

# **ALASKA DRINKING WATER FUND**

## **State Revolving Fund Annual Report**

**FFY21 Grant Allotment  
State Fiscal Year 2022**



**Prepared by Alaska Department of Environmental Conservation  
Division of Water  
For U.S. Environmental Protection Agency Region 10**

**November 2022**

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## I. INTRODUCTION

The Alaska Drinking Water Fund (ADWF), a component of the State Revolving Fund (SRF) Program managed through the Alaska Department of Environmental Conservation (ADEC), was established pursuant to the 1996 amendments to the Safe Drinking Water Act (SDWA) and Alaska Statute 46.03.032. The ADWF is managed to assist local authorities in financing the planning, design and construction of critical drinking water facilities through long-term, low interest loans. Funds collected from loan repayments and interest are deposited into the ADWF and become available to loan to subsequent borrowers, creating a revolving funding source in perpetuity. The SRF Program is committed to protecting Alaska's drinking 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 ADWF and discusses compliance with federal Drinking Water State Revolving Fund (DWSRF) requirements.

Some of the financial highlights for SFY22 include the following:

- At the close of SFY22, the ADWF reported a total net position of \$244.0 million and an increase of \$5.2 million over the previous year. This represents an increase of 2.18%.
- Alaska's SRF Program was awarded \$11,001,000 in a DWSRF capitalization grant from the U.S. Environmental Protection Agency (EPA).
- The SRF Program collected \$15.2 million in repayments to the ADWF, including principal, interest and a 0.5% administrative fee.
- During SFY22, Alaska disbursed \$20.3 million from the ADWF to borrowers for eligible project expenditures.

Important programmatic highlights include the following:

- 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 the BIL. At the second workshop conducted early in SFY23, 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

#### Long-term Program Goals

Long-term Goal	SFY22 Progress and Accomplishments
<p>1 Ensure full compliance with all applicable requirements for all SRF loans.</p>	<p>SRF Program staff utilize checklists to evaluate loan applications to ensure compliance with all requirements. From application through disbursement of loan funds and final project close-out, staff adhere to procedures in evaluating eligibility of all project costs and also monitor adherence to all requirements.</p>
<p>2 Foster coordination with other programs and agencies to improve assistance to water systems in their efforts to achieve compliance and improve capacity.</p>	<ul style="list-style-type: none"> <li>• The SRF Program helped public water systems address public health risks in SFY22 by funding design and construction of projects, as well as funding technical assistance activities. Technical assistance funded by set-asides from the Drinking Water State Revolving Fund (DWSRF) capitalization grant is administered through the Drinking Water (DW) Program and the Capacity Development and Operator Certification Program.</li> <li>• The SRF Program continued to include DW Program staff in the questionnaire review and scoring process to ensure that any compliance issues for proposed projects are understood and addressed in the scoring process. The SRF Program has accepted loan applications from two applicants for projects that are intended to address existing compliance issues. The application review is in process for both the Valley Water and the Snowshoe Subdivision projects.</li> <li>• SRF Program staff and DW Program staff met regularly to evaluate solutions for public water systems facing challenges, including systems with Maximum Contaminant Level or treatment technique violations, and candidates for consolidation.</li> <li>• The Micro Loan program, initiated in SFY19, provides another example of how the SRF Program is seeking to further coordinate with other programs including the Alaska Native Tribal Health Consortium (ANTHC) and the State of Alaska Village Safe Water (VSW) Program. 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 issued two Micro Loans.</li> </ul>
<p>3 Establish a process for coordinating funding strategies with other lenders such as U.S. Department of Agriculture (USDA) Rural Development (RD).</p>	<p>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. A water treatment project proposed by the City and Borough of Wrangell is included on the Project Priority List that would provide a short-term bridge loan to facilitate a financing agreement involving RD and another federal lender.</p>
<p>4 Develop program guidelines to improve the pace of loan projects.</p>	<p>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 implementation of a cash flow model (Long-term Goal 3) that allows the SRF Program to more accurately identify the available funds to loan.</p>

Long-term Goal	SFY22 Progress and Accomplishments
5 Expand borrower pool through an established marketing and outreach plan.	The Micro Loan program has expanded the borrower pool to small rural systems that have not previously borrowed from the SRF for infrastructure improvements. In SFY22, the SRF Program issued Micro Loan agreements to Hoonah and Togiak. 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 fully 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. As new accounting staff positions are hired, new staff will be trained in the procedures necessary to use the cash flow model.
8 Utilize a portion of the capitalization grant for set-aside activities that provide public water systems with guidance and technical assistance.	Alaska utilizes the set-aside funds to support activities of the Division of Environmental Health and the Division of Water that provide compliance assistance, technical assistance, and source water protection. These activities are described in the set-aside work plans and are also summarized in more detail
9 Implement a long-term strategy for utilizing the ADWF 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 charged approximately half of the SFY22 ADWF administrative costs to each Fee Account. ACWF administrative costs were split between the Clean Water 4% Administrative Set-Aside and the ACWF Fee Account. 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
<p>1 Recruit and hire a dedicated program manager to oversee the day-to-day implementation of the SRF Program.</p>	<p>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.</p>
<p>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.</p>	<p>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.</p>
<p>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.</p>	<p>Goal accomplished. The SRF Program has issued five loans for Sustainable Infrastructure Planning Projects including rate studies that will help systems determine appropriate rates, master plans, leak detection studies, and other planning efforts.</p>
<p>4 Ensure that the SRF Program is meeting capitalization grant requirements for the allocation of additional subsidy.</p>	<p>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.</p>
<p>5 Implement revised subsidy allocation methods to strategically use the DWSRF additional subsidy to achieve affordable compliance, especially for small disadvantaged communities.</p>	<p>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.</p>



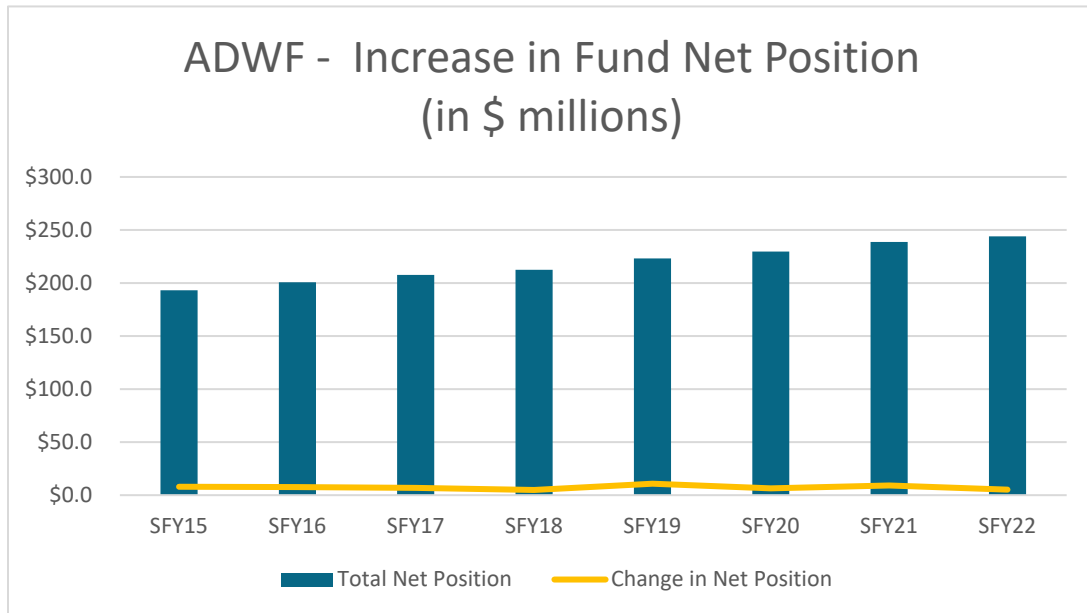
Short-term Goal	SFY22 Progress and Accomplishments
6 Identify workflow processes needed to update and utilize FOCUS, including an improved method to track both the allocation and disbursement of additional subsidy.	The SRF Program is working with the accounting team to develop a workflow process and will be working with Northbridge to create a subsidy tracking tab in LGTS.
7 Develop a revised Capacity Development Strategy that includes asset management in accordance with the 2018 America's Water Infrastructure Act (AWIA).	During SFY22, a revised Capacity Development Strategy incorporating asset management in accordance with AWIA was submitted to EPA for review. However, EPA's review resulted in the need of some revision to the asset management section of the strategy. With the departure of the Capacity Development Coordinator and the reorganization of the Capacity Development Program, the work on the revisions has been delayed but will be completed by the December 31, 2022 deadline.
8 Complete revisions to the ADWF Operating Agreement.	A draft copy of an updated Operating Agreement was shared with EPA in SFY21. The effort to update the Operating Agreement will continue in SFY23 to reflect current program requirements and practices.
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 ADWF eligibility for private water 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 is expected to be completed in coordination with the SRF Program, Capacity Development, and VSW Programs in SFY22. This goal will remain on the list for future work.

Short-term Goal	SFY22 Progress and Accomplishments
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 Pursue a deviation from EPA to allow financing of construction or rehabilitation of dams or raw water impoundments.	Due to the issuance of a class deviation for the rehabilitation of dams and reservoirs, this goal is no longer needed. On July 14, 2021, EPA approved a class exception from the regulatory prohibitions on the use of DWSRF for the rehabilitation of dams and reservoirs. In SFY20, the SRF Program coordinated with the Alaska Department of Natural Resources (ADNR) with regard to dams identified with needed improvements. No inquiries regarding financing this type of work were submitted to the SRF Program during SFY21 or SFY22. If an applicant pursues SRF financing for a dam or reservoir project, the SRF Program will collaborate with Region 10 as necessary to ensure consistency in the use of this class deviation.

## IV. FUND STATUS AND FINANCIAL ASSISTANCE

### Fund Financial Status Net Position

During SFY22, the net position of the ADWF increased by \$5.2 million. Further details may be found in the Financial Statement provided in Exhibit 2.



### Capitalization Grant and State Match

The State of Alaska was awarded \$11,001,000 under the Federal Fiscal Year 2021 (FFY21) DWSRF 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 \$2,200,200 in short-term debt. The debt was retired in one day.

### Loan Repayments and Investment Income

A total of \$14,651,612 was collected in principal repayments plus interest payments. The fund also received \$1,222,526 in investment income.

### Fees

Per state regulation, an administrative fee of 0.5% is assessed on all disbursed loan funds. In SFY22, the SRF Program collected \$651,430 in fees.

The fees collected are used solely for administration of the SRF Program. Program expenditures recorded by the ADWF in SFY22 were \$297,682.

## New Loans and Changes in Assistance

As shown in the following table, the ADWF executed 11 new loans during SFY22 totaling \$17,407,231. The loans ranged from \$30,000 to a small public water system for a fully subsidized loan for completion of a rate study to a \$10,000,000 Pro Fi loan to the State's largest public water system serving the Municipality of Anchorage.

The table below lists the community served, project number, assistance amount, loan agreement date, loan finance rate and the amortization period of each loan.

New Assistance Agreements and Changes in Assistance -SFY22								
NEW ASSISTANCE AGREEMENTS								
Date	Borrower	Project #	Loan Amount	Finance Rate	Term (yrs)	Small System	Disadvantaged Community	Additional Subsidy
10/14/2021	Midtown Estates Water Utility, LLC	125031-S	\$97,500	1.5%	5	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	\$75,000
10/21/2021	Home Water, LLC	408021-S	\$423,528	1.5%	20	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	\$211,764
11/17/2021	Ketchikan Gateway Borough	482031-S	\$1,600,000	1.5%	20	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	\$500,000
11/17/2021	Ketchikan Gateway Borough	482051-S	\$225,000	1.5%	5	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	\$75,000
1/7/2022	Hoonah (Micro Loan)	411031-S	\$232,884	1.0%	1	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	\$163,019
2/17/2022	Soldotna	791051-S	\$30,000	1.0%	5	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	\$30,000
3/23/2022	Home Water, LLC	408031-S	\$106,600	1.5%	5	<input checked="" type="checkbox"/>	<input type="checkbox"/>	\$75,000
4/28/2022	Haines Borough	395291-S	\$100,000	1.61875%	5	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	\$75,000
5/2/2022	Anchorage Water and Wastewater Utility	AWUD22-E	\$10,000,000	1.61875%	20	<input type="checkbox"/>	<input type="checkbox"/>	
5/10/2022	Togiak (Micro Loan)	851001-S	\$770,719	1.7125%	20	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	\$616,575
5/13/2022	Wrangell	917071-S	\$3,821,000	1.725%	20	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	\$500,000
<b>Subtotal for new loans</b>			<b>\$17,407,231</b>					
AMENDMENTS TO EXISTING LOANS								
10/14/2021	Unified AK Utilities	125001-S	\$243,444	1.5	20	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	\$121,722
4/14/2022	Ketchikan	481081-S	\$5,973,779		20	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	\$500,000
<b>Subtotal for amendments to existing loans</b>			<b>\$6,217,223</b>					
DE-OBLIGATIONS								
<b>Total De-obligations</b>			<b>(\$2,771,339)</b>					
<b>NET ASSISTANCE PROVIDED IN SFY2022</b>			<b>\$20,853,115</b>					
<b>NEW LOANS + AMENDMENTS – DE-OBLIGATIONS</b>								

## Project Bypasses

During SFY22, there were no formal bypasses. During a two-month period following the issuance of the IUP, the highest scoring projects were allotted the first opportunity to submit loan applications. Following this initial two-month period, sufficient loan funds remained, and several other projects with a lower score proceeded to submit loan applications on a first come, first served basis.

## Small Systems

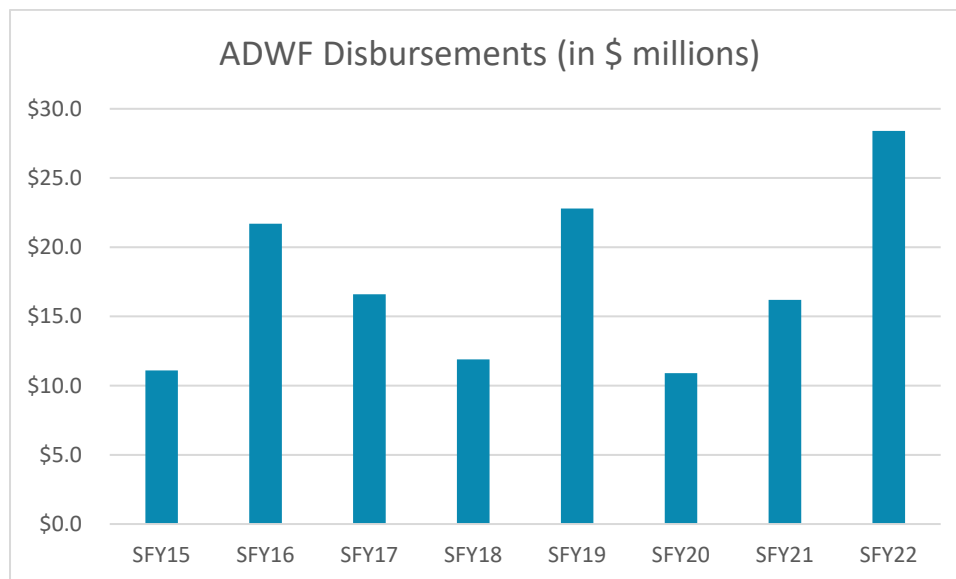
States must annually use at least 15% of funding to provide loan assistance to small public water systems that serves less than 10,000 people. With the exception of the Pro Fi loan offered to Anchorage Water and Wastewater Utility, all other financing was extended to small systems serving a population of 10,000 or less. Of the \$17.4 million in new loan funds awarded in agreements issued in SFY22, over 42% of the total funding was extended to small systems. Alaska continues to meet the 15% small system participation threshold.

## Disbursements

Disbursements from the ADWF totaled \$20,262,472 during SFY22. Of that total, \$900,998 was forgiven as additional subsidy at the time of disbursement.

For the ADWF base loan program, the grant-specific method is used to determine federal/state proportionality as defined in the Guide to Using EPA's Automated Clearing House for the Drinking Water State Revolving Fund Program (EPA-832-B98-003). For SFY22, the proportionality ratio was 76.87% federal, 23.13% state.

Exhibit 1 documents all disbursements requested, and the amounts drawn from federal and state funds in SFY22



## Single Audit and Annual Independent Audit

The ADWF was audited as a major federal program under the Single Audit Act. Alaska's Single Audit Report for the fiscal year ending June 30, 2022 will be released in January 2023. Alaska also contracted for an independent audit that provides an auditor's opinion on the SFY22 ADWF financial statements, internal controls, and compliance with applicable regulations and general grant conditions. A draft copy of this independent audit is attached as Exhibit 2.

## Additional Subsidy – Disadvantaged Community Assistance

There are two distinct and additive additional subsidy authorities in the FFY21 capitalization grant. Under the Congressional additional subsidy authority, Alaska must use 14% of the FFY21 capitalization grant to provide additional subsidization to any DWSRF-eligible recipient. Under the second authority, the SDWA mandates that

states use at least 6%, but no more than 35%, of the capitalization grant amount for additional subsidy for state-defined disadvantaged communities. In combination, the additive additional subsidy authorities for the FFY21 federal capitalization grant require at least 20%, and no more than 49%, of the grant must be offered in the form of additional subsidy. Based on Alaska's \$11,001,000 grant, the minimum required subsidy amount is \$2,200,200, and the maximum amount is \$5,390,490.

While developing the IUP, subsidy consideration was given to eligible disadvantaged community borrowers that were able to demonstrate a project's readiness to proceed with a maximum of \$500,000 in principal forgiveness offered per borrower.

During SFY22, 10 loan agreements signed during the year included principal forgiveness totaling \$1,933,587.

<b>Additional Subsidy Allocation in Signed Loans during SFY22</b>			
<b>Community / Entity</b>	<b>Project #</b>	<b>Loan Request</b>	<b>Additional Subsidy</b>
Midtown Estates Water Utility, LLC	125031-S	\$97,500	\$75,000
Home Water, LLC	408021-S	\$423,528	\$211,764
Ketchikan Gateway Borough	482031-S	\$1,600,000	\$500,000
Ketchikan Gateway Borough	482051-S	\$225,000	\$75,000
Hoonah (Micro Loan)	411031-S	\$232,884	\$163,019
Soldotna	791051-S	\$30,000	\$30,000
Home Water, LLC	408031-S	\$106,600	\$75,000
Haines Borough	395291-S	\$100,000	\$75,000
Togiak (Micro Loan)	851001-S	\$770,719	\$616,575
Wrangell	917071-S	\$3,821,000	\$112,229
		<b>TOTAL</b>	<b>\$1,933,587</b>

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 FFY 14 through FFY18. Additional commitments in loan agreements will be required in order to meet requirements for the FFY19 through FFY21 capitalization grants.

Additional expenditures will be needed to meet the subsidy requirement for FFY14. Disbursement requests are currently in review during SFY23 that will allow the SRF Program to meet the FFY14 requirements for expenditure of this forgiveness. The SRF Program will continue to track principal forgiveness expenditures to meet requirements for FFY17 through FFY21.

The SRF Program will re-evaluate the status of other projects included on the Project Priority List to determine other borrowers that meet requirements for disadvantaged community status and have projects that are proceeding with a loan application. Additional subsidy will be allocated in loan agreements to reach the minimum requirement.

Additional Subsidy Tracking, FFY14-FFY21							
Cap Grant Year and Amount	Cap Grant Additional Subsidy Requirement	Additional Subsidy -		Additional Subsidy to be Committed/Expended to Meet Grant Requirement			
		Minimum	Maximum	Principal Forgiveness		\$ to be Committed	\$ to be Expended
				\$ Committed in loan agreements	\$ Expended		
FFY14 \$8,845,000	At least 20%, no more than 30%	\$1,769,000	\$2,653,500	\$1,862,750	\$1,747,545	\$0	\$21,455
FFY15 \$8,787,000	At least 20%, no more than 30%	\$1,757,400	\$2,636,100	\$1,921,942	\$1,844,701	\$0	\$0
FFY16 \$8,312,000	At least 20%, no more than 50%	\$1,662,400	\$4,156,000	\$1,662,539	\$1,662,539	\$0	\$0
FFY17 \$8,241,000	At least 20%, no more than 50%	\$1,648,200	\$4,120,500	\$1,648,200	\$1,149,084	\$0	\$499,116
FFY18 \$11,107,000	At least 20%, no more than 50%	\$2,221,400	\$5,553,500	\$2,401,362	\$1,318,149	\$0	\$903,251
FFY19 \$11,004,000	At least 26%, no more than 55%	\$2,861,040	\$6,052,200	\$2,460,269	\$40,928	\$400,771	\$2,820,112
FFY20 \$11,011,000	At least 20%, no more than 49%	\$2,202,200	\$5,395,390	\$0	\$0	\$2,202,200	\$2,202,200
FFY21 \$11,001,000	At least 20%, no more than 49%	\$2,200,200	\$5,390,490	\$0	\$0	\$2,200,200	\$2,200,200

## Green Project Reserve

The Green Project Reserve provides funding to projects to address green infrastructure, water or energy efficiency improvements, or other environmentally innovative activities. There are no minimum requirements for the identification and financing of green projects through the ADWF. The SRF Program provides additional points in the questionnaire review, scoring, and ranking process for those projects that identify a green project component.

During SFY22, one loan agreement included green components related to energy efficiency. This project involved the design and construction of a heat recovery system to transfer waste heat from the power plant to serve the water treatment plant. This project is anticipated to significantly reduce fuel use at the water treatment plant.

Green Project Reserve - Loan Signed during SFY22				
Borrower	Project #	Loan Request	Green Project Component	Green Project Category
Togiak	851001-S	\$770,719	\$770,719	Energy Efficiency

## Set Aside Expenses

Program expenditures for the ADWF set-asides are broken down as shown in the table below.

Set-Aside Expenditures during SFY22				
Set Aside Activity	Requested SFY22	Expended SFY22	Banked SFY22	Total Banked Amount
Administration & Technical Assistance (4%)	\$440,040	\$440,040	---	\$1,020,642
Small Systems Technical Assistance (2%)	\$0	---	\$220,020	\$2,902,020
Local Assistance & Other State Programs (15%)				
Capacity Development & Operator Certification	\$1,100,100	\$998,010	---	---
Drinking Water/Wellhead Protection Program	\$550,050	\$698,274	---	---
State Program Management (10%)	\$1,600,100	\$1,282,444	---	\$7,421,336
<b>TOTAL</b>	<b>\$3,690,290</b>	<b>\$3,418,768</b>	<b>\$220,220</b>	<b>\$11,343,998</b>

In addition to use of the 10% of the capitalization grant for the State Program Management Set-Aside, the SRF Program “un-banked” \$500,000 in reserved funds for use in SFY22.

The SDWA allows up to 2% of the state’s annual capitalization grant to be used for technical assistance activities targeted at small systems. In SFY22, Alaska banked all allowable Small Systems Technical Assistance funds for future use.



## V. SET-ASIDE ACTIVITIES

### Technical Assistance – Capacity Development and Operator Certification Program

The Capacity Development and Operator Certification Program (CDOC), a component of the Technical Assistance Program, provides technical assistance to owners and operators of approximately 648 public water systems in Alaska. In particular, the program establishes criteria for water system classification and operator certification, facilitates operator education and training opportunities, administers certification exams, and coordinates capacity development activities statewide. During SFY22, CDOC used Local Assistance (LA) Set-Aside funds to support these activities.

#### Operator Certification Database Enhancements

CDOC utilized LA funds for the continued development of the Operator Certification database. During SFY22, CDOC staff worked with the database contractor to add a Compliance and Enforcement Report and an Operations and Maintenance Best Practices Scoring (Best Practices) Report. Due to the complexity of these reports, work has continued into SFY23. The Compliance and Enforcement Report will assist CDOC staff in ranking noncompliant systems in order to prioritize assistance and enforcement. The ranking will be based on federal classification type, water source, population, and system classification. The Best Practices Report will assist CDOC staff in preparing the necessary information to provide a score for the Operator Certification Section of a community's Best Practices score. The Operator Certification score is based on having one or more properly certified operators for a community's water system.

#### Certification Exams

CDOC is a member of the Water Professionals International (WPI), formerly known as the Association of Boards of Certification (ABC), and with the exception of the Small Treated and Small Untreated exams, all operator certification exams administered by CDOC are WPI standardized exams. The standardized exams were developed by subject matter experts and beta tested by operators in the United States and Canada. New standardized exams were released early in 2020 and the transition from the previous exams to the new version started on June 1, 2020. LA funds were applied to ABC (now WPI) dues and exam services.

#### Administration of Operator Certification Exams

Exams are administered on-demand in rural communities in addition to the online exams and biannual statewide paper-based exams. As a result of the ongoing COVID-19 pandemic, the number of exams administered was lower than previous years. In the two state fiscal years prior to the pandemic, (SFY19 and SFY18) the average number of exams administered was 561 as compared to a total of 352 for SFY21. The table below summarizes the number of exams administered throughout SFY22, the number of exams passed, and certifications issues by exam type.

Applications for certification are not reviewed until after operators pass exams, and it is the responsibility of the operators to submit applications. In some cases, operators take exams at levels higher than previous passed exams knowing that they have not yet met the eligibility requirements for the higher levels of certification. In those cases, applications are not typically submitted immediately. For that reason, the number of exams passed often does not reflect the number of certifications issued. More specific information about the administration of exams is available in the SFY22 Alaska Operator Certification Program Report.

Operator Certification Exams – SFY22				
Exam Type	Exams	Exams Passed	Exam Pass	
			Rate	Certifications
Exam Cycle	4	3	75%	2
On-Demand	25	11	44%	7
Provisional Courses	104	56	54%	18
Small Treated Courses	46	35	97%	35
Level 1 & 2 Courses	67	35	52%	13
Intermediate Courses	15	7	47%	2
Online Small Untreated & Small Treated	28	28	100%	28
Online Water Treatment & Water Distribution	130	72	55%	34
All Exams	419	247	59%	139

## System Specific Training and Certification (S<sup>2</sup>TC)

Previous reports discussed efforts to develop 13 training modules and certification exams that will be used to train and certify operators of systems that are chronically out of compliance with the operator certification requirements. As reported in the SFY21 annual report, CDOC, in collaboration with the Remote Maintenance Worker (RMW) Program, finalized five modules in preparation for S<sup>2</sup>TC Program beta testing; however, the modules are still under final review. Two communities, both of which have long-standing operators who have not passed certification exams despite repeated attempts, have been identified for beta testing during SFY23.

## Small Untreated and Small Treated Water Systems Course Development

Small untreated (SU) and small treated (ST) water systems are community or non-transient non-community water systems that serve fewer than 500 people, contain fewer than 100 service connection, and either add no chemicals or one chemical for treatment, respectively. To be eligible for certification, an operator must pass the certification exam and either meet the experience requirement for certification or complete an ADEC-approved course. The ADEC-approved courses are currently administered as correspondence courses using manuals developed in 2002. From 2004 to 2019, online versions of the course were available and were most recently hosted by the water/wastewater program at the University of Alaska, Southeast in Sitka; however, the program was eliminated in 2019 and along with it the SU and ST online courses.

In the spring of 2020, CDOC solicited proposals for development of a SU and ST online training course, study modules, and consolidation of the SU manual and the ST manual into one single manual. The intent of the contract is to “refresh” the manual and make online courses available again. The contract ended in SFY22 and CDOC is in the final stages of reviewing and deploying the online training and manual.

## Utility Performance Recognition

The Water System Excellence Award is a joint venture between the CDOC and the DW Program. The two-tiered award structure recognizes water systems that achieve outstanding performance in water system operations. Systems earning the Ursa Major award must maintain four quarters of operator certification compliance with no open, unresolved, or incurred drinking water violations during the award year. To earn the Ursa Minor award, a water system must maintain four quarters of operator certification compliance with no more than one open, unresolved, or incurred drinking water violation during the award year, or maintain three quarters of operator certification compliance with no open, unresolved, or incurred drinking water violations during the award year.

This program aims to increase the visibility of systems and operators who have demonstrated their commitment to providing safe drinking water. Positive recognition will contribute to employee retention, enhance community support, and encourage improvements in systems that are not currently recognized.

During the 2021 calendar year, 277 systems received Ursa Major awards, and 92 systems will receive Ursa Minor. Each of these systems received a certificate and also recognition on the ADEC website. Additional recognition in the form of stars has been added to the Ursa Major certificates to recognize systems that have earned the award in previous years.

## Operations and Maintenance Best Practices Score

The Operations and Maintenance Best Practices (Best Practices) score is a tool used since mid-2015 to assess the capacity of rural water utilities, determine eligibility for funding, and prioritize community sanitation projects. Technical Assistance Program staff oversee the management of the Best Practices scoring.

Rural utilities are scored twice per year on the following technical, managerial, and financial categories:

Technical	Managerial	Financial
Operator Certification	Utility Management Training	Budget
Preventive Maintenance Plan	Meetings of the Governing Body	Revenue
Compliance		Worker's Compensation Insurance
		Payroll Liability Compliance

Each of these nine categories are evaluated and scored using established criteria for a total possible score of 100 points.

Best Practices scores are used for eligibility and/or project scoring for a variety of funding sources available to rural Alaskan communities for infrastructure improvements Alaska Native Villages grants, USDA RD Rural Alaskan Villages grants, VSW Infrastructure Protection Funding grants, and SRF Micro Loans.

Access to these funding sources incentivizes communities to acquire and maintain technical, managerial, and financial capacity, and communities are encouraged to actively work with agency staff to improve system capacity, and by extension, their Best Practices score. CDOC works in coordination with the Rural Utility Business Advisor Program and the RMW Program, as well as ANTHC, regional health corporations, and other technical assistance providers, to support communities in their efforts to build and maintain capacity. A number of resources, such as sample preventative maintenance plans and financial reports, operator trainings, management and financial trainings, and assistance with QuickBooks and taxes are offered to assist utilities with their Best Practices scores.

## New Public Water System Financial and Managerial Reviews

Historically, the DW Program conducted financial and managerial capacity reviews for new systems as part of the plan review process. With the transition of the Capacity Development Program from the DW Program to the Division of Water, Technical Assistance Program staff took over the financial and managerial capacity reviews for new systems. This new process is documented in the Alaska Capacity Development Program Report for SFY19 submitted in October 2019. During SFY22, Technical Assistance Program staff completed financial and managerial reviews for 11 new water systems.

## Public Outreach

Public outreach through presentations at statewide conferences provides another avenue to offer assistance on a statewide basis. In SFY22, Technical Assistance Program staff delivered a virtual presentation on technical and managerial subjects at the Alaska Rural Water Association (ARWA) Annual Conference and an in-person presentation at the Alaska Water Wastewater Management Association (AWWMA) Annual Conference. Participants at these conferences included public water system owners and operators and consulting engineers.

## Welcome Packets for New Rural Utility Managers and Operators

Water systems in rural communities suffer from frequent staff turnover in utility management and operators. Due to this frequent turnover, the utility staff and operators typically are not aware of the technical, managerial, and financial resources available to them. CDOC has developed a welcome packet that is meant to provide a summary of the services available from the various state agencies and regional health corporations and their contact information. Each welcome packet will be specific to the community that is receiving it and will be sent to new City or Tribal Administrators, Mayors, Utility Clerks, etc.

## Division of Environmental Health Set-Aside Activity Status

The ADEC Division of Environmental Health, DW Program, utilized funds from both the State Program Management set-aside and the Local Assistance set-aside for various compliance assistance, technical assistance, and source water protection efforts.

### Program Management Activities

#### *Program Management and Reporting*

DW Program development and management activities associated with grant applications, including budget and work plan submittals, were completed within appropriate time frames. DW Program staff continued to provide guidance and compliance assistance, on an on-going basis, to public water system owners and operators on interpretation and implementation of adopted regulations for which the state has received primacy.

#### *Program Primacy and Regulations*

During SFY22, DW Program staff continued to engage with the City of Ketchikan towards the possible approval of the use of the Limited Alternative to Filtration (LAF) provision in the SDWA. The DW Program has entered into a Compliance Order by Consent (COBC) with the City of Ketchikan to establish the process for obtaining sufficient information for ADEC and EPA to make a determination for moving forward with the LAF request. ADEC received all of the reports and data required by the COBC. The COBC was closed on March 29, 2022. DW Program staff started the review of the reports and data provided to move forward with the decision process. DW Program staff continued to participate in the Association of State Drinking Water Administrators (ASDWA) Workgroups and committees to provide comments and input at EPA Stakeholder meetings on the proposed Lead and Copper Rule Revisions and the upcoming perfluorooctane sulfonic acid and per- and polyfluoroalkyl substances (PFOS/PFOA) regulation. The DW Program also provided feedback on the Fifth Unregulated Contaminant Monitoring Rule (UCMR 5) and the Candidate Contaminant List.

#### *Compliance, Enforcement, and Engineering Activities*

During SFY22, the DW Program continued development of a replacement for the Enhanced Sanitary Survey (ESS) program. An initial version of the Sanitary Survey application was beta tested during the summer field season, and the application is being updated based on the input. Additionally, a submission viewer has been created, and completed sanitary survey question sets are now accessible. The 40-hour Basic Sanitary Survey class was taught by DW Program staff in April 2022, resulting in approval of 21 new Sanitary Survey Inspectors (as of July 2022). Six students from the June 2021 training also completed their approval requirements in FY22. DW Program staff conducted three, one-day on-line sanitary survey renewal trainings and 42 inspectors were able to obtain their renewal as approved Sanitary Survey Inspectors. Additionally, during SFY22, the DW Program continued to provide timely, effective, and efficient review of engineered plans for public water system construction, modification, and operations that were not completed under the Public Water System Supervision grant.

#### *Data Management and Information Technology*

During SFY22, the DW Program purchased replacement computers for staff with outdated or damaged computers or components. Updates to the DW Program website occurred during this fiscal year to keep the website information current and relevant. Highlights include an update to the DW homepage to make it easier

to navigate and overall improvements to the look of the page. Improvements were also made to the Sanitary Survey webpages to better organize the information, particularly the training/class information.

### *Public Outreach and Staff Training*

DW Program staff provided two presentations at the AWWMA Annual conference held in May 2022 and two presentations at the ARWA in October 2021. In addition to webcasts and routine in-state trainings, one DW Program staff provided a presentation on Cold Weather Drinking Water Issues for a webinar hosted by ASDWA.

## Program Administration and Technical Assistance Activities

### *Program Management and Reporting*

DW Program activities associated with grant applications, including budget and work plan submittals, were completed within appropriate time frames. DW Program participated in the SFY21 annual SRF review in March 2022.

### *Direct Technical Assistance*

Existing public water systems that undergo changes, upgrades, or expansion are required to submit engineering plans to the DW Program for review. In all cases, the DW Program engineering staff review the technical capacity of these plans to ensure the design meets the specific treatment objectives for the system. During the review, it is very common for the DW Program engineer to provide technical assistance to the design engineer prior to significant investment in the proposed modification. In cases where there are significant upgrades, an increase in the complexity of the treatment train, or a significant expansion to the size (population served) of a system, a financial and managerial capacity review is completed by the Capacity Development staff, as well. If sustainability issues have been noted in the past, an updated financial and managerial review is completed, regardless of the extent of the upgrades. During SFY22, DW Program staff continued to work with the Capacity Development Program staff to refine the tools for completing the financial and managerial capacity reviews. Specifically, DW Program and Capacity Development Program staff worked to refine the financial review for public water systems owned and operated by state and federal government agencies. The process for reviewing the financial capacity of Non-Transient Non-Community water systems was also revised.

The DW Program continues to partner with several agencies that provide training and technical and managerial assistance to public water system operators, including the ARWA, Rural Community Assistance Corporation, and USDA RD. The DW Program works with these agencies to share information on training opportunities, as well as share information regarding specific communities and systems that could benefit from the technical, financial and managerial advice or assistance that these agencies have to offer.

### *Program Development, Coordination, and Training*

The DW Program participated in SRF questionnaire scoring committee meetings to help evaluate projects for SRF Program funding in SFY22. The ASDWA/EPA Small Systems Drinking Water Treatment Technology and Compliance Workshop (September 2021) was held virtually so several DW Program staff were able to participate in this conference.

## Drinking Water Source Protection

### *Program Management and Reporting*

The DW Program's Drinking Water Protection (DWP) group continued to look at ways to incentivize the development and implementation of public water system Drinking Water Protection Plans. There were 164 Community Water Systems with substantially implemented protection strategies; these systems served water to 444,308 persons. No net-changes were reported for SFY22.

During SFY22, the DWP group participated in the SRF scoring committee, which awards points to water systems with current and approved drinking water protection plans in place. The DWP group continued to advocate for DWSRF project funds focused on the implementation of drinking water source protection strategies. In addition, the DWP group participated in the Alaska Water Expert Group meetings facilitated by the ADEC Division of Water's Nonpoint Water Pollution Control Program. This group reviews project proposals that address nonpoint source pollution concerns. Some progress has been made in the last year to recognize sources of public drinking water as high priority water bodies.

The DW Program's Hydrologist regularly participated in the Interagency Hydrology Committee for Alaska, a collaborative group of municipal, federal, and state employees who meet to address statewide water quantity and quality issues.

Staff participated in numerous meetings with Alaska's Natural Resources Conservation Service (NRCS) program over the last year. These meetings were held to explore ways to utilize NRCS funding to protect public drinking water sources, specifically for the development and implementation of protection plans.

### *Regulations/Procedures*

The DWP group continued to facilitate the groundwater under the direct influence of surface water (GWUDI) workgroup to help make GWUDI determinations for water systems and to develop evaluation tools and procedures. The DWP group participated in the ADEC Small Unmanned Aircraft Systems (sUAS) Drone Workgroup that developed procedures for using drones during site inspections supplemented by funds provided by the EPA Multi-Purpose Grant (#AA-01J69901), which had a no-cost extension to September 30, 2022, due to supply-chain disruptions caused by an ongoing pandemic.

### *Drinking Water Source Protection Activities*

Staff delineated the required minimum separation distance (100 feet and 200 feet) radii around every active public water system well and intake. Geographic information system (GIS) model scripts were developed and run weekly to delineate minimum separation distances for new sources added in the Safe Drinking Water Information System (SDWIS) and around sources with updated locations. These delineations are displayed along with the drinking water source delineations in the DW Program web maps.

Drinking Water Source Protection continued to maintain and revise the public-facing web mapping application and the associated public water system data. The web map is an extremely important part of Alaska's approach to promoting awareness and protection of public drinking water systems. As of SFY22, this public web map had 71,920 total views, an increase of 9,287 from SFY21. The average number of daily visits was 25, up significantly from 19 per day in SFY21.

The web map service can be found here:

<http://www.arcgis.com/home/item.html?id=6e8aab1f0f6449c08dba50a47aeae009>



In addition, an internal web map, available to all staff within ADEC, continued to provide additional information including well/intake locations, water rights, and well log information. In SFY22, the ADEC internal web map had 19,848 total views, an increase of 1,724 from SFY21.

Throughout SFY22, Drinking Water Protection assisted the Department GIS Coordinator set up the new ArcGIS Enterprise Portal and transitioned the Drinking Water Internal web maps to the new internal portal during the month of June. As a result of this transition, the previous internal web maps were deprecated and replaced by new internal portal web maps.

Travel restrictions due to the COVID-19 pandemic limited on-site field activities for SFY22; however, site visits were completed at the following communities:

- Southwest Alaska – Kongiganek, Nightmute, and Nunapitchuk
- Southeast Alaska – Kasaan, Craig, and Klawock
- Southcentral Alaska - Point MacKenzie area

The delineations of Drinking Water Protection Areas and verification of well/intake locations continued to be updated. Accomplishments during SFY22 include:

- Delineations of Drinking Water Protection Areas: 40 completed
- Source locations updated in SDWIS: 71 sources
- Source location verifications (<26 feet): 62 sources

### *Drinking Water Source Protection Plans*

The DWP staff continued to utilize GIS tools and encourage the use of online spatial tools to identify Drinking Water Source Protection Areas. A public web map showing the status of endorsed protection plans in Alaska was created near the beginning of SFY22, and as of June 30, 2022 had 325 views. This map is intended to show the status of endorsed plans and highlight those more than 3 years old. It can be found at:

<https://www.arcgis.com/apps/mapviewer/index.html?webmap=778048eb6bde4954b3e0f186c5f5da78>.

The DWP group continued to work closely with third-party technical service providers to ensure protection plans being developed met our standards. Three new or revised plans were submitted during this reporting period.

DWP staff provided direct assistance to the native Alaskan community of Klawock during SFY22.

### *Data Management and Data Requests*

The DWP staff continues to make connections with various state and federal agencies to integrate Drinking Water Protection Areas into the permitting process for various activities. A total of 515 requests to comment were received and completed during SFY22.

### *Public Outreach*

Activities completed in SFY22 include:

- August 2021: Alaska Business Magazine article, “The Gist of GIS”, <https://digital.akbizmag.com/issue/august-2021/the-gist-of-gis/>.
- August 2021: Drinking Water Protection list server announcement for National Water Quality Month
- September 2021: Social media announcement for Source Water Protection Week
- October 2021: Source Water Protection presentation at the ARWA annual Conference.



- November 2021: Source Water Protection presentation at the Alaska Tribal Conference for Environmental Managers.
- December 2021: Sanitary Survey Refresher Training, classroom trainer for source water sections.
- January 2022: Sanitary Survey Refresher Training, classroom trainer for source water section.
- February 2022: Presentation on developing drone program at the DEC Lunch and Learn.
- April 2022: Sanitary Survey Basic Training, classroom trainer for source water sections.
- May 2022: Source Water Protection presentation at the AWWMA Annual Conference.

### *Synthetic Organic Chemical (SOC) Monitoring Waiver Applications*

During SFY22, a total of 304 applications for SOC Monitoring Waivers for the 2020-2022 SOC Waiver cycle were received. Due to a backlog of unprocessed applications from the previous fiscal year, more applications were processed than received. A total of 409 SOC Monitoring Waivers were processed during SFY22.

### *Training*

While some training opportunities were canceled due to COVID-19, Drinking Water Protection staff were able to attend virtual training, when offered, and some in-person training towards the end of SFY22. Drinking Water Protection staff also continued to maintain Sanitary Survey Inspector credentials as well as small Unmanned Aerial Systems (sUAS; aka “drone”) Part 107 certification.

- October 2021: “Dr. Hales Technical Writing” course.
- December 2021: Sanitary Survey Renewal Training.
- May – June 2022: “Introduction to Groundwater, Watersheds, and Groundwater Sustainability Plans”, an online short course by the University of California, Groundwater Cooperative Extension Program.
- June 2022: Participated in the Groundwater Protection Council (GWPC) Annual Forum, in Salt Lake City, UT.

## VI. OPERATING AGREEMENT AND CAPITALIZATION GRANT CONDITIONS

ADEC continues to adhere to the specific administrative conditions in the Operating Agreement for the SRF Program and the special conditions of the capitalization grant. The following special conditions or compliance requirements have been met:

- Establish state authority;
- Comply with applicable state laws and procedures;
- Review technical, financial and managerial capacity of assistance recipients;
- Establish ADWF loan account, set-aside account, and ADWF administration account;
- Deposit all funds in appropriate accounts;
- Follow state accounting and auditing procedures;
- Require ADWF loan recipient accounting and auditing procedures;
- Submit IUP and use all funds in accordance with the plan;
- Comply with enforceable requirements of the Act;
- Establish capacity development authority;
- Implement/maintain system to minimize risk of waste, fraud, abuse, and corrective action; and
- Develop and submit project priority ranking system.

### 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 ADWF to address funding activity from the loan account, the set-aside accounts, and the administrative fee account. A copy of the independent auditor's report is attached.

### Confirmation of Borrower's Source of Repayment

All potential loan recipients must undergo a financial capacity assessment to establish the credit worthiness of borrower. This evaluation determines whether or not an applicant has the ability to repay a loan, including an identification of a dedicated revenue stream sufficient to repay the loan.

### Expeditious and Timely Expenditure

Need for available SFY22 funds was identified through the IUP process, and the SRF Program has worked aggressively to commit those funds. Projects with binding commitments moved in an expeditious and timely manner toward construction. Construction progress will be monitored to ensure operations are initiated according to schedule.

### Compliance with Federal Cross-cutting Authorities

The State of Alaska and the assistance recipients have complied with all applicable federal cross-cutting authorities.

### Disadvantaged Business Enterprise (DBE) Requirement

As a condition of SRF Program loan agreements, borrowers are required to encourage participation of small minority- and women-owned businesses in all project subcontracts. The State's DWSRF percentage 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 on meeting these goals on an annual basis.

## State Environmental Review Process

The SRF Program reviewed all projects funded in SFY22 to determine the appropriate level of environmental review in accordance with the State Environmental Review Process (SERP). Three of the 11 funded projects were determined to meet requirements for a categorical exclusion (CE). Two projects (Togiak 851001-S and Wrangell 917071-S) were co-funded with other federal agencies and had existing environmental determinations that were adopted by the SRF Program as per the SERP. Each individual project associated with the Anchorage Water and Wastewater Utility Pro Fi loan was individually reviewed; categorical exclusions were determined appropriate for these projects. Five projects were planning studies (e.g., rate studies, master plans, and leak detection studies) that did not require an environmental review.

## Capacity Development Strategy

Alaska has complied with the capacity development provisions in the 1996 amendments to the SDWA and has the authority and means to ensure new systems have adequate capacity. ADWF loan applicants are reviewed to ensure they have adequate capacity. As noted in Short-term Goal 7, the Technical Assistance Program is updating the Capacity Development Strategy for submittal in December 2022 to address revisions to the asset management section of the document.

## American Iron and Steel (AIS)

All loan agreements issued in SFY22 for construction projects included the AIS requirement that funds made available to the borrower shall not be used for a project for the construction, alteration, maintenance, or repair of a public water system unless all of the iron and steel products used in the project are produced in the United States. This requirement applied to the entire project receiving a loan agreement that was fully signed on and thereafter the effective date of January 17, 2014, unless approved engineering plans and specifications by a State agency were completed prior to the enactment date of December 16, 2014.

## Davis-Bacon Act

Davis-Bacon Act prevailing wage rates are required on all treatment works projects funded in whole or in part by the ADWF. Davis-Bacon applies to construction contracts over \$2,000 and subcontractors, regardless of the subcontract amount.

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

## Reporting

### *Federal Funding Accountability Transparency Act (FFATA)*

States have the option to apply federal crosscutting authorities to all awarded projects or only the projects and set-asides activities equivalent to the annual federal award. Alaska's SRF Program has fully implemented the strategy to apply federal crosscutting authorities to projects, equal to the annual federal award amount, identified to meet all equivalency requirements. Information is entered in the FFATA Subaward Reporting

System (FSRS) upon completion of the loan agreements for designated equivalency projects. The following completed loan agreement issued to Anchorage Water and Wastewater Utility was reported to meet equivalency requirements for the FFY21 capitalization grant.

Borrower	Project Number	Loan Amount	Loan Agreement Date	FFATA Reporting Date	FFATA Reporting Amount
AWWU	AWUD22	\$10,000,000	5/2/2022	6/30/2022	\$ 7,310,710
				Set Asides	\$ 3,690,290
				TOTAL	\$11,001,000

### *EPA DWSRF Database Reporting*

The SRF Program reported loan and project information in the federal DWSRF database 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 Project Benefits Reporting (PBR) 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.

# EXHIBIT 1. DWSRF - 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					Subsidy Amount	ARRA Funded
						Federal	State Match	Leveraged Bonds	Repayment Funds	Other		
7/16/2021	7/16/2021	7/16/2021	605021	Nenana	0.00	0.00	0.00	0.00	0.00	0.00	92,724.85	N
10/1/2020	10/2/2020	8/25/2021	395251-S G	Haines Borough	5.00	0.00	0.00	0.00	5.00	0.00	2.50	N
8/16/2021	8/19/2021	8/25/2021	395251-S G	Haines Borough	683,920.97	0.00	0.00	0.00	683,920.97	0.00	341,960.49	N
7/8/2021	9/15/2021	9/17/2021	408011 - S	Home Water, LLC	48,205.90	0.00	0.00	0.00	48,205.90	0.00	24,102.95	N
4/27/2021	9/16/2021	9/17/2021	481191	Ketchikan, City of	7,800.16	0.00	0.00	0.00	7,800.16	0.00	0.00	N
12/31/2018	9/19/2021	9/23/2021	445221	Juneau	14,954.86	0.00	0.00	0.00	14,954.86	0.00	0.00	N
9/20/2021	9/23/2021	9/24/2021	125011-S	Midtown Estates Water Utility,	11,366.97	0.00	0.00	0.00	11,366.97	0.00	5,683.49	N
9/20/2021	9/23/2021	10/4/2021	125021-S G	Mile 8 Utilities	72,447.39	0.00	0.00	0.00	72,447.39	0.00	36,223.70	N
9/24/2021	10/1/2021	10/12/2021	395251-S G	Haines Borough	19,763.64	0.00	0.00	0.00	19,763.64	0.00	9,881.82	N
9/28/2021	10/13/2021	10/20/2021	AWUD21-E	Anchorage Water and	1,580,434.00	1,580,434.00	0.00	0.00	0.00	0.00	0.00	N
9/24/2021	10/1/2021	10/22/2021	395251-S G	Haines Borough	5.00	0.00	0.00	0.00	5.00	0.00	2.50	N
8/30/2021	11/8/2021	11/8/2021	125001-S G	Unified Alaskan Utilities	171,812.14	0.00	0.00	0.00	171,812.14	0.00	82,469.83	N
11/8/2021	11/12/2021	12/1/2021	125011-S	Midtown Estates Water Utility,	26,855.47	0.00	0.00	0.00	26,855.47	0.00	13,427.74	N
11/8/2021	11/12/2021	12/3/2021	125031-S	Midtown Estates Water Utility,	3,315.96	0.00	0.00	0.00	3,315.96	0.00	3,315.96	N
11/19/2021	11/23/2021	12/3/2021	AWUD21-E	Anchorage Water and	170,851.00	170,851.00	0.00	0.00	0.00	0.00	0.00	N
11/19/2021	11/24/2021	12/3/2021	AWUD21-E	Anchorage Water and	1,498,275.00	0.00	1,498,275.00	0.00	0.00	0.00	0.00	N
11/19/2021	11/24/2021	12/3/2021	AWUD21-E	Anchorage Water and	974,827.00	0.00	701,925.00	0.00	272,902.00	0.00	0.00	N
5/11/2021	11/29/2021	12/3/2021	783531	Sitka	355,413.72	0.00	0.00	0.00	355,413.72	0.00	0.00	N
11/30/2021	12/1/2021	12/3/2021	AWUD21-E	Anchorage Water and	220,164.00	0.00	0.00	0.00	220,164.00	0.00	0.00	N
11/30/2021	12/1/2021	12/3/2021	AWUD21-E	Anchorage Water and	163,995.00	0.00	0.00	0.00	163,995.00	0.00	0.00	N
11/19/2021	12/1/2021	12/3/2021	AWUD21-E	Anchorage Water and	922,543.00	508,035.00	0.00	0.00	414,508.00	0.00	0.00	N
11/30/2021	12/1/2021	12/3/2021	AWUD21-E	Anchorage Water and	7,775.00	0.00	0.00	0.00	7,775.00	0.00	0.00	N
12/1/2021	12/2/2021	12/3/2021	AWUD21-E	Anchorage Water and	991,993.00	0.00	0.00	0.00	991,993.00	0.00	0.00	N
11/19/2021	12/14/2021	12/20/2021	130551	Anchorage Water and	120,891.00	0.00	0.00	0.00	120,891.00	0.00	0.00	N
12/4/2021	12/7/2021	12/22/2021	131531	Anchorage Water and	74,208.00	0.00	0.00	0.00	74,208.00	0.00	0.00	N
12/1/2021	12/10/2021	12/22/2021	AWUD21-E	Anchorage Water and	1,001,887.00	0.00	0.00	0.00	1,001,887.00	0.00	0.00	N
12/1/2021	12/10/2021	12/23/2021	AWUD21-E	Anchorage Water and	509,254.00	0.00	0.00	0.00	509,254.00	0.00	0.00	N
12/1/2021	12/13/2021	12/23/2021	AWUD21-E	Anchorage Water and	578,081.00	0.00	0.00	0.00	578,081.00	0.00	0.00	N
12/8/2021	12/15/2021	12/28/2021	125031-S	Midtown Estates Water Utility,	70,975.00	0.00	0.00	0.00	70,975.00	0.00	70,975.00	N
8/4/2021	12/22/2021	12/30/2021	481191	Ketchikan, City of	31,731.14	0.00	0.00	0.00	31,731.14	0.00	0.00	N
11/17/2021	12/22/2021	12/30/2021	481191	Ketchikan, City of	17,703.83	0.00	0.00	0.00	17,703.83	0.00	0.00	N
10/25/2021	12/23/2021	1/13/2022	783531	Sitka	2,030,419.01	0.00	0.00	0.00	2,030,419.01	0.00	0.00	N
7/30/2021	12/23/2021	1/13/2022	783531	Sitka	3,020,280.24	0.00	0.00	0.00	3,020,280.24	0.00	0.00	N
11/1/2021	12/23/2021	1/18/2022	125001-S G	Unified Alaskan Utilities	12,198.29	0.00	0.00	0.00	0.00	0.00	0.00	N
11/1/2021	12/23/2021	1/18/2022	125001-S G	Unified Alaskan Utilities	11,259.96	0.00	0.00	0.00	23,458.25	0.00	11,259.96	N

# DWSRF - 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
12/21/2021	1/21/2022	3/3/2022	917051-G	Wrangell	226,709.74	0.00	0.00	0.00	226,709.74	0.00	0.00	N
1/3/2022	1/25/2022	3/7/2022	408021-S	Home Water, LLC	74,782.02	0.00	0.00	0.00	74,782.02	0.00	37,391.01	N
2/8/2022	2/24/2022	3/7/2022	481191	Ketchikan, City of	28,144.92	0.00	0.00	0.00	28,144.92	0.00	0.00	N
11/23/2021	2/14/2022	3/29/2022	408011 - S	Home Water, LLC	28,810.34	0.00	0.00	0.00	28,810.34	0.00	14,405.17	N
1/21/2022	2/1/2022	4/1/2022	125031-S	Midtown Estates Water Utility,	1,147.00	0.00	0.00	0.00	1,147.00	0.00	709.04	N
1/31/2022	2/14/2022	4/4/2022	408011 - S	Home Water, LLC	8,328.40	0.00	0.00	0.00	8,328.40	0.00	4,164.20	N
1/21/2022	2/14/2022	4/19/2022	125021-S G	Mile 8 Utilities	15,119.24	0.00	0.00	0.00	15,119.24	0.00	7,559.62	N
1/24/2022	3/1/2022	4/21/2022	125001-S G	Unified Alaskan Utilities	28,509.19	0.00	0.00	0.00	28,509.19	0.00	13,761.39	N
3/8/2022	3/23/2022	4/21/2022	445421	Juneau	3,238,333.49	3,238,333.49	0.00	0.00	0.00	0.00	0.00	N
4/27/2022	5/2/2022	5/27/2022	408011 - S	Home Water, LLC	28,810.00	0.00	0.00	0.00	28,810.00	0.00	12,964.50	N
12/21/2021	4/1/2022	6/1/2022	627241-S G	Nome/Nome Joint Utility	823,769.36	0.00	0.00	0.00	823,769.36	0.00	208,514.61	N
5/18/2022	5/19/2022	6/16/2022	125011-S	Midtown Estates Water Utility,	4,445.97	0.00	0.00	0.00	4,445.97	0.00	2,222.99	N
1/26/2022	6/8/2022	6/28/2022	783481	Sitka	329,950.00	0.00	0.00	0.00	329,950.00	0.00	0.00	N
<b>Total ( 48 Disbursements)</b>					<b>20,262,472.32</b>	<b>5,497,653.49</b>	<b>2,200,200.00</b>	<b>0.00</b>	<b>12,564,618.83</b>	<b>0.00</b>	<b>993,723.32</b>	

EXHIBIT 2

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

**Management's Discussion and Analysis**

June 30, 2022

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

**Program Description**

The ADWF, administered by the Alaska Department of Environmental Conservation's (ADEC or the Department) State Revolving Fund (SRF) Program, provides low interest loans to both communities and eligible private entities throughout the State for financing water system improvement 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 ADWF identifies funding sources, selects projects and distributes the loan funds to projects according to approved criteria and federal and state regulations. In addition, a portion of each capitalization grant from the Environmental Protection Agency may be used to fund other drinking water activities, if the Department chooses to do so.

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 SFY21, the SRF Program entered into one ProFi agreement with the Anchorage Water 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 in the initial loan agreement or in a loan amendment. Eligibility for subsidy for disadvantaged communities is based on median household income or unemployment rate. 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.

**STATE OF ALASKA**  
**DEPARTMENT OF ENVIRONMENTAL CONSERVATION**  
**Alaska Drinking Water Fund**  
**(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 ADWF 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 ADWF. 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 ADWF is properly using specific grants, appropriations and bond proceeds.

The ADWF 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 ADWF, with the difference between assets and liabilities reported as net position. Net position for the ADWF 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 ADWF 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 ADWF.
- Notes to the Financial Statements – The notes to the financial statements provide details concerning the financial activities and balances of the ADWF. Additional information about the accounting policies and practices of the ADWF, as well as underlying detailed information supporting certain account balances within the financial statements are presented.

**Current Financial Highlights**

- Through SFY22, the Environmental Protection Agency has granted \$260,783,656 to the State's ADWF base program.
- Through SFY22, State appropriations of \$14,137,600 and bond receipts of \$34,111,914 have been secured.

**STATE OF ALASKA  
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(an Enterprise Fund of the State of Alaska)**

**Management's Discussion and Analysis**

- In SFY22, loan disbursements of \$20.3 Million were made from base loan program, \$14.2 Million of which was from the federal EPA capitalization grants, \$1.3 Million from "second cycle" funds (funds that have been repaid on prior loans), and \$4.3 Million from State match; \$0.9 Million of loan principal was forgiven as a form of subsidy. By comparison, loan disbursements in SFY21 were \$16.2 Million.<sup>1</sup>
- Loan repayments (comprised of principal, interest, and fees) in SFY22 for the amount of \$15.2 Million were received. In SFY21, loan repayments totaled \$13.1 Million.
- The Department of Revenue recognized (\$1,222,526) income (loss) on investment for the ADWF in SFY22, compared to \$39,807 earned interest in SFY21
- Program expenditures for administering the ADWF out of the fee account were \$297,862 in SFY22. In SFY21, program expenditures recorded by the ADWF were \$226,247.
- Program expenditures for the ADWF set-asides during SFY22 totaled \$3,424,252. In SFY21, program expenditures for the ADWF set-asides were \$3,549,932.

**Financial Analysis**

The following information presents comparative financial information for the ADWF.

	<u>SFY22</u>	<u>SFY21</u>
Total Assets	\$250,696,124	\$238,803,957
Total Liabilities	6,653,297	7,956
Total Net Position	244,042,827	238,796,001
Earnings from Operations	2,086,388	1,876,188
Non-operating Revenue (Expense), (net)	(2,128,342)	(1,328,553)
Capital Contributions, EPA	5,288,780	8,541,327
Change in net position	5,246,826	9,088,962

- During SFY22 net position increased by \$5.2 Million, due to changes across various categories.
- The ADWF's financial condition continues to remain strong. The ADWF is required by the federal Safe Drinking Water Act to "be established, maintained, and credited with repayments and interest. The fund corpus 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

<sup>1</sup> An adjusting journal entry of \$2,065,560 was processed to adjust federal revenue recognized for equivalency.

**STATE OF ALASKA  
DEPARTMENT OF ENVIRONMENTAL CONSERVATION  
Alaska Drinking 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 ADWF. Past Performance Evaluation Reviews conducted by EPA state that management is indeed operating the fund in this manner and states that one of the principle strengths of the ADWF is its "sufficient financial resources to satisfy loan demand placed on the Fund over the near future."

**Program Highlights**

- In SFY22 the ADWF made 11 new loans, and 2 amendments to increase existing loans for water improvement projects to 11 different entities. In SFY21, 8 loans and 2 amendments were made to 9 different entities.
- Loan commitments in SFY22 totaled \$23.6 Million, compared to loan commitments of \$19.0 Million in SFY21.
- Through SFY22, the ADWF has made a total of 256 loans to 41 different entities with a total committed value of \$399,994,824. Of this total, 231 were from the base loan program with a total committed value of \$382,479,424 and 26 were for ARRA with a total committed value of \$17,515,400.
- 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. This will help run the ADWF program once federal capitalization grants are no longer available.
- Currently, the default rate is 0.0 percent.

**Other Financial Information**

The ADEC, Water Division, SRF Program manages the ADWF 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.

**STATE OF ALASKA  
DEPARTMENT OF ENVIRONMENTAL CONSERVATION  
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Management's Discussion and Analysis**

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 ADWF and the Alaska Clean Water Fund (ACWF), with revenue generated from the 0.5% fee collected on loan disbursements. Historically, expenses related to the administration of the ADWF loan program were charged to the 4% administrative set-aside from the federal capitalization grants. However, around mid-SFY15 the program began charging administrative expenses to the ADWF fee account. The ACWF fee account is larger than the ADWF fee account and federal rules allow the fee accounts to be used interchangeably for most program expenses. Therefore, since SFY16, the majority of ADWF eligible program expenses have been charged to the ACWF fee account. The two accounts have become balanced, therefore, beginning in SFY22, a portion of the ADWF expenses were charged to the ADWF fee account.

The ADWF has no capital assets, infrastructure, or long-term debt, since it is simply a state-managed loan program to provide funding for water improvement projects.

The ADWF 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 ADWF to acquire bond receipts and save from the State budget the required 20% match, which was \$2.2 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 income exists in an amount equal to or greater than the proposed bonding amount and that this process will still allow the ADWF to grow in perpetuity. Audits of the ADWF have documented the availability of the required amount of interest. The State Bond Committee issues a short-term bond (1-day) which is then repaid, from interest earnings of the ADWF. Bond costs and fees are also paid from this transaction.

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

### **Contacting the Alaska Drinking Water Fund Management**

This financial report is designed to provide a general overview of the ADWF 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, Alaska Department of Environmental Conservation at PO Box 111800, Juneau, Alaska 99811-1800 or by email to [carrie.bohan@alaska.gov](mailto:carrie.bohan@alaska.gov).



# 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

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 Drinking Water Fund (the ADWF), 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 ADWF'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 ADWF, 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 ADWF 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 ADWF 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 ADWF'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

ADWF'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 *Governmental 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 *Governmental 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 ADWF'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 ADWF'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 ADWF'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 ADWF'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 ADWF'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 ADWF's internal control over financial reporting and compliance.

*Elgee Rehfeld*

November 10, 2022

STATE OF ALASKA  
DEPARTMENT OF ENVIRONMENTAL CONSERVATION  
Alaska Drinking 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	\$ 81,925,345	\$ 76,623,078
Due from other funds	3,982,243	552,414
Due from the Environmental Protection Agency	-	3,619,670
Interest receivable	1,260,180	960,046
Administrative loan fee receivable	619,677	480,064
Other current assets	215,888	-
Loans receivable, current portion	11,912,665	11,405,724
Total current assets	99,915,998	93,640,996
Loans receivable, net of current portion	150,780,126	145,162,961
Total assets	250,696,124	238,803,957
LIABILITIES-		
Current liabilities:		
Unearned revenue	6,653,288	-
Due to other funds	-	191
Other liabilities	-	7,761
Warrants outstanding	9	4
Total current liabilities	6,653,297	7,956
NET POSITION-		
Restricted for Revolving Loan Program	\$ 244,042,827	\$ 238,796,001

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

STATE OF ALASKA  
DEPARTMENT OF ENVIRONMENTAL CONSERVATION  
Alaska Drinking 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	\$ 1,591,264	\$ 1,338,772
Administrative loan fee income	792,450	763,663
Fines and forfeitures	536	-
Total operating revenues	2,384,250	2,102,435
OPERATING EXPENSES-		
Program administration:		
Salaries and related costs	246,141	188,527
Other	51,721	37,720
Total operating expenses	297,862	226,247
Earnings from operations	2,086,388	1,876,188
NONOPERATING REVENUES (EXPENSES):		
Investment income (loss)	(1,222,526)	39,807
Subsidized loan payments	(900,999)	(1,363,544)
Bond fees	(4,817)	(4,816)
Nonoperating revenues (expenses), net	(2,128,342)	(1,328,553)
Income (loss) before capital contributions	(41,954)	547,635
CAPITAL CONTRIBUTIONS-		
Environmental Protection Agency grants	5,288,780	8,541,327
Total capital contributions	5,288,780	8,541,327
Change in net position	5,246,826	9,088,962
BEGINNING NET POSITION	238,796,001	229,707,039
ENDING NET POSITION	\$ 244,042,827	\$ 238,796,001

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

STATE OF ALASKA  
DEPARTMENT OF ENVIRONMENTAL CONSERVATION  
Alaska Drinking 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	\$ (19,361,474)	\$ (14,837,352)
Principal payments received on loans	13,237,368	11,193,794
Interest and fee payments received on loans	1,944,503	1,859,677
Cash paid for operating costs	(297,862)	(226,247)
Cash paid to central treasury	(3,653,664)	(182,320)
Net cash used for operating activities	(8,131,129)	(2,192,448)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Subsidized loan payments	(900,999)	(1,363,544)
Proceeds from issuance of revenue anticipation bonds	2,200,200	2,200,201
Principal payment on revenue anticipation bonds	(2,200,200)	(2,200,201)
Cash paid for bond fees	(4,817)	(4,816)
Net cash used for noncapital financing activities	(905,816)	(1,368,360)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES-		
Environmental Protection Agency grants	15,561,738	5,875,537
Net cash provided by capital and related financing activities	15,561,738	5,875,537
CASH FLOWS FROM INVESTING ACTIVITIES-		
Investment income (loss)	(1,222,526)	39,807
Net cash provided by (used for) investing activities	(1,222,526)	39,807
Net increase in cash and investments	5,302,267	2,354,536
Cash and investments, beginning of year	76,623,078	74,268,542
Cash and investments, end of year	\$ 81,925,345	\$ 76,623,078
RECONCILIATION OF EARNINGS FROM OPERATIONS TO NET CASH USED FOR OPERATING ACTIVITIES:		
Earnings from operations	\$ 2,086,388	\$ 1,876,188
Adjustments to reconcile earnings from operations to net cash used for operating activities:		
Decrease (increase) in operating assets	(10,209,570)	(4,025,367)
Increase (decrease) in operating liabilities	(7,947)	(43,269)
Net cash used for operating activities	\$ (8,131,129)	\$ (2,192,448)

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

STATE OF ALASKA  
DEPARTMENT OF ENVIRONMENTAL CONSERVATION  
Alaska Drinking Water Fund  
Notes to Financial Statements  
Year Ended June 30, 2022

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

General Statement

The federal Safe Drinking Water Act, as amended in 1996, mandated the creation of state-operated revolving loan funds for financing improvements to drinking water infrastructure. Additional funding was authorized for the performance of other activities such as enhancing system management capabilities and minimizing contamination threats to drinking water. In fiscal year 1998, the State created the Drinking Water Fund (the ADWF) for this purpose. The staff of the State of Alaska, Department of Environmental Conservation, Division of Water and Division of Environmental Health, serve the program and administrative needs of the ADWF. The State of Alaska is responsible for staff costs, which are paid from the ADWF.

Financial Reporting Entity

These financial statements reflect the activities related to the ADWF, 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 of Alaska Department of Environmental Conservation within the Division of Water and the Division of Environmental Health.

Set-aside amounts, including program administration, program management, capacity development, and wellhead protection, which are administered by the Division of Environmental Health or the Division of Water, are not included in the ADWF'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 ADWF 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 ADWF to fund publicly owned and eligible privately owned wastewater collection, treatment and discharge systems, as defined in the general statement above. Management has evaluated the loans receivable

STATE OF ALASKA  
DEPARTMENT OF ENVIRONMENTAL CONSERVATION  
Alaska Drinking Water Fund  
Notes to Financial Statements

balance, and has determined that the balance is fully collectable. Accordingly, an allowance for doubtful accounts or bad debt expense have not been recorded.

Programmatic Financing Loans

During fiscal year 2020, the ADWF 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 ADWF. 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 ADWF. 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 and other entities 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 technical assistance, source water assessment programs, and 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, ADWF 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.

STATE OF ALASKA  
DEPARTMENT OF ENVIRONMENTAL CONSERVATION  
Alaska Drinking Water Fund  
Notes to Financial Statements

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 ADWF 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.

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 on cash and investments is allocated to the ADWF 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 ADWF'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 ADWF'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

Set-asides

The terms of EPA capitalization grant agreements allow the State to designate up to 31% of the grant for various activities either providing technical assistance, overall program administration, or addressing source water protection and capacity development; referred to as set-asides.



STATE OF ALASKA  
DEPARTMENT OF ENVIRONMENTAL CONSERVATION  
Alaska Drinking Water Fund  
Notes to Financial Statements

Division of Water

Program objectives carried out by the Division of Water include all activities surrounding loan approvals, disbursements and repayments, approval of and disbursements to disadvantaged communities, and set-asides designated for capacity development. These activities are paid for by the fee account, with the exception of capacity development, which is paid for by set-asides.

*Capacity Development*

Set-aside costs for capacity development are accounted for in the State’s General Fund and are not included in these financial statements. Funds are transferred from ADWF to the General Fund in advance and are expended as costs are incurred. Summarized financial data of the capacity development set-aside activity accounted for in the State of Alaska’s General Fund for the year ended June 30, 2022 follows:

	Capacity Development
Grant revenue	\$ 998,010
Expenses:	
Salaries and benefits	\$ 638,594
Services, travel and other	173,266
Indirect	186,150
Total expenses	\$ 998,010
Due from EPA	\$ 216,966

Division of Environmental Health

Program objectives are carried out by the Division of Environmental Health (DEH) through set-asides include Drinking Water program management and administration, technical assistance and protection of drinking water sources.

Set-aside costs for wellhead protection, program management and program administration are accounted for in the State of Alaska’s General Fund and are not included in these financial statements.

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**STATE OF ALASKA**  
**DEPARTMENT OF ENVIRONMENTAL CONSERVATION**  
**Alaska Drinking Water Fund**  
**Notes to Financial Statements**

Summarized financial data of the set-aside activity accounted for in the State of Alaska's General Fund for the year ended June 30, 2022 follows:

	Program Management	Wellhead Protection	Program Administration	Total
Grant revenue	\$ 1,287,903	\$ 698,299	\$ 440,040	\$ 2,426,242
Expenses:				
Salaries and benefits	\$ 982,208	\$ 536,904	\$ 336,784	\$ 1,855,896
Services, travel and other	50,517	21,908	15,760	88,185
Indirect	255,178	139,487	87,496	482,161
Total expenses	\$ 1,287,903	\$ 698,299	\$ 440,040	\$ 2,426,242
Due from EPA	\$ 1,029,011	\$ 257,691	\$ 183,529	\$ 1,470,231

(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 ADWF GeFONSI fund balances as of June 30, 2022 are as follows:

GeFONSI			
Fund 1100	Fund 1231	Fund 3282	Total
\$ 74,789,264	\$ 6,642,195	\$ 493,886	\$ 81,925,345

STATE OF ALASKA  
DEPARTMENT OF ENVIRONMENTAL CONSERVATION  
Alaska Drinking Water Fund  
Notes to Financial Statements

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>.

(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. 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	Ship Creek WTF Comprehensive Improvements	\$ 11,117,061
College Utilities Corp.	Chena-Marian Expansion	2,333,804
Cordova	LT2 Compliance Upgrades	2,106,116
Dillingham	Water System Improvements	600,000
Home Water, LLC	Home Water, LLC - Mead Brook Arsenic Remediation	87,261
Home Water, LLC	Home Water, LLC	37,391
Juneau	Douglas Highway Water System Replacement Phase II	3,238,333
Ketchikan	ADWF Commercial Water Meters	382,328
Midtown Estates	Water Plant and Distribution System Upgrades	30,729
Midtown Estates	Marine Condition Assessment	438
Mile 8 Utilities	SCADA System and Distribution Upgrades	58,036
Nome	Bering Street Water System Replacement	906,740
Palmer	Steel Water Main Replacement	304,034
Private Organization	Alpat Water Utility	383,514
Sitka	DeGroff Street Water Improvements	1,352,100
Sitka	UV Disinfection Facility	412,809
Sitka	Redwood Water Tank	6,839,270
Wrangell	Water Main Replacement	<u>226,710</u>
Total loans currently not in repayment		<u>30,416,674</u>

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

**Notes to Financial Statements**

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 DW	9,500,000
Anchorage	SFY21 AWWU ProFi DW	<u>12,995,591</u>
Total ProFi loans in repayment		<u>22,495,591</u>

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>
Alpat Utility	Hydrant and Keybox Rehabilitation	77,322
Alpat Water Utility	Alternate Water Source Connection	109,006
Alpat Water Utility	Sherwood Estates	180,803
Alpat Water Utility	Treatment Plant Upgrade	192,666
Anchorage	20th & Spenard Water Upgrade	308,000
Anchorage	22nd Avenue Wayne-Illian Water Rehab	1,015,648
Anchorage	41st Cope NorthStar Water Upgrade	807,606
Anchorage	68th Avenue Redhawk Intertie	252,978
Anchorage	68th Pebble Brook Baby Bear Water	105,000
Anchorage	88th Avenue (PZ 411) Water Transmission Main	555,209
Anchorage	347 Zone Conversion	637,500
Anchorage	Arctic 32-36th Water Upgrade	471,042
Anchorage	Arctic HVAC Upgrade	141,482
Anchorage	ARRC Yard 12" Water Rehabilitation	2,019,808
Anchorage	ARRC Yard 16" Water Rehabilitation	2,423,082
Anchorage	Bayshore Subdivision Water Upgrade	2,526,642
Anchorage	Calais Subdivision Water Rehab	1,881,044
Anchorage	Christensen Drive Water Upgrade	540,000
Anchorage	Creekside Water Improvements, Ph. I	1,062,159
Anchorage	Daryl-Industrial Way Water Intertie	189,000
Anchorage	Debarr-Klevin-Hoyt Water Upgrade	400,000
Anchorage	Denali Water Rehab-Northern Lights to Fireweek	1,125,000
Anchorage	Downtown CIPP Water Improvements	636,728
Anchorage	E Bluff Road Water	111,217
Anchorage	East 3rd Avenue, Latouche-Ingra Rehab	612,000
Anchorage	East 43rd Thorne Dale-Piper Water Rehab	1,088,368
Anchorage	Eklutna Water Treatment Facility (EWTF) Upgrade	700,248
Anchorage	Eklutna Water Treatment Facility Plan (Design)	90,000
Anchorage	G Street 6th - 7th Water Main Improvements	226,111
Anchorage	Girdwood Water Improvements, Ph. I, II, III	701,983
Anchorage	Girdwood Water Improvements, Ph. IIB	1,000,000
Anchorage	Hiland Road Water Intertie	3,915,000
Anchorage	Hillcrest Drive Water Rehabilitation	347,689
Anchorage	Hillside Transmission Main	4,275,000
Anchorage	Island-Kodiak-Kalgin Water	256,743
Anchorage	Klatt-New Seward Highway PZ Intertie	184,020
Anchorage	Knik View Water	322,176

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

**Notes to Financial Statements**

<u>Community</u>	<u>Project Name</u>	<u>Balance</u>
Anchorage	Lake Otis 36th-42nd Water Rehab	2,420,778
Anchorage	Loop Water Transmission Main, Phase IV	4,307,153
Anchorage	Miscellaneous Water Projects, 2006	277,312
Anchorage	Norm Newt Drive Water	707,360
Anchorage	North Sitka Water Upgrade	910,000
Anchorage	Northeast Water Improvements	371,643
Anchorage	Northern Lights Wesleyan to Bragaw	2,273,746
Anchorage	Old Glenn Highway Water Extension	631,095
Anchorage	Pine Street Water Upgrade	348,006
Anchorage	Reservoir 3 & 4 Circulation Line	592,203
Anchorage	Reservoir Goldenview-172nd	1,263,995
Anchorage	San Ernesto Water Upgrade	626,887
Anchorage	San Roberto-Klevin to Hoyt Water Rehab	479,391
Anchorage	Sand Lake Area Water, Ph. II	511,965
Anchorage	Sand Lake Water Extension	126,324
Anchorage	SCADA Water (redone)	906,892
Anchorage	SCADA Water II	1,950,000
Anchorage	SCADA Water, Ph. III	1,590,000
Anchorage	Seward Hwy NL Blvd 33rd Water	605,000
Anchorage	Ship Creek Water Treatment Facility Roof	508,834
Anchorage	Ship Creek WTP Upgrade	6,960,000
Anchorage	South Addition Woodstave Upgrades	92,841
Anchorage	South addition, Ph. IV	465,727
Anchorage	South Anchorage Water Extension	1,884,850
Anchorage	Southwest 26 Zone Capacity Improvements	467,982
Anchorage	Sullivan-Ben Boeke Water Upgrade	656,926
Anchorage	Terminal Road Water Rehabilitation	1,485,000
Anchorage	Well 7 Upgrade	799,095
Anchorage	Wesleyan Dr-Checkmate to Queen Water Rehab	2,598,226
Anchorage	West 8th at L Street Upgrades	257,095
Anchorage	Wonder Park Water Upgrades, Ph. II	1,750,000
College Utilities Corp.	Broadmoor Addition Water	135,840
College Utilities Corp.	Sherwood Forest Water Main, Ph. I	261,354
College Utilities Corp.	Sherwood Forest Wtr Main	384,499
College Utilities Corp.	Yak Reservoir Water Main	262,306
Craig	Replace Failing Water Transmission Main	181,434
Craig	Water Distribution System	84,948
Golden Heart Utilities	Hypochlorite Generation System	50,435
Golden Heart Utilities	Illinois Street Reconstruction Project	172,295
Golden Heart Utilities	Peger Lakes/30th Avenue Water Extension	299,186
Golden Heart Utilities	Valve Replacement	213,634
Golden Heart Utilities	Various Downtown Fairbanks Water Pipe	130,899
Golden Heart Utilities	Water Distribution Rehab, Ph. I, Part II	130,976
Golden Heart Utilities	Water Distribution System Improvements	269,996
Golden Heart Utilities	Water Distribution System Rehab., Ph. II	407,418
Golden Heart Utilities	Water System Consolidation	8,312
Golden Heart Utilities	Water Treatment Plant Upgrades	86,034
Golden Heart Utilities	Well 3A Rehabilitation	18,191

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

**Notes to Financial Statements**

<u>Community</u>	<u>Project Name</u>	<u>Balance</u>
Haines	AC Pipe Replacement	42,926
Haines	Crystal Cathedrals Acquisition	157,495
Haines	Piedad Spring Water Source Upgrades	73,371
Haines	Replace Allen Road AC Pipe	180,291
Haines	Small Tracts/Mud Bay/Front AC Pipe Replacement	1,329,504
Homer	Kachemak Drive Water Imp	1,186,695
Homer	Water distribution Improvement, Ph. I	63,549
Homer	Water Service Extensions	572,315
Homer	Water Treatment Plant	2,912,012
Juneau	Eagles Edge Water System Replacement	173,810
Juneau	Last Chance Basin	134,975
Juneau	Water Main Replace-Egan Drive to 10th Street	812,373
Ketchikan	4th & 7th Avenues, Jackson & Monroe	492,092
Ketchikan	Baranof Reservoir Replacement	160,502
Ketchikan	Mill Street Water Main Replacement	535,105
Ketchikan	Tongass Avenue Water Main Replacement, Ph. II	772,067
Ketchikan	Tongass Water Project	1,037,094
Ketchikan	Water Supply Disinfection By-Products	3,648,437
King Cove	Delta Creek Water Development Project	74,568
Kodiak	Aleutian Homes, Ph. IV	375,852
Kodiak	Monashka Pump House Upgrade	1,718,828
Kodiak	PreDesign/Design UV Water Treatment Facility	777,167
McGraham Utilities	Rehabilitation, Upgrade and Compliance Study	28,335
Mile 8 Utilities	Setter Bay Water Improvements	474,582
Nome	East Nome Sewer Replacement II	967,359
Nome	East Nome Water Replacement	479,784
Nome	Water Distribution Rehabilitation/Expansion	191,697
Nome	Water Distribution System	2,133,646
Nome	Water Maintenance/Construction Equipment	171,634
Nome	USDA Loan Refinance (Water)	703,560
North Pole	Stillmeyer Water System Upgrade	100,000
Palmer	Southwest Utility Expansion, Ph. 11B	786,808
Palmer	Southwest Water Main Extension	234,600
Palmer	Steel Water Main Replacement	99,684
Palmer	Water System Improvement	71,556
Petersburg	Snow Bay Water Project	356,218
Petersburg	Water Treatment Plant Upgrades, Ph. III	152,248
Petersburg	Water Treatment Upgrade	506,368
Petersburg	Water Upgrades	438,999
Potter Creek Water Co.	Reservoir Security Update	62,978
Potter Creek Water Co.	Valve Vault Rehabilitation	214,683
Seward	3rd Avenue Water Main	750,129
Sitka	Baranof Street Water Main Replacement	59,507
Sitka	Harbors Water Distribution System	317,437
Sitka	Hollywood Way Water Main Replacement	43,772
Sitka	Japonski Island Water Distribution Main	294,095
Sitka	Jeff Davis Street Water Main Replacement	607,183
Sitka	Monastery & Baranof Sewer to Degroff	223,343

STATE OF ALASKA  
DEPARTMENT OF ENVIRONMENTAL CONSERVATION  
Alaska Drinking Water Fund

Notes to Financial Statements

<u>Community</u>	<u>Project Name</u>	<u>Balance</u>
Sitka	Monastery Street Water Main Rehabilitation	367,077
Sitka	Sawmill Creek Road Water Upgrades	147,707
Sitka	Sawmill Creek Road Waterline Replacement	155,975
Sitka	Temporary Filtration at Indian River	1,954,905
Sitka	UV Disinfection Facility	1,040,000
Sitka	Whitcomb Heights Water Tank	1,109,404
Skagway	Redwood Water Tank	331,951
Skagway	Water Well #4	600,000
Unalaska	Water Treatment Plant Construction	2,691,940
Wrangell	Water Plant Ozone Generator Replacement	<u>46,782</u>
Total non-ARRA loans currently in repayment		<u>109,559,337</u>

Balances outstanding on ARRA loans receivable in the repayment phase at June 30, 2022, consist of the following:

<u>Community</u>	<u>Project Name</u>	<u>Balance</u>
Golden Heart Utilities	23rd Avenue Water Main Replacement	59,494
Ketchikan	Baranof Reservoir Replacement	68,183
Matanuska	Talkeetna Community Water Upgrade	56,401
Sitka	Treated Water Storage Tank-Coating	33,935
Swiss Castle	Rehab and Expansion of Water Treat Plant	<u>3,176</u>
Total ARRA loans currently in repayment		<u>221,189</u>
Total loans currently in repayment		<u>132,276,117</u>
Total loans receivable		162,692,791
Less: current portion		<u>(11,912,665)</u>
Long-term portion		<u>\$ 150,780,126</u>

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STATE OF ALASKA  
DEPARTMENT OF ENVIRONMENTAL CONSERVATION  
Alaska Drinking Water Fund

Notes to Financial Statements

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

Year ending June 30:	<u>Amount</u>
2023	\$ 11,912,665
2024	11,789,730
2025	11,670,851
2026	11,516,297
2027	11,138,055
2028-2043	<u>74,248,519</u>
Total scheduled principal repayments	132,276,117
Loans currently not in repayment	<u>30,416,674</u>
Total loans receivable	<u>\$ 162,692,791</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	Small Tracts/Mud Bay/Front AC Pipe Replacement	\$ 351,848
Nome	Bering Street Water System Replacement	208,515
Private Organization	Alpat Water Utility	107,491
Private Organization	Home Water LLC	37,391
Private Organization	Home Water LLC – Meadow Brook Arsenic Rem.	55,637
Private Organization	Midtown Estates Mainline Condition Assessment	75,000
Private Organization	Midtown Estates Water Utility LLC – Water Plant	21,334
Private Organization	Mile 8 Utilities – SCADA System and Distribution	<u>43,783</u>
Total disadvantaged communities subsidy		<u>\$ 900,999</u>

(6) **EPA Grant**

The ADWF is funded by grants from the EPA and matching funds from the State. The State's required contribution for the non-ARRA grants 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, \$2,200,200 was appropriated for the State's matching share and was funded by revenue anticipation bonds (see Note 8).



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

**Notes to Financial Statements**

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:

Federal Fiscal Year	Project Fund Grant Award	Total Set- Asides	Total Award	Spent to Date	Balance Remaining
2019	\$ 7,312,840	\$ 3,691,160	\$ 11,004,000	\$ 11,004,000	\$ -
2020	7,317,810	3,693,190	11,011,000	10,933,227	77,773
2021	7,310,700	3,690,300	11,001,000	2,257,926	8,743,074
	<u>\$ 21,941,350</u>	<u>\$ 11,074,650</u>	<u>\$ 33,016,000</u>	<u>\$ 24,195,153</u>	<u>\$ 8,820,847</u>

The total set-aside amount, as shown above, is broken down into the following types:

Federal Fiscal Year	Program Administration	Program Management	Capacity Development	Wellhead Protection	Total
2019	\$ 440,160	\$ 1,600,400	\$ 1,100,400	\$ 550,200	\$ 3,691,160
2020	440,440	1,601,100	1,101,100	550,550	3,693,190
2021	440,040	1,600,110	1,100,100	550,050	3,690,300
	<u>\$ 1,320,640</u>	<u>\$ 4,801,610</u>	<u>\$ 3,301,600</u>	<u>\$ 1,650,800</u>	<u>\$ 11,074,650</u>

(7) **Administrative Fees**

Pursuant to Alaska Statute 18 AAC 76.085, the ADWF 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 ADWF 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 Drinking 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, is as follows:

Statement of Net Position

Assets:	
Cash and investments	\$ 7,136,081
Administrative loan fee receivable	619,677
Other current assets	<u>215,888</u>
Total assets	<u>7,971,646</u>
Liabilities:	
Warrants outstanding	<u>9</u>
Total liabilities	<u>9</u>
Net position	<u>\$ 7,971,637</u>

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

Revenue:	
Administrative loan fee income	\$ 792,450
Investment income (loss)	<u>(81,044)</u>
Total revenue	<u>711,406</u>
Expenses:	
Salaries and related costs	(246,141)
Other	<u>(51,721)</u>
Total expenses	<u>(297,862)</u>
Increase in net position	<u>\$ 413,544</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 Drinking Water grant. Debt issuance is an allowable match. Interest and investment income may be used to retire the debt.

In fiscal year 2022, the ADWF issued \$2,200,200 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 ADWF 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 ADWF has entered into binding commitments, as evidenced by signed loan agreements, for which funds remain to be disbursed totaling \$49,408,948.

STATE OF ALASKA  
DEPARTMENT OF ENVIRONMENTAL CONSERVATION  
Alaska Drinking Water Fund  
Notes to Financial Statements

(10) **Contingent Liabilities and Concentrations**

Grant Revenue

The ADWF 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 maybe 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 Event**

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 \$2,202,200. Although this transaction has not yet been finalized, the issuance of the bonds is expected to occur in mid-fiscal year 2023. The borrowing is to be secured by interest earnings of the ADWF.

## ADDITIONAL INFORMATION

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2022

	Assistance Listing Number (ALN)	Grant Number	Program or Award Amount	Amount Expended	Passed Through to Subrecipients
U.S. Environmental Protection Agency:					
<i>Drinking Water State Revolving Fund Cluster</i>					
Capitalization Grants for Drinking Water State Revolving Funds	66.468	FS-98005819	\$ 11,004,000	\$ 5,459	\$ -
Capitalization Grants for Drinking Water State Revolving Funds	66.468	FS-98005820	11,011,000	6,449,647	5,288,780
Capitalization Grants for Drinking Water State Revolving Funds	66.468	FS-98005821	<u>11,001,000</u>	<u>2,257,926</u>	<u>-</u>
<i>Total Drinking Water State Revolving Fund Cluster</i>			<u>\$ 33,016,000</u>	<u>\$ 8,713,032</u>	<u>\$ 5,288,780</u>

See notes to schedule of expenditures of federal awards.

STATE OF ALASKA  
DEPARTMENT OF ENVIRONMENTAL CONSERVATION  
Alaska Drinking 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 Drinking Water Fund (ADWF). 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 in capital contributions in the ADWF's statement of revenues, expenses, and changes in fund net position.

**Basis of Accounting**

The accompanying SEFA 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. The ADWF 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 ADWF:*

Capital Contributions – EPA per statement of revenues, expenses, and changes in fund net position	\$ 5,288,780
<i>Amounts Recorded in State of Alaska General Fund:</i>	
Program management revenues (10% set-aside)	1,287,903
Wellhead protection, capacity development and Program administration (15%/4% set-aside)	<u>2,136,349</u>
Federal expenditures per SEFA	<u>\$ 8,713,032</u>

**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 Drinking Water Fund (the ADWF), 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 ADWF'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 ADWF'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 ADWF's internal control. Accordingly, we do not express an opinion on the effectiveness of the ADWF'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 over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify 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 ADWF'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 ADWF's Response to Finding***

*Government Auditing Standards* requires the auditor to perform limited procedures on the ADWF's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The ADWF's response was not subjected to the other 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



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 the Alaska Drinking Water Fund's (the ADWF), 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 ADWF's major federal program for the year ended June 30, 2022. The ADWF'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 ADWF 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 ADWF 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 ADWF'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 ADWF'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 ADWF'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 ADWF's compliance with the requirements of the 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 ADWF'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 ADWF'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 ADWF'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 Drinking 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?   x   Yes    No
  - Significant deficiencies identified that are not considered to be material weakness(es)?    Yes   x   None Reported

Noncompliance material to financial statements noted?    Yes   x   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   x   None
  - Significant deficiencies identified that are not considered to be material weakness(es)?    Yes   x   None Reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)    Yes   x   No

Major program:

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

Dollar threshold used to distinguish between type A and type B programs: \$   750,000  

Auditee qualified as a low-risk auditee?    Yes   x   No

STATE OF ALASKA  
DEPARTMENT OF ENVIRONMENTAL CONSERVATION  
Alaska Drinking 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 \$447,196 was necessary to increase pre-equivalency revenue, and a further adjustment was necessary in the amount of \$8,941,304 to decrease revenue to qualified equivalency expenditures.

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.

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

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

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

during the year, and at year-end prior to the conclusion of the 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 Drinking 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.

Recommendation:              Auditors recommended 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 Drinking 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