

ALASKA CLEAN WATER FUND STATE REVOLVING FUND

Annual Report for State Fiscal Year 2022 and Federal Fiscal Year 2021 Grant Allotment



**Prepared by
Alaska Department of Environmental Conservation
Division of Water**

**Submitted to
U.S. Environmental Protection Agency
Region 10**

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EXHIBIT 1:	Disbursement Log
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I. INTRODUCTION

The Alaska Clean Water Fund (ACWF), a component of the State Revolving Fund (SRF) Program managed through the Alaska Department of Environmental Conservation (ADEC), was established pursuant to the Federal Clean Water Act of 1987, as amended, and Alaska Statute 46.03.032. The ACWF assists local authorities in financing the planning, design and construction of critical wastewater facilities and nonpoint source projects through long term, low interest loans. Funds collected from loan repayments and interest are deposited into the ACWF and become available to loan to subsequent borrowers, creating a revolving funding source in perpetuity. The SRF Program is committed to protecting Alaska's water resources and public health.

II. EXECUTIVE SUMMARY

This annual report summarizes the operations of the SRF Program during State Fiscal Year 2022 (SFY22), July 1, 2021 through June 30, 2022. The goals and objectives outlined in the SFY22 Intended Use Plan (IUP) are listed with the progress made toward meeting each goal. This report summarizes the sources (federal grants and state matching funds) and uses (loans and program administration) of the ACWF and discusses compliance with federal Clean Water State Revolving Fund (CWSRF) requirements.

Some of the financial highlights for SFY22 include the following:

- At the close of SFY22, the ACWF reported a total net position of \$339.7 million, an increase of \$1.6 million over the previous year primarily attributed to a decrease in operating expenses.
- Alaska's SRF Program was awarded \$9,506,000 in a CWSRF capitalization grant from the U.S. Environmental Protection Agency (EPA).
- The SRF Program collected \$16.4 million in repayments to the ACWF, including principal, interest and a 0.5% administrative fee.
- During SFY22, Alaska disbursed \$7.3 million from the ACWF to borrowers for eligible project expenditures.

Important programmatic highlights for SFY22 include:

- After the Infrastructure Investment and Jobs Act (IIJA) (Public Law 117-58), also known as the Bipartisan Infrastructure Law (BIL) was signed on November 15, 2021, the SRF Program began planning for the implementation of this Federal investment in water infrastructure extending through the next five years.
- The SRF Program manager position was successfully recruited and hired. In addition, three SRF Program engineering associate positions have been filled. In addition, two engineering associate positions, newly created to prepare for the additional workload expected from BIL funded projects, are currently in the recruiting phase. In SFY23, recruitment for a program specialist position is also anticipated to provide additional support for SRF Program coordination and reporting. The recruitment and hiring of additional accounting staff is also anticipated in SFY23.
- SRF Program staff participated in two infrastructure workshops organized by the Alaska Municipal League to discuss project needs throughout the state and focus attention on funding opportunities through BIL. The second workshop was conducted early in SFY23 and SRF Program staff provided SRF 101 training to introduce new potential borrowers to the SRF Program.

- The SRF Program issued the third Programmatic Financing (Pro Fi) loan to the SRF Program's largest borrower, Anchorage Water and Wastewater Utility. The borrower developed a list of active capital improvement construction projects that may draw upon disbursements from this \$8 million loan. By completing one Pro Fi loan agreement rather than multiple individual loans, the SRF Program seeks to reduce the burden of loan administrative processes, increase the efficiency of the SRF Program staff, and allow the SRF Program to focus on the most beneficial ways to use CWSRF funds throughout Alaska.
- The SRF Program issued two Micro Loans, a new financing option targeted at small rural communities.
- With the assistance of an EPA contractor, the SRF Program prepared a marketing survey of current and potential borrowers and other stakeholders. The information gathered from this effort will provide valuable insight into marketing and outreach that will be most beneficial for the SRF Program and its borrowers.
- The SRF Program team successfully transitioned from a full telework situation in response to the COVID-19 pandemic to a hybrid telework situation for most staff with few disruptions to workflow processes.

III. GOALS AND ACCOMPLISHMENTS

The SFY22 IUP listed specific short-term and long-term goals. The following table lists the SRF Program's progress and accomplishments for each of these goals.

Long-Term Program Goals

Long-Term Goal	SFY22 Progress and Accomplishments
1 Ensure full compliance with all applicable requirements for all SRF loans.	SRF Program staff utilize checklists to evaluate loan applications to ensure compliance with all requirements. Staff members adhere to procedures in evaluating disbursements for cost eligibility and also monitor the project close-out process to ensure adherence to all requirements.
2 Foster coordination with other programs and agencies to improve assistance to water systems in their efforts to achieve compliance and improve capacity.	<ul style="list-style-type: none"> • The SRF Program helped wastewater systems address water quality risks in SFY22 by funding design and construction of projects. • The SRF Program continued to include Division of Water staff in the questionnaire review and scoring process to ensure that any wastewater compliance issues for proposed projects are understood and addressed in the scoring process. • SRF Program staff met with Wastewater Compliance Program staff to discuss ongoing compliance issues. • The Micro Loan program, initiated in SFY19, provides another example of how the SRF Program is seeking to further coordinate with other programs. Micro Loans provide funding to small, rural Alaska communities, for small projects that would otherwise be challenging to fund through traditional grant programs, or to finance aspects of larger grant funded projects that are ineligible through the grant. In SFY22, the SRF Program continued to actively collaborate with the Alaska Native Tribal Health Consortium (ANTHC) and the State of Alaska Village Safe Water (VSW) Program to refine procedures to implement Micro Loans. One Micro Loan was issued for a piped sewer extension to existing homes in Hoonah. The SRF Program also worked collaboratively with ANTHC and VSW staff to draft a loan agreement for a Micro Loan project in Unalakleet that was signed in SFY23.
3 Establish a process for coordinating funding strategies with other lenders such as U.S. Department of Agriculture (USDA) Rural Development (RD).	The SRF Program remains open to opportunities to coordinate funding with other agencies. The project scoring process offers points if a borrower is seeking an SRF loan in conjunction with other state or federal funding.
4 Develop program guidelines to improve the pace of loan projects.	As an initial step towards this goal, the SRF Program plans to internally assess metrics that measure fund resource utilization on a regular basis. A primary indicator of success in the SRF is the rate of fund utilization, or pace. A high rate of fund utilization indicates that more funds are actively being used for projects. This effort will be coordinated with the full implementation of a cash flow model (Long-term Goal 7) that allows the SRF Program to more accurately identify the available funds to loan.

Long-Term Goal		SFY22 Progress and Accomplishments
5	Expand borrower pool through an established marketing and outreach plan.	The continued implementation of the Micro Loan program will expand the borrower pool to smaller rural systems that have not previously borrowed from the SRF for infrastructure improvements. In SFY22, efforts continued to ensure that staff within ADEC and partnering agencies understand the Micro Loan eligibility criteria and loan process.
6	Pursue methods for encouraging borrowers to pursue green and sustainable projects.	The SRF Program continues to identify projects with green components through the questionnaire and application process. The project scoring criteria includes additional points for projects that identify a green component. The SRF Program will continue to look for additional ways to encourage and support applicants interested in green projects.
7	Fully implement the Financial Operations and Cash Flow Utilization System (FOCUS), a cash flow model for forecasting fund usage to allow for improved planning and funding allocation decisions.	In SFY21, the FOCUS model was integrated into Loans & Grants Tracking System (LGTS). The output from FOCUS will be used to forecast the financial performance of the ADWF into the future. Full implementation of this tool will require incorporating this output into the planning process (see Short-Term Goal 6).
8	Implement a long-term strategy for utilizing the ACWF Fee Account and 4% Administrative Set-Aside for program administration expenses.	For several years, most ADWF administrative expenses have been paid from the Alaska Clean Water Fund (ACWF) Fee Account as it had a larger balance than the ADWF Fee Account. The accounts are now balanced. In order to allow both Fee Accounts to continue to grow slowly, as well as to take full advantage of the 4% Administrative Set-Asides for both funds, the SRF Program will charge approximately half of the SFY22 ADWF administrative costs to each Fee Account. All ACWF administrative costs will be charged to the Clean Water 4% Administrative Set-Aside. The DW Program will continue to use the Drinking Water 4% Administrative Set-Aside for technical assistance activities.

Short-Term Program Goals

Short-Term Goal		SFY22 Progress and Accomplishments
1	Recruit and hire a dedicated program manager to oversee the day-to-day implementation of the SRF Program.	This key program manager position was successfully filled early in SFY22. In addition, the SRF Program took the opportunity to make some structural changes when two of the SRF engineer positions were vacated. Under the new structure, four flexibly staffed engineering positions report directly to the SRF Program Manager. The SRF Lead Engineer position was moved outside the Program and will serve as support to the entire Facilities Section, including the SRF Program. Under this configuration, three SRF Program engineering associate positions have been filled since SFY22. In addition, to prepare for implementation of BIL funding, recruitment has been initiated to hire two additional engineering associates as well as a program specialist who can provide assistance with program coordination and reporting tasks.

Short-Term Goal	SFY22 Progress and Accomplishments
2 In response to the economic crisis associated with the COVID-19 pandemic, identify methods to provide support to borrowers that experience unanticipated financial hardships.	While communities throughout Alaska experienced economic impacts associated with the COVID-19 pandemic, there were no requests during SFY22 for deferred loan repayments or debt restructuring.
3 To promote project readiness and entice new borrowers, initiate a program to provide loan forgiveness of up to \$75,000 for water system planning and related activities that promote sustainable water infrastructure.	Goal accomplished. The SRF Program issued three loans for Sustainable Infrastructure Planning Projects in SFY22 including a wastewater rate study that will help the utility determine appropriate rates, a master plan, and other planning efforts.
4 Ensure that the SRF Program is meeting capitalization grant requirements for the allocation of additional subsidy.	The SRF Program continues to update tracking spreadsheets in regard to the commitment of additional subsidy in new loan agreements as well as the expenditure of subsidy through ongoing disbursements. This information is tracked for each capitalization grant to ensure that minimum requirements are met. This annual report provides a summary of the current status of additional subsidy commitments and expenditures.
5 Implement revised subsidy allocation methods to strategically use the CWSRF additional subsidy to achieve affordable compliance, especially for small disadvantaged communities.	Work was initiated in SFY22 to analyze the current criteria used to identify disadvantaged communities and consider other criteria that may be relevant to Alaska communities. Revised criteria will be made available for public comment in SFY23.
6 Identify workflow processes needed to update and utilize FOCUS, including an improved method to track both the allocation and disbursement of additional subsidy.	The SRF Program is working with the accounting team to develop a workflow process and will be working with Northbridge to create a subsidy tracking tab in LGTS.
7 In coordination with completion of a revised Capacity Development Strategy, consider methods for supporting wastewater utilities in their efforts to build and maintain capacity to successfully operate their systems in the long term, as well as encourage borrowers of the ACWF to pursue asset management.	The SRF and Capacity Development Programs met to discuss various methods for supporting wastewater utilities. Ideas from these meeting are being further developed for implementation feasibility in SFY23.
8 Complete revisions to the ACWF Operating Agreement.	A draft copy of an updated Operating Agreement was shared with EPA in SFY21. The effort to update the Operating Agreement continued in SFY22 to reflect current program requirements and practices.

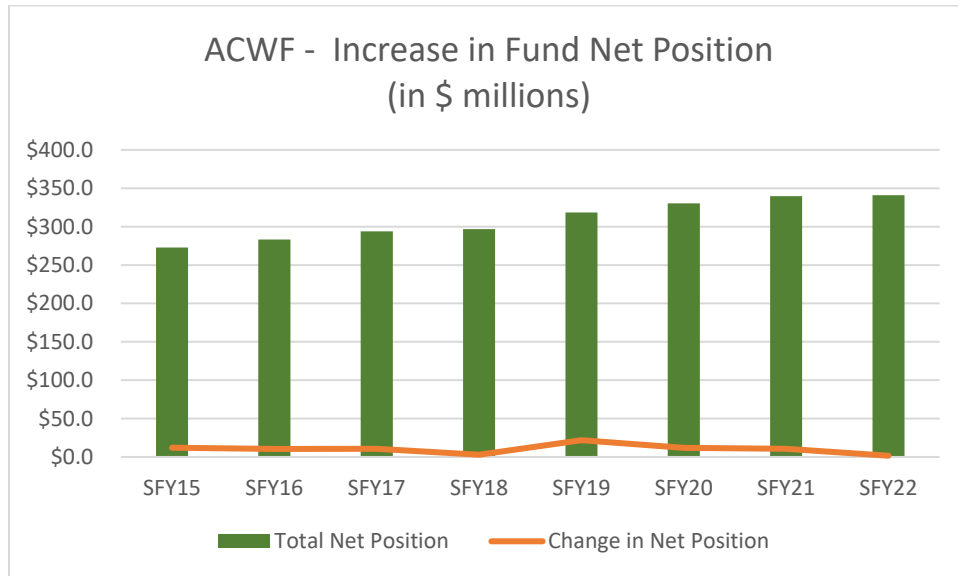
Short-Term Goal	SFY22 Progress and Accomplishments
9 Pursue revisions to the regulations at 18 AAC 76 to increase the SRF Program's agility in response to the needs of borrowers, as well as federal grant conditions.	To achieve the desired revisions, a statutory change is necessary (see Short-term Goal 10). After the statutory change is implemented, the regulation revision will be pursued.
10 Pursue revisions to Alaska Statute at AS 46.03, to broaden ACWF eligibility for private wastewater systems and tribally owned utilities.	The SRF Program proposed an approach for a statute revision to the ADEC Commissioner in early SFY22 in preparation for the upcoming legislative session. A bill by the Governor or a legislator will be required to move the proposal forward.
11 Develop and distribute guidance materials to current and potential borrowers, including Davis-Bacon Guidance materials.	Several fact sheets were developed and added to the SRF Program website. A one-sheet compliance guide was developed to clearly identify roles and responsibilities for complying with Davis-Bacon wage rate requirements. The SRF Program continued to work on updates to the website as a primary resource for current borrowers and potential applicants. Planning continued for developing an inclusive SRF Program borrower's guide as a PDF document that can be posted on the website or shared with borrowers.
12 Develop and distribute marketing materials to improve outreach to potential borrowers.	The SRF Program worked with an EPA contractor to conduct a marketing survey of current and potential borrowers and other stakeholders. The report documenting this survey provides valuable insight into steps that the SRF Program can take to identify effective marketing tools and methods. This goal will remain on the list for future work.
13 Develop an online resource for borrowers about all potential sources of infrastructure funding.	Significant progress was made in gathering information regarding funding sources; however, the final compiled list has not yet been published. This effort in coordination with the SRF Program, Capacity Development, and VSW Programs continue in SFY22. This goal will remain on the list for future work.
14 Initiate enhancements to the online disbursement request and quarterly report system to improve the user experience and data collection.	A combined online form was implemented. Additional modifications and refinements may be needed in the future. The combined online form is intended to capture all needed information and expedite the reporting process for the borrower.
15 With technical assistance provided through an EPA pilot program, continue efforts to identify potential partners for conduit lending to provide financing to private homeowners for onsite decentralized wastewater treatment system and underground fuel storage repairs or replacement.	The SRF Program is continuing to explore potential statutory changes that would allow direct loans to private entities such as Community Development Financial Institutions (CDFIs) and credit unions. In addition, the SRF Program will continue discussion with eligible municipal borrowers who may have the capacity to develop a pass-through program to finance private onsite systems and other projects that impact water quality.

Short-Term Goal	SFY22 Progress and Accomplishments
16 In coordination with the Divisions of Air Quality, Spill Prevention and Response and the Non-Point Source Program, pursue an avenue for funding conversion of home heating in the Fairbanks area from wood stoves and diesel fired boilers to natural gas in an effort to improve air quality in the PM2.5 Nonattainment Area, as well as reduce nonpoint source pollution in nearby waterbodies.	This goal was not completed this SFY22 due to the work priority focus shifting to the funding associated Bipartisan Infrastructure Law. The coordination effort with Air Quality, Spill Prevention and Response and Non-Point Source Program shifted to emerging contaminants. This goal will carry forward to SFY23.

IV. FUND STATUS AND FINANCIAL ASSISTANCE

Fund Financial Status Net Position

During SFY22, the net position of the ACWF increased by \$1.6 million. Further details may be found in the Financial Statements provided in Exhibit 2.



Capitalization Grant and State Match

The State of Alaska was awarded \$9,506,000 under the Federal Fiscal Year 2021 (FFY21) CWSRF capitalization grant. The State provided the required 20% matching funds by issuing short-term bonds to acquire the proceeds to match the CWSRF federal grant. The net bond proceeds amounted to \$1,901,200 in short-term debt. The debt was retired in one day.

Loan Repayments and Investment Income

A total of \$13,874,169 was collected in principal repayments. Interest paid on loan repayments totaled \$1,670,865. The fund also received \$1,941,740 in investment income.

Fees

Per state regulation, an administrative fee of 0.5% is assessed on all disbursed loan funds. During SFY22, the SRF Program collected \$836,486 in new fees. The fees collected are used solely for administration of the SRF Program. In SFY22, all ACWF and most ADWF program administration expenses were paid by the ACWF fee account. Program expenditures recorded by the ACWF in SFY22 were \$692,030.

New Loans and Changes in Assistance

As shown in the following table, the ACWF executed seven new loans during SFY22 totaling \$11,232,947. One existing loan was amended to increase the loan amount by \$400,000.

The SRF Program also de-obligated \$7,206,376 in loan funds. Of that total, \$2 million was associated with a loan issued in 2016 for a project that was never initiated. Since the borrowers had no plans to initiate this project; it was necessary to de-obligate the loan funds. A second de-obligation was for \$1.79 million project that was cancelled after disbursing less than \$2,000 for loan administration expenses. Two other de-obligations were for projects that were successfully completed but disbursed less than the original loan amount.

New Assistance Agreements, Amendments, and De-obligations – SFY22							
NEW ASSISTANCE AGREEMENTS							
Date of Agreement	Community	Project #	Amount	Finance Charge (%)	Needs Category*	Green Project Reserve	Additional Subsidy
9/14/2021	Fairbanks	339101-S	\$1,450,656	1.5	III-B	\$400,000	\$500,000
11/17/2021	Ketchikan Gateway Borough	482041-S	\$100,000	1.5	III-B		\$75,000
1/7/2022	Hoonah	411021-S	\$252,291	1.5	III-B		\$176,604
2/17/2022	Soldotna	791061-S	\$30,000	1.5	III-B		\$30,000
3/21/2022	Haines Borough	395281-S	\$100,000	1.5	III-B		\$75,000
5/2/2022	AWWU	ASUC22-E	\$8,000,000	1.6625	I		
5/10/2022	Sitka	783541	\$1,300,000	1.79375	III-B	\$340,000	
Subtotal for new loans			\$11,232,947				\$856,604
AMENDMENTS							
8/13/2021	Kodiak	503171-S	\$400,000	1.5	III-B		
Subtotal for amendments			\$400,000				\$400,000
DEOBLIGATIONS							
De-obligations			(\$5,206,376)				
NET ASSISTANCE PROVIDED			\$6,426,571				

* Needs Category: I – Secondary Treatment, III-B – Sewer System Replacement / Rehabilitation

Project Bypasses

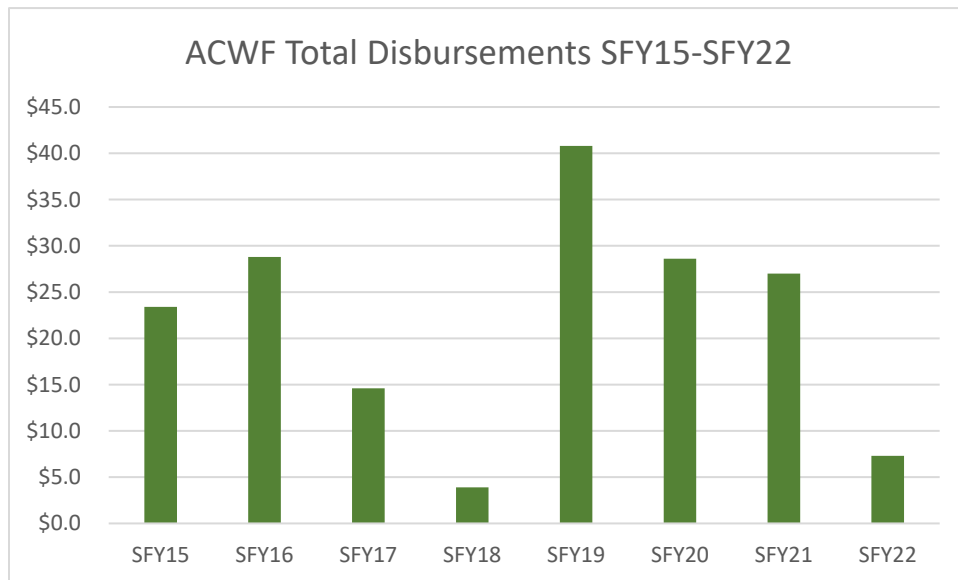
During SFY22 there were no formal bypasses. Adequate funds were available to finance all of the projects included on the Project Priority List (PPL).

Disbursements

During SFY22, Alaska disbursed \$7.3 million from the SRF Program for eligible project expenditures. A disbursement log is included as Exhibit 1. Nearly 30% of that total was disbursed to the Anchorage Water and Wastewater Utility (AWWU) for disbursements associated with the second Pro Fi loan. The rest of the

disbursements totaling approximately \$5.1 million provided financial assistance to 11 different communities in Alaska.

The SFY18 Annual Report pointed out the economic recession in Alaska and how that may have impacted the low disbursement amount in SFY18. In the first quarter of 2020, as Alaska was emerging from its longest recession on record, COVID-19 struck and impacted almost all the state's industries, severely depressing revenue, employment, and consumer confidence. Although economic forecasts previously predicted the end of a three-year statewide recession in Alaska, the post-recession period may be impacted by changes in the state budget to lower the deficit as well as the economic crisis associated with the COVID-19 pandemic.



Administrative Set-Aside (4%) Expenses

The State may use up to 4% of the federal capitalization grant amount to administer the loan program. However, from SFY16 through SFY21, loan fees were used to pay for most program administration costs. Beginning in SFY22, the 4% administrative set-aside was used for program administration expenses. At 4% of the \$9,506,000 capitalization grant, \$380,240 was budgeted and spent.

Audit Report

The ACWF was audited as a major federal program under the Single Audit Act. The State's Single Audit Report for the fiscal year ending June 30, 2022 will be released in January 2023. The ACWF contracted for an independent audit for SFY22. A draft copy of this audit is attached as Exhibit 2.

V. ADDITIONAL SUBSIDY AND GREEN PROJECT RESERVE

Additional Subsidy – Disadvantaged Community Assistance

The capitalization grant requires that at least 10% of the grant be offered in the form of additional subsidy. Based on the \$9,506,000 capitalization grant, the minimum required subsidy is \$950,600. The Alaska SRF Program meets the requirement by providing loans with forgivable principal to communities that demonstrate disadvantaged community status. The criteria for disadvantaged status as identified in the IUP.

While developing the IUP and subsequent updates to the PPL, subsidy consideration was given to eligible disadvantaged community borrowers that were able to demonstrate a project's readiness to proceed. Eleven potential projects, including two nonpoint source projects, were identified in the PPL for subsidy in the form of principal forgiveness with a maximum of \$500,000 offered per borrower. New loan agreements were completed for three of the projects that were identified to receive principal forgiveness in the SFY22 PPL. In addition, two loan amendments issued in SFY22 included principal forgiveness. A loan application has been submitted for one additional subsidized project; loan application review is pending.

Additional Subsidy Allocation in Loan Agreements during SFY22				
Community	Project #	Loan Request	Additional Subsidy	Comment
Fairbanks	339101-S	\$1,450,656	\$500,000	Loan issued
Ketchikan Gateway Borough	482041-S	482041-S	\$75,000	Loan issued
Hoonah	411021-S	411021-S	\$176,604	Loan issued
Soldotna	791061-S	791061-S	\$30,000	Loan issued
Haines Borough	395281-S	395281-S	\$75,000	Loan issued

In order to demonstrate the current status of additional subsidy commitment in loan agreements, as well as the disbursement of subsidy, the following table shows the subsidy requirements for capitalization grants from FFY14 through FFY21. All capitalization grants prior to FFY14 have met the requirements for both committing and expending additional subsidy.

With regard to commitments of principal forgiveness in loan agreements, minimum requirements have been met for the capitalization grants from FFY14 through FFY18. Additional commitments in loan agreements will be required in order to meet requirements for the FFY17, FFY19 and FFY20 capitalization grants.

Additional expenditures will be needed to meet the subsidy requirement for the FFY14 and FFY17 through FFY21 grants. The SRF Program will re-evaluate the status of projects included on the PPL to determine those that meet requirements for disadvantaged community status and are proceeding with a loan application. Additional subsidy will be allocated in loan agreements to reach the minimum requirement by the end of SFY23.

Additional Subsidy Committed and Expended						
Cap Grant Year and Amount	Cap Grant Additional Subsidy Requirement		Additional Subsidy – Principal Forgiveness		Additional Subsidy to be Committed/Expended to Meet Grant Requirement	
	Minimum	Maximum	\$ Committed in loan agreements	\$ Expended	\$ to be Committed	\$ to be Expended
FFY14 \$8,376,000	\$455,654	\$683,703	\$455,802	\$309,082	\$0	\$146,572
FFY15 \$8,388,000	\$0	\$2,516,400	\$0	\$0	\$0	\$0
FFY16 \$7,977,000	\$797,700	\$2,393,100	\$899,799	\$855,609	\$0	\$0
FFY17 \$7,915,000	\$791,500	\$2,374,500	\$724,538	\$228,859	\$66,962	\$562,641
FFY18 \$9,603,000	\$960,300	\$2,880,900	\$972,610	\$453,754	\$0	\$506,546
FFY19 \$9,506,000	\$950,600	\$2,851,800	\$922,741	\$231,186	\$27,859	\$719,414
FFY20 \$9,507,000	\$950,700	\$2,852,100	\$920,476	\$491,010	\$30,224	\$459,690
FFY21 \$9,506,000	\$950,600	\$2,851,800	\$1,000,000	\$0	\$0	\$950,600

Green Project Reserve

Projects that addressed environmental concerns through concepts such as water and energy efficiency, green infrastructure, and innovation were awarded additional points in the scoring and ranking process before being added to the PPL. The FFY21 capitalization grant from EPA required Alaska to offer a minimum of 10% of the grant to Green Project Reserve (GPR) projects or GPR elements of projects. The FFY21 grant totaled \$9,506,000 which set the GPR requirement at \$950,600.

The projects with GPR components that are either assigned to the FFY21 grant or pending assignment are listed in the table below. The GPR amount committed in loan agreements is equal to approximately 17% of the capitalization grant, exceeding the 10% requirement.

Projects with GPR Assigned or Pending Assignment to FFY21 Capitalization Grant				
Community	Project #	Loan Amount	GPR Amount Assigned	GPR Category
Fairbanks	339101	\$1,450,656	\$400,000	Energy efficiency – retrofits and upgrades to Thomsen Harbor lift station including high efficiency pumps to reduce electrical consumption
Kodiak	503181	\$5,400,000	\$1,211,500	Energy efficiency – upgrade pumps and control equipment with more efficient pumping systems
TOTAL			\$1,611,500	

The table below shows the GPR amounts that have been committed and expended from FFY14 through FFY21 grant years. All requirements for committing and expending GPR have been met for the FFY14 through FFY16 grants. The requirement to commit GPR in loan agreements has been met for all grant years. Additional expenditures will fulfill the requirements for FFY17 through FFY21.

GPR Committed and Expended – FFY14 to FFY21			
Cap Grant Year and Amount	Cap Grant Minimum GPR Requirement	GPR Committed in Loan Agreements	\$ Expended
FFY14 \$8,376,000	\$837,600	\$1,987,000	\$1,987,000
FFY15 \$8,333,000	\$838,800	\$1,737,768	\$1,048,074
FFY16 \$7,977,000	\$797,700	\$1,981,900	\$1,577,956
FFY17 \$7,915,000	\$791,500	\$2,457,977	\$724,519
FFY18 \$9,603,000	\$960,300	\$1,000,000	\$40,5070
FFY19 \$9,506,000	\$950,600	\$1,467,287	\$380,351
FFY20 \$9,507,000	\$950,700	\$960,734	\$701,043
FFY21 \$9,506,000	\$950,600	\$1,611,500	

VI. OPERATING AGREEMENT AND CAPITALIZATION GRANT CONDITIONS

Consistent with applicable federal regulations at 40 CFR 35.3165, the State/EPA Operating Agreement, and applicable capitalization grant conditions, Alaska assures that the following special conditions or compliance requirements have been met:

- State laws and procedures;
- State accounting and auditing procedures;
- Recipient accounting and auditing procedures;
- Maintain adequate staffing;
- Ensure fund will be available in perpetuity;
- Manage the fund in accordance with the Operating Agreement, federal and state laws, and regulations;
- Agreement to accept payments;
- Annual review;
- Dedicated fund;
- Availability of records;
- Anti-lobbying;
- Drug free workplace;
- Rural Area Business Enterprise Development Plan;
- Cost principles of Office of Management and Budget (OMB) Circular A-87;
- 4% administrative funds limit;
- Limitation to prevent double benefits eligibility of the non-federal share of construction grant projects;
- Civil Rights Act; and
- Certification of legality.

Annual Report and Annual Audit

The submission of this document will fulfill Alaska's responsibility to submit an Annual Report. ADEC contracted with Elgee Rehfield, LLC for an independent audit of the ACWF to address funding activity from the loan account, the set-aside account and the administrative account.

Binding Commitments within One Year

Pursuant to 40 CFR 35.3165, the State must enter binding commitments in amounts greater than or equal to 120% of each quarterly capitalization grant payment within one year of receipt. During SFY22, Alaska executed new loan agreements totaling \$11,232,947 and also issued one \$400,000 amendment. These new loan agreements and amendments represent a commitment of 122% of the capitalization grant amount.

Expeditious and Timely Expenditure

The State disbursed all automated clearinghouse cash draws and associated state match monies in a timely manner. The Disbursement Log in Exhibit 1 details the loan disbursements made during the reporting period. Alaska continues to monitor projects to ensure timely initiation of operations.

Compliance with Title II Equivalency Requirements

Title VI of the Clean Water Act lists specific Title II requirements which must be met by projects funded by the ACWF in an amount equal to the annual capitalization grant. ADEC must ensure that a project, or projects, for which funding is equal to the federal grant award meet specific federal funding conditions. These projects are considered equivalency projects. FFATA information was entered into the FFATA Subaward Reporting System (FSRS) within 30 days after the completion of the loan agreements for designated equivalency projects.

Due to amendments to the Clean Water Act in 2014, the equivalency requirements include the following:

- Architectural and engineering (A/E) services procurement
- Disadvantaged Business Enterprises (DBE)
- Federal Funding Accountability and Transparency Act (FFATA)
- Most of the federal cross cutters

To meet equivalency requirements, two loans were selected in the FFATA Subaward Reporting System to meet FFY21 requirements: AWWU ASUC22 and Kodiak 503181. The AWWU Pro Fi loan (ASUC22) has been reported in the FFATA Subaward Reporting System. The borrower signed the loan agreement for the Kodiak 503181 in October 2022.

Borrower	Project Number	Loan Agreement Date	Loan Agreement Amount	Cap Grant Selection	FFATA Reporting Date	FFATA Reporting Amount
AWWU	ASUC22	5/2/2022	\$8,000,000	FFY21	5/10/2022	\$8,000,000
Kodiak	503181	10/17/2022	\$5,400,000	FFY21	pending	\$1,506,000
TOTAL FFY21						\$9,506,000

Equivalency Update for the Previous Capitalization Grant

During SFY22, a borrower withdrew a loan agreement that was identified to meet equivalency requirements for the previous FFY20 capitalization grant. The City of Palmer identified other funding sources and decided not to finance a wastewater treatment plant upgrade project (671321) through the SRF Program. Therefore, in order to meet the equivalency requirements for the FFY20 grant, a portion of the \$5.4 million Kodiak 503181 loan agreement will be reported to meet FFY21 requirements.

Borrower	Project Number	Loan Agreement Date	Loan Agreement Amount	Cap Grant Selection	FFATA Reporting Date	FFATA Reporting Amount
AWWU	ASUC21	5/26/2021	\$7,963,018	FFY20	6/30/2021	\$7,963,018
Palmer	671321	6/22/2021	\$8,052,000	FFY20	7/30/2021	\$1,543,982
The Palmer 671321 loan agreement was withdrawn by the applicant after the borrower identified other funding sources.						
Kodiak	503181	10/17/2022	\$5,400,000	FFY20	pending	\$1,543,982
TOTAL FFY20						\$9,506,000

EPA CWSRF Database Reporting

The SRF Program reported loan and project information in the federal SRF Data System on a quarterly basis during SFY22. Alaska has implemented a modification to LGTS that allows loan and project information to be entered into LGTS in fields identical to the EPA database. This information is then exported from LGTS to the EPA database. This method of data entry automates and streamlines the data entry process into the EPA database and reduces the likelihood of transcription errors.

EPA transitioned from the Clean Water Benefits Reporting (CBR) system to the new SRF Data System on May 27, 2021. Alaska is partnering with other states in a grant-funded effort to create a data bridge between LGTS and the new SRF Data System. This data bridge will allow Alaska to continue inputting all data into LGTS and exporting that information to the national SRF Data System. Until the data bridge is finalized, Alaska will continue coordinating with Northbridge and EPA to ensure that project and loan information is reported on a quarterly basis.

Disadvantaged Business Enterprise (DBE) Fair Share Objectives

Although EPA approved a temporary exception on October 1, 2019 to requirements that recipients must negotiate fair share objectives for minority business enterprise and women's business enterprise participation in procurement, Alaska has continued to include these requirements in loan agreements issued for equivalency projects. The State's SRF Program goals through September 30, 2022 are 3.26% for Minority Business Enterprises (MBE) and 1.48% for Women Business Enterprises (WBE). Funded projects are required to report their progress toward meeting these goals on an annual basis.

Other Federal Authorities

The State and all loan recipients have complied with applicable federal authorities. Borrowers agree to this as a condition of the loan.

State Environmental Review Process

For all projects funded in SFY22, ADEC reviewed documentation to determine the appropriate environmental action in accordance with the State Environmental Review Process (SERP). All of the projects funded with new loan agreements in SFY22 were determined to meet requirements for a categorical exclusion.

Cash Draw Procedures

During SFY22, disbursements were drawn at a ratio of 83.33% Federal and 16.67% State. This draw ratio agrees with the procedure identified in the SFY22 IUP.

American Iron and Steel

In accordance with Section 608 of the Federal Water Pollution Control Act, construction, alteration, maintenance and repair of treatment works requires the use of American-made iron and steel products. All loan agreements for publicly owned treatment work construction projects issued in SFY22 included the American Iron and Steel (AIS) requirements. This requirement applies to the entire project receiving a loan agreement that was fully signed on or after the effective date of January 17, 2014, unless approval of engineering plans and specifications by a State agency was completed prior to the enactment date of October 1, 2014.

Davis-Bacon Act

Davis-Bacon Act prevailing wage rates are required for all treatment works projects funded in whole or in part by the ACWF. Davis-Bacon applies to construction contracts over \$2,000 and their subcontractors, regardless of the subcontract amount. SRF loan agreements for applicable projects include Davis-Bacon prevailing wage requirements, and loan recipients agree to comply with these requirements in the loan agreements with the SRF Program.

During SFY22, ADEC confirmed, to the best of its ability, that the correct wage determinations were included in the bid specifications and/or construction contracts of SRF financed projects. ADEC also provided assistance recipients with the specific EPA Davis-Bacon contract language that was to be included in bid specifications and/or contracts. In addition, ADEC collected certifications of Davis-Bacon compliance from assistance recipients.

EXHIBIT 1 - CWSRF - Disbursement Log

Warrant Date - 7/1/2021 through 6/30/2022

Date Received	Approval Date	Warrant Date	Project Number	Entity	Planned/Actual Disbursement Amount	Source Of Funds					ARRA Funded	
						Federal	State Match	Leveraged Bonds	Repayment Funds	Other		Subsidy Amount
4/27/2021	7/29/2021	8/3/2021	481201	Ketchikan, City of	6,917.40	0.00	6,917.40	0.00	0.00	0.00	0.00	N
7/7/2021	7/12/2021	7/12/2021	283081 - S	Dillingham	18,970.99	0.00	18,970.99	0.00	0.00	0.00	0.00	N
7/22/2021	7/26/2021	7/27/2021	503031	Kodiak	23,866.33	0.00	23,866.33	0.00	0.00	0.00	0.00	N
7/23/2021	1/11/2022	2/16/2022	561041	Matanuska-Susitna Borough	91,055.00	0.00	91,055.00	0.00	0.00	0.00	0.00	N
7/30/2021	8/3/2021	8/6/2021	785031-S	Skagway	360,456.81	0.00	360,456.81	0.00	0.00	0.00	180,223.91	N
7/30/2021	9/22/2021	9/22/2021	783461	Sitka	246,779.38	0.00	246,779.38	0.00	0.00	0.00	0.00	N
7/30/2021	4/6/2022	6/10/2022	685271-SG	Petersburg Borough	268,251.47	0.00	268,251.47	0.00	0.00	0.00	134,125.74	N
8/4/2021	12/22/2021	1/5/2022	481201	Ketchikan, City of	31,731.14	0.00	31,731.14	0.00	0.00	0.00	0.00	N
8/18/2021	4/1/2022	6/9/2022	482021-S	Ketchikan GB	35,637.53	0.00	35,637.53	0.00	0.00	0.00	7,127.51	N
9/28/2021	9/28/2021	10/13/2021	ASUC21-E	Anchorage Water and Wastewater	1,265,803.00	1,265,803.00	0.00	0.00	0.00	0.00	0.00	N
10/20/2021	10/26/2021	10/28/2021	785031-S	Skagway	1,924,645.81	0.00	1,121,422.95	0.00	803,222.86	0.00	119,776.09	N
10/28/2021	12/17/2021	12/30/2021	783461	Sitka	35,958.69	0.00	0.00	0.00	35,958.69	0.00	0.00	N
10/31/2021	4/6/2022	6/9/2022	685271-SG	Petersburg Borough	225,954.83	0.00	0.00	0.00	225,954.83	0.00	64,714.26	N
11/17/2021	12/22/2021	1/5/2022	481201	Ketchikan, City of	17,703.83	0.00	0.00	0.00	17,703.83	0.00	0.00	N
11/18/2021	12/6/2021	12/20/2021	ASUC21-E	Anchorage Water and Wastewater	16,957.00	16,957.00	0.00	0.00	0.00	0.00	0.00	N
11/19/2021	12/6/2021	12/20/2021	ASUC21-E	Anchorage Water and Wastewater	267,636.00	267,636.00	0.00	0.00	0.00	0.00	0.00	N
11/19/2021	12/6/2021	12/20/2021	ASUC21-E	Anchorage Water and Wastewater	54,780.00	54,780.00	0.00	0.00	0.00	0.00	0.00	N
11/19/2021	12/6/2021	12/20/2021	ASUC21-E	Anchorage Water and Wastewater	1,567.00	1,567.00	0.00	0.00	0.00	0.00	0.00	N
11/19/2021	12/6/2021	12/20/2021	ASUC21-E	Anchorage Water and Wastewater	742.00	742.00	0.00	0.00	0.00	0.00	0.00	N
11/19/2021	12/6/2021	12/20/2021	ASUC21-E	Anchorage Water and Wastewater	121.00	121.00	0.00	0.00	0.00	0.00	0.00	N
11/19/2021	12/6/2021	12/21/2021	ASUC21-E	Anchorage Water and Wastewater	15,359.00	15,359.00	0.00	0.00	0.00	0.00	0.00	N
11/30/2021	12/6/2021	12/21/2021	ASUC21-E	Anchorage Water and Wastewater	5,860.00	5,860.00	0.00	0.00	0.00	0.00	0.00	N
12/1/2021	12/7/2021	12/21/2021	ASUC21-E	Anchorage Water and Wastewater	16,006.00	16,006.00	0.00	0.00	0.00	0.00	0.00	N
12/1/2021	12/9/2021	12/21/2021	ASUC21-E	Anchorage Water and Wastewater	406,246.00	406,246.00	0.00	0.00	0.00	0.00	0.00	N
12/8/2021	12/9/2021	12/21/2021	ASUC21-E	Anchorage Water and Wastewater	140,806.00	140,806.00	0.00	0.00	0.00	0.00	0.00	N
12/20/2021	3/22/2022	4/21/2022	627251-S G	Nome/Nome Joint Utility System	251,782.04	0.00	0.00	0.00	251,782.04	0.00	125,891.02	N
1/26/2022	2/7/2022	3/3/2022	783461	Sitka	25,736.63	0.00	0.00	0.00	25,736.63	0.00	0.00	N
2/2/2022	4/7/2022	6/16/2022	685271-SG	Petersburg Borough	6,133.10	0.00	0.00	0.00	6,133.10	0.00	0.00	N
2/8/2022	2/24/2022	3/7/2022	481201	Ketchikan, City of	28,144.93	0.00	0.00	0.00	28,144.93	0.00	0.00	N
2/9/2022	2/17/2022	4/8/2022	785031-S	Skagway	644,081.40	0.00	0.00	0.00	644,081.40	0.00	0.00	N
3/30/2022	5/16/2022	6/9/2022	482021-S	Ketchikan GB	13,482.75	0.00	0.00	0.00	13,482.75	0.00	2,696.55	N
4/15/2022	5/17/2022	6/22/2022	395261-S	Haines Borough	136,758.21	0.00	0.00	0.00	136,758.21	0.00	68,379.11	N
4/15/2022	5/20/2022	6/27/2022	395271-S	Haines Borough	382,019.93	0.00	0.00	0.00	382,019.93	0.00	191,009.97	N
4/21/2022	6/6/2022	6/27/2022	783461	Sitka	372,040.88	0.00	0.00	0.00	372,040.88	0.00	0.00	N
5/17/2022	5/18/2022	6/27/2022	785031-S	Skagway	5,471.99	0.00	0.00	0.00	5,471.99	0.00	0.00	N
Total (35 Disbursements)					7,345,464.07	2,191,883.00	2,205,089.00	0.00	2,948,492.07	0.00	893,944.16	

EXHIBIT 2

**STATE OF ALASKA DEPARTMENT OF
ENVIRONMENTAL CONSERVATION
Alaska Clean Water Fund**

Independent Auditor's Report,
Financial Statements, Additional Information,
and Federal Single Audit Reports

Year Ended June 30, 2022

STATE OF ALASKA
DEPARTMENT OF ENVIRONMENTAL CONSERVATION
Alaska Clean Water Fund

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Year Ended June 30, 2022

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FINANCIAL STATEMENTS

STATE OF ALASKA
DEPARTMENT OF ENVIRONMENTAL CONSERVATION
Alaska Clean Water Fund
(an Enterprise Fund of the State of Alaska)

Management's Discussion and Analysis

June 30, 2022

This section of the Alaska Clean Water Fund's (ACWF) annual financial report presents management's discussion and analysis of the ACWF's financial performance during the State Fiscal Year (SFY) ended on June 30, 2022. Please read it in conjunction with the ACWF's financial statements and accompanying notes.

Program Description

The ACWF, administered by the Alaska Department of Environmental Conservation's (ADEC or the Department) State Revolving Fund (SRF) Program, provides low interest loans to eligible borrowers throughout the State for financing wastewater infrastructure, non-point source and solid waste projects. Loans can finance up to 100% of a project's eligible costs for planning, design, and construction of facilities. In addition, loans can be used to meet local match requirements for other federal or state funding sources. Annually, management of the ACWF identifies funding sources, selects projects and distributes loan funds to projects according to approved criteria and federal and State regulations.

During SFY20, the SRF Program launched a new lending mechanism known as Programmatic Financing (ProFi). Rather than providing a single borrower with several project specific loans, ProFi offers borrowers a single loan that can be used to finance eligible activities associated with a portfolio of projects. This method increases the borrower's flexibility in making use of the loan funds even as project priorities and timelines change. Additionally, it reduces administrative burden to the SRF Program associated with managing a larger number of loans and increases the rate at which the loan funds are able to revolve. The disbursement period for ProFi loans, generally one year, is established in the loan agreement. Remaining activities on eligible projects may be incorporated into a subsequent ProFi project portfolio for future financing. Loan repayment is initiated one year from the end of the disbursement period. In SFY22, the SRF Program entered into the third ProFi agreement with the Anchorage Wastewater Utility. With the implementation of ProFi, the SRF program has modified its approach to EPA equivalency requirements to reduce the administrative burden on the majority of borrowers.

Annual capitalization grants require that a portion of the grant be utilized as subsidy, including a requirement to allocate a portion of that subsidy specifically to economically disadvantaged communities. Borrowers that meet the disadvantaged criteria may be offered subsidy as loan principal forgiveness as part of the initial loan agreement or loan amendment. Eligibility for subsidy for disadvantaged communities is based on median household income, unemployment rate, the five-year population trend, and if the activity is to be carried out in an economically distressed area. Additionally, certain federal capitalization grants may also include requirements for Green Project Reserve loans which are made for projects with water efficiency, energy efficiency, green infrastructure, or other environmentally innovative components.

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(an Enterprise Fund of the State of Alaska)
Management's Discussion and Analysis

Overview of the Financial Statements

This annual financial statement consists of two parts: Management's Discussion and Analysis (this section) and the basic financial statements with the accompanying notes to the financial statements.

The ACWF is an enterprise fund of the State of Alaska; accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Enterprise fund statements offer short- and long-term financial information about the activities and operations of the ACWF. While detailed sub-fund information is not presented, separate accounts are maintained to control and manage money for particular purposes and to demonstrate that the ACWF is properly using specific grants, appropriations and bond proceeds.

The ACWF basic financial statements are comprised of the enterprise fund financial statements and accompanying notes to the financial statements. The enterprise fund financial statements are made up of the following:

- Statement of Net Position – This statement presents information on all assets and liabilities of the ACWF, with the difference between assets and liabilities reported as net position. Net position for the ACWF is classified as restricted or unrestricted, depending on limitations of use imposed by third parties and/or enabling federal or state legislation.
- Statement of Revenues, Expenses, and Changes in Fund Net Position – This statement presents all revenues and expenses of the ACWF and the change in net position. This statement segregates information into operating and non-operating revenues and expenses; as well as capital contributions.
- Statement of Cash Flows – This statement details the sources and uses of cash within the ACWF.
- Notes to the Financial Statements – The notes to the financial statements provide details concerning the financial activities and balances of the ACWF. Information about the accounting policies and practices of the ACWF, as well as underlying detailed information supporting certain account balances within the financial statements are also presented.

Current Fiscal Highlights

- Through SFY22, the Environmental Protection Agency (EPA) has granted \$271,829,962 to the State's ACWF base program.
- Through SFY22, State appropriations of \$19,807,300 and bond receipts of \$34,558,896 have been secured.

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Alaska Clean Water Fund
(an Enterprise Fund of the State of Alaska)**

Management's Discussion and Analysis

- Loan disbursements of \$7.3 Million were made from the base loan program to eligible borrowers for ACWF projects in SFY22, \$2.9 Million of which were made from the EPA capitalization grants, \$3.5 Million from 'second cycle' funds (funds that have been repaid on prior loans), and \$0.6 Million from State match. In addition to these disbursements, \$0.9 Million of loan principal was forgiven as a form of subsidy. By comparison, loan disbursements in SFY21 were \$27.1 Million.¹
- Loan repayments (comprised of principal, interest and fees) in the amount of \$16.4 Million were received in SFY22. In SFY21, repayments totaled \$16.8 Million.
- The Department of Revenue recognized (\$1,941,740) income (loss) on investment for the ACWF in SFY22, compared to \$111,617 earned interest in SFY21.
- Program expenditures recorded by the ACWF in SFY22 were \$692,030; in SFY21, program expenditures were \$1,102,360.
- Program expenditures for the ACWF set-asides during SFY22 totaled \$380,240, In SFY21, there were no program expenditures for the set-asides within the ACWF.

Financial Analysis

The following information presents comparative information for the ACWF.

	<u>SFY22</u>	<u>SFY21</u>
Total Assets	\$343,041,586	\$341,085,870
Total Liabilities	3,292,493	135,913
Total Net Position, (as restated SFY21)	339,749,093	338,118,457
Earnings from Operations	2,278,599	1,710,272
Non-operating Revenue (Expense), net	(2,839,846)	(392,664)
Capital Contributions	2,191,883	9,329,881
Change in net Position	1,630,636	10,647,489

- During SFY22 net position increased by \$1.6 million, primarily due to a decrease in operating expenses.
- The ACWF's financial condition continues to remain strong. The ACWF is required by the federal Clean Water Act to "be established, maintained, and credited with repayments, and the fund balance shall be available in perpetuity for providing financial assistance."
- The federally required annual Intended Use Plan details management's short- and long-term goals established to meet the requirement of managing the fund in perpetuity. The goals of management are to continue to maintain the availability of

¹ An adjusting journal entry of \$2,831,500 was processed to adjust federal revenue recognized for equivalency.

**STATE OF ALASKA
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Alaska Clean Water Fund
(an Enterprise Fund of the State of Alaska)
Management's Discussion and Analysis**

funds for meeting the future needs of eligible borrowers, as well as protecting the fiscal health of the ACWF. Past Performance Evaluation Reviews conducted by EPA state that management is indeed operating the fund in this manner, and that one of the principal strengths of the ACWF is its "ample financial resources to satisfy loan demand placed on the fund over the foreseeable future."

Program Highlights

- In SFY22 the ACWF made 7 new loans, and 1 amendment to increase an existing loan, for projects to 8 different borrowers. In SFY21, 6 loans and 2 amendments were made to 8 different borrowers.
- Loan commitments in SFY22 totaled \$11,232,947 in new loans and \$400,000 in an increase to an existing loan; as compared to loan commitments of 19,445,970 in SFY21.
- Through SFY22, the ACWF has made a total of 270 loans to 37 different borrowers with a total committed value of \$544,378,174.
- Finance charges are set at the time of the loan commitment and are dependent on the contract term. By regulation, amortization periods cannot exceed 30 years.

ADEC adopted revisions to Title 18 Chapter 76 of the Alaska Administrative Code (18 AAC 76) on September 10, 2017 that modified the calculation of finance charges to reflect the current market trend. The table below summarizes the finance rates for loan agreements effective September 10, 2017.

<u>Loan Term</u>	<u>Finance Rate for any Bond Rate* Less than 4 Percent</u>	<u>Finance Rate for Bond Rate* Greater than 4 Percent</u>
20-30 Years	2%	$2 + (0.75 \times (\text{Bond Rate}^* - 4))$
5-20 Years	1.5%	$1.5 + (0.625 \times (\text{Bond Rate}^* - 4))$
0-5 Years	1%	$1 + (0.5 \times (\text{Bond Rate}^* - 4))$

- One-half of one percent (.5%) of the finance charge noted above is taken as a fee to help offset future operational costs. Fees collected are held in a separate fee account and are used for program administration costs.
- Currently, the default rate is 0.0%.

Other Financial Information

The ADEC, Water Division, SRF Program manages the ACWF in accordance with Title 18, Chapter 76 of the Alaska Administrative Code. The program is audited annually per EPA issued guidance for the review and audit of state revolving loan funds.

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In 2002, to ensure the program's viability in the event that federal capitalization grants were not provided, fee accounts were established for both the ACWF and the Alaska Drinking Water Fund (ADWF), with revenue generated from the 0.5% fee collected on loan disbursements. Historically, expenses related to the administration of the ACWF loan program were charged to the 4% administrative set-aside from the federal capitalization grants; however, since mid-SFY16, ACWF fee account funds have been used for the program's administrative expenses. In addition, eligible administrative costs associated with the ADWF were also charged to the ACWF fee account, as this fund was much larger than the ADWF fee account and federal rules allow the fee accounts to be used interchangeably for most program expense. The two accounts have become balanced, therefore, beginning in SFY22, a portion of ADWF expenses were charged to the ADWF fee account.

The ACWF has no capital assets, infrastructure, or long-term debt, since it is simply a state-managed loan program to provide funding for wastewater, non-point source and solid waste improvement projects.

The ACWF issues short-term debt to obtain funds for the required State match to the federal capitalization grant. The details of this short-term bonding technique are as follows: the Department uses, as collateral, the interest and investment income of the ACWF to acquire bond receipts and save from the State budget the required 20% match, which was \$1.9 Million in general funds, for the grant effective in SFY22. This process effectively substitutes bond receipts for interest income. In SFY22, bond receipts accounted for 100% of the required State match.

The Department is required to document that sufficient interest and investment income exists in an amount equal to or greater than the proposed bonding amount and that this process will still allow the ACWF to grow in perpetuity. Audits of the ACWF have documented the availability of the required amount of interest and investment income. The State Bond Committee issues a short-term bond (1-day), which is then repaid from interest and investment earning of the ACWF. Bond costs and fees are also paid from this transaction.

Management of the ACWF is not aware of any additional information, decisions, or conditions that will have a significant effect on the financial position or operations of the ACWF in the future.

Contacting the Alaska Clean Water Fund Management

This financial report is designed to provide a general overview of the ACWF finances for all those interested. Questions concerning any of the information provided in this report or request for additional information should be addressed in writing to Carrie Bohan, Facilities Programs Manager, Water Division, Alaska Department of Environmental Conservation at PO Box 111800, Juneau, Alaska 99811-1800 or by email to carrie.bohan@alaska.gov.



INDEPENDENT AUDITOR'S REPORT

State of Alaska
Department of Environmental Conservation,
Division of Water

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Alaska Clean Water Fund (the ACWF), an enterprise fund of the State of Alaska, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the ACWF's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the ACWF, as of June 30, 2022, 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.

As discussed in Note 1, the financial statements present only the ACWF and do not purport to, and do not, present fairly the financial position of the State of Alaska, as of June 30, 2022, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) 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 ACWF 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 opinion.

Responsibility of Management for the Financial Statements

The ACWF's 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 ACWF'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 opinion. 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 GAAS 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 GAAS 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 ACWF'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 ACWF'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.

Other Matters

Prior-Year Comparative Information

We have previously audited the ACWF's June 30, 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 5, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i-v 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the ACWF's basic financial statements. The Schedule of Expenditures of Federal Awards, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) 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.

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 taken as a whole.

Other Information Included in the Annual Report

Management is responsible for the other information included in the annual report. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon. Our opinions on the financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2022 on our consideration of the ACWF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 ACWF's internal control over financial reporting and compliance.

Elgee Rehfeld

November 10, 2022

STATE OF ALASKA
DEPARTMENT OF ENVIRONMENTAL CONSERVATION
Alaska Clean Water Fund
(an Enterprise Fund of the State of Alaska)

STATEMENT OF NET POSITION
June 30, 2022
(With Comparative Amounts for June 30, 2021)

	2022	2021
ASSETS:		
Current assets:		
Cash and investments	\$ 131,358,524	\$ 120,651,563
Due from other funds	2,183,427	-
Due from the Environmental Protection Agency	-	3,985,975
Interest receivable	1,675,419	1,365,863
Administrative loan fee receivable	836,654	682,932
Loans receivable, current portion	13,738,305	11,979,229
Other current assets	10,674	-
Total current assets	149,803,003	138,665,562
Loans receivable, net of current portion	193,238,583	202,420,308
Total assets	343,041,586	341,085,870
LIABILITIES-		
Current liabilities:		
Due to other funds	22,548	93,262
Unearned revenue	3,254,142	-
Warrants outstanding	15,803	27,095
Other liabilities	-	15,556
Total current liabilities	3,292,493	135,913
NET POSITION-		
Restricted for Revolving Loan Program	\$ 339,749,093	\$ 340,949,957

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

STATE OF ALASKA
DEPARTMENT OF ENVIRONMENTAL CONSERVATION
Alaska Clean Water Fund
(an Enterprise Fund of the State of Alaska)

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
Year Ended June 30, 2022
(With Comparative Amounts for the Year Ended June 30, 2021)

	2022	2021
OPERATING REVENUES:		
Interest income on loans outstanding	\$ 1,980,421	\$ 1,656,786
Administrative loan fee income	990,208	1,155,846
	2,970,629	2,812,632
OPERATING EXPENSES-		
Program administration:		
Salaries and related costs	556,545	935,935
Other	135,485	166,425
	692,030	1,102,360
Earnings from operations	2,278,599	1,710,272
NONOPERATING REVENUES (EXPENSES):		
Investment income (loss)	(1,941,740)	111,617
Subsidized loan payments	(893,944)	(500,119)
Bond fees	(4,162)	(4,162)
	(2,839,846)	(392,664)
Income (loss) before capital contributions	(561,247)	1,317,608
CAPITAL CONTRIBUTIONS-		
Environmental Protection Agency grants	2,191,883	9,329,881
	2,191,883	9,329,881
Change in net position	1,630,636	10,647,489
BEGINNING NET POSITION, as previously reported	340,949,957	330,302,468
Prior period adjustment	(2,831,500)	-
BEGINNING NET POSITION, as restated	338,118,457	330,302,468
ENDING NET POSITION	\$ 339,749,093	\$ 340,949,957

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

STATE OF ALASKA
DEPARTMENT OF ENVIRONMENTAL CONSERVATION
Alaska Clean Water Fund
(an Enterprise Fund of the State of Alaska)

STATEMENT OF CASH FLOWS
Year Ended June 30, 2022
(With Comparative Amounts for the Year Ended June 30, 2021)

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Loans funded	\$ (6,451,520)	\$ (26,563,777)
Principal payments received on loans	13,874,169	14,680,283
Interest and fee payments received on loans	2,507,351	2,127,569
Cash paid for operating costs	(692,030)	(1,102,360)
Cash received from (paid to) central treasury	(2,291,663)	2,627,628
Net cash provided by (used for) operating activities	6,946,307	(8,230,657)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Subsidized loan payments	(893,944)	(500,119)
Proceeds from issuance of revenue anticipation bonds	1,901,201	1,901,401
Principal payment on revenue anticipation bonds	(1,901,201)	(1,901,401)
Cash paid for bond fees	(4,162)	(4,162)
Net cash used for noncapital financing activities	(898,106)	(504,281)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES-		
Environmental Protection Agency grants	6,600,500	5,343,906
Net cash provided by capital and related financing activities	6,600,500	5,343,906
CASH FLOWS FROM INVESTING ACTIVITIES-		
Investment income (loss)	(1,941,740)	111,617
Net cash provided by (used for) investing activities	(1,941,740)	111,617
Net increase (decrease) in cash and investments	10,706,961	(3,279,415)
Cash and investments, beginning of year	120,651,563	123,930,978
Cash and investments, end of year	\$ 131,358,524	\$ 120,651,563
RECONCILIATION OF EARNINGS FROM OPERATIONS TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:		
Earnings from operations	\$ 2,278,599	\$ 1,710,272
Adjustments to reconcile earnings from operations to net cash provided by (used for) operating activities:		
Decrease (increase) in operating assets	4,765,270	(10,036,837)
Increase (decrease) in operating liabilities	(97,562)	95,908
Net cash provided by (used for) operating activities	\$ 6,946,307	\$ (8,230,657)

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

STATE OF ALASKA
DEPARTMENT OF ENVIRONMENTAL CONSERVATION
Alaska Clean Water Fund

Notes to Financial Statements

Year Ended June 30, 2022

(1) **Summary of Significant Accounting Policies**

General Statement

The Alaska Clean Water Fund (the ACWF) is a revolving loan fund which provides low-interest loans for planning, design and construction of publicly owned wastewater collection, treatment and discharge systems. In 1987, the Alaska State Legislature established the ACWF pursuant to AS 46.03.032 enacted in response to a congressional mandate to phase out the previous federal grant program that funded such projects. The ACWF is funded by contributions from the U.S. Environmental Protection Agency and short-term bond proceeds. The staff of the State of Alaska (the State), Department of Environmental Conservation, Division of Water, serve the program and administrative needs of the ACWF. The State of Alaska is responsible for staff costs, which are paid from the ACWF.

Financial Reporting Entity

These financial statements reflect activities related to the ACWF, an enterprise fund of the State of Alaska, including activities funded by grants from the Environmental Protection Agency (EPA) and by appropriations from the State's General Fund and short-term bond proceeds. These activities are carried out through the State Department of Environmental Conservation within the Division of Water.

Set-aside amounts, including program administration, which are administered by the Division of Water, are not included in the ACWF's basic financial statements. Those activities are included in the State of Alaska's General Fund. However, a summary of those activities has been provided in Note 2 to these financial statements.

Basis of Presentation

The ACWF is an enterprise fund of the State of Alaska. Enterprise funds are used to account for activities which are financed and operated in a manner similar to private business enterprise where the intent of the governing body is that the expenses of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Measurement Focus and Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Enterprise funds are accounted for on an economic resources measurement focus using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Loans Receivable

Loans receivable consist of amounts due for loans by the ACWF to fund publicly owned wastewater collection, treatment and discharge systems, as defined in the general statement above. Management has evaluated the loans receivable balance and has determined that the balance is fully collectable. Accordingly, an allowance for doubtful accounts or bad debt expense have not been recorded.

STATE OF ALASKA
DEPARTMENT OF ENVIRONMENTAL CONSERVATION
Alaska Clean Water Fund

Notes to Financial Statements

Programmatic Financing Loans

During fiscal year 2020, the ACWF began offering Programmatic Financing (ProFi) loans for specific entities. ProFi loans are offered for a specific length of time, generally one year, and provide additional flexibility for the borrower. The borrower compiles a list of projects to which the loan may be applied. Federal requirements for each project are tracked individually to ensure compliance with requirements are met prior to disbursement of funds for the project. Loan repayment begins one year after the loan agreement closes. Administrative fees and interest rate applied are consistent with all other loans. Currently, only one entity, Anchorage Water and Wastewater Utility, is utilizing this loan option.

Net Position

Net position comprises the various net earnings from operating income, operating expenses, non-operating revenues, expenses and capital contributions. Net position is classified as restricted for the Revolving Loan Program.

Operating Revenues

Operating revenues consist of revenues that result from the ongoing principal operations of the ACWF. Operating revenues consist primarily of interest income on loans outstanding and administration loan fee income.

Operating Expenses

Operating expenses consist of expenses that result from the ongoing principal operations of the ACWF. Operating expenses consist primarily of salaries and related costs. These expenses are funded by the administrative fee charged on all loans (see Note 7).

Grant Revenue

Funds drawn from EPA grants for loans to qualifying Alaskan communities are considered earned upon loan distribution and recorded as capital contributions. Grant funds provided for assistance to disadvantaged communities and additional amounts (set-asides) funded by the grant for administrative costs have certain restrictions. The grant funds are recorded as capital contributions when earned. The set-asides are recorded in the general fund when earned.

Grant Revenue - American Recovery and Reinvestment Act (ARRA)

During fiscal year 2009, ACWF received an EPA grant funded by ARRA for which it began incurring expenditures in fiscal year 2010. The purpose of the grant is to award loans which are subsidized by either 90% or 100%. The 100% subsidized loans must meet defined criteria to qualify as a green infrastructure project. Loans that do not meet the criteria for a 100% subsidy are awarded at the 90% subsidy rate. Funds drawn down from this grant are considered earned upon loan distribution and are recorded as capital contributions, and as loan subsidy payment. As of June 30, 2014, the ARRA loans had been fully drawn down, however, as of June 30, 2022 there are still remaining balances due on these loans.

Interest Income

Per State regulations at 18 AAC 76.080, loans to qualified Alaskan communities and other entities must be repaid within thirty (30) years and repayment must begin one year from the date of initiation of operation of the facility financed by ACWF loans. For financial statement purposes, interest income on outstanding loans is accrued when earned; calculation of accrued interest begins one year from the date of the first disbursement.

STATE OF ALASKA
DEPARTMENT OF ENVIRONMENTAL CONSERVATION
Alaska Clean Water Fund

Notes to Financial Statements

Administrative Fees

Administrative fees are composed of a percentage of the outstanding loan balance and are recognized as income when fees are earned over the life of the loan. Administrative fees are collected concurrently with principal reduction payments by individual borrowers, at terms set forth in the loan agreements, over the life of the loan.

Investment Income (Loss)

Investment income (loss) on cash and investments is allocated to the ACWF as agreed to under a Memorandum of Understanding (MOU) by and between the Departments of Revenue and Administration. Under the MOU, investment income (loss) is allocated daily based upon actual earnings of the cash management pool. Investment income (loss) on the ACWF's balance on deposit with the State's cash management pool is recorded as earned.

Statement of Cash Flows

For the purpose of the statement of cash flows, all highly liquid debt instruments with original maturities of three months or less are considered cash and cash equivalents. In addition, because the State's short- and intermediate-term cash management pools, of which the ACWF's cash is a part, operate as demand deposit accounts, amounts invested in the pools are classified as cash and cash equivalents as well.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Columns for Fiscal Year 2021

The amounts shown for fiscal year 2021 in the accompanying financial statements are presented to provide a basis for comparison with fiscal year 2022 and are not intended to be a complete financial statement in accordance with accounting principles generally accepted in the United States of America.

(2) Program Activities

Program objectives carried out in the Division of Water include all activities surrounding loan approvals, disbursements and repayments as well as set-asides for program administration.

The ACWF's capitalization grants from EPA provide for 4% of each grant amount to be used for program administrative costs. From this, the ACWF pays the direct costs of program administration, along with allowable indirect costs charged in accordance with the Alaska Department of Environmental Conservation's federally negotiated indirect rate. Any unused portion of the 4% program administration allowance is carried-forward to future years.

As of June 30, 2022, \$1,960,440 of carried forward balances remained.

STATE OF ALASKA
DEPARTMENT OF ENVIRONMENTAL CONSERVATION
Alaska Clean Water Fund

Notes to Financial Statements

These funds are accounted for in the State General Fund and are not included in these financial statements. Summarized financial data of the set-aside activity accounted for in the State's General Fund for the year ended June 30, 2022 follows:

	Program Administration
Total EPA grant revenue	\$ <u>380,240</u>
Expenses:	
Salaries and related benefits	\$ 278,360
Services, travel and other	20,738
Indirect	<u>81,142</u>
Total expenses	\$ <u>380,240</u>
Due from EPA	\$ <u>380,240</u>

(3) **Cash and Investments**

The Department of Revenue, Treasury Division (Treasury) has created a pooled environment by which it manages the investments the Commissioner has fiduciary responsibility for. Actual investing is performed by investment officers in Treasury or by contracted external investment managers. The funds invest in the State's internally managed General Fund and Other Non-Segregated Investments Pool (GeFONSI). The GeFONSI consists of investments in the State's internally managed Short-term Fixed Income Pool, Short-term Liquidity Fixed Income Pool and the Intermediate-term Fixed Income Pool. The Complete financial activity of the Fund is shown in the Annual Comprehensive Financial Report (ACFR) available from the Department of Administration, Division of Finance.

Assets in the pools are reported at fair value. Investment purchases and sales are recorded on a trade-date basis. Securities are valued each business day using prices obtained from a pricing service.

The accrual basis of accounting is used for the investment income (loss) and GeFONSI investment income (loss) is distributed to pool participants monthly if prescribed by statute or if appropriated by state legislature. Income in the Short-term, Short-term Liquidity and Intermediate-term Fixed Income Pools is allocated to the pool participants daily on a pro-rata basis. The ACWF GeFONSI fund balances as of June 30, 2022 are as follows:

GeFONSI			
Fund 1075	Fund 1230	Fund 3280	Total
\$ 124,956,089	\$ 5,725,297	\$ 677,138	\$ 131,358,524

For additional information on interest rate risk, credit risk, foreign exchange, derivatives, fair value, and counterparty credit risk see the separately issued report on the Invested Assets of the Commissioner of Revenue at: <http://treasury.dor.alaska.gov/Investments/Annual-Investment-Reports.aspx>.

STATE OF ALASKA
DEPARTMENT OF ENVIRONMENTAL CONSERVATION
Alaska Clean Water Fund

Notes to Financial Statements

(4) **Loans Receivable**

Loans receivable are secured through a pledge of a dedicated revenue source from each community. Communities are also required to maintain certain financial performance measurements for income available for debt service. Loans are generally repaid over twenty years, with annual scheduled principal and interest payments. Interest rates are fixed at the time the loan agreement is signed. All twenty-year loans bear interest at a rate of 1.5% per annum, of which 0.5% corresponds to administrative fees.

Balances outstanding on non-ARRA loans which are not yet in the repayment phase as of June 30, 2022, consist of the following:

<u>Community</u>	<u>Project Name</u>	<u>Balance</u>
Anchorage	Asplund Wastewater Facility Sludge Dewatering	\$ 914,035
Anchorage	Eagle River WWT Facility Rehab	19,000,000
Dillingham	Landfill Groundwater Monitoring Wells	214,066
Haines	Wastewater Influent and Lift Station Pump Upgrade	68,379
Haines	WW Treatment Plant Ph. 4 Electrical Upgrade	191,010
Ketchikan	ACWF Commercial Metering	382,328
Ketchikan	S. Tongass Wastewater main - Shoup to Forest Park	756,328
Matanuska	Central Landfill Cell 4 Design and Construction	4,984,865
Matanuska	Mat-Su Septage & Leachate Treatment Facility	903,010
Matanuska	Talkeetna Wastewater Treatment Upgrade	7,308,449
Nome	Bering Street Sewer System Replacement	146,144
North Pole	Wastewater Effluent Discharge, Ph. I - Design Only	64,838
Petersburg	Kisena Street Sewer Replacement	160,000
Petersburg	Pump Station 4 Force Main Replacement	13,966
Petersburg	Scow Bay 1 Pump Station	483,211
Sitka	Brady Lift Station Upgrades	217,400
Sitka	Channel, Lake & Monastery Lift Station Upgrades	2,154,170
Sitka	DeGross Street Sewer Improvements	1,447,717
Sitka	WWTP HVAC Improvements	2,832,500
Sitka	WWTP Rehabilitation, Ph. 2	1,825,000
Sitka	WWTP Rehabilitation, Ph. 3	4,131,167
Skagway	State Street Sanitary Sewer Upgrades	<u>3,780,496</u>
Total loans not currently in repayment		<u>51,979,079</u>

Balances outstanding on ProFi loans which are in the repayment phase as of June 30, 2022, consist of the following:

<u>Community</u>	<u>Project Name</u>	<u>Balance</u>
Anchorage	SFY19 AWWU ProFi CW	9,500,000
Anchorage	SFY21 AWWU ProFi CW	<u>7,564,867</u>
Total ProFi loans in repayment		<u>17,064,867</u>

**STATE OF ALASKA
DEPARTMENT OF ENVIRONMENTAL CONSERVATION
Alaska Clean Water Fund**

Notes to Financial Statements

Balances outstanding on non-ARRA loans which are in the repayment phase at June 30, 2022, consist of the following:

<u>Community</u>	<u>Project Name</u>	<u>Balance</u>
Anchorage	2nd Avenue Post Road Sewer Rehabilitation	399,160
Anchorage	7th-9th Ave. 1st -LM Alley Sewer Upgrades	705,600
Anchorage	Arctic 32nd-36th Sewer Upgrade	153,046
Anchorage	Asplund Disinfection Study and Upgrade	5,021,684
Anchorage	Asplund Generator Upgrade	2,683,518
Anchorage	Asplund Grit Facility Improvements	3,600,000
Anchorage	Asplund Wastewater Trtmnt Facility Improvements	876,998
Anchorage	Asplund WW Treatment	1,260,000
Anchorage	Asplund WWT Facility Screen Auto, Headworks	909,943
Anchorage	Asplund WWTF Building Improvements	810,300
Anchorage	Asplund WWTF Process Improvements	942,906
Anchorage	Asplund WWTF Process Improvements	2,800,000
Anchorage	B-4AB Sewer Truck Upgrade	118,050
Anchorage	Benson Dawson-Cheechako Sewer Upgrade	179,151
Anchorage	Blueberry Sewer Rehabilitation	1,058,400
Anchorage	C-2 (A,B) Sewer Improvements	679,998
Anchorage	C-3-7 Trunk Sewer	621,101
Anchorage	C-5-A King Rovenna Sewer Upgrade	376,715
Anchorage	C-5-1 (North Campbell Lake) Sewer Design	645,252
Anchorage	Cell 7 Construction	1,318,516
Anchorage	Cell 7 Design	69,485
Anchorage	Chester Creek (B-5, B-6) Sewer Upgrades	210,000
Anchorage	Chester Creek Sewer Truck Study	15,006
Anchorage	Cope-Dorbrant Sewer Upgrade	417,486
Anchorage	Douglas Street Sewer Upgrade	35,100
Anchorage	Downtown Sewer Upgrade	112,000
Anchorage	Downtown Pipe Replacement	312,918
Anchorage	Eagle River Wastewater Facility Clarifier Upgrade	666,276
Anchorage	Eagle River Wastewater Facility-Plan	380,000
Anchorage	Eagle River WWTF Facility	1,687,814
Anchorage	Eagle River WWTF Gravity Thickener	80,788
Anchorage	Facility Replacement and Rehabilitation project, 1998	441,411
Anchorage	Fish Creek Interceptor	2,477,447
Anchorage	FY97 Miscellaneous Projects	787,500
Anchorage	FY99 Miscellaneous Small Sewer R&R, Ph. I	81,838
Anchorage	Girdwood Wastewater Facility Improvement (Design)	7,006,315
Anchorage	HVAC Control System King Street	118,506
Anchorage	Interceptor C: Force Main Gravity Junction Rehab.	570,000
Anchorage	Iris Way Sewer Upgrade	163,344
Anchorage	Minnesota-Benson Sewer Upgrade	138,469
Anchorage	Old Glenn Highway Sewer Interceptor	900,000
Anchorage	Operations Facilities, Ph. II	56,759
Anchorage	Operations Facilities, Ph. III	202,312
Anchorage	Partial Landfill Closure	1,306,680
Anchorage	PS 30/31 Force Main & Facility Upgrades	3,128,000

**STATE OF ALASKA
DEPARTMENT OF ENVIRONMENTAL CONSERVATION
Alaska Clean Water Fund**

Notes to Financial Statements

<u>Community</u>	<u>Project Name</u>	<u>Balance</u>
Anchorage	Pump Station 10 Upgrades	1,477,448
Anchorage	Pump Station Upgrades	1,759,954
Anchorage	Regional Landfill Cell 11 and 12	4,239,895
Anchorage	Regional Landfill Cell 8/Segment 10 (Revised)	1,561,540
Anchorage	Rovenna Pipe Replacement Upgrades	451,408
Anchorage	San Ernesto Sewer Upgrade	161,600
Anchorage	Sand Lake Area Sewer, Ph. II	84,000
Anchorage	Sand Lake Sewer Extension	270,000
Anchorage	SCADA Sewer	4,604,552
Anchorage	Septage Improvements, Ph. II	810,000
Anchorage	Septic System Site Upgrade	49,909
Anchorage	West 71st Avenue Sewer Rehab	210,000
Anchorage	Wonder Park Sewer Upgrade	1,125,000
Cordova	Wastewater Treatment Plant Upgrades, Ph. II	880,000
Fairbanks	Sludge Dewatering Facility	2,158,613
Fairbanks	Wastewater Plant Disinfection System Improvements	283,480
Fairbanks	Wastewater Treatment Plant Clarifier Rehab	389,502
Haines	Crystal Cathedrals Acquisition	65,936
Homer	Kachemak Drive Sewer	728,496
Homer	Kachemak Drive Sewer Main, Ph. III	164,228
Homer	Lilian Walli Subdivision/Eric Lane Sewer Extension	152,740
Homer	Sewer Service Extensions	652,122
Homer	Sewer Service Extension II	487,881
Juneau	20" Force Main Upgrade Project	206,569
Juneau	Bayview Sewer System Improvements	495,324
Juneau	Biosolids Treatment Project	18,205,890
Juneau	J-D Treatment Disinfection Plant	84,000
Juneau	Mendenhall Treatment Plant Improvements	194,173
Juneau	Mendenhall Treatment Plant Improvement, Ph. II	229,125
Juneau	North Douglas Sewer Expansion	453,750
Juneau	Twin Lakes Lift Station	332,842
Juneau	Valley Court Sewer System Upgrade	20,000
Juneau	West Mendenhall Valley Sewer Expansion	733,379
Ketchikan	4th and 7th Avenues, Jackson and Monroe	464,489
Ketchikan	Front & Stedman Street Sewer Force Main Rehab	278,918
Ketchikan	Ktn Alaska Avenue Sewer Upgrade	196,233
Ketchikan	Tongass Avenue Sewer Replacement, Ph. II	202,088
Ketchikan	Wastewater Collection System Improvements	507,757
King Cove	Downtown Wastewater System Upgrade	316,167
Kodiak	Aleutian Homes, Ph. IV	436,023
Kodiak	Boat Yard, St. Herman Harbor	372,000
Kodiak	Compost Facility	1,345,953
Kodiak	Downtown Comprehensive Sewer (Design)	96,905
Kodiak	Landfill Design and Construction	9,567,684
Kodiak	Lateral Landfill Expansion, Ph. III	1,705,944
Kodiak	Vertical Expansion Leachate Control, Collection	900,000
Kodiak	WWTP Ph. I Condition & Process Assessmnt – Dsgn	540,000
Kodiak	WWTP Ultraviolet Effluent Disinfection Facility	2,714,934

STATE OF ALASKA
DEPARTMENT OF ENVIRONMENTAL CONSERVATION
Alaska Clean Water Fund

Notes to Financial Statements

<u>Community</u>	<u>Project Name</u>	<u>Balance</u>
Matanuska	Central Landfill Cell 2A Closure	1,750,361
Matanuska	Landfill Expansion Project	330,226
Matanuska	Landfill Ph. III Water Quality	1,917,322
Matanuska	Regional Resource Recovery and Training Facility	503,174
Matanuska	Salted Sand Storage Building	97,879
Nome	East Nome Sewer Replacement	1,008,226
Nome	East Nome Sewer Replacement, Ph. II	1,555,670
Nome	Sewer Maintenance Construction	300,862
Nome	Sewer Replacement/Expansion, Ph. IV	108,436
Nome	USDA Wastewater Loan Refinance	469,040
North Pole	Infiltration and Inflow (I&I) Reduction	368,690
North Pole	Utility Emergency Response Generators	173,825
Palmer	Southeast Sanitary Sewer Interceptor	503,729
Petersburg	Pump Station 1 Force Main	534,221
Petersburg	Pump Station 5 Upgrades	476,314
Petersburg	Scow Bay Sewer Extension	113,847
Petersburg	Sewer Upgrades	373,518
Seward	Lowell Point Lagoon Sludge Removal & Renovation	457,929
Seward	Lowell Point Lagoon Sludge Removal & Renovation	450,853
Sitka	Baranof Street Sewer Replacement	318,985
Sitka	Crescent Lift Station Replacement	397,211
Sitka	Halibut Point Road/Sawmill Creek Sewer Replacement	136,088
Sitka	Hollywood Way & New Archangel Street Sewer	160,950
Sitka	I & I Project	353,760
Sitka	Japonski island Sewer Lift Station Upgrades	888,471
Sitka	Kimsham Landfill Closure	810,583
Sitka	Monastery Street Sewer Main Replacement	294,553
Sitka	Monastery & Baranof Sewer to Degroff	237,158
Sitka	Sawmill Creek Sewer, Ph. II	479,461
Sitka	WWT Solids Lime Treatment	289,711
Soldotna	WWTP Improvements	1,788,745
Unalaska	Landfill Ph. II Expansion	3,559,241
Unalaska	Wastewater Treatment Plant Upgrade	5,996,620
Valdez	WWTP Outfall Line	437,147
Total non-ARRA loans currently in repayment		<u>137,537,049</u>

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STATE OF ALASKA
DEPARTMENT OF ENVIRONMENTAL CONSERVATION
Alaska Clean Water Fund

Notes to Financial Statements

Balances outstanding on ARRA loans which are in the repayment phase as of June 30, 2022, consist of the following:

<u>Community</u>	<u>Project Name</u>	<u>Balance</u>
Ketchikan	Tongass Avenue Sewer Replacement, Ph. II	196,262
Sitka	Sawmill Creek Road Sewer Upgrade, Ph. III	85,781
Skagway	Wastewater Treatment Plant MBR Upgrade	<u>113,850</u>
Total ARRA loans currently in repayment		<u>395,893</u>
Total loans currently in repayment		<u>154,997,809</u>
Total loans receivable		206,976,888
Less: current portion		<u>(13,738,305)</u>
Long-term portion		<u>\$ 193,238,583</u>

Annual scheduled principal repayments for those loans in repayment at June 30, 2022, are as follows:

Year ending June 30:	<u>Amount</u>
2023	\$ 13,738,305
2024	13,189,811
2025	13,086,477
2026	12,899,252
2027	12,482,565
2028-2043	<u>89,601,399</u>
Total scheduled principal repayments	154,997,809
Loans currently not in repayment	<u>51,979,079</u>
Total loans receivable	<u>\$ 206,976,888</u>

(5) **Subsidized Loan Payments**

Communities meeting a criterion that classifies them as a disadvantaged community may be provided a subsidy which is funded by EPA grants for the year ended June 30, 2022.

A listing of the subsidized portions of the loans to disadvantaged communities, are as follows:

Disadvantaged Communities:

<u>Community</u>	<u>Project Name</u>	<u>Amount</u>
Haines	Wastewater Influent and Lift Station Pump Upgrade	\$ 68,379
Haines	Wastewater Treatment Plant Phase 4 Electrical Upgrade	191,010
Ketchikan	South Tongass Wastewater Main-Shoup to Forest Park	9,824
Nome	Bering Street Sewer System Replacement	125,891
Petersburg	Scow Bay 1 Pump Station	198,840
Skagway	State Street Sanitary Sewer Upgrades	<u>300,000</u>
Total disadvantaged communities subsidy		<u>\$ 893,944</u>

STATE OF ALASKA
DEPARTMENT OF ENVIRONMENTAL CONSERVATION
Alaska Clean Water Fund

Notes to Financial Statements

(6) **EPA Grant**

The ACWF is funded by grants from the EPA and matching funds from the State. The State's required contribution is based on a statutorily-determined percentage (20%) of the EPA grant award and is funded by a State General Fund appropriation made at the beginning of each State fiscal year. During fiscal year 2022, \$1,901,201 was appropriated for the State's matching share and was funded by revenue anticipation bonds (see Note 8).

Funds from the EPA's portion of the grant are from a federal appropriation and are drawn down as loan disbursements and assistance to disadvantaged communities are disbursed and allowable costs for set-asides are incurred. Federal drawdowns for each budgeted category must be applied to the oldest outstanding appropriation before amounts may be drawn against more recent awards.

The following is a schedule by year of the remaining balances of active EPA appropriations:

<u>Federal Fiscal Year</u>	<u>Project Fund Grant Award</u>	<u>Spent in Fiscal 2022</u>	<u>Spent to Date</u>	<u>Balance Remaining</u>
2020	\$ 9,507,000	\$ 2,191,883	\$ 10,794,518	\$ 1,543,982
2020*	-	-	(2,831,500)	-
2021	<u>9,506,000</u>	<u>380,240</u>	<u>380,240</u>	<u>9,125,760</u>
	<u>\$ 19,013,000</u>	<u>\$ 2,572,123</u>	<u>\$ 8,343,258</u>	<u>\$ 10,669,742</u>

* There was a prior period adjustment of \$(2,831,500) for the year ending June 30, 2021

(7) **Administrative Fees**

Pursuant to Alaska Statute 18 AAC 76.085, the ACWF assesses an administrative fee equal to one-half of one percent of the outstanding loan balance. Federal law limits the use of these funds for use in the ongoing administration and operations of the revolving loan program. In addition, grant conditions require that separate accounting records be maintained for the collection and use of these funds. The ACWF can only access these funds following a legislative appropriation. The financial activities of the fee account have been included in these financial statements.

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STATE OF ALASKA
DEPARTMENT OF ENVIRONMENTAL CONSERVATION
Alaska Clean Water Fund

Notes to Financial Statements

Summarized audited financial data of the administrative fee account as of and for the year ended June 30, 2022, follows:

Statement of Net Position

Assets:	
Cash and investments	\$ 6,402,435
Administrative loan fee receivable	836,654
Other current assets	<u>10,674</u>
Total assets	<u>7,249,763</u>
Liabilities:	
Warrants outstanding	<u>15,803</u>
Total liabilities	<u>15,803</u>
Net position	<u>\$ 7,233,960</u>

Statement of Rev, Exp, and Changes in Fund Net Position

Revenues:	
Administrative loan fee income (loss)	\$ 990,208
Investment income (loss)	<u>(71,492)</u>
Total revenue	<u>918,716</u>
Expenses:	
Salaries and related costs	(556,545)
Other	<u>(135,485)</u>
Total expenses	<u>(692,030)</u>
Increase in net position	<u>\$ 226,686</u>

(8) **Bond Issuance**

EPA guidelines dictate that interest earnings from loans and investment income may not be used to meet the State's matching requirement on the Clean Water grant. Debt issuance is an allowable match. Interest and investment income may be used to retire the debt.

In fiscal year 2022, the ACWF issued \$1,901,201 in revenue anticipation bonds, the proceeds of which were used to fund the State share of loan distributions and administrative costs. In accordance with EPA regulations, interest and investment earnings were then used to retire the revenue anticipation bonds.

(9) **Commitments**

As of June 30, 2022, the ACWF is committed to funding loans for which they have entered into agreements for communities, but funds have not yet been disbursed. The total amounts to be disbursed under these agreements are uncertain as not all of the loans are expected to be fully drawn and some loans may increase with changes in scope of the underlying projects; accordingly, they are not included in these financial statements. As of June 30, 2022, the ACWF has entered into binding commitments, as evidenced by signed loan agreements, for which funds remain to be disbursed totaling \$60,404,581.

STATE OF ALASKA
DEPARTMENT OF ENVIRONMENTAL CONSERVATION
Alaska Clean Water Fund

Notes to Financial Statements

(10) **Contingent Liabilities and Concentrations**

Grant Revenue

The ACWF receives a substantial amount of its support from federal grants. If a significant reduction in the level of this support were to occur, it may have an adverse effect on the Department's programs and activities. Expenditures made pursuant to grants and contracts may be subject to additional audits by governmental agencies or their representatives. Although subject to federal audit requirements, certain amounts reflected in the financial statements have not been audited by the grantor agencies. Accordingly, adjustments of amounts received, or receivable from the grants could result if the grants are audited by such agencies.

(11) **Subsequent Events**

Bond Issuance

Pursuant to legislative authorization obtained during the 2022 session of the Alaska Legislature, plans are in place to issue Series A Revenue Bond Anticipation Notes for fiscal year 2023 in an amount not to exceed \$2,000,000. Although this transaction has not yet been finalized, the issuance of the bonds will occur in mid-fiscal year 2023. The borrowing is to be secured by interest earnings of the ACWF.

(12) **Net Position – Prior Period Adjustment**

In fiscal year 2021 the ACWF overstated Environmental Protection Agency grant revenue by \$2,831,500 due to an incorrect interpretation of which loan disbursements qualify as equivalency expenditures under their grant agreement. As a result, capital contributions and due from the Environmental Protection Agency were overstated by \$2,831,500, which was reflected in the Statement of Revenues, Expenses, and Changes in Fund Net Position and the Statement of Net Position, for the year ended June 30, 2021, resulting in a \$2,831,500 overstatement of net position.

The net prior period adjustment of \$2,831,500, as reflected in the Statement of Revenues, Expenses, and Changes in Fund Net Position, reduces the previously reported net position from \$340,949,957 to \$338,118,457, as restated, for July 1, 2021.

ADDITIONAL INFORMATION

STATE OF ALASKA
DEPARTMENT OF ENVIRONMENTAL CONSERVATION
Alaska Clean Water Fund
(an Enterprise Fund of the State of Alaska)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2022

	<u>Assistance Listing Number (ALN)</u>	<u>Grant Number</u>	<u>Program or Award Amount</u>	<u>Amount Expended</u>	<u>Passed Through to Subrecipients</u>
U.S. Environmental Protection Agency:					
<i>Clean Water State Revolving Fund Cluster</i>					
Capitalization Grants for Clean Water					
State Revolving Funds	66.458	CS-02000120	\$ 9,507,000	\$ 2,191,883	\$ 2,191,883
State Revolving Funds - Prior period adjustment	66.458	CS-02000120	-	(2,831,500)	(2,831,500)
Capitalization Grants for Clean Water					
State Revolving Funds	66.458	CS-02000121	<u>9,506,000</u>	<u>380,240</u>	<u>-</u>
<i>Total Clean Water State Revolving Fund Cluster</i>			<u>\$ 19,013,000</u>	<u>\$ (259,377)</u>	<u>\$ (639,617)</u>

See notes to schedule of expenditures of federal awards.

STATE OF ALASKA
DEPARTMENT OF ENVIRONMENTAL CONSERVATION
Alaska Clean Water Fund
(an Enterprise Fund of the State of Alaska)

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2022

General

The accompanying schedule of expenditures of federal awards (SEFA) presents the activity of all federal awards programs of the Alaska Clean Water Fund (ACWF). The schedule does not include any other activity of the federal award programs of the Department of Environmental Conservation or the State of Alaska. Federal awards received directly from federal agencies, as well as federal awards passed through other governmental agencies, if any, are included in the schedule. Federal awards are included as capital contributions in the ACWF's statement of revenues, expenses and changes in fund net position.

Basis of Accounting

The accompanying schedule of expenditures of federal awards is presented in accordance with the requirements of the Uniform Guidance. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. Negative amounts shown on the SEFA represent adjustments or credits made to amounts reported as expenditures in prior years. The ACWF has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Reconciliation of Federal Expenditures for the Year Ended June 30, 2022

Amounts Recorded in Financial Statements of ACWF:

Capital Contributions – EPA per statement of revenues, expenses, and changes in fund net position	\$ 2,191,883
<i>Amounts Recorded in State of Alaska General Fund:</i>	
State Revolving Funds – Prior period adjustment	(2,831,500)
Program Administration (4% Set-aside)	380,240
Federal expenditures per SEFA	\$ (259,377)

FEDERAL SINGLE AUDIT REPORTS



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*

State of Alaska
Department of Environmental Conservation,
Division of Water

We have audited, 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, the financial statements of the Alaska Clean Water Fund (the ACWF), an enterprise fund of the State of Alaska, as of and for the year ended June 30, 2022, and the related notes to financial statements, which collectively comprise the ACWF's basic financial statements, and have issued our report thereon dated November 10, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the ACWF'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the ACWF's internal control. Accordingly, we do not express an opinion on the effectiveness of the ACWF'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 over financial reporting 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2022-001 that we consider to be a material weakness.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the ACWF'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 and 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*.

The ACWF's Response to Finding

Government Auditing Standards requires the auditor to perform limited procedures on the ACWF's response to the findings identified in our audit and described in the accompanying Corrective Action Plan. The ACWF's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Elgee Rehfeld

November 10, 2022



Elgee Rehfeld

Alaska's CPA Firm

Founders: George Elgee, CPA & Robert Rehfeld, CPA

Partners

Janelle Anderson, CPA
Ryan Beason, CPA
Sarah Griffith, CPA
Mark Mesdag, CPA
Adam Sycks, CPA
Karen Tarver, CPA

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE *UNIFORM GUIDANCE*

State of Alaska
Department of Environmental Conservation,
Division of Water

Report on Compliance for Each Major Federal Program

Opinion on the Major Federal Program

We have audited Alaska Clean Water Fund's (the ACWF), an enterprise fund of the State of Alaska, 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 ACWF's major federal program for the year ended June 30, 2022. The ACWF'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 ACWF complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2022.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); 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 ACWF 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 for the major federal program. Our audit does not provide a legal determination of the ACWF'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 ACWF's federal programs.

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 ACWF'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 GAAS, *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 ACWF's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *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 ACWF'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 ACWF'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 ACWF'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.

Elgee Rehfeld

November 10, 2022

STATE OF ALASKA
DEPARTMENT OF ENVIRONMENTAL CONSERVATION
Alaska Clean Water Fund
(an Enterprise Fund of the State of Alaska)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2022

SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditor's report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiencies identified that are not considered to be material weakness(es)? Yes None Reported

Noncompliance material to financial statements noted?

Yes No

Federal Awards

Type of auditor's report issued on compliance for major federal program:

Unmodified

Internal control over major federal program:

- Material weakness(es) identified? Yes None
- Significant deficiencies identified that are not considered to be material weakness(es)? Yes None Reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

Yes No

Major program:

<u>ALN</u>	<u>Name of Federal Program or Cluster</u>
66.458	U.S. Environmental Protection Agency, Clean Water State Revolving Fund Cluster – Capitalization Grants for Clean Water State Revolving Funds

Dollar threshold used to distinguish between type A and type B program:

\$ 750,000

Auditee qualified as a low-risk auditee?

Yes No

STATE OF ALASKA
DEPARTMENT OF ENVIRONMENTAL CONSERVATION
Alaska Clean Water Fund
(an Enterprise Fund of the State of Alaska)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2022

FINDINGS – FINANCIAL STATEMENT AUDIT

2022-001 **Material Weakness in Internal Controls over Financial Reporting – Reconciliation of Significant Balance Sheet Accounts, and Preparation of the Schedule of Expenditures of Federal Awards**

Criteria: Generally accepted accounting principles require that entities maintain a system of internal controls to provide reasonable assurance regarding the achievement of the following objectives:

- Reliability of financial reporting.
- Compliance with applicable laws and regulations.

Condition: Internal controls over financial reporting were not sufficiently designed or implemented to ensure that significant balance sheet and revenue accounts were properly reconciled throughout the year and at year-end, or that equivalency transactions were accurately tracked and adjusted for. Further, there were errors in the data accumulated for preparing the schedule of expenditures of federal awards.

Cause: A detailed review of ending balances and amounts recorded in the accounting records was not performed timely, which was due to turnover in key financial positions and vacancies in key positions. Adjustments necessary to accurately report federal revenues were not posted as a result. New employees were retained subsequent to year-end that are responsible for the accounting function of the Alaska Drinking Water Fund, however, due to the timing of retention of new employees, there were unreconciled differences in place during the year and through re-appropriation period.

Context: An adjustment of approximately \$6,375,130 was necessary to increase pre-equivalency revenue due to a fiscal 2021 audit adjustment not being properly reversed in fiscal 2022. An additional adjustment was necessary in the amount of approximately \$723,021 to decrease revenue to qualified equivalency expenditures. There was also an error in prior year revenue due to errors in assumptions used to track 2021 equivalency disbursements resulting in a prior period adjustment to reduce the recognition of prior year revenue in the amount of \$2,831,500.

Further, there were errors in the grant summary used in preparing the schedule of expenditures of federal awards, and multiple versions were provided to the auditors prior to adjusting to the correct balances used for reporting.

STATE OF ALASKA
DEPARTMENT OF ENVIRONMENTAL CONSERVATION
Alaska Clean Water Fund
(an Enterprise Fund of the State of Alaska)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2022

Effect: Material misstatements in the financial statements, including the schedule of expenditures of federal awards were present during fiscal 2022 and in fiscal 2021.

Recommendation: We understand corrective action and improvements to processes were in the beginning stages leading up to, during, and after the audit. We recommend management continue their work to design and implement review processes for accounts receivable, revenue, equivalency transactions, and set-aside balances, and that reviews occur regularly during the year, and at year-end prior to the conclusion of re-appropriation period.

View of responsible
Officials: Management concurs with the finding; see corrective action plan.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS PROGRAM AUDIT

No findings reported for 2022.



STATE OF ALASKA
DEPARTMENT OF ENVIRONMENTAL CONSERVATION
Alaska Clean Water Fund
(an Enterprise Fund of the State of Alaska)

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2022

FINDINGS - FINANCIAL STATEMENT AUDIT

2021-001 Material Weakness in Internal Controls over Financial Reporting – Reconciliation of Significant Balance Sheet Accounts, and Preparation of the Schedule of Expenditures of Federal Awards

Condition: Internal controls over financial reporting were not sufficiently designed or implemented to ensure that significant balance sheet and revenue accounts were properly reconciled throughout the year and at year-end. Further, there were errors in the data accumulated for preparing the schedule of expenditures of federal awards. There were also differences between loan balances in the accounting records and the loan sub-system database.

Recommendation: Auditors recommend management design and implement review processes for accounts receivable, revenue, set-aside balances, and individual loan balances, and that reviews occur regularly during the year, and at year-end prior to the conclusion of the re-appropriation period.

Status: Material weakness is not considered resolved. See 2022-001.

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

No findings reported for 2021.



Corrective Action Plan

June 30, 2022

November 4, 2022

RE: Alaska Clean Water Fund Corrective Action Plan

Finding 2022-001: Material Weakness in Internal Controls over Financial Reporting – Reconciliation of Significant Balance Sheet Accounts, and Preparation of the Schedule of Expenditures of Federal Awards

DEC has updated cost accounting structures to automatically generate receivable documents. DEC will refine all policies and procedures so that they are well documented within associated workbooks and tracking utilities. Procedures will instate an improved monthly process to reconcile drawdowns, loan disbursements, loan payments, generated receivables, LGTS data, and IRIS accounting system data. Each component will be reviewed by a third-party accountant to ensure accuracy. Disbursements and associated drawdowns will be process timely and in accordance with federal and state regulations.

Contact Person: Larry Dunivin, Finance Officer

We anticipate many improvements across the board with recent hires to fill vacant positions. In addition, the SRF program will be bolstered with the recruitment of two new accountant positions, and one administrative manager in SFY23. New administrative staff will allow for improved monitoring and timeliness of all SRF accounting activity.

Completion Date: SFY23