



**Alabama Drinking Water
Finance Authority**

COMPONENT UNIT FINANCIAL STATEMENTS

September 30, 2023



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Carr, Riggs & Ingram, LLC

1117 Boll Weevil Circle
Enterprise, AL 36330

Mailing Address:

PO Box 311070
Enterprise, AL 36331

334.347.0088
334.347.7650 (fax)
CRIcpa.com

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Alabama Drinking Water Finance Authority
Montgomery, Alabama

Report on the Audit of the Financial Statements

Opinions

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, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

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, 2023, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-8 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary 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 accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information 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. The 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 February 5, 2024, 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.

Enterprise, Alabama
February 5, 2024

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 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, 2023. 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.

Management's Discussion and Analysis

COMPARATIVE SUMMARY STATEMENTS

Statement of Net Position

<i>September 30,</i>	2023	2022	Variance	% increase (decrease)
Assets				
Cash and cash equivalents	\$ 50,169,706	\$ 25,757,941	\$ 24,411,765	95%
Receivables	415,836,694	368,712,283	47,124,411	13%
Investments	67,848,380	86,781,080	(18,932,700)	-22%
Unamortized items	14,648,755	8,868,147	5,780,608	65%
Total assets	548,503,535	490,119,451	58,384,084	12%
Deferred Outflows of Resources				
Deferred charge on refunding	98,452	123,603	(25,151)	-20%
Liabilities				
Accrued liabilities	174,536	113,946	60,590	53%
Payable to municipalities	144,099,132	108,783,691	35,315,441	32%
Bonds payable, net	9,863,506	12,636,970	(2,773,464)	-22%
Total liabilities	154,137,174	121,534,607	32,602,567	27%
Net position, restricted	\$ 394,464,813	\$ 368,708,447	\$ 25,756,366	7%

Statement of Activities

<i>For the years ended September 30,</i>	2023	2022	Variance	% increase (decrease)
Operating revenue	\$ 16,517,730	\$ 13,633,228	\$ 2,884,502	21%
Operating expense	8,066,674	5,561,727	2,504,947	45%
Operating income	8,451,056	8,071,501	379,555	5%
Non-operating revenue	17,305,310	19,799,045	(2,493,735)	-13%
Change in net position	\$ 25,756,366	\$ 27,870,546	\$ (2,114,180)	-8%

Management's Discussion and Analysis

Statement of Cash Flows

<i>For the years ended</i> <i>September 30,</i>	2023	2022	Variance	% increase (decrease)
Net cash provided by (used in) operating activities	\$ (4,458,809)	\$ (17,748,922)	\$ 13,290,113	-75%
Net cash provided by (used in) non-capital and related financing activities	28,870,574	22,318,536	6,552,038	-29%
Net increase (decrease) in cash and cash equivalents	\$ 24,411,765	\$ 4,569,614	\$ 19,842,151	-434%

Financial Highlights

- The Authority closed 14 new loans totaling \$78,098,272.
- Net position increased \$28,046,951 mainly due to the utilization of \$13,891,760 in federal funds transferred to loan recipients and an additional \$880,952 in federal funds used to pay administrative and set-aside loan fee fund expenses.

Management's Discussion and Analysis

Statement of Net Position

<i>September 30,</i>	2022	2021	Variance	% increase (decrease)
Assets				
Cash and cash equivalents	\$ 25,757,941	\$ 21,188,327	\$ 4,569,614	22%
Receivables	368,712,283	345,253,859	23,458,424	7%
Investments	86,781,080	91,197,700	(4,416,620)	-5%
Unamortized items	8,868,147	8,752,498	115,649	1%
Capital assets	-	387	(387)	-100%
Total assets	490,119,451	466,392,771	23,726,680	5%
Deferred Outflows of Resources				
Deferred charge on refunding	123,603	148,754	(25,151)	-17%
Liabilities				
Accrued liabilities	113,946	328,038	(214,092)	-65%
Payable to municipalities	108,783,691	110,026,838	(1,243,147)	-1%
Bonds payable, net	12,636,970	15,348,748	(2,711,778)	-18%
Total liabilities	121,534,607	125,703,624	(4,169,017)	-3%
Net position, restricted	\$ 368,708,447	\$ 340,837,901	\$ 27,870,546	8%

Statement of Activities

<i>For the years ended September 30,</i>	2022	2021	Variance	% increase (decrease)
Operating revenue	\$ 13,633,228	\$ 10,631,350	\$ 3,001,878	28%
Operating expense	5,561,727	6,581,708	(1,019,981)	-15%
Operating income	8,071,501	4,049,642	4,021,859	99%
Non-operating revenue	19,799,045	18,513,031	1,286,014	7%
Change in net position	\$ 27,870,546	\$ 22,562,673	\$ 5,307,873	24%

Management's Discussion and Analysis

Statement of Cash Flows

<i>For the years ended</i> <i>September 30,</i>	2022	2021	Variance	% increase (decrease)
Net cash provided by (used in) operating activities	\$ (17,748,922)	\$ (17,548,428)	\$ (200,494)	1%
Net cash provided by (used in) non-capital and related financing activities	22,318,536	2,807,742	19,510,794	-695%
Net increase (decrease) in cash and cash equivalents	\$ 4,569,614	\$ (14,740,686)	\$ 19,310,300	131%

Financial Highlights

- The Authority closed 11 new loans totaling \$53,527,625.
- Net position increased \$27,870,546 mainly due to the utilization of \$25,069,422 in federal funds transferred to loan recipients and an additional \$920,867 in federal funds used to pay administrative and set-aside loan fee fund expenses.

Alabama Drinking Water Finance Authority
Statement of Net Position

<i>September 30, 2023</i>	Business-type Activities
Assets	
Current assets	
Cash and cash equivalents - restricted	\$ 50,169,706
Accrued interest receivable on investments - restricted	33,622
Accrued interest receivable on loans receivable	1,047,929
Current portion of loans receivable	23,920,000
Grants and other receivables	138,610
Total current assets	75,309,867
Noncurrent assets	
Investments - restricted	67,848,380
Loans receivable, less unamortized premium of \$5,148,467	390,696,533
Principal forgiveness	14,648,755
Total noncurrent assets	473,193,668
Total assets	548,503,535
Deferred Outflows of Resources	
Deferred outflows on refunding	98,452
Liabilities	
Current liabilities	
Accounts payable	70,683
Accrued interest payable	41,935
Current portion of revolving loan bonds	2,720,000
Other payables	61,918
Total current liabilities	2,894,536
Noncurrent liabilities	
Payables to municipalities	144,099,132
Revolving loan bonds payable	7,143,506
Total noncurrent liabilities	151,242,638
Total liabilities	154,137,174
Net Position	
Restricted for loans and debt service	394,464,813
Total net position	\$ 394,464,813

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

Alabama Drinking Water Finance Authority
Statement of Activities

<i>For the year ended September 30, 2023</i>		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	\$ 12,818,794	\$ 5,901,406	\$ 19,417,344	\$ 12,499,956
General Revenues				
Investment earnings				13,256,410
Change in net position				25,756,366
Net position, beginning of year				368,708,447
Net position, end of year				\$ 394,464,813

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

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

<i>September 30, 2023</i>	Business-type Activities - Enterprise Funds		
	Loan Fund	Loan Fee Fund	Total
Assets			
Current assets			
Cash and cash equivalents - restricted	\$ 42,890,438	\$ 7,279,268	\$ 50,169,706
Accrued interest receivable on investments - restricted	33,622	-	33,622
Accrued interest receivable on loans receivable	1,047,929	-	1,047,929
Current portion of loans receivable	23,920,000	-	23,920,000
Grants and other receivables	82,031	56,579	138,610
Total current assets	67,974,020	7,335,847	75,309,867
Noncurrent assets			
Investments - restricted	67,848,380	-	67,848,380
Loans receivable, less unamortized premium of \$5,148,467	390,696,533	-	390,696,533
Principal forgiveness	14,648,755	-	14,648,755
Total noncurrent assets	473,193,668	-	473,193,668
Total assets	541,167,688	7,335,847	548,503,535
Deferred Outflows of Resources			
Deferred charge on refunding	98,452	-	98,452
Total deferred outflows of resources	98,452	-	98,452
Liabilities			
Current liabilities			
Accounts payable	-	70,683	70,683
Accrued interest payable	41,935	-	41,935
Current portion of revolving loan bonds	2,720,000	-	2,720,000
Other payables	55,509	6,409	61,918
Total current liabilities	2,817,444	77,092	2,894,536
Noncurrent liabilities			
Payables to municipalities	144,099,132	-	144,099,132
Revolving loan bonds payable	7,143,506	-	7,143,506
Total noncurrent liabilities	151,242,638	-	151,242,638
Total liabilities	154,060,082	77,092	154,137,174
Net Position			
Restricted for loans and debt service	387,206,058	7,258,755	394,464,813
Total net position	\$ 387,206,058	\$ 7,258,755	\$ 394,464,813

The accompanying notes are an integral part of these 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, 2023</i>	Business-type Activities - Enterprise Funds		
	Loan Fund	Loan Fee Fund	Total
Operating Revenues			
Investment earnings	\$ 1,475,555	\$ -	\$ 1,475,555
Interest from loan receivable	8,977,305	-	8,977,305
Bond premium accretion	163,464	-	163,464
Administrative fees	-	5,901,406	5,901,406
Total operating revenues	10,616,324	5,901,406	16,517,730
Operating Expenses			
Administration expense	6,223,655	1,203,410	7,427,065
Bond discount amortization	25,151	-	25,151
Office expense	-	138,900	138,900
Other expenses	-	460,477	460,477
Travel	-	15,081	15,081
Total operating expenses	6,248,806	1,817,868	8,066,674
Operating income	4,367,518	4,083,538	8,451,056
Nonoperating Revenues (Expenses)			
Federal grant revenue	13,891,760	880,952	14,772,712
Principal forgiveness expense	(4,322,664)	-	(4,322,664)
Intra fund Transfer	7,255,075	(7,255,075)	-
Bond interest expense	(429,456)	-	(429,456)
State revenue	4,481,168	-	4,481,168
Net increase in the fair value of investments	2,803,550	-	2,803,550
Total nonoperating revenues	23,679,433	(6,374,123)	17,305,310
Change in net position	28,046,951	(2,290,585)	25,756,366
Net position, beginning of year	359,159,107	9,549,340	368,708,447
Net position, end of year	\$ 387,206,058	\$ 7,258,755	\$ 394,464,813

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

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

<i>For the year ended September 30, 2023</i>	Business-type Activities - Enterprise Funds		
	Loan Fund	Loan Fee Fund	Total
Operating Activities			
Investment earnings	\$ 1,490,846	\$ -	\$ 1,490,846
Receipts of payments from municipalities	20,910,000	-	20,910,000
Payments to vendors	(82,650)	(1,741,276)	(1,823,926)
Interest received on loans receivable	8,687,674	-	8,687,674
Administration fees	(6,223,655)	5,901,406	(322,249)
Payments to municipalities	(33,400,175)	-	(33,400,175)
Payments paid to ADEM	-	(979)	(979)
Net cash provided by (used in) operating activities	(8,617,960)	4,159,151	(4,458,809)
Non-capital and Related Financing Activities			
Grant revenue received	13,982,300	1,106,393	15,088,693
Payments to municipalities-Principal forgiveness	(9,382,656)	-	(9,382,656)
State revenue	4,481,168	-	4,481,168
Proceeds from investment securities, net	21,736,250	-	21,736,250
Principal paid on revolving loan bonds	(2,610,000)	-	(2,610,000)
Interest paid on revolving loan bonds	(442,881)	-	(442,881)
Transfers in (out)	7,255,075	(7,255,075)	-
Net cash provided by non-capital and related financing activities	35,019,256	(6,148,682)	28,870,574
Net increase (decrease) in cash and cash equivalents - restricted	26,401,296	(1,989,531)	24,411,765
Cash and cash equivalents - restricted, beginning of year	16,489,142	9,268,799	25,757,941
Cash and cash equivalents - restricted, end of year	\$ 42,890,438	\$ 7,279,268	\$ 50,169,706

-Continued-

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

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

<i>For the year ended September 30, 2023</i>	Business-type Activities - Enterprise Funds		
	Loan Fund	Loan Fee Fund	Total
Reconciliation of Operating Income to Net Cash			
Used in Operating Activities			
Operating income	\$ 4,367,518	\$ 4,083,538	\$ 8,451,056
Adjustments to reconcile operating income to net cash used in operating activities			
Bond discount amortization	25,151	-	25,151
Premium on bonds issued	(163,464)	-	(163,464)
Loan premium amortization	(925,515)	-	(925,515)
(Increase) decrease in operating assets			
Due from ADEM	-	979	979
Due from municipality	(82,031)	-	(82,031)
Accrued interest receivable on investments - restricted	15,291	-	15,291
Accrued interest receivable on loans receivable	(84,732)	-	(84,732)
Loans receivable and other receivables	(47,085,000)	-	(47,085,000)
Increase (decrease) in operating liabilities			
Accounts payable	-	70,183	70,183
Payables to municipalities	35,315,441	-	35,315,441
Other payables	(619)	4,451	3,832
Total adjustments	(12,985,478)	75,613	(12,909,865)
Net cash provided by (used in) operating	\$ (8,617,960)	\$ 4,159,151	\$ (4,458,809)

The accompanying notes are an integral part of these 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.

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.

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

Alabama Drinking Water Finance Authority Notes to Financial Statements

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

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 position. 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.

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 1.99% to 3.5% and the effective interest rates range from 2.00% to 3.79%. 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.

Alabama Drinking Water Finance Authority Notes to Financial Statements

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position (continued)

Loans Receivable, Payables to Municipalities and Loan Premium (continued)

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.

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.

Alabama Drinking Water Finance Authority Notes to Financial Statements

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position (continued)

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.

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).

Alabama Drinking Water Finance Authority Notes to Financial Statements

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, February 5, 2024, 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 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. There were no significant impacts of implementing this Statement.

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

Alabama Drinking Water Finance Authority Notes to Financial Statements

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued and Implemented Accounting Pronouncements (Continued)

time in an exchange or exchange-like transaction. There were no significant impacts of implementing this Statement.

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. There were no significant impacts of implementing this Statement.

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

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. This Statement seeks to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees.

The practice issues addressed by this Statement are as follows:

- Classification and reporting of derivative instruments within the scope of Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument.
- Clarification of provisions in Statement No. 87, *Leases*, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives.
- Clarification of provisions in Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to the determination of the PPP term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset.
- Clarification of provisions in Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the SBITA term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability.
- Extension of the period during which the LIBOR is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt.
- Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP).

Alabama Drinking Water Finance Authority Notes to Financial Statements

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued and Implemented Accounting Pronouncements (Continued)

- Disclosures related to nonmonetary transactions.
- Pledges of future revenues when resources are not received by the pledging government.
- Clarification of provisions in Statement No. 34, *Basic Financial Statements— and Management's Discussion and Analysis—for State and Local Governments*, as amended, related to the focus of the government-wide financial statements.
- Terminology updates related to certain provisions of Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.
- Terminology used in Statement No. 53 to refer to resource flows statements.

The requirements of this Statement are effective as follows:

- The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement No. 34, as amended, and terminology updates related to Statement No. 53 and Statement No. 63 are effective upon issuance.
- The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement No. 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

GASB Statement No. 100, *Accounting Changes and Error Corrections*. This Statement established accounting and financial reporting for (a) accounting changes and (b) the correction of an error in previously issued financial statements (error correction). This Statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. The Statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections. This Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. This Statement requires disclosure in notes to financial statement of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated. Furthermore, this Statement addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information (RSI) and supplementary information (SI). The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

GASB issued Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

Alabama Drinking Water Finance Authority Notes to Financial Statements

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued and Implemented Accounting Pronouncements (Continued)

GASB Statement No. 102, *Certain Risk Disclosures*. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. The requirements of this Statement are effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter.

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, 2023, 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 entirely covered by the Security for Alabama Funds Enhancement Program (SAFE Program). The SAFE Program was established by the Alabama Legislature and is governed by the provisions contained in Section 41-14A of the Code of Alabama 1975, as amended. 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 Federal Deposit Insurance Corporation (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 \$67,848,380 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

Alabama Drinking Water Finance Authority Notes to Financial Statements

Note 2: DETAILED NOTES (Continued)

Deposits and Investments (continued)

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.

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

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

Investors Service, Inc. and “A-1” or “A-” or better by Standard & Poor’s Corporation. All of the investments and cash equivalents held by the Authority for the year ended September 30, 2023 are collateralized by U.S. Government securities rated AAA.

Concentration Risk – Section 150: *Investments* of the GASB Codification requires disclosures of investments in any one issuer that represents five percent or more of total investments, excluding investments issued or explicitly guaranteed by the U.S government, investments in mutual funds, external investments pools and other pooled investments. As of September 30, 2023, 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, 2023:

Moody's Ratings	Recorded Amount	Recorded Amount as a Percent of Total Holdings Value
Exempt from disclosure	\$ 67,848,380	57.49%
Aaa	50,169,706	42.51%
	\$ 118,018,086	100.00%

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

Alabama Drinking Water Finance Authority Notes to Financial Statements

Note 2: DETAILED NOTES (Continued)

Deposits and Investments (continued)

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).

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, 2023:

	Fair Value	Maturities (in years)			Level
		Less than 3	3-6	More than 6	
Investments					
U.S. Treasury SLGs	\$ 1,225,150	\$ 203,920	\$ 1,021,230	\$ -	L2
U.S. Treasury Bonds/Notes	66,623,230	66,623,230	-	-	L2
Total investments	67,848,380	\$ 66,827,150	\$ 1,021,230	\$ -	
Cash equivalents					
Money Market Funds	50,169,706	N/A	N/A	N/A	
Total holdings	\$ 118,018,086				

Alabama Drinking Water Finance Authority
Notes to Financial Statements

Note 2: DETAILED NOTES (Continued)

Loans Receivable

Loans receivable at September 30, 2023, as discussed below, are as follows:

Completed projects	\$ 196,075,000
Projects in progress	223,690,000
	419,765,000
Less:	
Current portion loans receivable	23,920,000
Unamortized Premium	5,148,467
	\$ 390,696,533

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

2024	\$ 23,920,000
2025	23,805,000
2026	24,270,000
2027	24,150,000
2028 and thereafter	323,620,000
	\$ 419,765,000

As of September 30, 2023, the Authority's ten largest outstanding loans, in the aggregate, exceeded \$171 million. The outstanding balances of these loans represent approximately 41% of the total loans receivable, as follows:

Loan Recipient	Outstanding Balance
West Morgan-East Lawrence Reverse Osmosis Treatment Plant	\$ 28,855,000
Curry Water Treatment Plant & Distribution System	23,170,000
Cullman Duck River Raw Water Pump Station, Transmission Main & WTP Impro.	18,015,000
Mobile Various Water Infrastructure Improvements (Supplemental)	16,675,000
Tuscaloosa 2018 DWSRF Projects	15,995,000
Mobile DWSRF Master Plan Phase I (2019-2023) Supplemental	14,745,000
Huntsville Utilities Water System Improvements (SUPP)	14,430,000
Florence Water System Capital Improvement Program	13,790,000
Florence, City of Capital Improvement Program	13,335,000
Tuscaloosa 2018 DWSRF Projects (SUPP)	12,255,000
	\$ 171,265,000

Alabama Drinking Water Finance Authority Notes to Financial Statements

Note 2: DETAILED NOTES (Continued)

Payables to Municipalities

As of September 30, 2023, the authority had \$144,099,132 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 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 2023:

	Balance 9/30/2022	Additions	Reductions	Balance 9/30/2023
Revolving fund loan bonds	\$ 12,205,000	\$ -	\$ 2,610,000	\$ 9,595,000
Add: Unamortized premiums	431,970	-	163,464	268,506
Total	\$ 12,636,970	\$ -	\$ 2,773,464	\$ 9,863,506

Alabama Drinking Water Finance Authority
Notes to Financial Statements

Note 2: DETAILED NOTES (Continued)

Long Term Debt (continued)

Long-term debt at September 30, 2023 is payable as follows:

<i>September 30,</i>	Principal	Interest	Total
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
	9,595,000	\$ 757,001	\$ 10,352,001
Plus: Unamortized premium	268,506		
Less: Current portion	2,720,000		
Total long-term debt	\$ 7,143,506		

Summary of changes in deferred outflows related to debt for 2023:

	Balance 9/30/2022	Additions	Reductions	Balance 9/30/2023
Unamortized deferred refunding costs	\$ 123,603	\$ -	\$ 25,151	\$ 98,452

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, 2023, the unamortized deferred refunding costs totaled \$65,168 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, 2023, the unamortized deferred refunding costs totaled \$33,284 for the Series 2004A Bonds.

Alabama Drinking Water Finance Authority Notes to Financial Statements

Note 2: DETAILED NOTES (Continued)

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, 2023 totaled \$4,322,664, leaving a remaining balance of \$14,648,755 capitalized as principal forgiveness on the statement of net position as of September 30, 2023.

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, 2023, the EPA awarded ADEM capitalization funds under its annual grant agreement in the amount of \$8,939,000 with a budget and project period beginning October 1, 2023. The EPA also awarded ADEM two additional capitalization grants. The additional grants in the amount of \$16,286,000 and \$52,638,000 was awarded by the EPA and is being funded by the Infrastructure Investment and Jobs Act ("IIJA"). The grants have a budget and project period beginning October 1, 2023. During the year ended September 30, 2023, the State of Alabama appropriated funds in the amount of \$4,481,168 from the State General Fund to the Authority to use as state matching funds.

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 \$100,894,564 at September 30, 2023. The Authority will apply for a federal capitalization grant in 2024. Any grants in 2024 and subsequent years are subject to approval on a yearly basis.

Alabama Drinking Water Finance Authority
Notes to Financial Statements

Note 3: APPROPRIATIONS (Continued)

The following summarizes the capitalization grant awarded, amounts drawn on each grant, and balances available for future loans as of September 30, 2023:

Year	Grant Amount	Draws prior to 2023	2023 Draws	Total Draws	Amount Available for Future Draws
2020 - FS	\$ 23,736,000	\$ 23,114,366	\$ 607,914	\$ 23,722,280	\$ 13,720
2020 - SI	847,000	412,735	-	412,735	434,265
2021 - FS	23,934,000	22,976,640	957,360	23,934,000	-
2022 - FS	15,106,000	-	15,039,421	15,039,421	66,579
2022 - 4D	38,787,000	-	-	-	38,787,000
2022 - 4L	61,114,000	-	-	-	61,114,000
2022 - L8	479,000	-	-	-	479,000
	<u>\$ 164,003,000</u>	<u>\$ 46,503,741</u>	16,604,695	<u>\$ 63,108,436</u>	<u>\$ 100,894,564</u>
Less:					
Administrative and set-aside expenses			(1,516,002)		
Total 2023 Draws			<u>\$ 15,088,693</u>		

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 2023 and determined there is no rebate due to the Internal Revenue Service at September 30, 2023.

Note 5: RELATED PARTIES

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

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

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

**INDEPENDENT AUDITOR’S 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, 2023, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements and have issued our report thereon dated February 5, 2024.

Report on 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 or significant deficiencies may exist that were not identified.

Report on 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

February 5, 2024



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

Mailing Address:
PO Box 311070
Enterprise, AL 36331

334.347.0088
334.347.7650 (fax)
CRLcpa.com

**INDEPENDENT AUDITOR’S 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

Opinion on Each Major Federal Program

We have audited Alabama Drinking Water Finance Authority's (the "Authority") compliance with the types of compliance requirements identified as subject to audit 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, 2023. The Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

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, 2023.

Basis for Opinion on Each Major Federal Program

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance of the major federal program. Our audit does not provide a legal determination of the Authority's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Authority's federal program.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Authority's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Authority's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Authority's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Authority's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Authority's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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

February 5, 2024

**Alabama Drinking Water Finance Authority
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2023**

Section I - Summary of Auditor's Results

Financial Statements

- | | |
|--|------------|
| 1. Type of auditor's 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 auditor's 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 | |

AL 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, 2023**

Federal Grantor/Pass-Through Grantor/Program Title	Assistance Listing Number	Grant or Pass-Through Grantor No.	Funds Provided to Subrecipients	Expenditures
Environment Protection Agency				
Passed through the Alabama Department of Environmental Management				
Capitalization Grants for Drinking Water State Revolving Funds	66.468	FS984472-20	\$ -	\$ 280,952
Capitalization Grants for Drinking Water State Revolving Funds	66.468	FS984472-22	13,891,760	14,491,760
Total Drinking Water State Revolving Fund Cluster			\$ 13,891,760	14,772,712
Total Federal Expenditures				\$ 14,772,712

Alabama Drinking Water Finance Authority

Notes to the Schedule of Expenditures of Federal Awards

Note 1: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) summarizes the federal expenditures of the Authority under programs of the federal government for the year ended September 30, 2023. 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 Assistance Listing (AL) numbers to ensure that all programs have been identified in the Schedule. Federal programs with different AL 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 Schedule 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 Schedule, 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

Alabama Drinking Water Finance Authority

Notes to the Schedule of Expenditures of Federal Awards

Note 4: BASIS OF ACCOUNTING (Continued)

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, 2023, 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, 2023. The base rate for indirect cost recoveries is 37.44% for the year ended September 30, 2023.

Note 7: NONCASH ASSISTANCE

The Authority did not receive any federal noncash assistance for the fiscal year ended September 30, 2023.

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, 2023.

Note 9: SUBRECIPIENTS

The Authority provided federal funds to subrecipients totaling \$13,891,760 for the fiscal year ended September 30, 2023.

Note 10: LOANS AND LOAN GUARANTEES

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

Alabama Drinking Water Finance Authority
Notes to the Schedule of Expenditures of Federal Awards

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, 2023.

**Alabama Drinking Water Finance Authority
Summary Schedule of Prior Audit Findings
For the Year Ended September 30, 2023**

There were no audit findings reported in the prior year