

ALASKA CLEAN WATER FUND

STATE REVOLVING FUND ANNUAL REPORT

FFY18 Grant Allotment State Fiscal Year 2019



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

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Table of Contents

I. INTRODUCTION	3
II. EXECUTIVE SUMMARY.....	3
III. GOALS AND ACCOMPLISHMENTS.....	4
Progress Toward Long Term Program Goals.....	4
Progress Toward Short Term Program Goals.....	7
IV. FUND FINANCIAL STATUS.....	10
Cash Flows.....	10
State Match.....	10
Fees	10
Binding Commitments	10
Administrative Set-Aside (4%) Expenses.....	10
Audit Report.....	11
V. ASSISTANCE ACTIVITIES.....	12
Financial Assistance Activities.....	12
Project Bypasses	12
Additional Subsidization – Disadvantaged Community Assistance	12
VI. OPERATING AGREEMENT AND CAPITALIZATION GRANT CONDITIONS	13
Annual Report and Annual Audit	13
State Match.....	13
Binding Commitments within One Year.....	14
Expeditious and Timely Expenditure.....	14
First Use of Funds for Enforceable Requirements	14
Compliance with Title II Equivalency Requirements.....	14
Disadvantaged Business Enterprise (DBE) Participation.....	14
Other Federal Authorities	15
State Environmental Review Process.....	15
Cash Draw Procedures	15
Disbursement.....	15
American Iron and Steel.....	15
Davis-Bacon Act	16
Reporting.....	16
Federal Funding Accountability Transparency Act (FFATA).....	16
Clean Water Benefit Reporting (CBR)	16
VII. PROGRAM CHANGES.....	17
Loan Application Process: Financial Capacity Assessment	17
Disbursement.....	17
Quarterly Updates to the Project Priority List	18
Training Support.....	18

Exhibits

- EXHIBIT 1: DISBURSEMENT LOG
- EXHIBIT 2: ENVIRONMENTAL BENEFITS SUMMARY
- EXHIBIT 3: LOAN FEE REVENUES AND EXPENDITURES
- EXHIBIT 4: FINANCIAL STATEMENTS

I. INTRODUCTION

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

II. EXECUTIVE SUMMARY

This annual report summarizes the operations of the SRF Program during State Fiscal Year 2019 (SFY19), July 1, 2018 through June 30, 2019. The goals and objectives outlined in the SFY19 Intended Use Plan (IUP) are listed with the progress made toward meeting each goal. This report summarizes the sources (federal grants and state matching funds) and uses (loans and program administration) of the ACWF, and discusses compliance with federal Clean Water State Revolving Fund (CWSRF) requirements.

Alaska's SRF Program was awarded \$9,603,000 in a CWSRF capitalization grant from the U.S. Environmental Protection Agency (EPA) during the reporting period. As required by federal law, the required minimum 20% state match was deposited into the ACWF. Alaska issued 11 new loan agreements providing a total of \$21,741,565 in financial assistance for construction or improvement of wastewater infrastructure, planning, and design. In addition, four existing loan agreements were amended to increase the loan amounts by \$13,340,000. No loans were issued for Section 319 nonpoint source projects during SYF19. The weighted average finance charge on loans during the reporting period was 1.51%.

During SFY19, Alaska disbursed \$40,788,482 million from the ACWF to borrowers for eligible project expenditures. This disbursement amount is the largest in the history of the Alaska SRF Program. This larger than average disbursement amount is due in part to a single disbursement of \$16 million for one project. Repayments to the SRF Program totaled \$16.9 million, including principal, interest and a 0.5% administrative fee.

Major initiatives undertaken during SFY19 include the implementation of a Micro Loan program to provide assistance to small rural communities, and development of a Programmatic Financing option for the SRF Program's largest borrower.

The Alaska SRF Program continues to maintain compliance with federal regulations. The SRF Program has sought out training for staff through a contract with Northbridge Environmental in order to enhance awareness and understanding of the SRF requirements.

III. GOALS AND ACCOMPLISHMENTS

The goals listed below are re-stated from the SFY19 IUP with the SRF Program response regarding accomplishments and progress following.

Progress Toward Long Term Program Goals

Goal 1: Protect public health and the waters of the State by offering financial assistance for the planning, design and construction of eligible projects.

Progress Toward Goal 1: The program continued to provide financing of important public health and water quality projects throughout the state. Alaska executed 11 new loan agreements and four amendments to existing loan agreements in SFY19.

Goal 2: Assist local communities as they strive to achieve and maintain compliance with federal and state water quality standards

Progress Toward Goal 2: The Program continued to provide diverse funding of clean water projects. One of the projects that received a loan agreement this year will improve a wastewater lagoon system that has operated out of compliance with its state administered discharge permit during peak flows. The construction project financed through the SRF Program will enable operation of the wastewater lagoon to comply with permit effluent limits for fecal coliform and dissolved oxygen.

Goal 3: Foster coordination with other programs and agencies to improve assistance to borrowers in their efforts to achieve compliance and improve water quality.

Progress Toward Goal 3: The Micro Loan program, a new SFY19 initiative, provides an example of how the SRF Program is seeking to further coordinate with other programs. Micro Loans provide funding to small, rural Alaska communities, for small projects that would otherwise be challenging to fund through traditional grant programs, or to finance aspects of larger grant funded projects that are ineligible through the grant. The SRF Program is actively collaborating with the Alaska Native Tribal Health Consortium and the State of Alaska Village Safe Water Program to offer these financing solutions.

Goal 4: Promote coordinated efforts by the State and eligible entities to expedite funding of eligible projects.

Progress Toward Goal 4: The SRF Program staff actively work with eligible entities to identify and pursue eligible capital improvement project that are likely to proceed expeditiously. During SFY19, the SRF Program continued a concerted effort to engage partnering programs and agencies in discussions about project eligibility, timing of the annual funding process, appropriateness of the current project scoring criteria, and opportunities to improve coordination to the benefit of borrowers and project timelines. The SRF Program is also coordinating with its largest borrower, Anchorage Water and Wastewater Utility (AWWU), regarding a Programmatic Financing option.

Goal 5: Establish a process for coordinating funding strategies with other lenders such as U.S. Department of Agriculture Rural Development

Progress Toward Goal 5: The SRF Program remains open to opportunities to coordinate funding with other agencies. The project scoring process offers points if a borrower is seeking a SRF loan in conjunction with other state or federal funding. During SFY19, the SRF Program processed a loan application to refinance a Rural Development loan for a wastewater collection system upgrade at a lower interest rate. This refinancing agreement executed early in SFY20 is the first time the Alaska SRF Program has refinanced federal debt. Another community has expressed interest in a similar refinancing agreement.

Goal 6: Develop a long term lending strategy.

Progress Toward Goal 6: As a first step toward a lending strategy, the SRF Program has requested a proposal for developing a financial modeling tool that can be integrated into the existing Loans and Grants Tracking System (LGTS). Financial modeling will serve as the basis for developing long-term strategy and operational planning. The output from this financial model will be used to forecast the financial performance of the ACWF into the future and make well-informed lending decisions. In SFY19, the SRF Program entered into a three year contract with Northbridge Environmental for development of a variety of programmatic initiatives, including implementation of financial modeling.

Goal 7: Expand the borrower pool through an established marketing and outreach plan.

Progress Toward Goal 7: The SRF Program continues to expand its marketing efforts to new and current borrowers and to encourage a wider diversity of project types. As a result of initial discussions about the Micro Loan program in SFY18, several smaller communities submitted project questionnaires for consideration in SFY19. These projects are specific to the infrastructure needs in rural Alaska where collection systems are often housed in aboveground utilidors.

After more progress is made to develop the long term lending strategy (Goal 6), additional effort will be focused on marketing and outreach to the potential borrowers who may most benefit from the support that the SRF Program can offer.

Goal 8: Develop program guidelines to improve the pace of loan projects.

Progress Toward Goal 8: Efforts continued in SFY19 to identify new methods for refining the project scoring process to target shovel-ready projects. As a result of these efforts, the SRF Program initiated a process in SFY19 to update the Project Priority List (PPL) on a quarterly basis rather than on an annual or semi-annual schedule. Using this quarterly scoring and review process is anticipated to provide communities with the flexibility needed to add a project to the funding list when sufficient information is available to move forward with confidence.

Goal 9: Make funds available to borrowers based on estimated future repayments. As needed, consider a more aggressive lending policy to provide sufficient funding to meet the needs of systems statewide.

Progress Toward Goals 9: Alaska continues to determine the amount of available funding based on the amount of the capitalization grant plus two years of anticipated repayments into the ACWF. Moving forward, ADEC anticipates working with Northbridge Environmental in SFY20 on a financial modeling project to determine the possibility of making additional funds available to borrowers.

Goal 10: Utilize ACWF administrative fee account for program administration expenses.

Progress Toward Goal 10: During SFY19, ADEC utilized the ACWF fee account for all administrative expenses. Further, the ACWF fee account was used for administration expenses of the Alaska Drinking Water Fund (ADWF). This practice is expected to continue until the balances of the two fee accounts are brought to relatively equivalent levels.

Goal 11: Utilize Administrative set-aside funds to support technical assistance by the Operator Certification Program.

Progress Toward Goal 11: The Alaska SRF Program has suggested that EPA consider expanding the eligible use of the CWSRF 4% set-aside to allow for technical assistance activities similar to those allowed under the DWSRF set-asides.

Goal 12: Investigate methods for encouraging borrowers to pursue green and sustainable projects.

Progress Toward Goal 12: The criteria for scoring projects includes points for projects that identify a green component. In SFY19, three projects were identified with a Green Project Reserve (GPR) component on the Project Priority List with a total projected GPR amount that exceeded \$2.4 million. All three of these projects are expected to move forward with loan agreements in SFY20.

Goal 13: Investigate methods for making loan funds available for onsite wastewater systems and common collector systems.

Progress Toward Goal 13: The upgrade and replacement of publicly and privately owned decentralized systems is eligible for CWSRF assistance. Privately owned decentralized systems are eligible as nonpoint source projects (as defined in Section 319 of the Clean Water Act) since on-site sewage disposal systems are identified as a pollution source in the Alaska Nonpoint Source Water Pollution Control Strategy (2016-2020). However, Alaska's regulations prohibit lending directly to private homeowners. The SRF Program remains open to the concept of a pass-through loan to provide CWSRF financing to an eligible government entity, which in turn would provide loans or grants to homeowners or other entities.

Goal 14: Consider methods for encouraging borrowers to pursue nonpoint source projects.

Progress Toward Goal 14: The SRF Program continues to discuss nonpoint source projects with borrowers and the Alaska Nonpoint Source Water Pollution Control. One nonpoint source project application was received in SFY19 for a groundwater monitoring well installation project at a landfill. The project is expected to move forward to a completed loan agreement in SFY20.

Goal 15: Establish a Micro Loan program targeted at providing small, subsidized loans to rural communities.

Progress Toward Goal 15: The completed framework for the Micro Loan program includes the establishment of a subsidy matrix based on an affordability model and capacity assessment tool specific to communities eligible for Micro Loans, development of a web page with information about how to apply for Micro Loans, and development of a combined questionnaire/application form that simplifies the administrative process of applying for a loan for smaller communities. Three Micro Loans are currently pending in SFY20 with interest expressed in applying for additional loans.

Goal 16: Ensure full compliance with American Iron and Steel and Davis-Bacon requirements for all SRF loans.

Progress Toward Goal 16: The SRF Program continues to work with borrowers to ensure compliance. Additional guidance materials have been added to the Alaska SRF Program website.

Progress Toward Short Term Program Goals**Goal 1: Provide low interest loans to borrowers for eligible wastewater treatment and nonpoint source pollution projects.**

Progress Toward Goal 1: During SFY19, 11 new loans and four loan amendments were executed. All of these loans were related to wastewater facility and collection system upgrades. One nonpoint source project submitted in SFY19 is expected to move forward with a loan agreement in SFY20.

Goal 2: Develop and distribute guidance materials to current and potential borrowers.

Progress Toward Goal 2: The SRF Program continues to work on updates and revisions to the website. During SFY19, several forms were updated or revised including the certification forms for fiscal sustainability plans and cost effectiveness. A borrower's application checklist has also been developed. In addition, the SRF Program staff initiated work on a borrower's handbook.

Goal 3: Develop and distribute marketing materials to improve outreach to potential borrowers.

Progress Toward Goal 3: An improved SRF Program website design has been identified as a key initial key step to allow potential borrowers to learn more about the loan application process and potential benefits for their community. The SRF Program plans to begin making revisions to

the website in SFY20 to make information resources easier to find and simplify website navigation.

Goal 4: Develop structure and procedures for the Micro Loan program for implementation in SFY20.

Progress Toward Goal 4: As noted under Long Term Goal 15, important accomplishments in standing up the Micro Loan program in SFY19 have included the development of an affordability model specific to Alaskan communities, adding a Micro Loan information website, and development of a combined questionnaire/application for potential Micro Loan projects. Other work underway, and expected to be completed in SFY20 includes the preparation of Micro Loan agreement templates and related documents including funding transfer agreements and cooperative project agreements.

Goal 5: Evaluate subsidy allocation methods.

Progress Toward Goal 5: The SRF Program completed an effort to ensure that the minimum required additional subsidy amount was met for past years. The Program continues to work to ensure that additional subsidy is committed to loan agreements within two years of issuance of each capitalization grant.

Goal 6: Develop an online resource for borrowers about all potential sources of infrastructure financing including Water Infrastructure Finance and Innovation Act (WIFIA) loans.

Progress Toward Goal 6: Completion of this goal will be incorporated into the revision of the website and development of marketing and outreach materials (Short Term Goal 3). Completion of this task is anticipated in SFY20.

Goal 7: Fully implement equivalency to reduce the regulatory burden on the majority of borrowers.

Progress Toward Goal 7: The SRF Program has been coordinating with AWWU in regard to a Programmatic Financing (Pro Fi) option. Historically the largest borrower for the Program, AWWU is interested in entering into financing for a group of capital improvement projects on an annual basis. A draft Pro Fi loan agreement has been provided to AWWU and is currently undergoing review. The Pro Fi loan agreement is anticipated to be used to meet all federal equivalency requirements. Further, the Program has coordinated with the State's Department of Administration, Division of Finance, to clarify the federal reporting requirements for both equivalency and non-equivalency projects to prevent any potential confusion or conflicts regarding single audit requirements.

Goal 8: Initiate enhancement to the online payment request and quarterly report system to improve the user experience and data collection.

Progress Toward Goal 8: The SRF Program has initiated work on a combined disbursement request/progress status report to simplify reporting requirements for borrowers. The combined form was developed in the Online Application System (OASys). The SRF Program is working to introduce this change to borrowers and create a step-by-step instruction guide for OASys users. Completion of this task is anticipated in SFY20.

Goal 9: Develop a method for conducting Financial Capacity Assessments in-house.

Progress Toward Goal 9: The SRF Program created a Local Government Specialist position in SFY19 that will be responsible for completing Financial Capacity Assessments for pending loan agreements. The SRF Program has worked closely with Northbridge Environmental to refine a process for assessing financial capacity assessment and developing recommendations related to financial capacity that can be included as special conditions in loan agreements.

Goal 10: Target shovel-ready projects while improving access for borrowers by accepting project questionnaires year round with quarterly updates to the Project Priority List.

Progress Toward Goal 10: This goal has been met. The SRF Program began accepting questionnaires on a year round basis in SFY19. This process continues in SFY20.

Goal 11: Finalize implementation of loan process improvements identified during the June 2017 Lean Kaizen event.

Progress Toward Goal 11: The SRF Program continues to meet periodically to review the process maps developed in the 2017 Lean Kaizen event and foster a culture of continuous improvement. SRF Program staff are encouraged to work together proactively to achieve incremental enhancements in SRF Program processes from the project application phase through loan repayment. A large number of the remaining improvements identified in the Kaizen event require enhancements to the LGTS database. During SFY20, staff will be working with Northbridge to prioritize and implement those enhancements.

Goal 12: Develop a method for funding emergency projects.

Progress Toward Goal 12: While the Alaska SRF Program does have a mechanism for funding emergency projects, it is very limited in scope and may not be applicable for the most likely emergency situations. More research is planned to identify successful methods that other states have adopted to provide emergency funding.

Goal 13: Develop and distribute Davis Bacon Guidance materials to borrowers.

Progress Toward Goal 13: Significant revisions to the loan agreement templates in SFY19 expanded the description of the Davis-Bacon requirements. The 2017 EPA draft guide for implementing Davis-Bacon wage requirements has been added to the SRF Program website. Additional materials will be added as appropriate.

IV. FUND FINANCIAL STATUS

During SFY19, the net position of the ACWF increased by \$21.8 million. Further details may be found in the Financial Statements provided in Exhibit 5.

Cash Flows

The State of Alaska was awarded \$9,603,000 under the FFY18 capitalization grant. Additionally, a total of \$16.0 million was collected in principal repayments plus interest payments. The fund also received \$3,962,165 in investment income.

State Match

In SFY19, the ACWF issued short-term bonds to acquire the proceeds to match federal grants in the loan program. The net bond proceeds amounted to \$1,920,844 in short-term debt. The debt was retired in one day.

Fees

Per state regulation, an administrative fee of 0.5% is assessed on all disbursed loan funds. The fees collected are used solely for administration of the SRF Program. In SFY19, all ACWF and most ADWF program administration expenses were paid by the ACWF fee account. Program expenditures recorded by the ACWF in SFY19 were \$1,119,484. During this same timeframe, the SRF Program collected \$896,709 in new fees. A summary of loan fee revenues and expenditures can be referenced in Exhibits 4 and 5.

Binding Commitments

As shown in Table 1, the ACWF executed eleven new loans during SFY19 totaling \$21,741,565. In addition, the SRF Program issued \$13,340,000 in amendments to existing loan agreements. The SRF Program also completed 19 de-obligations of loan funds totaling \$14,557,775. The majority of the de-obligations were for completed projects that had not expended the full loan amount.

Administrative Set-Aside (4%) Expenses

The State may use up to 4% of the federal capitalization grant amount to administer the loan program. However, beginning in SFY16, loan fees have been used to pay for most program administration costs. During SFY19, no administrative set-asides were used. Program administration expenses totaling \$1,119,484 were paid with loan fees. In SFY19, Alaska reserved the spending authority for \$384,120 in 4% administrative set-asides.

Table 1. New Assistance Agreements and Changes in Assistance – SFY19						
Amount	Project	Amount	Finance Charge (%)	Needs Category¹	Green Project Reserve	Additional Subsidy (FFY17 grant)
NEW LOANS						
7/3/18	Sitka - 783251-G	\$1,250,000	1.5	III-B	\$562,350	
7/3/18	Sitka - 783291-G	\$311,000	1.5	III-B	\$143,410	
7/11/18	Skagway - 785031	\$1,800,000	1.5	III-B		
7/16/18	Sitka - 783231-G	\$217,400	1.5	III-B	\$143,410	
8/17/18	Petersburg - 685291	\$160,000	1.506	III-B		
1/15/19	Ketchikan - 481151-S	\$1,795,197	1.5	III-B		\$500,000
1/17/19	Ketchikan - 481201	\$1,250,000	1.556	III-B	\$1,250,000	
2/15/19	Petersburg - 685301-S	\$360,000	1.5	III-B		\$72,700
3/14/19	Sitka - 783451	\$1,825,000	1.5	III-B		
5/7/19	Sitka - 783461	\$5,079,500	1.5	IIII-B		
5/17/19	Mat Su Borough - 561131	\$7,693,468	1.506	I		
Subtotal for new loans		\$21,741,565				
AMENDMENTS						
1/22/19	Petersburg - 685271-G	\$480,000	1.5	III-B		
4/15/19	AWWU - 130781	\$7,500,000	1.5	III-B		
4/15/19	AWWU - 130611	\$3,440,000	1.5	III-B		
5/9/19	AWWU - 130571-G	\$1,920,000	1.5	III-B		
Subtotal for amendments		\$13,340,000				
DE-OBLIGATIONS		(\$14,557,775)				
NET ASSISTANCE PROVIDED		\$20,523,790				

*Needs Category: 1 – Secondary Treatment, III-B – Sewer System Replacement / Rehabilitation

Audit Report

The ACWF was audited as a major federal program under the Single Audit Act. The State's Single Audit Report for the fiscal year ending June 30, 2019 will be released in January 2020. The ACWF contracted for an independent audit for SFY19. A draft copy of this audit, which notes no reportable conditions, is attached as Exhibit 5.

V. ASSISTANCE ACTIVITIES

Financial Assistance Activities

Exhibit 1 lists the community served, project number, assistance amount, needs category, loan agreement date, loan finance rate and the amortization period of each loan.

Project Bypasses

During SFY19 there were no formal bypasses. Following the two month period allotted to projects identified on the Priority List, several projects from the Planning List did proceed to loan agreements.

Additional Subsidization – Disadvantaged Community Assistance

The SFY19 capitalization grant requires that at least 10% of the grant be offered in the form of additional subsidy. Based on the \$9,603,000 capitalization grant, the minimum required subsidy is \$960,300.

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 \$600,000 offered per borrower. Five potential point source projects were initially identified in the IUP for subsidy in the form of principal forgiveness. Two of those five projects were withdrawn by the borrower; loan agreements are pending for the other three projects. The remaining amount of additional subsidy was allocated to two additional projects from the SFY19 project list.

The revised SFY19 subsidy allocation plan is provided in the Table 2.

Project	Loan Request	Additional Subsidy	Comment
Nome – 627251, Bering Street Utililies Replacement (Sewer)	\$2,086,937	\$600,000	Loan agreement pending in SFY20
Noorvik- 628002 Utilidor Replacement	\$29,275	\$23,420	Micro Loan agreement pending in SFY20
Savoonga – 785002 Helical Piles	\$37,463	\$29,970	Micro Loan agreement pending in SFY20
King Cove – 487031 Downtown Sewer Upgrade	\$735,000	\$170,000	Loan agreement completed in SFY20. Principal forgiveness for this loan totals \$367,500 with \$170,000 allocated from the SFY19 grant and \$197,500 allocated from the SFY20 grant.
Dillingham – 283081 Landfill Groundwater Monitoring Wells	\$366,897	\$137,610	Loan agreement pending in SFY20
	TOTAL	\$960,300	

VI. OPERATING AGREEMENT AND CAPITALIZATION GRANT CONDITIONS

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

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

Annual Report and Annual Audit

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

State Match

In SFY19, Alaska deposited into the ACWF account an amount that equals at least 20% of the grant payment. Alaska issued short-term bonds to acquire the required match amount proceeds to match federal grants in the base loan program. The net bond proceeds amounted to \$1,920,844 in short-term debt that was retired in one day.

Binding Commitments within One Year

Pursuant to 40 CFR 35.3165, the State must enter binding commitments in amounts greater than or equal to 120% of each quarterly capitalization grant payment within one year of receipt. During SFY19, Alaska executed new loan agreements totaling \$21,741,565 and loan amendments totaling \$13,340,000. The combined new loan agreements and amendments represents a commitment of 365% of the capitalization grant amount. The SRF Program also de-obligated \$14,557,775 in loan funds; therefore, the net binding commitments were \$20,523,790. The net binding commitments represent approximately 214% of the grant amount.

Expeditious and Timely Expenditure

The State disbursed all automated clearinghouse cash draws and associated State match monies in a timely and expeditious manner. Alaska continues to monitor projects to ensure timely initiation of operations.

First Use of Funds for Enforceable Requirements

Alaska has met all first use requirements.

Compliance with Title II Equivalency Requirements

Title VI of the Clean Water Act lists specific Title II requirements which must be met by projects funded by the ACWF in an amount equal to the annual capitalization grant. ADEC must ensure that a project, or projects, for which funding is equal to the federal grant award meet specific federal funding conditions. These projects are considered Equivalency Projects.

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

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

The following completed loan agreements was reported for Federal Funding Accountability and Transparency Act (FFATA) reporting requirements.

Project Number	Recipient	Loan Amount
783461	Sitka	\$5,079,500

Disadvantaged Business Enterprise (DBE) Participation

As a condition of ADEC loan agreements, borrowers are required to encourage participation of small minority- and women-owned businesses in all project subcontracts. The state's CWSRF percentage

goals through September 30, 2019 are 3.67% for Minority Business Enterprises (MBE) and 1.54% for Women Business Enterprises (WBE). Funded projects are required to report their progress on meeting these goals on an annual basis.

Alaska submitted a MBE/WBE fair goal rate proposal on May 31, 2019 identifying the following goals:

MBE: 3.26% WBE: 1.48%

The response from EPA Region 10 on September 3, 2019 indicated that this proposal will be effective from October 1, 2019 through September 30, 2022.

Other Federal Authorities

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

State Environmental Review Process

For all projects funded in SFY19, ADEC reviewed documentation to determine the appropriate environmental action in accordance with the State Environmental Review Process (SERP). Ten of the 11 projects funded with new loan agreements in SFY19 were determined to meet requirements for a categorical exclusion. One project (Matanuska Susitna Borough 561131) required the preparation of an Environmental Assessment. The environmental review process resulted in issuing a Finding of No Significant Impact for this project.

Exhibit 3 presents a summary of the environmental benefits related to the all loans executed during SFY19.

Cash Draw Procedures

During SFY19, disbursements were drawn at a ratio of 83.33% Federal and 16.67% State. This draw ratio agrees with the procedure identified in the SFY19 IUP.

Disbursement

As detailed in Exhibit 2, during SFY19, disbursements totaled \$40.8 million.

American Iron and Steel

In accordance with Section 608 of the Federal Water Pollution Control Act, construction, alteration, maintenance and repair of treatment works requires the use of American-made iron and steel products. All loan agreements for construction projects issued in SFY19 included the American Iron and Steel (AIS) requirements. This requirement applies to the entire project receiving a loan agreement that was fully signed on or after the effective date of January 17, 2014, unless approval of engineering plans and specifications by a State agency was completed prior to the enactment date of October 1, 2014.

Davis-Bacon Act

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

During SFY19, ADEC confirmed, to the best of its ability, that the correct wage determinations were included in the bid specifications and/or construction contracts of SRF financed projects. ADEC also provided assistance recipients with the specific EPA Davis-Bacon contract language that was to be included in bid specifications and/or contracts. In addition, ADEC collected certifications of Davis-Bacon compliance from assistance recipients.

Reporting

Federal Funding Accountability Transparency Act (FFATA)

FFATA information is entered upon completion of the loan agreements for designated equivalency projects.

Clean Water Benefit Reporting (CBR)

Financial and program information is reported through EPA's Clean Water Benefits Reporting (CBR) database. ADEC enters benefits information on all projects into CBR by the end of the quarter in which the assistance agreement is signed.

VII. PROGRAM CHANGES

Loan Application Process: Financial Capacity Assessment

The rate of processing loan agreements in SFY19 improved over the previous year as shown in the table below.

Year	SFY19	SFY18	SFY17	SFY16	SFY15
Annual Number of Loans	11	5	19	11	15

As noted in the SFY18 Annual Report, one factor that impacted the rate of loan processing was an unexpected change in the financial capacity assessment process for loan applicants. ADEC had successfully contracted with a single consultant to provide these services for several years; however, the consultant ended his work on the contract with no advance warning. ADEC determined that due to staffing needs for the SRF and Capacity Development Programs, developing a new position would be the most efficient long term solution to complete financial analysis related tasks including preparation of SRF financial capacity assessments and capacity assessment of new water systems.

During SFY19, a new SRF staff position was created and filled to provide support for the Capacity Development Program and for loan-related financial analyses. Filling the newly created financial analysis position will allow the SRF Program to bring consistency to the financial capacity assessment process.

Disbursement

During SFY19, Alaska disbursed \$40.8 million from the SRF Program for eligible project expenditures. This is the largest amount that Alaska has disbursed in one year. Approximately 40 percent of the disbursement total (\$16 million) was provided as a single disbursement to a large project.

Year	SFY19	SFY18	SFY17	SFY16	SFY15
Disbursement Amount	\$40.8 million	\$3.9 million	\$14.6 million	\$28.8 million	\$23.4 million

The SFY18 Annual Report pointed out the economic recession in Alaska and how that may have impacted the low disbursement amount in SFY18. Although economic forecasts have predicted the end of a three-year statewide recession in Alaska, the post-recession period may be impacted by changes in the state budget to lower the deficit.

Historically, communities receiving grants from the State's Municipal Matching Grant (MMG) Program utilized SRF funds for the required grant match. No new state funding has been budgeted for the MMG Program since SFY16. Communities that may have previously relied on a combination of grants and loans to finance infrastructure improvements are now planning for projects with loan funding only or may defer projects.

Quarterly Updates to the Project Priority List

In SFY19, the SRF Program began accepting project questionnaires on a year-round basis with quarterly review and scoring. This provides communities with the opportunity to submit projects on an ongoing basis as needs are identified throughout the year. The quarterly scoring and review process allows the SRF Program to develop a regular schedule for review and scoring projects.

Training Support

ADEC has a contract in place with Northbridge Environmental to provide programmatic and financial training support to the SRF Program staff. This contract allows for both on-site and online training opportunities for ADEC staff. In December 2018, Northbridge provided SRF 101 training on-site for SRF Program staff in Anchorage. Plans were also finalized for an LGTS user training to take place in SFY20.

Under the same contract, Northbridge Environmental is also providing consultation services for cash flow modeling and for Programmatic Financing as the SRF Program initiates this lending approach with the SRF Program's largest borrower.

EXHIBIT 1

CWSRF - Disbursement Log

Warrant Date - 7/1/2018 through 6/30/2019

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
1/26/2019	3/27/2019	3/27/2019	783121-G	Sitka	179,724.90	0.00	0.00	0.00	179,724.90	0.00	0.00	N
1/28/2019	2/20/2019	2/20/2019	445251 - G	Juneau	3,164,094.94	0.00	0.00	0.00	3,164,094.94	0.00	0.00	N
1/30/2019	2/14/2019	2/15/2019	482021 - S	Ketchikan GB	60,187.71	0.00	0.00	0.00	60,187.71	0.00	12,037.54	N
2/21/2019	3/25/2019	3/26/2019	685271 - G	Petersburg Borough	2,428.75	0.00	0.00	0.00	2,428.75	0.00	0.00	N
3/21/2019	6/13/2019	6/17/2019	561071	Matanuska-Susitna Borough	791,138.58	0.00	0.00	0.00	791,138.58	0.00	0.00	N
3/21/2019	5/13/2019	5/21/2019	561131	Matanuska-Susitna Borough	144,808.57	0.00	0.00	0.00	144,808.57	0.00	0.00	N
3/25/2019	3/26/2019	3/26/2019	791041	Soldotna	170,098.11	0.00	0.00	0.00	170,098.11	0.00	0.00	N
4/8/2019	4/12/2019	4/12/2019	131401	Anchorage Water and	682,146.00	0.00	0.00	0.00	682,146.00	0.00	0.00	N
4/8/2019	4/18/2019	4/18/2019	131481	Anchorage Water and	375,857.73	0.00	0.00	0.00	375,857.73	0.00	0.00	N
4/10/2019	4/12/2019	4/15/2019	503021	Kodiak	178,176.53	0.00	0.00	0.00	178,176.53	0.00	0.00	N
5/17/2019	6/13/2019	6/17/2019	561071	Matanuska-Susitna Borough	9,221.51	0.00	0.00	0.00	9,221.51	0.00	0.00	N
Total (47 Disbursements)					40,788,481.58	17,123,682.73	3,425,558.50	0.00	20,239,240.35	0.00	799,178.90	

EXHIBIT 2

Alaska CW Benefits Summary Report for Projects with Water Uses Reported

All Loans

	Loans		Projects			Borrowers		
	Assistance Dollars (millions)	Loan Count	Assistance Dollars (millions)	Subsidy Dollars (millions)	Project Count	Facility Population (millions)	Facility Flow (MGD)	Borrower Count
Total Records	15.0	11	21.7		11	0.0	0	5
Records with Benefits Data	6.6	7	13.4	5.9	7	0.0	0	5
Impacting Human Health	5.5	5	5.5	2.4	5	0.0	0	4
	83%	71%	41%		71%	3,636	People Served per \$million	80%
With Impaired Waterbody			0.0	0.0	0	0.0	0	0
			0%		0%	0	People Served per \$million	0%
With Waterbody Meeting Standards			2.2	1.0	2			
To Improve Water Quality			7.7	3.4	1			
To Maintain Water Quality			2.5	1.1	3			
To Achieve Compliance			7.7	3.4	1			
To Maintain Compliance			2.5	1.1	3			

EXHIBIT 3 LOAN FEE REVENUES AND EXPENDITURES

Fee Revenues

	SFY01 - SFY07 (FFY00 - FFY06)	SFY15 (FFY14)	SFY16 (FFY15)	SFY17 (FFY16)	SFY18 (FFY17)	SFY19 (FFY18)	Cumulative
Administrative Loan Fee	3,016,449.00	753,895.00	757,084.08	871,959.00	785,039.00	896,709.00	7,081,135.08
Fee Interest	316,729.00	32,154.00	63,377.18	41,318.64	74,421.17	200,344.00	728,343.99
Total Fee Revenue	3,333,178.00	786,049.00	820,461.26	913,277.64	859,460.17	1,097,053.00	7,809,479.07

Program Income ¹

	SFY01 - SFY07 (FFY00 - FFY06)	SFY15 (FFY14)	SFY16 (FFY15)	SFY17 (FFY16)	SFY18 (FFY17)	SFY19 (FFY18)	Cumulative
Calculated Program Income	236,674.50	41,880.00	41,665.00	39,885.00	39,575.00	48,015.00	447,694.50
Less Administrative Expenses	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net Program Income	236,674.50	41,880.00	41,665.00	39,885.00	39,575.00	48,015.00	447,694.50

Cap Grant Year	Cap Grant Amt	Fee (%)	Program Income
SFY01 (FFY00)	4,006,800	0.005	20,034.00
SFY02 (FFY01)	7,941,500	0.005	39,707.50
SFY03 (FFY02)	7,959,400	0.005	39,797.00
SFY04 (FFY03)	7,907,000	0.005	39,535.00
SFY05 (FFY04)	7,911,900	0.005	39,559.50
SFY06 (FFY05)	6,414,400	0.005	32,072.00
SFY07 (FFY06)	5,193,900	0.005	25,969.50
SFY15 (FFY14)	8,376,000	0.005	41,880.00
SFY16 (FFY15)	8,333,000	0.005	41,665.00
SFY17 (FFY16)	7,977,000	0.005	39,885.00
SFY18 (FFY17)	7,915,000	0.005	39,575.00
SFY19 (FFY18)	9,603,000	0.005	48,015.00
TOTAL			399,679.50

Non-Program Income ²

	SFY01 thru SFY07, SFY15 thru SFY19
Total Fee Revenue	7,809,479.07
Less Calculated Program Income	447,694.50
Non-Program Fee Income	7,361,784.57
Administrative Expenses (SFY19)	0.00
Net Non-Program Income	7,361,784.57

¹ Program Income is calculated by multiplying the amount of the capitalization grant award by the fee rate charged (0.5%). Program income is defined at 40 CFR 31.25(b) as "gross income received by the grantee or subgrantee directly generated by a grant supported activity or earned only as a result of the grant agreement during the grant period." Program fees became effective December 29, 2000, and only half of the FFY2000 cap grant could be counted for this calculation. Also, funding years from SFY08 (FFY07) to SFY14 (FFY13) did not include the allowance of program income.

² Non-Program income is administrative loan fee and fee interest less Program Income. Administrative expenses under this calculation only applies to administrative expenses charged to the ACWF Fee Account.

EXHIBIT 4

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

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

Year Ended June 30, 2019

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

Table of Contents

FINANCIAL STATEMENTS

Management’s Discussion and Analysis	i-v
Independent Auditor’s Report	1-3
Statement of Net Position	4
Statement of Revenues, Expenses, and Changes in Fund Net Position	5
Statement of Cash Flows	6
Notes to Financial Statements	7-17

ADDITIONAL INFORMATION

Schedule of Expenditures of Federal Awards	18
Notes to Schedule of Expenditures of Federal Awards	19

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 <i>Government Auditing Standards</i>	20-21
Independent Auditor’s Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance in Accordance with <i>Uniform Guidance</i>	22-23
Schedule of Findings and Questioned Costs	24-25
Summary Schedule of Prior Audit Findings	26

FINANCIAL STATEMENTS

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

Management's Discussion and Analysis

June 30, 2019

This section of the Alaska Clean Water Fund's (ACWF) annual financial report presents our discussion and analysis of the ACWF's financial performance during the State Fiscal Year (SFY) ended on June 30, 2019. Please read it in conjunction with the ACWF's financial statements and accompanying notes.

Program Description

The ACWF provides low interest loans to eligible borrowers throughout the State for financing wastewater infrastructure projects and certain types of solid waste projects. Loans can finance up to 100% of a project's eligible costs for planning, design, and construction of facilities. In addition, loans can be used to meet local match requirements for other federal or state funding sources. Annually, management of the ACWF identifies funding sources, selects projects and distributes loan funds to projects according to approved criteria and federal and state regulations.

Each federal capitalization grant has contained various requirements regarding required subsidy to economically disadvantaged communities. Borrowers that meet the disadvantaged criteria may be offered subsidy as part of the initial loan agreement, loan amendment, or in the form of loan principle forgiveness. Eligibility of subsidy is based on median household income, unemployment rate, the five year population trend, and if the activity is to be carried out in an economically distressed area. Additionally certain federal capitalization grants may also include requirements for Green Project Reserve loans which are made for projects with water efficiency, energy efficiency, green infrastructure, or other environmentally innovative components.

Overview of the Financial Statements

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

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

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

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

Management's Discussion and Analysis

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

Current Fiscal Highlights

- To date the Environmental Protection Agency has granted \$266,766,962 from the base program to the State for the ACWF and expects to receive another \$9,506,000 from the Environmental Protection Agency (EPA) in FFY19 matched by State funds of \$1,901,200.
- State appropriations of \$19,807,300 and bond receipts of \$30,863,725 were secured.
- Loan disbursements for SFY19 of \$40.8 Million were made from the base loan program to communities for ACWF projects, of which \$17.1 Million were made from the EPA Capitalization Grants, \$20.2 Million from 'second cycle' funds (funds that have been repaid by communities), and \$3.4 Million from state match. In addition to disbursements \$0.8 Million of loan principle was forgiven as a form of subsidy.
- Loan repayments for SFY19 (comprised of principal, interest and fees) in the amount of \$17.6 Million were received. In SFY18, repayments totaled \$16.5 Million.
- The Department of Revenue earned investment interest of \$3,962,165 for the ACWF in SFY19, compared to \$1,289,410 earned as investment interest in SFY18.
- Program expenditures recorded by the ACWF in SFY19 were \$1,119,484; in SFY18, program expenditures recorded by the ACWF were \$1,173,321.

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

Management’s Discussion and Analysis

Financial Analysis

The following information presents comparative information for the ACWF.

	<u>SFY19</u>	<u>SFY18</u>
Total Assets	\$318,596,367	\$296,893,455
Total Liabilities	54,526	123,614
Total Net Position	318,541,841	296,769,841
Earnings from Operations	1,488,522	1,162,385
Non-operating Expenses (net)	3,159,411	1,039,908
Capital Contributions	17,124,067	713,013
Change in net Position	21,772,000	2,915,306

- During SFY19 net position increased by \$21.8 million, primarily due to EPA grants and investment income.
- The ACWF’s financial condition continues to remain strong. The ACWF is required by the federal Clean Water Act to “be established, maintained, and credited with repayments, and the fund balance shall be available in perpetuity for providing financial assistance.”
- The federally required annual Intended Use Plan details management’s short and long term goals established to meet this requirement of managing the fund for perpetuity. The goals of management are to continue to maintain the availability of money for meeting future wastewater facility and other water quality management needs as well as protecting the fiscal health of the ACWF. Past Performance Evaluation Reviews conducted by EPA state that management is indeed operating the fund in this manner, and that one of the principal strengths of the ACWF is its “ample financial resources to satisfy loan demand placed on the fund over the foreseeable future.”

Program Highlights

- In SFY19 the ACWF made 11 new loans and 4 increases to existing loans for wastewater improvements projects to 6 different communities. In SFY18, 5 loans to 4 different communities.
- Loan commitments in SFY19 totaled \$21,741,565 in new loans and \$13,340,000 in increases to existing loans; as compared to loan commitments of \$6,776,000 in SFY18.
- Through SFY19 the ACWF has made a total of 251 loans to 35 different communities with a total committed value of \$518,833,962. It is noted that the potential pool of loan recipients is comprised of approximately 35 communities. Therefore, the ACWF has made loans to 100% of all potential borrowers.

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

Management’s Discussion and Analysis

- Finance charges are set at the time of the loan commitment and are dependent on the contract term, but cannot exceed a 30-year amortization period.

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 ACWF program once federal capitalization grants are no longer available.
- Currently, the default rate is 0.05%.

Other Financial Information

The Alaska Department of Environmental Conservation, Water Division, State Revolving Fund Program manages the ACWF. The ACWF loan program is regulated by Title 18, Chapter 76 of the Alaska Administrative Code and is audited annually per EPA issued guidance for the review and audit of state revolving loan funds.

The State Revolving Fund Program has a budget to complete its mission, and the ACWF provides a portion of those funds needed for that budget. Consequently, the ACWF itself does not have a budget, but rather is a funding source for expenditures related to administration of the loan program. In the past, these funds came solely from the allowable 4% administrative set-aside from the federal capitalization grants; however, since around mid-SFY16 ACWF fee account funds have been used for the program’s administrative expenses. The ACWF fee account was created approximately 18 years ago in anticipation of the capitalization grants eventually going away. While the capitalization grants continue to be available, in consideration of the substantial amount of funds built up in the fee account, a decision was made to begin utilizing these funds. In addition to charging ACWF administration costs to the ACWF fee account, eligible administrative costs associated with the Alaska Drinking Water Fund (ADWF) were also charged to the ACWF fee account, as this fund was much larger than the ADWF fee account.

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

Management's Discussion and Analysis

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

The ACWF issues short-term debt to obtain funds for the required State match to the federal capitalization grant. The details of this short term bonding technique are as follows: the department uses as collateral, the interest and investment income of the ACWF to acquire bond receipts and save from the State budget the required 20% match, which for SFY19 was \$1.9 Million in general funds. This process effectively substitutes bond receipts for interest income.

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

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

Contacting the Alaska Clean Water Fund Management

This financial report is designed to provide a general overview of the ACWF finances for all those interested. Questions concerning any of the information provided in this report or request for additional information should be addressed in writing to Carrie Bohan, Facilities Manager, Water Division, Alaska Department of Environmental Conservation at 410 Willoughby Avenue Suite 303, Juneau, Alaska 99801-1800 or by email to carrie.bohan@alaska.gov.



Independent Auditor's Report

State of Alaska
Department of Environmental Conservation,
Division of Water

Report on the Financial Statements

We have audited the accompanying financial statements of the Alaska Clean Water Fund (the ACWF), an enterprise fund of the State of Alaska, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the ACWF's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the ACWF as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

As discussed in Note 1, the financial statements present only the ACWF and do not purport to, and do not, present fairly the financial position of the State of Alaska, as of June 30, 2019, 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.

Other Matters

Prior-Year Comparative Information

We have previously audited the ACWF's 2018 financial statements, and we expressed an unmodified opinion on the respective financial statements in our report dated October 10, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, 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.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2019 on our consideration of the ACWF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the ACWF's internal control over financial reporting and compliance.

Elgee Rehfeld

October 14, 2019

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

**STATEMENT OF NET POSITION
June 30, 2019
(With Comparative Amounts for June 30, 2018)**

	2019	2018
ASSETS:		
Current assets:		
Cash and investments	\$ 129,070,563	\$ 134,413,576
Due from other funds	1,315,054	-
Interest receivable	956,321	887,682
Administrative loan fee receivable	486,099	444,999
Loans receivable, current portion	14,165,266	13,299,529
Total current assets	145,993,303	149,045,786
Loans receivable, net of current portion	172,603,064	147,847,669
Total assets	318,596,367	296,893,455
LIABILITIES-		
Current liabilities:		
Due to other funds	-	25,358
Warrants outstanding	26,490	44,608
Other liabilities	28,036	53,648
Total current liabilities	54,526	123,614
NET POSITION-		
Restricted for Revolving Loan Program	\$ 318,541,841	\$ 296,769,841

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

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

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
Year Ended June 30, 2019
(With Comparative Amounts for the Year Ended June 30, 2018)**

	2019	2018
OPERATING REVENUES:		
Interest income on loans outstanding	\$ 1,711,297	\$ 1,550,667
Administrative loan fee income	896,709	785,039
	2,608,006	2,335,706
OPERATING EXPENSES-		
Program administration:		
Salaries and related costs	924,534	959,934
Other	194,950	213,387
	1,119,484	1,173,321
Earnings from operations	1,488,522	1,162,385
NONOPERATING REVENUES (EXPENSES):		
Investment income	3,962,165	1,289,410
Subsidized loan payments	(799,179)	(246,320)
Bond fees	(3,575)	(3,182)
	3,159,411	1,039,908
Gain before capital contributions	4,647,933	2,202,293
CAPITAL CONTRIBUTIONS-		
Environmental Protection Agency grants	17,124,067	713,013
	17,124,067	713,013
Change in net position	21,772,000	2,915,306
BEGINNING NET POSITION	296,769,841	293,854,535
ENDING NET POSITION	\$ 318,541,841	\$ 296,769,841

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

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

STATEMENT OF CASH FLOWS
Year Ended June 30, 2019
(With Comparative Amounts for the Year Ended June 30, 2018)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Loans funded	\$ (40,682,283)	\$ (3,936,027)
Principal payments received on loans	15,061,150	13,870,523
Interest and fee payments received on loans	2,498,268	2,656,748
Cash paid for operating costs	(1,119,484)	(1,173,321)
Cash received from (paid to) central treasury	(1,384,142)	867,567
Net cash provided by (used for) operating activities	(25,626,491)	12,285,490
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Subsidized loan payments	(799,179)	(246,320)
Proceeds from issuance of revenue anticipation bonds	1,920,844	1,582,758
Principal payment on revenue anticipation bonds	(1,920,844)	(1,582,758)
Cash paid for bond fees	(3,575)	(3,182)
Net cash used for noncapital financing activities	(802,754)	(249,502)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES-		
Environmental Protection Agency grants	17,124,067	713,013
Net cash provided by capital and related financing activities	17,124,067	713,013
CASH FLOWS FROM INVESTING ACTIVITIES-		
Investment income received	3,962,165	1,289,410
Net cash provided by investing activities	3,962,165	1,289,410
Net increase (decrease) in cash and investments	(5,343,013)	14,038,411
Cash and investments, beginning of year	134,413,576	120,375,165
Cash and investments, end of year	\$ 129,070,563	\$ 134,413,576
RECONCILIATION OF EARNINGS FROM OPERATIONS TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:		
Earnings from operations	\$ 1,488,522	\$ 1,162,385
Adjustments to reconcile earnings from operations to net cash used for operating activities:		
Decrease (increase) in operating assets	(27,045,925)	11,118,596
Increase (decrease) in operating liabilities	(69,088)	4,509
Net cash provided by (used for) operating activities	\$ (25,626,491)	\$ 12,285,490

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

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

Notes to Financial Statements

Year Ended June 30, 2019

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

General Statement

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

Financial Reporting Entity

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

The program administration set aside, which is administered by the Division of Water and includes staffing for the ACWF, is not included in the ACWF's basic financial statements. That activity is included in the State of Alaska's General Fund. However, a summary of that activity has been provided in Note 2 to these financial statements.

Basis of Presentation

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

Measurement Focus and Basis of Accounting

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

Loans Receivable

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

STATE OF ALASKA
DEPARTMENT OF ENVIRONMENTAL CONSERVATION
Alaska Clean Water Fund

Notes to Financial Statements

Compensated Absences

The ACWF's obligation for employees' rights to receive compensation for annual leave is recognized as a liability when earned and is based upon an established accrual at each employee's hourly rate of pay. The accrual is adjusted when an employee either uses leave or requests a payment of cash in lieu of actual leave taken. For the year ended June 30, 2019, there was no accrual for compensated absences.

Net Position

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

Operating Revenues

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

Operating Expenses

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

Grant Revenue

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

Grant Revenue - American Recovery and Reinvestment Act (ARRA)

During fiscal year 2009, ACWF received an EPA grant funded by ARRA for which it began incurring expenditures in fiscal year 2010. The purpose of the grant is to award loans which are subsidized by either 90% or 100%. The 100% subsidized loans must meet defined criteria to qualify as a green infrastructure project. Loans that do not meet the criteria for a 100% subsidy are awarded at the 90% subsidy rate. Funds drawn down from this grant are considered earned upon loan distribution and are recorded as capital contributions, and as loan subsidy payment. As of June 30, 2014, the ARRA loans had been fully drawn down, however, as of June 30, 2019 there are still remaining balances due on these loans.

Interest Income

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

STATE OF ALASKA
DEPARTMENT OF ENVIRONMENTAL CONSERVATION
Alaska Clean Water Fund

Notes to Financial Statements

Administrative Fees

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

Investment Income

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

Statement of Cash Flows

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

Use of Estimates

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

Columns for Fiscal Year 2018

The amounts shown for fiscal year 2018 in the accompanying financial statements are presented to provide a basis for comparison with fiscal year 2019 and are not intended to be a complete financial statement in accordance with accounting principles generally accepted in the United States of America.

(2) **Program Activities**

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

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

For the year ended June 30, 2019, ACWF did not receive the 4% set-aside and instead the funds were used for loans. The ACWF reserved the right to take this same amount from a future loan for program administration. As of June 30, 2019 the ACWF has \$1,199,920 in previously available set-aside funds that they have reserved the right to access as part of a future grant (banked balances).

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

Notes to Financial Statements

(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 Comprehensive Annual Financial Report (CAFR) 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 and GeFONSI investment income 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.

	Fund 1075	Fund 1230	Fund 3280	Total
GeFONSI	\$ 122,002,621	\$ 6,109,127	\$ 958,815	\$ 129,070,563

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. All twenty-year loans bear interest at a rate of 1.5% per annum, of which 0.5% corresponds to administrative fees.

Balances outstanding on non-ARRA loans which are not yet in the repayment phase as of June 30, 2019, consist of the following:

<u>Community</u>	<u>Project Name</u>	<u>Balance</u>
Anchorage	PS 30/31 Force Main & Facility Upgrades	\$ 1,760,000
Anchorage	2 nd Avenue Post Road Sewer Rehabilitation	469,600
Anchorage	7 th -9 th Ave. 1 st -LM Alley Sewer Upgrades	698,486
Anchorage	Asplund Grit Facility Improvements	560,000
Anchorage	Asplund Wastewater Treatment Facility Improvements	1,031,762
Anchorage	Asplund WWT Facility Screen Auto, Headworks	1,299,919
Anchorage	Eagle River WWT Facility Rehab	11,476,383

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

Notes to Financial Statements

<u>Community</u>	<u>Project Name</u>	<u>Balance</u>
Anchorage	Blueberry Sewer Rehabilitation	1,176,000
Juneau	Biosolids Treatment Project	19,164,095
Ketchikan	South Tongass Wastewater Main-Shoup to Forest Park	72,778
Kodiak	WWTP Phase 1 Condition & Process Assessment- Design	178,177
Matanuska-Susitna	Mat-Su Septage & Leachate Treatment Facility	131,947
Matanuska	Central Landfill Cell 4 Design and Construction	4,634,804
Matanuska	Talkeetna Wastewater Treatment Upgrade	144,809
Nome	Sewer Maintenance Construction	376,078
Nome	East Nome Sewer Replacement, Phase II	1,830,200
North Pole	Wastewater Effluent Discharge PH 1- Design Only	64, 838
Petersburg	Scow Bay 1 Pump Station	52,685
Petersburg	Kisena Street Sewer Replacement	15,710
Sitka	Channel, Lake and Monastery Lift Station Upgrades	1,782,436
Sitka	DeGroff Street Sewer Improvements	971,316
Skagway	State Street Sanitary Sewer Upgrades	36,606
Soldotna	WWTP Improvements	<u>2,223,367</u>
Total non-ARRA loans not in repayment		<u>50,151,996</u>

Balances outstanding on non-ARRA loans which are in the repayment phase at June 30, 2019, consist of the following:

<u>Community</u>	<u>Project Name</u>	<u>Balance</u>
Anchorage	Miscellaneous Projects	355,693
Anchorage	FY97 Miscellaneous Projects	1,012,500
Anchorage	Equipment Wastewater 1998	16,570
Anchorage	Chester Creek Sewer Truck Study	60,025
Anchorage	Facility Replacement and Rehabilitation project, 1998	630,587
Anchorage	Operations Facilities, Phase II	227,041
Anchorage	Regional Landfill/Cell 6	448,030
Anchorage	FY99 Miscellaneous Small Sewer R&R, Phase I	241,903
Anchorage	C-3-7 Trunk Sewer	972,165
Anchorage	Asplund Wastewater Treatment Facility Solids Handling	644,935
Anchorage	Operations Facilities, Phase III	809,249
Anchorage	Septic System Site Upgrade	99,818
Anchorage	Old Glenn Highway Sewer Interceptor	1,200,000
Anchorage	B-4AB Sewer Truck Upgrade	472,208
Anchorage	SCADA Sewer	5,920,138
Anchorage	Asplund WWTF Process Improvements	1,393,714
Anchorage	Cell 7 Construction	2,109,626
Anchorage	Cell 7 Design	111,178
Anchorage	Asplund WW Treatment	1,575,000
Anchorage	Regional Landfill Cell 11 and 12	5,218,333
Anchorage	Asplund WWTF Process Improvements	4,000,000
Anchorage	C(F) Turnagain Int. 30" Sewer	4,186
Anchorage	C-2 (A, B) Sewer Improvements	934,997
Anchorage	C-5-A King Rovena Sewer Upgrade	887,221
Anchorage	C-5-1 North Campbell Lake Sewer Design	517,983

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

Notes to Financial Statements

<u>Community</u>	<u>Project Name</u>	<u>Balance</u>
Anchorage	Eagle River WWTF Gravity Thickener	100,985
Anchorage	Girdwood WWTF Improvements Design	8,084,210
Anchorage	San Ernesto Sewer Upgrade	222,200
Anchorage	Septage Improvements, Phase II	990,000
Anchorage	Partial Landfill Closure	2,090,691
Anchorage	Asplund WWTF Building Improvements	1,215,450
Anchorage	Regional Landfill Cell 8/Segment 10	2,082,054
Anchorage	West 71st Avenue Sewer Rehab	240,000
Anchorage	Pump Station Upgrades	2,287,940
Anchorage	Sand Lake Sewer Extension	360,000
Anchorage	Asplund Generator Upgrade	3,578,023
Anchorage	Minnesota-Benson Sewer Upgrade	197,813
Anchorage	Arctic 32 nd -36 th Sewer Upgrades	218,637
Anchorage	Asplund Disinfection Study and Upgrade	6,097,759
Anchorage	Pump Station 10 Upgrades	1,805,769
Anchorage	Cope-Dorbrant Sewer Upgrade	556,648
Anchorage	Douglas Street Sewer Upgrade	52,650
Anchorage	Eagle River WWTF Improvements	2,411,163
Anchorage	Downtown Sewer Upgrade	154,000
Anchorage	Benson Dawson-Cheechako Sewer Upgrade	246,333
Anchorage	Wonder Park Sewer Upgrade	1,275,000
Anchorage	Iris Way Sewer Upgrade	224,597
Anchorage	Downtown Pipe Replacement	354,640
Anchorage	Rovenna Pipe Replacement Upgrade	533,482
Anchorage	Eagle River WW Facility Clarifier Upgrade	866,158
Anchorage	Chester Creek (b-5, b-6) Sewer Upgrades	252,000
Anchorage	HVAC Control System King Street	154,057
Anchorage	Sand Lake Area Sewer, Phase II	105,000
Anchorage	Fish Creek Interceptor	2,768,912
Bristol Bay Borough	King Salmon Sewer, Phase II	48,173
Bristol Bay Borough	King Salmon Sewer, Phase III & IIIB	187,741
Cordova	Wastewater Treatment Plant Upgrades, Phase II	1,045,000
Craig	Wastewater Improvements	57,079
Fairbanks	Wastewater Plant Disinfection System Improvements	389,785
Fairbanks	WWTP Clarifier Rehabilitation	519,336
Fairbanks	Sludge Dewatering Facility	3,083,733
Fairbanks North Star	Wastewater Plant Disinfection Process	3,847,473
Fairbanks	Solid Waste Landfill Partial	1,185,153
Haines Borough	Crystal Cathedrals Acquisition	80,660
Homer	Sewer Service Extensions	853,801
Homer	Kachemak Drive Sewer Main Phase III	192,898
Homer	Sewer Service Extension 11	815,152
Homer	Lilian Walli Subdivision/Eric Lane Sewer Extension	181,379
Homer	Kachemak Drive Sewer	942,977
Juneau	Auke Bay Wastewater Treatment Plant	32,790
Juneau	Valley Court Sewer Systems Upgrade	80,000
Juneau	J-D Treatment Disinfection Plant	336,000

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

Notes to Financial Statements

<u>Community</u>	<u>Project Name</u>	<u>Balance</u>
Juneau	Mendenhall Treatment Plant Improvements	458,250
Juneau	20" Sewer Force Main Upgrade Project	516,422
Juneau	Mendenhall Treatment Plant Improvements, Phase II	388,345
Juneau	Bayview Sewer System Improvements	630,412
Juneau	North Douglas Sewer Expansion	577,500
Juneau	Twin Lakes Lift Station	423,618
Juneau	West Mendenhall Valley Sewer Expansion	902,621
Ketchikan	Wastewater Collection System Improvements	617,355
Ketchikan	Tongass Avenue Sewer replacement, Phase II	239,818
Ketchikan	4th and 7th Avenues, Jackson and Monroe	537,683
Ketchikan	Ketchikan Alaska Avenue Sewer Upgrade	232,870
Ketchikan	Front & Stedman Street Sewer Force Main Rehab	315,494
Kodiak	Downtown Comprehensive Sewer	193,810
Kodiak	Aleutian Homes Phase IV	586,599
Kodiak	Compost Facility	1,615,144
Kodiak	Boat Yard, St. Herman Harbor	511,500
Kodiak	Landfill Design and Construction	11,481,221
Kodiak	Lateral Landfill Expansion, Phase III	2,099,624
Kodiak Is. Borough	Vertical Expansion Leachate Control	1,200,000
Matanuska-Susitna	Salted Sand Storage Building	143,635
Matanuska-Susitna	Landfill Expansion Project	484,603
Matanuska-Susitna	Landfill Phase III Water Quality	2,180,728
Matanuska-Susitna	Regional Resource Recovery and Training Facility	595,127
Matanuska-Susitna	Central Landfill Cell 2A Closure	2,055,921
Nenana	Phase I Sewer Extension	107,597
Nome	Cell 2 Landfill Development Project	164,863
Nome	Sewer Replacement/Expansion, Phase IV	147,475
Nome	East Nome Sewer Replacement	1,198,264
North Pole	Utility Emergency Response Generators	208,590
North Pole	Infiltration and Inflow Reduction	451,021
Palmer	Southeast Sanitary Sewer Interceptor	739,213
Petersburg	Scow Bay sewer extension	222,720
Petersburg	Sewer Upgrades	449,923
Petersburg	Pump Station 5 Upgrades	574,270
Petersburg	Pump Station 1 Force Main	620,978
Seward	Lowell Point Lagoon Sludge Removal & Renovation	535,833
Seward	Lowell Point Lagoon Sludge Removal & Renovation	544,770
Sitka	I & I Project	531,084
Sitka	WWT Solids Lime Treatment	495,948
Sitka	Kimsham Landfill Closure	1,157,975
Sitka	Baranof Street Sewer Replacement	392,596
Sitka	Sawmill Creek Sewer, Phase II	623,299
Sitka	Crescent Lift Station Replacement	461,718
Sitka	Halibut Pt. Rd/Sawmill Creek Sewer Replacement	176,914
Sitka	Japonski Island Sewer Lift Station Upgrades	1,093,503
Sitka	Monastery Street Sewer Main Replacement	374,885
Sitka	Monastery and Baranof Sewer to Degroff	284,590
Sitka	Hollywood Way and New Archangel Street Sewer	193,140

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

Notes to Financial Statements

<u>Community</u>	<u>Project Name</u>	<u>Balance</u>
Unalaska	WWTP Upgrade	7,281,610
Unalaska	Landfill Phase II Expansion	4,321,935
Valdez	WWTP Outfall Line	<u>519,543</u>
Total non-ARRA loans currently in repayment		<u>136,130,958</u>

Balances outstanding on ARRA loans which are in the repayment phase as of June 30, 2019, consist of the following:

<u>Community</u>	<u>Project Name</u>	<u>Balance</u>
Ketchikan	ARRA- Tongass Ave Sewer Replacement, Ph. II	232,905
North Pole	Sewer Lift Station	832
Sitka	ARRA- Sawmill Creek Rd Sewer Upgrade, Ph. III	111,516
Skagway	ARRA- Wastewater Treatment Plant MBR Upgrade	<u>140,123</u>
Total ARRA loans currently in repayment		<u>485,376</u>
Total loans currently in repayment		<u>136,616,334</u>
Total loans receivable		186,768,330
Less current portion		<u>(14,165,266)</u>
Long-term portion		<u>\$ 172,603,064</u>

Annual scheduled principal repayments for those loans in repayment at June 30, 2019, are as follows:

Year ending June 30:

	<u>Amount</u>
2020	\$ 14,165,266
2021	13,465,569
2022	10,925,590
2023	10,521,296
2024	9,961,462
2025-2038	<u>77,577,151</u>
Total scheduled principal repayments	136,616,334
Loans currently not in repayment	<u>50,151,996</u>
Total loans receivable	<u>\$186,768,330</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, 2019.

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

Notes to Financial Statements

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>
Homer	Kachemak Drive Sewer Main Ph III	\$ 221,315
Ketchikan	Front & Stedman Street Sewer Force Main Rehab	515,085
Ketchikan	South Tongass Wastewater Main-Shoup to Forest Park	18,194
Seward	Lowell Point Lagoon Sludge Removal & Renovation	<u>44,585</u>
Total disadvantaged communities subsidy		<u>\$ 799,179</u>

(6) **EPA Grant**

The ACWF is funded by grants from the EPA and matching funds from the State. The State's required contribution is based on a statutorily-determined percentage (20%) of the EPA grant award and is funded by a State General Fund appropriation made at the beginning of each State fiscal year. During fiscal year 2019, \$1,920,844 was appropriated for the State's matching share and was funded by revenue anticipation bonds (see Note 8).

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

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

<u>Federal Fiscal Year</u>	<u>Project Fund Grant Award</u>	<u>Spent in Fiscal 2019</u>	<u>Spent to Date</u>	<u>Balance Remaining</u>
2017	\$ 7,977,000	\$ 319,080	\$ 7,977,000	\$ -
2018	7,915,000	7,201,987	7,915,000	-
2019	<u>9,603,000</u>	<u>9,603,000</u>	<u>9,603,000</u>	-
	<u>\$ 25,495,000</u>	<u>\$ 17,124,067</u>	<u>\$ 25,495,000</u>	<u>\$ -</u>

(7) **Administrative Fees**

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

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

Notes to Financial Statements

Summarized audited financial data of the administrative fee account as of and for the year ended June 30, 2019, follows:

Statement of Net Position

Assets:	
Cash and investments	\$ 7,067,942
Administrative loan fee receivable	<u>486,099</u>
Total assets	<u>7,544,041</u>
Liabilities:	
Warrants outstanding	26,490
Other liabilities	<u>28,036</u>
Total liabilities	<u>54,526</u>
Net position	<u>\$ 7,489,515</u>

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

Revenues:	
Administrative loan fees	\$ 896,709
Investment income	<u>200,344</u>
Total revenue	<u>1,097,053</u>
Expenses:	
Salaries and related costs	(924,534)
Other	<u>(194,950)</u>
Total expenses	<u>(1,119,484)</u>
Decrease in net position	<u>\$ (22,431)</u>

(8) **Bond Issuance**

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

In fiscal year 2019, the ACWF issued \$1,920,844 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, 2019, the ACWF is committed to funding loans for which they have entered into agreements for communities but funds have not yet been disbursed. The total amounts to be disbursed under these agreements are uncertain as not all of the loans are expected to be fully drawn and some loans may increase with changes in scope of the underlying projects; accordingly, they are not included in these financial statements. As of June 30, 2019, the ACWF has entered into binding commitments, as evidenced by signed loan agreements, for which funds remain to be disbursed totaling \$91,819,074.

STATE OF ALASKA
DEPARTMENT OF ENVIRONMENTAL CONSERVATION
Alaska Clean Water Fund

Notes to Financial Statements

(10) **Contingent Liabilities and Concentrations**

Grant Revenue

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

(11) **Subsequent Events**

Bond Issuance

Pursuant to legislative authorization obtained during the 2019 session of the Alaska legislature, plans are in place to issue Series A Revenue Bond Anticipation Notes for fiscal year 2020 in an amount not to exceed \$3,094,000. Although this transaction has not yet been finalized, the issuance of the bonds will occur in mid-fiscal year 2020. The borrowing is to be secured by interest earnings of the ACWF.

ADDITIONAL INFORMATION

STATE OF ALASKA
DEPARTMENT OF ENVIRONMENTAL CONSERVATION
Alaska Clean Water Fund
(an Enterprise Fund of the State of Alaska)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2019

	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Program or Award Amount</u>	<u>Amount Expended</u>	<u>Passed Through to Subrecipients</u>
U.S. Environmental Protection Agency: <i>Capitalization Grants for Clean Water State Revolving Funds</i>	66.458	CS-02000116	\$ 7,977,000	\$ 319,080	\$ 319,080
<i>Capitalization Grants for Clean Water State Revolving Funds</i>	66.458	CS-02000117	7,915,000	7,201,987	7,201,987
<i>Capitalization Grants for Clean Water State Revolving Funds</i>	66.458	CS-02000118	<u>9,603,000</u>	<u>9,603,000</u>	<u>9,603,000</u>
			<u>\$ 25,495,000</u>	<u>\$ 17,124,067</u>	<u>\$ 17,124,067</u>

See notes to schedule of expenditures of federal awards.

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

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2019

General

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

Basis of Accounting

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

FEDERAL SINGLE AUDIT REPORTS



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

State of Alaska
Department of Environmental Conservation,
Division of Water

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Alaska Clean Water Fund (the ACWF), an enterprise fund of the State of Alaska, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the ACWF's basic financial statements, and have issued our report thereon dated October 14, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the ACWF's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the ACWF's internal control. Accordingly, we do not express an opinion on the effectiveness of the ACWF's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the ACWF's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Elgee Rehfeld

October 14, 2019



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

State of Alaska
Department of Environmental Conservation,
Division of Water

Report on Compliance for Each Major Federal Program

We have audited the Alaska Clean Water Fund (the ACWF), an enterprise fund of the State of Alaska, compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the ACWF's major federal program for the year ended June 30, 2019. The ACWF's major federal program is identified in the summary of audit results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the ACWF complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2019.

Report on Internal Control over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Elgee Rehfeld

October 14, 2019

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2019

SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes x 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 program: Unmodified

Internal control over major 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>CFDA #</u>	<u>NAME</u>
66.458	U.S. Environmental Protection Agency, Capitalization Grants for Clean Water State Revolving Fund

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

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

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2019

FINDINGS – FINANCIAL STATEMENT AUDIT

No findings reported for 2019.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS PROGRAM AUDIT

No findings reported for 2019.

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

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2019

FINDINGS - FINANCIAL STATEMENTS AUDIT

No findings reported for 2018.

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

No findings reported for 2018.