
Net position, restricted	**$ 318,275,228**	$ 290,467,226	$ 27,808,002	10%

Statement of Activities

For the years ended September 30,	**2020**	2019	Variance	% increase (decrease)
Operating revenue	**$ 9,720,756**	$ 10,109,416	$ (388,660)	-4%
Operating expense	**5,102,966**	3,127,183	1,975,783	63%
Operating income	**4,617,790**	6,982,233	(2,364,443)	-34%
Non-operating revenue	**23,190,212**	19,710,886	3,479,326	18%
Change in net position	**$ 27,808,002**	$ 26,693,119	$ 1,114,883	4%

Statement of Cash Flows

For the years ended September 30,	**2020**	2019	Variance	% increase (decrease)
Net cash provided by (used in) operating activities	**$ (46,192,989)**	$ (727,650)	$ (45,465,339)	6248%
Net cash provided by (used in) non-capital and related financing activities	**66,048,987**	2,352,354	63,696,633	-2708%
Net cash used in capital and related financing activities	**-**	(3,480)	3,480	100%
Net increase (decrease) in cash and cash equivalents	**$ 19,855,998**	$ 1,621,224	$ 18,234,774	-1125%

Financial Highlights

- The Authority closed 18 new loans totaling $67,071,000.
- Net position increased $27,808,002 mainly due to the utilization of $24,608,263 in federal funds transferred to loan recipients and an additional $807,281 in federal funds used to pay set-aside loan fee fund expenses.

Alabama Drinking Water Finance Authority
Statement of Net Position

September 30, 2021		Business-type Activities
Assets		
Current assets		
Cash and cash equivalents - restricted	$	21,188,327
Accrued interest receivable on investments - restricted		40,787
Accrued interest receivable on loans receivable		731,847
Current portion of loans receivable		21,315,000
Grants and other receivables		1,803,420
Total current assets		45,079,381
Noncurrent assets		
Investments - restricted		91,197,700
Loans receivable, less unamortized premium of $6,017,195		321,362,805
Principal forgiveness		8,752,498
Capital assets, net		387
Total noncurrent assets		421,313,390
Total assets		466,392,771
Deferred Outflows of Resources		
Deferred outflows on refunding		148,754
Liabilities		
Current liabilities		
Accounts payable		51,383
Accrued interest payable		68,273
Current portion of revolving loan bonds		2,510,000
Other payables		16,262
Total current liabilities		2,645,918
Noncurrent liabilities		
Accrued arbitrage rebate		192,120
Payables to municipalities		110,026,838
Revolving loan bonds payable		12,838,748
Total noncurrent liabilities		123,057,706
Total liabilities		125,703,624
Net Position		
Net investment in capital assets		387
Restricted for loans and debt service		340,837,514
Total net position	$	340,837,901

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

Alabama Drinking Water Finance Authority
Statement of Activities

For the year ended September 30, 2021		Program Revenues		Net (Expense) Revenue and Changes in Net Position
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Business-type Activities
Business-type Activities				
Drinking water loans	$ 11,727,900	$ 2,798,699	$ 23,816,476	$ 14,887,275

General Revenues	
Investment earnings	7,675,398
Change in net position	22,562,673
Net position, beginning of year	318,275,228
Net position, end of year	$ 340,837,901

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

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

	Business-type Activities - Enterprise Funds		
September 30, 2021	Loan Fund	Loan Fee Fund	Total
Assets			
Current assets			
Cash and cash equivalents - restricted	$ 16,086,200	$ 5,102,127	$ 21,188,327
Accrued interest receivable on investments - restricted	40,787	-	40,787
Accrued interest receivable on loans receivable	731,847	-	731,847
Current portion of loans receivable	21,315,000	-	21,315,000
Grants and other receivables	1,584,042	219,378	1,803,420
Total current assets	39,757,876	5,321,505	45,079,381
Noncurrent assets			
Investments - restricted	91,197,700	-	91,197,700
Loans receivable, less unamortized premium of $6,017,195	321,362,805	-	321,362,805
Principal forgiveness	8,752,498	-	8,752,498
Capital assets, net	-	387	387
Total noncurrent assets	421,313,003	387	421,313,390
Total assets	461,070,879	5,321,892	466,392,771
Deferred Outflows of Resources			
Deferred charge on refunding	148,754	-	148,754
Total deferred outflows of resources	148,754	-	148,754
Liabilities			
Current liabilities			
Accounts payable	-	51,383	51,383
Accrued interest payable	68,273	-	68,273
Current portion of revolving loan bonds	2,510,000	-	2,510,000
Other payables	15,065	1,197	16,262
Total current liabilities	2,593,338	52,580	2,645,918
Noncurrent liabilities			
Accrued arbitrage rebate	192,120	-	192,120
Payables to municipalities	110,026,838	-	110,026,838
Revolving loan bonds payable	12,838,748	-	12,838,748
Total noncurrent liabilities	123,057,706	-	123,057,706
Total liabilities	125,651,044	52,580	125,703,624
Net Position			
Net investment in capital assets	-	387	387
Restricted for loans and debt service	335,568,589	5,268,925	340,837,514
Total net position	$ 335,568,589	$ 5,269,312	$ 340,837,901

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

	Business-type Activities - Enterprise Funds		
For the year ended September 30, 2021	Loan Fund	Loan Fee Fund	Total
Operating Revenues			
Investment earnings	$ 505,048	$ -	$ 505,048
Interest from loan receivable	7,327,603	-	7,327,603
Administrative fees	-	2,798,699	2,798,699
Total operating revenues	7,832,651	2,798,699	10,631,350
Operating Expenses			
Administration expense	3,218,306	303,680	3,521,986
Bond discount amortization	373,715	-	373,715
Depreciation	-	2,056	2,056
Office expense	-	103,912	103,912
Other expenses	-	2,579,739	2,579,739
Travel	-	300	300
Total operating expenses	3,592,021	2,989,687	6,581,708
Operating income (loss)	4,240,630	(190,988)	4,049,642
Nonoperating Revenues (Expenses)			
Federal grant revenue	20,876,426	440,050	21,316,476
Principal forgiveness expense	(4,200,214)	-	(4,200,214)
Bond interest expense	(945,978)	-	(945,978)
State revenue	2,500,000	-	2,500,000
Net increase in the fair value of investments	(157,253)	-	(157,253)
Total nonoperating revenues	18,072,981	440,050	18,513,031
Change in net position	22,313,611	249,062	22,562,673
Net position, beginning of year	313,254,978	5,020,250	318,275,228
Net position, end of year	$ 335,568,589	$ 5,269,312	$ 340,837,901

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

Alabama Drinking Water Finance Authority
Statement of Cash Flows - Proprietary Funds

For the year ended September 30, 2021	Business-type Activities - Enterprise Funds Loan Fund	 Loan Fee Fund	 Total
Operating Activities			
Investment earnings	$ 534,817	$ -	$ 534,817
Receipts of payments from municipalities	39,795,000	-	39,795,000
Payments to vendors	(1,530,556)	(2,938,051)	(4,468,607)
Interest received on loans receivable	7,533,858	-	7,533,858
Administration fees	(3,218,306)	2,798,699	(419,607)
Payments to municipalities	(60,522,889)	-	(60,522,889)
Payments paid to ADEM	-	(1,000)	(1,000)
Net cash used in operating activities	(17,408,076)	(140,352)	(17,548,428)
Non-capital and Related Financing Activities			
Grant revenue received	20,877,149	401,912	21,279,061
Payments to municipalities-Principal forgiveness	(4,795,805)	-	(4,795,805)
State revenue	2,500,000	-	2,500,000
Redemption of investment securities, net	(1,950,994)	-	(1,950,994)
Principal paid on revolving loan bonds	(13,435,000)	-	(13,435,000)
Interest paid on revolving loan bonds	(789,520)	-	(789,520)
Net cash provided by non-capital and related financing activities	2,405,830	401,912	2,807,742
Net increase (decrease) in cash and cash equivalents - restricted	(15,002,246)	261,560	(14,740,686)
Cash and cash equivalents - restricted, beginning of year	31,088,446	4,840,567	35,929,013
Cash and cash equivalents - restricted, end of year	$ 16,086,200	$ 5,102,127	$ 21,188,327

-Continued-

	Business-type Activities - Enterprise Funds		
For the year ended September 30, 2021	Loan Fund	Loan Fee Fund	Total
Reconciliation of Operating Income (Loss) to Net Cash Used in Operating Activities			
Operating income (loss)	$ 4,240,630	$ (190,988)	$ 4,049,642
Adjustments to reconcile operating income (loss) to net cash used in operating activities			
Bond discount amortization	373,715	-	373,715
Loan premium amortization	(1,749,396)	-	(1,749,396)
Depreciation	-	2,056	2,056
(Increase) decrease in operating assets			
Due from ADEM	-	1,000	1,000
Due from municipality	(6,430)	-	(6,430)
Accrued interest receivable on investments - restricted	29,769	-	29,769
Accrued interest receivable on loans receivable	(18,544)	-	(18,544)
Loans receivable and other receivables	(64,950,386)	-	(64,950,386)
Increase (decrease) in operating liabilities			
Accounts payable	-	48,383	48,383
Payables to municipalities	44,711,306	-	44,711,306
Other payables	(38,740)	(803)	(39,543)
Total adjustments	(21,648,706)	50,636	(21,598,070)
Net cash used in operating activities	$ (17,408,076)	$ (140,352)	$ (17,548,428)

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.

Reporting Entity

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.

Authority-wide and Fund Financial Statements

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

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

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

The Authority is reported as a proprietary fund. The Authority's proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating revenues and expenses of the Authority generally result from providing loans to Alabama municipalities to finance water and sewer system upgrades. The principal operating revenues of the Authority are comprised of investment earnings, administrative fees, and interest income from loans. Operating expenses consist primarily of administrative salaries, other expenses, and interest expense on bonds. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Budgetary Information

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

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

Cash and Cash Equivalents

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

Investments

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

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 3.85% and the effective interest rates range from 2.20% to 4.15%. The loans are typically repaid over a twenty-year period. The stated interest rates for loans bound prior to October 1, 2018 include a 0.75% fee charged to municipalities for administrative costs. The stated interest rates for loans bound on or subsequent to October 1, 2018 include a 2.10% fee charged to municipalities for administrative costs with the exception of three municipality loans that closed on October 1, 2018 and November 15, 2018, which were already being processed as of October 1, 2018.

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

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

Restricted Assets

Under each bond indenture, certain funds and bank accounts are required to be established and controlled by a trustee. The accounts of the 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.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows/Inflows of Resources

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

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

Bond Discount

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

Classification of Net Position

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

- *Net investment in capital assets* – This component of net position consists of the historical cost of capital assets, net of accumulated depreciation, and is reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt should also be included in this component of net position.

- *Restricted* – This component of net position consists of assets that are restricted by debt covenants, contributors, contractual provisions, or enabling legislation, reduced by liabilities related to those assets. The Authority's restricted net position as reported in the statement of net position consists of cash and investments which are restricted for loans and debt service.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenues and Expenses

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

Administrative Fees

The sole source of administrative fees is a 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. The administrative fee is .75% for loans bound prior to October 1, 2018 and 2.10% for loans bound on or subsequent to October 1, 2018 with the exception of three municipality loans that closed on October 1, 2018 and November 15, 2018 which were already being processed as of October 1, 2018. Those three loans have an administrative fee of .75%.

Grant Revenue

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

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

Interfund Transfers

The Authority has the ability to transfer and receive funds from the 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.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

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

Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, January 13, 2022, and determined there were no events that occurred that required disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

Recently Issued and Implemented Accounting Pronouncements

In January 2017, the GASB issued Statement No. 84, Fiduciary Activities. This Statement seeks to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. GASB 84 is effective for the fiscal years beginning after December 15, 2019. The implementation of this statement had no impact on the financial statements.

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

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

In June 2017, the GASB issued Statement No. 87, Leases. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued and Implemented Accounting Pronouncements (continued)

resources based on payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

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

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

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

In January 2020, the GASB issued Statement No. 92, Omnibus 2020. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following:

- The effective date of Statement No. 87, *Leases,* and Implementation Guide No. 2019-3, *Leases,* for interim financial reports,
- Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan,

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued and Implemented Accounting Pronouncements (continued)

- The applicability of Statements 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,* as amended, and No. 74, *Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans,* as amended, to reporting assets accumulated for postemployment benefits,
- The applicability of certain requirements of Statement No. 84, *Fiduciary Activities,* to postemployment benefit arrangements,
- Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition,
- Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers,
- Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature, and
- Terminology used to refer to derivative instruments.

The requirements of this Statement are effective as follows:

- The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance.
- The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2021.
- The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2021.
- The requirements related to the measurement of liabilities (and assets, if any) associated with asset retirement obligations in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2021.

In May 2020, the GASB issued Statement No. 93, Replacement of Interbank Offered Rates. The objectives of this Statement are to address financial reporting issues that result from the replacement of an Interbank Offered Rate (IBOR) by providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument’s variable payment and clarification of the hedge accounting termination provisions when a hedged item is amended to replace the reference rate; replacing LIBOR as an appropriate benchmark interest rate for the evaluation of the effectiveness of an interest rate swap with a Secured Overnight Financing Rate or the Effective Federal Funds Rate; and providing exceptions to the lease modifications guidance in Statement 87 for lease contracts that are amended solely to replace an IBOR used to determine variable payments.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued and Implemented Accounting Pronouncements (continued)

The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2022. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021.

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

This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022.

In May 2020, the GASB issued GASB Statement No. 96, Subscription-Based Information Technology Arrangements. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Assets and liabilities resulting from SBITAs should be recognized and measured using the facts and circumstances that existed at the beginning of the fiscal year in which this Statement is implemented. Governments are permitted, but are not required, to include in the measurement of the subscription asset capitalizable outlays associated with the initial implementation stage and the operation and additional implementation stage incurred prior to the implementation of this Statement.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

***Recently Issued and Implemented Accounting Pronouncements (continued*)**

In June 2020, the GASB issued GASB Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021.

In October 2021, the GASB issued GASB Statement No. 98, The Annual Comprehensive Financial Report. This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. This Statement was developed in response to concerns raised by stakeholders that the common pronunciation of the acronym for comprehensive annual financial report sounds like a profoundly objectionable racial slur. This Statement's introduction of the new term is founded on a commitment to promoting inclusiveness. The requirements of this Statement are effective for fiscal years ending after December 15, 2021.

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

Note 2: DETAILED NOTES

Deposits and Investments

As of September 30, 2021, cash consisted of non-interest bearing deposits held by the State Treasurer and financial institutions in the name of the Authority. The Authority's deposits at year-end were entirely covered by federal depository insurance (FDIC) or by the Security for Alabama Funds Enhancement ("SAFE") Program.

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

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

For an investment, this is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority has U.S. Government securities (bonds, notes, and slugs) totaling $91,197,700 held in trust by either the Bank of New York or U.S. Bank in a fiduciary capacity. These securities are bond reserve funds and are held under a trust agreement between the Authority and the trustee bank for the benefit of the bondholder and are not deemed to have significant custodial credit risk. The securities are approved by bond insurers and are held in the name of the Trustee for the bond issue for the benefit of bondholder.

Interest Rate Risk – Interest rate risk is the possibility that interest rates will rise and reduce the fair value of an investment. The fair value of fixed-maturity investments fluctuates in response to changes in market interest rates. Increases in prevailing interest rates generally translate into decreases in 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.

Note 2: DETAILED NOTES (Continued)

Deposits and Investments (continued)

Credit Risk – Section I50: *Investments* of the GASB Codification requires that governments provide information about credit risk associated with their investments by disclosing the credit rating of investments in debt securities as described by nationally recognized statistical rating organizations.

The bond indenture agreements authorize the Authority to invest in “eligible investments.” “Eligible investments” are defined as (a) any debt securities that are direct, general obligations of the United States of America; (b) any debt securities where the payment of the principal and of interest on which is unconditionally guaranteed by the United States of America; and (c) repurchase agreements collateralized by securities of the type described in the preceding clauses (a) and (b) above with any commercial bank, of such broker/dealer subject to the Securities Investors’ Protection Corporation jurisdiction or any commercial bank if such broker/dealer or bank has an uninsured, unsecured, and unguaranteed obligation rated “Prime-1” or “A-3” or better by Moody’s Investors Service, Inc. and “A-1” or “A-“ or better by Standard & Poor’s Corporation. All of the investments and cash equivalents held by the Authority for the year ended September 30, 2021 are collateralized by U.S. Government securities rated AAA.

Concentration Risk – Section I50: *Investments* of the GASB Codification requires disclosures of investments in any one issuer that represents five percent or more of total investments, excluding investments issued or explicitly guaranteed by the U.S government, investments in mutual funds, external investments pools and other pooled investments. As of September 30, 2021, the Authority did not hold investments with any issuers that comprised 5% or more of total investment holdings, other than the U.S. Treasury.

The ratings of total holdings are as follows at September 30, 2021:

Moody's Ratings		Recorded Amount	Recorded Amount as a Percent of Total Holdings Value
Exempt from disclosure	$	91,197,700	81.15%
Aaa		21,188,327	18.85%
	$	112,386,027	100.00%

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

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

Note 2: DETAILED NOTES (Continued)

Deposits and Investments (continued)

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

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

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

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

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

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

The following table sets forth by level, within the fair value hierarchy the Authority's assets at fair value as of September 30, 2021:

		Maturities (in years)			
	Fair Value	Less than 3	3-6	More than 6	Level
Investments					
U.S. Treasury SLGs	$ 1,555,150	$ 440,410	$ 1,114,740	$ -	L2
U.S. Treasury Bonds/Notes	89,642,550	69,785,450	19,857,100	-	L2
Total investments	91,197,700	$ 70,225,860	$ 20,971,840	$ -	
Cash equivalents					
Money Market Funds	21,188,327	N/A	N/A	N/A	
Total holdings	$ 112,386,027				

Note 2: DETAILED NOTES (Continued)

Loans Receivable

Loans receivable at September 30, 2021, as discussed below, are as follows:

Completed projects	$ 168,800,000
Projects in progress	179,895,000
	348,695,000
Less:	
Current portion loans receivable	21,315,000
Unamortized Premium	6,017,195
Loans receivable, net	$ 321,362,805

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

2022	$ 21,315,000
2023	19,840,000
2024	19,885,000
2025	19,355,000
2026 and thereafter	268,300,000
	$ 348,695,000

As of September 30, 2021, the Authority's ten largest outstanding loans, in the aggregate, exceeded $175 million. The outstanding balances of these loans represent approximately 50% of the total loans receivable, as follows:

Loan Recipient	Outstanding Balance
West Morgan East Lawrence Reverse Osmosis Treatment Plant	$ 31,415,000
Curry Water Treatment Plant & Distribution System	25,230,000
Cullman	20,165,000
Mobile Various Water Infrastructure Improvements (Supplemental)	18,380,000
Tuscaloosa 2018 DWSRF Projects	17,515,000
Florence Water System Capital Improvement Program	15,015,000
Madison 2015 Water Treatment Plant Improvements	13,430,000
Mobile DWSRF Master Plan Phase I (2019-2023)	12,865,000
Huntsville Utilities Water System Improvements	10,615,000
Alabaster Water Distribution System Treatment Upgrades	10,565,000
	$ 175,195,000

Note 2: DETAILED NOTES (Continued)

Payables to Municipalities

As of September 30, 2021, the authority had $110,026,838 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.

Long Term Debt

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 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 2021:

	Balance 9/30/2020	Additions	Reductions	**Balance 9/30/2021**
Revolving fund loan bonds	$ 28,150,000	$ -	$ 13,435,000	**$ 14,715,000**
Add: Unamortized premiums	919,181	-	285,433	**633,748**
Total	$ 29,069,181	$ -	$ 13,720,433	**$ 15,348,748**

Note 2: DETAILED NOTES (Continued)

Long Term Debt (continued)

Long-term debt at September 30, 2021 is payable as follows:

September 30,	Principal	Interest	Total
2022	$ 2,510,000	$ 546,181	$ 3,056,181
2023	2,610,000	442,881	3,052,881
2024	2,720,000	335,481	3,055,481
2025	2,055,000	220,569	2,275,569
2026	2,135,000	125,538	2,260,538
2027	2,685,000	75,413	2,760,413
	14,715,000	$ 1,746,063	$ 16,461,063
Plus: Unamortized premium	633,748		
Less: Current portion	2,510,000		
Total long-term debt	$ 12,838,748		

Summary of changes in deferred outflows related to debt for 2021:

	Balance 9/30/2020	Additions	Reductions	**Balance 9/30/2021**
Unamortized deferred refunding costs	$ 807,901	$ -	$ 659,147	**$ 148,754**

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, 2021, 2012A Refunding Series revolving loan bond was paid off and the deferred refunding costs totaling $633,997 for the Series 1998A, 2000A & B, Series 2000C, and 2002A Bonds were expensed.

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

Note 2: DETAILED NOTES (Continued)

***Long Term Debt* (continued)**

present values of the old and new debt service requirements) of approximately $6.7 million. As of September 30, 2021, the unamortized deferred refunding costs totaled $98,827 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, 2021, the unamortized deferred refunding costs totaled $49,927 for the Series 2004A Bonds.

Principal Forgiveness

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

The required principal forgiveness portions are set as a certain percent of total grant funds awarded and is outlined in the grant agreements and uniform guidance compliance supplements. Required percentages vary depending on the issuance year of the grant awards. The principal forgiveness amount was allocated amongst qualifying projects for the municipalities. This amount is recognized as a receivable on the statement of net assets at the time a loan is issued and is included in the total amount payable to municipalities. Principal forgiveness is stated separately from the associated loans receivable as it is not required to be repaid by the municipalities. As the work is completed on 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, 2021 totaled $4,200,214, leaving a remaining balance of $8,752,498 capitalized as principal forgiveness on the statement of net position as of September 30, 2021.

Note 3: APPROPRIATIONS

The U. S. Environmental Protection Agency (EPA) awards ADEM capitalization funds under its annual grant agreement. During the year ended September 30, 2021, the EPA awarded ADEM capitalization funds under its annual grant agreement in the amount of $23,934,000 with a budget and project period beginning October 1, 2021. During the year ended September 30, 2021, the State of Alabama did not appropriate any funds from the State General Fund to the Authority.

Note 3: APPROPRIATIONS (Continued)

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. 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 $5,411,545 at September 30, 2021. The Authority will apply for a federal capitalization grant in 2021. Any grants in 2022 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, 2021:

Year	Grant Amount	Draws prior to 2021	2021 Draws	Total Draws	Amount Available for Future Draws
2018	$ 23,944,000	$ 23,436,181	$ 507,819	$ 23,944,000	$ -
2019	23,721,000	21,557,160	648,095	22,205,255	1,515,745
2020	23,736,000	-	20,687,200	20,687,200	3,048,800
2020 - SI	847,000	-	-	-	847,000
	$ 72,248,000	$ 44,993,341	21,843,114	$ 66,836,455	$ 5,411,545
Less:					
Administrative and set-aside expenses			(564,053)		
Total 2021 Draws			$ 21,279,061		

Note 4: ARBITRAGE REBATE CALCULATIONS

In accordance with Internal Revenue Code, Section 148, and related regulations as the issuer of tax-exempt debt, the Authority performed an arbitrage calculation during the year ended 2021 and determined the amount of the rebate due to the Internal Revenue Service is $192,120 at September 30, 2021.

Note 5: RELATED PARTIES

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

Note 5: RELATED PARTIES (Continued)

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

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

Note 6: UNCERTAINTIES

In March 2020, the World Health Organization made the assessment that the outbreak of the novel coronavirus (COVID-19) can be characterized as a pandemic. As a result, uncertainties have arisen that may have a significant negative impact on the ongoing operating activities and the future results of the Authority. The occurrence and extent of such an impact will depend on future developments, including (i) the and spread of the virus, (ii) government quarantine measures, (iii) voluntary and precautionary restrictions on travel or meetings, (iv) the effects on the financial markets, and (v) the effects on the economy overall, all of which are uncertain as of September 30, 2021.

Note 7: SUBSEQUENT EVENTS

Subsequent events have been evaluated through the date of issuance of these financial statements and no event was deemed to warrant disclosure.

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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 each major fund 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, 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated January 13, 2022.

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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

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

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

Enterprise, Alabama
January 13, 2022

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

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 Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the year ended September 30, 2021. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the Authority, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2021.

Report on Internal Control Over Compliance

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

A *deficiency in internal control* over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

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

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

Enterprise, Alabama
January 13, 2022

Section I - Summary of Auditors' Results

Financial Statements

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

Federal Awards

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

CFDA Number	Federal Program
66.468	Capitalization Grants for Drinking Water State Revolving Funds Cluster

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

Section II – Financial Statements Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

Alabama Drinking Water Finance Authority
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2021

Federal Grantor/Pass Through Grantor/Program Title	CFDA Number	Grantor's Number	Passed through to Subrecipients	Federal Expenditures
Environment Protection Agency				
Passed through the Alabama Department of Environmental Management				
Capitalization Grants for Drinking Water State Revolving Funds	66.468	FS984472-18	$ 97,000	$ 97,000
Capitalization Grants for Drinking Water State Revolving Funds	66.468	FS984472-19	-	526,151
Capitalization Grants for Drinking Water State Revolving Funds	66.468	FS984472-20	20,687,200	20,693,325
Total Drinking Water State Revolving Fund Cluster			20,784,200	21,316,476
Total Federal Expenditures				$ 21,316,476

Note 1: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the schedule) summarizes the federal expenditures of the Authority under programs of the federal government for the year ended September 30, 2021. The amounts reported as federal expenditures were obtained from the Authority's trial balance. Because the schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, changes in net position and cash flows of the Authority.

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

Drinking Water State Revolving Fund Cluster

This cluster includes awards that enable recipients to establish a revolving loan fund to assist public water systems to finance the costs of infrastructure needed to achieve or maintain compliance with the Safe Drinking Water Act requirements and provide the public health objectives of the Act. The revolving loan fund can be used to provide loans and other types of financial assistance for qualified communities, local agencies, and private entities. Funds may also be set aside for various activities that promote source water protection and enhances water systems management.

Note 2: RELATIONSHIP OF THE SCHEDULE TO PROGRAM FINANCIAL REPORTS

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

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

Note 3: FEDERAL PASS-THROUGH FUNDS

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

Note 4: BASIS OF ACCOUNTING

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

Note 5: CONTINGENCIES

Grant monies received and disbursed by the Authority are for specific purposes and are subject to review by the grantor agencies. Such audits may result in requests for reimbursement due to disallowed expenditures. Based upon prior experience, the Authority does not believe that such disallowance, if any, would have a material effect on the financial position of the Authority. As of September 30, 2021, there were no material questioned or disallowed costs as a result of grant audits in process or completed.

Note 6: INDIRECT COST

The Authority operates under predetermined fixed indirect cost rates that are effective through September 30, 2021. The base rate for indirect cost recoveries is 37.16% for the year ended September 30, 2021.

Note 7: NONCASH ASSISTANCE

The Authority did not receive any federal noncash assistance for the fiscal year ended September 30, 2021.

Note 8: DE MINIMUS

The Authority has elected to not use the 10% de Minimis indirect cost rate for the fiscal year ended September 30, 2021.

Note 9: SUBRECIPIENTS

The Authority provided federal funds to subrecipients totaling $20,784,200 for the fiscal year ended September 30, 2021.

Note 10: LOANS AND LOAN GUARANTEES

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

Note 11: FEDERALLY FUNDED INSURANCE

The Authority did not have any federally funded insurance required to be reported on the schedule for the fiscal year ended September 30, 2021.

There were no audit findings reported in the prior year

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Members of the
Board of Directors of the
Alabama Drinking Water Finance Authority

In planning and performing our audit of the financial statements of Alabama Drinking Water Finance Authority (the "Authority") as of and for the year ended September 30, 2021, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing auditing procedures 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 combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. However, during our audit we became aware of the matters noted below that are opportunities for strengthening internal controls and operating efficiency. We previously reported on the Authority's internal control in our letter dated January 13, 2022. This letter does not affect our report dated January 13, 2022 on the financial statements of the Authority.

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

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

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

Carr, Riggs & Ingram, L.L.C

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

Enterprise, Alabama
January 13, 2022