



**Department of Environmental Conservation
Division of Water**

**Request for Proposals (RFP)
18-523-23**

Addendum One

**Independent Audit of the Alaska Clean Water Fund and Alaska
Drinking Water Fund**

Date of Issue: June 1, 2023

The RFP Package is hereby clarified or changed as follows:

1. Submittal deadline has been changed to and must be received no later than **1:00 PM** prevailing Alaska Time on **June 9, 2023**.
2. Questions and Answers
3. Attachments: Four (4)

The questions and answers begin on page two. This Addendum is hereby made part of the RFP and is a total of three pages.

All other terms and conditions for this RFP remain unchanged.

Issued by: Guillermo Castillo
Procurement Specialist III
Email: decprocurement@alaska.gov

Questions and Answers

Question 1:

What is the reason for going through the RFP process?

Answer 1:

The Department of Environmental Conservation (DEC), Division of Water, is choosing to use a value-based process and not a price-based process. With the price-based process, the state would issue an award to the lowest responsive and responsible offeror that meets the minimal stated technical requirements. With the value-based process, the state would issue an award to the offeror that provides the best value solution considering cost and other technical and non-technical factors.

Question 2:

Is the prior auditor invited to bid, or are you required to rotate auditors this year?

Answer 2:

The prior auditor can submit a proposal.

Question 3:

As you are aware, the preparation of a proposal takes significant time. While we are very interested in performing this work, before putting in the effort for the proposal preparation, we would like to understand if we will be able to be competitive in our pricing or not. As such, can you provide the prior year's audit fee?

Answer 3:

\$49,563.00 was paid to the predecessor for the previous year's audit.

Question 4:

Were there any additional audit fees billed last year pertaining to services provided outside the scope of the services listed in the RFP? If so, can you provide a list of services and additional fees pertaining to those services?

Answer 4:

No additional fees were billed.

Question 5:

If the proposal is higher than the budgeted total amount of \$50,000 - \$75,000, will it be rejected?

Answer 5:

The annual budget is estimated as stated in section 1.02 (pg. 3) of the RFP. A cost proposal with a total annual budget higher than \$75,000 will not be rejected.

Question 6:

Please provide a copy of the previous year's audit reports for the ACWF and ADWF.

Answer 6:

See attached: AK DEC ACWF/ADWF FS

Question 7:

Were there any prior year management comments?

Answer 7:

See attached: AK DEC ACWF / ADWF Letter to Commissioner

Question 8:

Were there any significant adjustments made as a result of the audit? Were there any passed adjustments?

Answer 8:

See attached: AK DEC ACWF/ADWF FS

Question 9:

Were there any client-prepared adjustments given to the auditors after the year-end fieldwork started? If so, how many?

Answer 9:

Two to four immaterial adjustments were made due to the timing of year-end and fieldwork.

Question 10:

Were there any difficulties encountered in completing the previous audit? Were there any disagreements over any technical issues with the predecessor auditor?

Answer 10:

See attached: AK DEC ACWF / ADWF Letter to Commissioner

Question 11:

Has DEC considered and/or started the implementation of GASB 96 Subscription-Based Information Technology Agreements as it relates to these funds?

Answer 11:

No, not in reference to these funds.

Question 12:

Has there been any turnover in key management or staff positions, or is any such turnover anticipated?

Answer 12:

Yes, there has been a significant turnover among the accounting staff in the last year, including the lead accountant position. No additional turnover is anticipated.

Question 13:

Are any new significant matters, new debt issues, legal matters, etc., anticipated?

Answer 13:

The addition of the Infrastructure Investment and Jobs Act (IIJA) is expected to increase the amount available for grants, loans, and set-asides over the next five years.

Question 14:

This RFP is for SFY2023 only. What are the terms of the extension of the contract?

Answer 14:

Please review the first sentence in Section 3.02 of the RFP (pg. 9).

Offerors must acknowledge receipt of this addendum prior to the submittal deadline.

The proposal documents require acknowledgment individually of all addenda to the drawings and/or specifications. This is a **mandatory requirement**, and any proposal received without acknowledgment of receipt of addenda may be classified as not being a responsive proposal.

End of Addendum

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

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

Year Ended June 30, 2022

STATE OF ALASKA
DEPARTMENT OF ENVIRONMENTAL CONSERVATION
Alaska Clean Water Fund

Table of Contents
Year Ended June 30, 2022

FINANCIAL STATEMENTS

Management's Discussion and Analysis	i-v
Independent Auditor's Report	1
Statement of Net Position	5
Statement of Revenues, Expenses, and Changes in Fund Net Position	6
Statement of Cash Flows	7
Notes to Financial Statements	8

ADDITIONAL INFORMATION

Schedule of Expenditures of Federal Awards	20
Notes to Schedule of Expenditures of Federal Awards	21

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>	22
Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance in Accordance With The <i>Uniform Guidance</i>	24
Schedule of Findings and Questioned Costs	27
Summary Schedule of Prior Audit Findings	30
Corrective Action Plan	31

FINANCIAL STATEMENTS

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

Management's Discussion and Analysis

June 30, 2022

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

Program Description

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

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

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

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

Overview of the Financial Statements

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

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

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

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

Current Fiscal Highlights

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

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

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

Financial Analysis

The following information presents comparative information for the ACWF.

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

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

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

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

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

Program Highlights

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

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

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

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

Other Financial Information

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

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

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

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

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

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

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

Contacting the Alaska Clean Water Fund Management

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



Elgee Rehfeld Alaska's CPA Firm

Founders: George Elgee, CPA & Robert Rehfeld, CPA

Partners

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

INDEPENDENT AUDITOR'S REPORT

State of Alaska
Department of Environmental Conservation,
Division of Water

Report on the Audit of the Financial Statements

Opinion

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the ACWF, as of June 30, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the ACWF and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibility of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the ACWF's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the ACWF's ability to continue as a going concern for a reasonable period of time.

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

Other Matters

Prior-Year Comparative Information

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i-v be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

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

Other Information Included in the Annual Report

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

Other Reporting Required by *Government Auditing Standards*

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

Elgee Rehfeld

November 10, 2022

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

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

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

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

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

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

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

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

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

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

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

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

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

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

General Statement

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

Financial Reporting Entity

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

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

Basis of Presentation

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

Measurement Focus and Basis of Accounting

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

Loans Receivable

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

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

Notes to Financial Statements

Programmatic Financing Loans

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

Net Position

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

Operating Revenues

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

Operating Expenses

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

Grant Revenue

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

Grant Revenue - American Recovery and Reinvestment Act (ARRA)

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

Interest Income

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

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

Administrative Fees

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

Investment Income (Loss)

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

Statement of Cash Flows

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

Use of Estimates

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

Columns for Fiscal Year 2021

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

(2) Program Activities

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

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

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

STATE OF ALASKA
DEPARTMENT OF ENVIRONMENTAL CONSERVATION
Alaska Clean Water Fund

Notes to Financial Statements

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

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

(3) **Cash and Investments**

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

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

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

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

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

STATE OF ALASKA
DEPARTMENT OF ENVIRONMENTAL CONSERVATION
Alaska Clean Water Fund

Notes to Financial Statements

(4) **Loans Receivable**

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

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

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

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

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

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

Notes to Financial Statements

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

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

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

Notes to Financial Statements

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

STATE OF ALASKA
DEPARTMENT OF ENVIRONMENTAL CONSERVATION
Alaska Clean Water Fund

Notes to Financial Statements

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

This space intentionally left blank.

STATE OF ALASKA
DEPARTMENT OF ENVIRONMENTAL CONSERVATION
Alaska Clean Water Fund

Notes to Financial Statements

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

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

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

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

(5) **Subsidized Loan Payments**

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

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

Disadvantaged Communities:

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

STATE OF ALASKA
DEPARTMENT OF ENVIRONMENTAL CONSERVATION
Alaska Clean Water Fund

Notes to Financial Statements

(6) **EPA Grant**

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

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

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

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

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

(7) **Administrative Fees**

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

This space intentionally left blank.

STATE OF ALASKA
DEPARTMENT OF ENVIRONMENTAL CONSERVATION
Alaska Clean Water Fund

Notes to Financial Statements

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

Statement of Net Position

Assets:

Cash and investments	\$ 6,402,435
Administrative loan fee receivable	836,654
Other current assets	<u>10,674</u>
Total assets	<u>7,249,763</u>

Liabilities:

Warrants outstanding	<u>15,803</u>
Total liabilities	<u>15,803</u>

Net position	<u>\$ 7,233,960</u>
--------------	---------------------

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

Revenues:

Administrative loan fee income (loss)	\$ 990,208
Investment income (loss)	<u>(71,492)</u>
Total revenue	<u>918,716</u>

Expenses:

Salaries and related costs	(556,545)
Other	<u>(135,485)</u>
Total expenses	<u>(692,030)</u>

Increase in net position	<u>\$ 226,686</u>
--------------------------	-------------------

(8) **Bond Issuance**

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

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

(9) **Commitments**

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

STATE OF ALASKA
DEPARTMENT OF ENVIRONMENTAL CONSERVATION
Alaska Clean Water Fund

Notes to Financial Statements

(10) **Contingent Liabilities and Concentrations**

Grant Revenue

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

(11) **Subsequent Events**

Bond Issuance

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

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

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

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

ADDITIONAL INFORMATION

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

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

See notes to schedule of expenditures of federal awards.

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

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2022

General

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

Basis of Accounting

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

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

Amounts Recorded in Financial Statements of ACWF:

Capital Contributions – EPA per statement of revenues, expenses, and changes in fund net position	\$ 2,191,883
--	--------------

Amounts Recorded in State of Alaska General Fund:

State Revolving Funds – Prior period adjustment	(2,831,500)
Program Administration (4% Set-aside)	<u>380,240</u>

Federal expenditures per SEFA	<u><u>\$ (259,377)</u></u>
-------------------------------	----------------------------

FEDERAL SINGLE AUDIT REPORTS



Elgee Rehfeld Alaska's CPA Firm

Founders: George Elgee, CPA & Robert Rehfeld, CPA

Partners

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

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

State of Alaska
Department of Environmental Conservation,
Division of Water

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Alaska Clean Water Fund (the ACWF), an enterprise fund of the State of Alaska, as of and for the year ended June 30, 2022, and the related notes to financial statements, which collectively comprise the ACWF's basic financial statements, and have issued our report thereon dated November 10, 2022.

Report on Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2022-001 that we consider to be a material weakness.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the ACWF's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of

laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The ACWF's Response to Finding

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

Purpose of this Report

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

Elgee Rehfeld

November 10, 2022



Elgee Rehfeld Alaska's CPA Firm

Founders: George Elgee, CPA & Robert Rehfeld, CPA

Partners

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

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

State of Alaska
Department of Environmental Conservation,
Division of Water

Report on Compliance for Each Major Federal Program

Opinion on the Major Federal Program

We have audited Alaska Clean Water Fund's (the ACWF), an enterprise fund of the State of Alaska, compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on the ACWF's major federal program for the year ended June 30, 2022. The ACWF's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the ACWF complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2022.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

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

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the

requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the ACWF's federal programs.

Auditor's Responsibilities for the Audit of Compliance

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

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the *Uniform Guidance*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the ACWF's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the ACWF's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the *Uniform Guidance*, but not for the purpose of expressing an opinion on the effectiveness of the ACWF's internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Internal Control Over Compliance

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

internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

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

Elgee Rehfeld

November 10, 2022

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

SUMMARY OF AUDIT RESULTS

Financial Statements

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

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?
- Significant deficiencies identified that are not
considered to be material weakness(es)?

 x Yes No

 Yes x None Reported

Noncompliance material to financial statements noted?

 Yes x No

Federal Awards

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

Unmodified

Internal control over major federal program:

- Material weakness(es) identified?
- Significant deficiencies identified that are not
considered to be material weakness(es)?

 Yes x None

 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:

ALN

Name of Federal Program or Cluster

66.458

U.S. Environmental Protection Agency, Clean Water State Revolving Fund
Cluster – Capitalization Grants for Clean Water State Revolving Funds

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

\$ 750,000

Auditee qualified as a low-risk auditee?

 Yes x No

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

FINDINGS – FINANCIAL STATEMENT AUDIT

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

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

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

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

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

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

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

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

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

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

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

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS PROGRAM AUDIT

No findings reported for 2022.



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

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2022

FINDINGS - FINANCIAL STATEMENT AUDIT

2021-001

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

Condition:

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

Recommendation:

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

Status:

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

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

No findings reported for 2021.



THE STATE
of **ALASKA**
GOVERNOR MIKE DUNLEAVY

Department of Environmental
Conservation

DIVISION OF ADMINISTRATIVE SERVICES
Director's Office

PO Box 111800
Juneau, AK 99811-1800
Main: 907.465.5010
Fax: 907.465.5097

Corrective Action Plan

June 30, 2022

November 4, 2022

RE: Alaska Clean Water Fund Corrective Action Plan

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

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

Contact Person: Larry Dunivin, Finance Officer

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

Completion Date: SFY23

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

Letter to the Commissioner

Year Ended June 30, 2022

November 10, 2022



Elgee Rehfeld Alaska's CPA Firm

Founders: George Elgee, CPA & Robert Rehfeld, CPA

Partners

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

November 10, 2022

State of Alaska
Department of Environmental Conservation,
Division of Water

We have audited the financial statements of the Alaska Clean Water Fund (the ACWF), an enterprise fund of the State of Alaska, as of and for the year ended June 30, 2022, and have issued our report thereon dated November 10, 2022. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated July 20, 2022, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the ACWF solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

The completion of the audit was delayed, slightly, due to management needing additional time to prepare for the audit.

Significant Risks Identified

Our audit standards require we communicate significant risks identified in the planning phase and that we design our audit to provide reasonable assurance that the financial statements are free of material misstatement whether caused by error or fraud. The significant risks identified are consistent with the risks we discussed with you during planning.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the ACWF is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during fiscal year 2022. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are:

Management's estimate of the investment value is based on current market information. We evaluated the key factors and assumptions used to develop the above-mentioned values in determining that it is reasonable in relation to the financial statements taken as a whole. Actual results could differ from those estimates.

Loans receivable recorded in the financial statements assume that communities will be able to repay. The ACWF's experience has been that communities have repaid, and management believes all amounts currently owed the ACWF will be repaid as specified in the terms of the loan agreements. Accordingly, an allowance for doubtful accounts has not been recorded.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting ACWF's financial statements relate to the Prior Period Adjustment, as disclosed in Note 12 of the financial statements.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate, and communicate to the appropriate level of management:

- All known and likely misstatements identified during the audit, other than those that we believe are trivial.
- All material, corrected misstatements that were brought to the attention of management as a result of our audit procedures.
- The effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole.

The following significant and material adjustments, identified as a result of our audit procedures, were brought to the attention of, and corrected by, management:

- An adjustment of \$6,375,130 was necessary to increase pre-equivalency revenue due to a fiscal 2021 audit adjustment not being properly reversed in fiscal 2022.
- An additional adjustment was necessary in the amount of \$723,021 to decrease revenue to qualified equivalency expenditures.
- A prior period adjustment to reduce the recognition of prior year revenue in the amount of \$2,831,500. As described in Note 12 in the financial statements, prior period revenue was misstated due to errors in assumptions used to track 2021 equivalency disbursements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the ACWF's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the attached letter.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the ACWF, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the ACWF's auditors.

Other Information in Documents Containing Audited Financial Statements

Pursuant to professional standards, our responsibility as auditors for other information in documents containing the ACWF's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform any procedures to corroborate such other information. However, in accordance with such standards, we have read the information and considered whether such information, and the manner of its presentation, was materially inconsistent with its presentation in the financial statements.

Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

Internal Control and Other Matters

Material Weakness in Internal Controls over Financial Reporting

As described in our *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*, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness, as described below.

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

Other Internal Control Matters Noted During the Prior Year Audit and Their Current Status

The following are other control matters reported in the prior year audit, along with their current year status:

Equivalency Tracking

In the prior audit, neither of the tracking sources accurately tracked equivalency projects and the funding recipients were not accurately notified of the amount of federal financial assistance that had been received during the reporting period. We recommended that a system be implemented to accurately track equivalency disbursements and reconcile these to LGTS and IRIS on a regular basis. We recommended that the reconciliation between these records be reviewed by someone independent of completing the reconciliation.

Status: Improvements were made to this area, however, there are still discrepancies between the various equivalency tracking sources. We continue to recommend improvements be made to equivalency tracking.

Grant Drawdowns

In the prior audit, there were significant delays in the drawdown of federal funding. Federal funding is typically drawn down shortly after a qualifying loan disbursement is made. We recommended that drawdowns be completed shortly after loan disbursements and at least monthly.

Status: Improvements were made to this area, however, during fiscal year 2022 this process often took several months, resulting in the lost potential of interest earnings for the fund. We continue to recommend that drawdowns are completed shortly after loan disbursements and at least monthly.

Material Weakness Noted during the Prior Year Audit and its Current Status

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

Recommendation: We recommended that management design and implement review processes for accounts receivable revenue, set-aside balances and individual loan balances.

Status: Comment repeated. See above.

This report is intended solely for the information and use of the State of Alaska, the Commissioner and management of the ACWF and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Elgee Rehfeld



THE STATE
of **ALASKA**
GOVERNOR MIKE DUNLEAVY

Department of Environmental
Conservation

OFFICE OF THE COMMISSIONER

Post Office Box 111800
Juneau, Alaska 99811-1800
Main: 907.465.5066
Fax: 907.465.5070

November 10, 2022
Elgee Rehfeld, LLC
9309 Glacier Highway
Suite B-200
Juneau, Alaska 99801

This representation letter is provided in connection with your audit of the financial statements of the Alaska Clean Water Fund (ACWF), an enterprise fund of the State of Alaska, which comprise the statement of net position as of June 30, 2022, and the related statements of revenues, expenses, and changes in fund net position, and cash flows for the year then ended, and the related notes to the financial statements, for the purpose of expressing an opinion on whether the financial statements of the various opinion units are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of November 10, 2022.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated July 20, 2022, for the preparation and fair presentation of the financial statements of the various opinion units referred to above in accordance with U.S. GAAP.
2. The financial statements referred to above have been fairly presented in accordance with U.S. GAAP and include all properly classified funds, required supplementary information, and notes to the basic financial statements.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. With respect to nonaudit services performed by you, we have performed the following:
 - a. Made all management decisions and performed all management functions;
 - b. Assigned a competent individual to oversee the services;
 - c. Evaluated the adequacy of the services performed;
 - d. Evaluated and accepted responsibility for the result of the service performed; and

- e. Established and maintained internal controls, including monitoring ongoing activities.
- 6. Significant assumptions used by us in making accounting estimates are reasonable.
- 7. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
- 8. There is no summary of unrecorded misstatements since all adjustments proposed by the auditor, material and immaterial, have been recorded.
- 9. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
- 10. With regard to items reported at fair value:
 - a. The underlying assumptions are reasonable, and they appropriately reflect management's intent and ability to carry out its stated courses of action.
 - b. The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.
 - c. The disclosures related to fair values are complete, adequate, and in conformity with U.S. GAAP.
 - d. There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.
- 11. All funds and activities are properly classified.
- 12. All net position components and fund balance classifications have been properly reported.
- 13. All revenues within the statement of activities have been properly classified as program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
- 14. All expenses have been properly classified in or allocated to functions and programs in the statement of activities, and allocations, if any, have been made on a reasonable basis.
- 15. All interfund and intra-entity transactions and balances have been properly classified and reported.
- 16. Special items and extraordinary items have been properly classified and reported.
- 17. Deposit and investment risks have been properly and fully disclosed.
- 18. All required supplementary information is measured and presented within the prescribed guidelines.

Information Provided

- 19. We have provided you with:
 - a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements of the various opinion units referred to above, such as records, documentation, meeting minutes, and other matters;
 - b. Additional information that you have requested from us for the purpose of the audit; and
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- 20. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- 21. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- 22. We have provided to you our evaluation of the entity's ability to continue as a going concern, including significant conditions and events present, and we believe that our use of the going concern basis of accounting is appropriate.
- 23. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - a. Management;
 - b. Employees who have significant roles in internal control; or
 - c. Others where the fraud could have a material effect on the financial statements.
- 24. We have no knowledge of any instances, that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance, whether communicated by employees, former employees, vendors (contractors), regulators, or others.

25. We have no knowledge of any instances that have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that has a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
26. We have no knowledge of any instances that have occurred or are likely to have occurred of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
27. We have a process to track the status of audit findings and recommendations.
28. We have identified for you all previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
29. We have provided views on your reported audit findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
30. We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements.
31. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
32. We have disclosed to you all communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
33. The ACWF has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
34. We have disclosed to you all guarantees, whether written or oral, under which ACWF is contingently liable.
35. We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
36. There are no:
 - a. Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations.
 - b. Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with GASB-62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB-62.
37. ACWF has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.
38. We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
39. We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB-62. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.

Single Audit

40. With respect to federal awards, we represent the following to you:
 - a. We are responsible for understanding and complying with, and have complied with, the 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).
 - b. We are responsible for the preparation and presentation of the schedule of expenditures of federal awards in accordance with the Uniform Guidance.
 - c. We believe the schedule of expenditures of federal awards, including its form and content, is fairly presented in accordance with the Uniform Guidance.

- d. The methods of measurement or presentation have not changed from those used in the prior period.
- e. We believe significant assumptions or interpretations underlying the measurement or presentation of the schedule of expenditures of federal awards, and the basis for our assumptions and interpretations, are reasonable and appropriate in the circumstances.
- f. We are responsible for including the auditor's report on the schedule of expenditures of federal awards in any document that contains the schedule and that indicates that the auditor has reported on such information.
- g. We have identified and disclosed all of our government programs and related activities subject to the Uniform Guidance and compliance audit.
- h. We have notified you of federal awards and funding increments that were received before December 26, 2014 and differentiated those awards from awards and funding increments received on or after December 26, 2014, and subject to the audit requirements of the Uniform Guidance.
- i. When the schedule of expenditures of federal awards is not presented with the audited financial statements, management will make the audited financial statements readily available to the intended users of the schedule of expenditures of federal awards no later than the date of issuance by the entity of the schedule of expenditures of federal awards and the auditor's report thereon.
- j. We have, in accordance with the Uniform Guidance, identified in the schedule of expenditures of federal awards, expenditures made during the audit period for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, food commodities, direct appropriations, and other assistance.
- k. We have provided to you our interpretations of any compliance requirements that have varying interpretations.
- l. We have made available to you all federal awards (including amendments, if any) and any other correspondence relevant to federal programs and related activities that have taken place with federal agencies or pass-through entities.
- m. We have received no requests from a federal agency to audit one or more specific programs as a major program.
- n. We have identified and disclosed to you all amounts questioned and any known noncompliance with the direct and material compliance requirements of federal awards, including the results of other audits or program reviews, or stated that there was no such noncompliance. We also know of no instances of noncompliance with direct and material compliance requirements occurring subsequent to period covered by the auditor's report.
- o. We have disclosed to you any communications from federal awarding agencies and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.
- p. We have made available to you all documentation related to compliance with the direct and material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
- q. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the basic financial statements have been prepared (and are prepared on a basis consistent with the schedule of expenditures of federal awards).
- r. The copies of federal program financial reports provided to you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.
- s. We have monitored subrecipients, as necessary, to determine if they have expended subawards in compliance with federal statutes, regulations, and the terms and conditions of the subaward and have met the other pass-through entity requirements of the Uniform Guidance.
- t. We have issued management decisions timely after the receipt of subrecipients' auditor reports that identified noncompliance with laws, regulations, or the provisions of contracts or grant agreements, and have ensured that the subrecipients have taken the appropriate and timely corrective action on findings.
- u. We have considered the results of subrecipients' audits and have made any necessary adjustments to our own books and records.

- v. We have properly classified amounts claimed or used for matching in accordance with related guidelines in the Uniform Guidance, as applicable.
- w. We have charged costs to federal awards in accordance with applicable cost principles.
- x. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by the Uniform Guidance, and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
- y. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.
- z. The reporting package does not contain personally identifiable information.
- aa. We have reviewed, approved, and taken responsibility for the financial statements and related notes and an acknowledgment of the auditor's role in the preparation of this information.
- bb. We have reviewed, approved, and taken responsibility for accrual adjustments and an acknowledgment of the auditor's role in the preparation of the adjustments.
- cc. We have disclosed to you the nature of any subsequent events that provide additional evidence with respect to conditions that existed at the end of the reporting period that affect noncompliance during the reporting period.
- dd. We are responsible for understanding and complying with the requirements of federal statutes, regulations, and the terms and conditions of federal awards related to each of our federal programs and have identified and disclosed to you the federal statutes, regulations, and the terms and conditions of federal awards that are considered to have a direct and material effect on each major federal program; and we have complied with these direct and material compliance requirements.
- ee. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal programs that provide reasonable assurance that we are managing our federal awards in compliance with federal statutes, regulations, and the terms and conditions of the federal award that could have a material effect on our federal programs. Also, no changes have been made in the internal control over compliance or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies and material weaknesses in internal control over compliance, have occurred subsequent to the period covered by the auditor's report.

DocuSigned by:



6C3A9012E8A04DF...


Larry Dunivin, Accountant V

DocuSigned by:




01303561EEBE477...

Brook Larson, Division Operations Manager

DocuSigned by:

14DE012F50D944F...

Carrie Bohan, Environmental Program Manager II

DocuSigned by:

1010B2EFCE4B476...

Myra Pugh, Administrative Operations Manager I

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

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

Year Ended June 30, 2022

STATE OF ALASKA
DEPARTMENT OF ENVIRONMENTAL CONSERVATION
Alaska Drinking Water Fund

Table of Contents
Year Ended June 30, 2022

FINANCIAL STATEMENTS

Management's Discussion and Analysis	i-v
Independent Auditor's Report	1
Statement of Net Position	5
Statement of Revenues, Expenses, and Changes in Fund Net Position	6
Statement of Cash Flows	7
Notes to Financial Statements	8

ADDITIONAL INFORMATION

Schedule of Expenditures of Federal Awards	22
Notes to Schedule of Expenditures of Federal Awards	23

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>	24
Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance in Accordance With The <i>Uniform Guidance</i>	26
Schedule of Findings and Questioned Costs	29
Summary Schedule of Prior Audit Findings	32
Corrective Action Plan	33

FINANCIAL STATEMENTS

STATE OF ALASKA
DEPARTMENT OF ENVIRONMENTAL CONSERVATION
Alaska Drinking Water Fund
(an Enterprise Fund of the State of Alaska)
Management's Discussion and Analysis
June 30, 2022

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

Program Description

The ADWF, administered by the Alaska Department of Environmental Conservation's (ADEC or the Department) State Revolving Fund (SRF) Program, provides low interest loans to both communities and eligible private entities throughout the State for financing water system improvement projects. Loans can finance up to 100% of a project's eligible costs for planning, design, and construction of facilities. In addition, loans can be used to meet local match requirements for other federal or state funding sources. Annually, management of the ADWF identifies funding sources, selects projects and distributes the loan funds to projects according to approved criteria and federal and state regulations. In addition, a portion of each capitalization grant from the Environmental Protection Agency may be used to fund other drinking water activities, if the Department chooses to do so.

During SFY20, the SRF Program launched a new lending mechanism known as Programmatic Financing (ProFi). Rather than providing a single borrower with several project specific loans, ProFi offers borrowers a single loan that can be used to finance eligible activities associated with a portfolio of projects. This method increases the borrower's flexibility in making use of the loan funds even as project priorities and timelines change. Additionally, it reduces administrative burden to the SRF Program associated with managing a larger number of loans and increases the rate at which the loan funds are able to revolve. The disbursement period for ProFi loans, generally one year, is established in the loan agreement. Remaining activities on eligible projects may be incorporated into a subsequent ProFi project portfolio for future financing. Loan repayment is initiated one year from the end of the disbursement period. In SFY21, the SRF Program entered into one ProFi agreement with the Anchorage Water Utility. With the implementation of ProFi, the SRF program has modified its approach to EPA equivalency requirements to reduce the administrative burden on the majority of borrowers.

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

STATE OF ALASKA
DEPARTMENT OF ENVIRONMENTAL CONSERVATION
Alaska Drinking Water Fund
(an Enterprise Fund of the State of Alaska)
Management's Discussion and Analysis

Overview of the Financial Statements

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

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

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

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

Current Financial Highlights

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

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

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

Financial Analysis

The following information presents comparative financial information for the ADWF.

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

- During SFY22 net position increased by \$5.2 Million, due to changes across various categories.
- The ADWF's financial condition continues to remain strong. The ADWF is required by the federal Safe Drinking Water Act to "be established, maintained, and credited with repayments and interest. The fund corpus shall be available in perpetuity for providing financial assistance."
- The federally required annual Intended Use Plan details management's short- and long-term goals established to meet the requirement of managing the fund in perpetuity. The goals of management are to continue to maintain the availability of

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

STATE OF ALASKA
DEPARTMENT OF ENVIRONMENTAL CONSERVATION
Alaska Drinking Water Fund
(an Enterprise Fund of the State of Alaska)
Management's Discussion and Analysis

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

Program Highlights

- In SFY22 the ADWF made 11 new loans, and 2 amendments to increase existing loans for water improvement projects to 11 different entities. In SFY21, 8 loans and 2 amendments were made to 9 different entities.
- Loan commitments in SFY22 totaled \$23.6 Million, compared to loan commitments of \$19.0 Million in SFY21.
- Through SFY22, the ADWF has made a total of 256 loans to 41 different entities with a total committed value of \$399,994,824. Of this total, 231 were from the base loan program with a total committed value of \$382,479,424 and 26 were for ARRA with a total committed value of \$17,515,400.
- Finance charges are set at the time of the loan commitment and are dependent on the contract term. By regulation, amortization periods cannot exceed 30 years.

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

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

- One-half of one percent (.5%) of the finance charge noted above is taken as a fee to help offset future operational costs. This will help run the ADWF program once federal capitalization grants are no longer available.
- Currently, the default rate is 0.0 percent.

Other Financial Information

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

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

In 2002, to ensure the program's viability in the event that federal capitalization grants were not provided, fee accounts were established for both the ADWF and the Alaska Clean Water Fund (ACWF), with revenue generated from the 0.5% fee collected on loan disbursements. Historically, expenses related to the administration of the ADWF loan program were charged to the 4% administrative set-aside from the federal capitalization grants. However, around mid-SFY15 the program began charging administrative expenses to the ADWF fee account. The ACWF fee account is larger than the ADWF fee account and federal rules allow the fee accounts to be used interchangeably for most program expenses. Therefore, since SFY16, the majority of ADWF eligible program expenses have been charged to the ACWF fee account. The two accounts have become balanced, therefore, beginning in SFY22, a portion of the ADWF expenses were charged to the ADWF fee account.

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

The ADWF issues short-term debt to obtain funds for the required State match to the federal capitalization grant. The details of this short-term bonding technique are as follows: the Department uses, as collateral, the interest and investment income of the ADWF to acquire bond receipts and save from the State budget the required 20% match, which was \$2.2 Million in general funds, for the grant effective in SFY22. This process effectively substitutes bond receipts for interest income. In SFY22, bond receipts accounted for 100% of the required State match.

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

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

Contacting the Alaska Drinking Water Fund Management

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



Elgee Rehfeld Alaska's CPA Firm

Founders: George Elgee, CPA & Robert Rehfeld, CPA

Partners

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

INDEPENDENT AUDITOR'S REPORT

State of Alaska
Department of Environmental Conservation,
Division of Water

Report on the Audit of the Financial Statements

Opinion

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the ADWF, as of June 30, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the ADWF and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibility of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the

ADWF's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Governmental Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the ADWF's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the ADWF's ability to continue as a going concern for a reasonable period of time.

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

Other Matters

Prior-Year Comparative Information

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i-v be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

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

Other Information Included in the Annual Report

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

Other Reporting Required by *Government Auditing Standards*

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

Elgee Rehfeld

November 10, 2022

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

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

	<u>2022</u>	<u>2021</u>
ASSETS:		
Current assets:		
Cash and investments	\$ 81,925,345	\$ 76,623,078
Due from other funds	3,982,243	552,414
Due from the Environmental Protection Agency	-	3,619,670
Interest receivable	1,260,180	960,046
Administrative loan fee receivable	619,677	480,064
Other current assets	215,888	-
Loans receivable, current portion	<u>11,912,665</u>	<u>11,405,724</u>
Total current assets	99,915,998	93,640,996
Loans receivable, net of current portion	<u>150,780,126</u>	<u>145,162,961</u>
Total assets	<u>250,696,124</u>	<u>238,803,957</u>
LIABILITIES-		
Current liabilities:		
Unearned revenue	6,653,288	-
Due to other funds	-	191
Other liabilities	-	7,761
Warrants outstanding	<u>9</u>	<u>4</u>
Total current liabilities	<u>6,653,297</u>	<u>7,956</u>
NET POSITION-		
Restricted for Revolving Loan Program	<u>\$ 244,042,827</u>	<u>\$ 238,796,001</u>

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

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

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

	2022	2021
OPERATING REVENUES:		
Interest income on loans outstanding	\$ 1,591,264	\$ 1,338,772
Administrative loan fee income	792,450	763,663
Fines and forfeitures	536	-
Total operating revenues	<u>2,384,250</u>	<u>2,102,435</u>
OPERATING EXPENSES-		
Program administration:		
Salaries and related costs	246,141	188,527
Other	51,721	37,720
Total operating expenses	<u>297,862</u>	<u>226,247</u>
Earnings from operations	<u>2,086,388</u>	<u>1,876,188</u>
NONOPERATING REVENUES (EXPENSES):		
Investment income (loss)	(1,222,526)	39,807
Subsidized loan payments	(900,999)	(1,363,544)
Bond fees	(4,817)	(4,816)
Nonoperating revenues (expenses), net	<u>(2,128,342)</u>	<u>(1,328,553)</u>
Income (loss) before capital contributions	<u>(41,954)</u>	<u>547,635</u>
CAPITAL CONTRIBUTIONS-		
Environmental Protection Agency grants	5,288,780	8,541,327
Total capital contributions	<u>5,288,780</u>	<u>8,541,327</u>
Change in net position	5,246,826	9,088,962
BEGINNING NET POSITION	<u>238,796,001</u>	<u>229,707,039</u>
ENDING NET POSITION	<u><u>\$ 244,042,827</u></u>	<u><u>\$ 238,796,001</u></u>

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

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

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

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Loans funded	\$ (19,361,474)	\$ (14,837,352)
Principal payments received on loans	13,237,368	11,193,794
Interest and fee payments received on loans	1,944,503	1,859,677
Cash paid for operating costs	(297,862)	(226,247)
Cash paid to central treasury	(3,653,664)	(182,320)
Net cash used for operating activities	(8,131,129)	(2,192,448)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Subsidized loan payments	(900,999)	(1,363,544)
Proceeds from issuance of revenue anticipation bonds	2,200,200	2,200,201
Principal payment on revenue anticipation bonds	(2,200,200)	(2,200,201)
Cash paid for bond fees	(4,817)	(4,816)
Net cash used for noncapital financing activities	(905,816)	(1,368,360)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES-		
Environmental Protection Agency grants	15,561,738	5,875,537
Net cash provided by capital and related financing activities	15,561,738	5,875,537
CASH FLOWS FROM INVESTING ACTIVITIES-		
Investment income (loss)	(1,222,526)	39,807
Net cash provided by (used for) investing activities	(1,222,526)	39,807
Net increase in cash and investments	5,302,267	2,354,536
Cash and investments, beginning of year	76,623,078	74,268,542
Cash and investments, end of year	\$ 81,925,345	\$ 76,623,078
RECONCILIATION OF EARNINGS FROM OPERATIONS TO NET CASH USED FOR OPERATING ACTIVITIES:		
Earnings from operations	\$ 2,086,388	\$ 1,876,188
Adjustments to reconcile earnings from operations to net cash used for operating activities:		
Decrease (increase) in operating assets	(10,209,570)	(4,025,367)
Increase (decrease) in operating liabilities	(7,947)	(43,269)
Net cash used for operating activities	\$ (8,131,129)	\$ (2,192,448)

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

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

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

General Statement

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

Financial Reporting Entity

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

Set-aside amounts, including program administration, program management, capacity development, and wellhead protection, which are administered by the Division of Environmental Health or the Division of Water, are not included in the ADWF's basic financial statements. Those activities are included in the State of Alaska's General Fund. However, a summary of those activities has been provided in Note 2 to these financial statements.

Basis of Presentation

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

Measurement Focus and Basis of Accounting

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

Loans Receivable

Loans receivable consist of amounts due for loans by the ADWF to fund publicly owned and eligible privately owned wastewater collection, treatment and discharge systems, as defined in the general statement above. Management has evaluated the loans receivable

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

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

Programmatic Financing Loans

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

Net Position

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

Operating Revenues

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

Operating Expenses

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

Grant Revenue

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

Grant Revenue - American Recovery and Reinvestment Act (ARRA)

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

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

Interest Income

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

Administrative Fees

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

Investment Income (Loss)

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

Statement of Cash Flows

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

Use of Estimates

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

Columns for Fiscal Year 2021

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

(2) Program Activities

Set-asides

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

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

Division of Water

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

Capacity Development

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

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

Division of Environmental Health

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

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

This space intentionally left blank

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

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

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

(3) **Cash and Investments**

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

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

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

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

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

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

(4) **Loans Receivable**

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

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

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

This space intentionally left blank.

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

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

<u>Community</u>	<u>Project Name</u>	<u>Balance</u>
Anchorage	SFY19 AWWU ProFi DW	9,500,000
Anchorage	SFY21 AWWU ProFi DW	12,995,591
Total ProFi loans in repayment		<u>22,495,591</u>

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

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

STATE OF ALASKA
DEPARTMENT OF ENVIRONMENTAL CONSERVATION
Alaska Drinking Water Fund

Notes to Financial Statements

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

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

Notes to Financial Statements

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

STATE OF ALASKA
DEPARTMENT OF ENVIRONMENTAL CONSERVATION
Alaska Drinking Water Fund

Notes to Financial Statements

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

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

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

This space intentionally left blank.

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

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

Year ending June 30:	<u>Amount</u>
2023	\$ 11,912,665
2024	11,789,730
2025	11,670,851
2026	11,516,297
2027	11,138,055
2028-2043	<u>74,248,519</u>
Total scheduled principal repayments	132,276,117
Loans currently not in repayment	<u>30,416,674</u>
Total loans receivable	<u>\$ 162,692,791</u>

(5) **Subsidized Loan Payments**

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

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

Disadvantaged Communities:

<u>Community</u>	<u>Project Name</u>	<u>Amount</u>
Haines	Small Tracts/Mud Bay/Front AC Pipe Replacement	\$ 351,848
Nome	Bering Street Water System Replacement	208,515
Private Organization	Alpat Water Utility	107,491
Private Organization	Home Water LLC	37,391
Private Organization	Home Water LLC – Meadow Brook Arsenic Rem.	55,637
Private Organization	Midtown Estates Mainline Condition Assessment	75,000
Private Organization	Midtown Estates Water Utility LLC – Water Plant	21,334
Private Organization	Mile 8 Utilities – SCADA System and Distribution	<u>43,783</u>
Total disadvantaged communities subsidy		<u>\$ 900,999</u>

(6) **EPA Grant**

The ADWF is funded by grants from the EPA and matching funds from the State. The State's required contribution for the non-ARRA grants is based on a statutorily-determined percentage (20%) of the EPA grant award and is funded by a State General Fund appropriation made at the beginning of each State fiscal year. During fiscal year 2022, \$2,200,200 was appropriated for the State's matching share and was funded by revenue anticipation bonds (see Note 8).

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

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

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

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

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

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

(7) **Administrative Fees**

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

This space intentionally left blank.

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

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

Statement of Net Position

Assets:

Cash and investments	\$ 7,136,081
Administrative loan fee receivable	619,677
Other current assets	<u>215,888</u>
Total assets	<u>7,971,646</u>

Liabilities:

Warrants outstanding	<u>9</u>
Total liabilities	<u>9</u>

Net position	<u>\$ 7,971,637</u>
--------------	---------------------

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

Revenue:

Administrative loan fee income	\$ 792,450
Investment income (loss)	<u>(81,044)</u>
Total revenue	<u>711,406</u>

Expenses:

Salaries and related costs	(246,141)
Other	<u>(51,721)</u>
Total expenses	<u>(297,862)</u>
Increase in net position	<u>\$ 413,544</u>

(8) **Bond Issuance**

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

In fiscal year 2022, the ADWF issued \$2,200,200 in revenue anticipation bonds, the proceeds of which were used to fund the State share of loan distributions and administrative costs. In accordance with EPA regulations, interest and investment earnings were then used to retire the revenue anticipation bonds.

(9) **Commitments**

As of June 30, 2022, the ADWF is committed to funding loans for which they have entered into agreements for communities but funds have not yet been disbursed. The total amounts to be disbursed under these agreements are uncertain as not all of the loans are expected to be fully drawn and some loans may increase with changes in scope of the underlying projects; accordingly, they are not included in these financial statements. As of June 30, 2022, the ADWF has entered into binding commitments, as evidenced by signed loan agreements, for which funds remain to be disbursed totaling \$49,408,948.

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

(10) **Contingent Liabilities and Concentrations**

Grant Revenue

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

(11) **Subsequent Event**

Bond Issuance

Pursuant to legislative authorization obtained during the 2022 session of the Alaska Legislature, plans are in place to issue Series A Revenue Bond Anticipation Notes for fiscal year 2023 in an amount not to exceed \$2,202,200. Although this transaction has not yet been finalized, the issuance of the bonds is expected to occur in mid-fiscal year 2023. The borrowing is to be secured by interest earnings of the ADWF.

ADDITIONAL INFORMATION

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

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

See notes to schedule of expenditures of federal awards.

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

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2022

General

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

Basis of Accounting

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

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

Amounts Recorded in Financial Statements of ADWF:

Capital Contributions – EPA per statement of revenues, expenses, and changes in fund net position	\$ 5,288,780
--	--------------

Amounts Recorded in State of Alaska General Fund:

Program management revenues (10% set-aside)	1,287,903
Wellhead protection, capacity development and Program administration (15%/4% set-aside)	<u>2,136,349</u>
Federal expenditures per SEFA	<u><u>\$ 8,713,032</u></u>

FEDERAL SINGLE AUDIT REPORTS



Elgee Rehfeld

Alaska's CPA Firm

Founders: George Elgee, CPA & Robert Rehfeld, CPA

Partners

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

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

State of Alaska
Department of Environmental Conservation,
Division of Water

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Alaska Drinking Water Fund (the ADWF), an enterprise fund of the State of Alaska, as of and for the year ended June 30, 2022, and the related notes to financial statements, which collectively comprise the ADWF's basic financial statements, and have issued our report thereon dated November 10, 2022.

Report on Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2022-001 that we consider to be a material weakness.

Report on Compliance and Other Matters

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

The ADWF's Response to Finding

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

Purpose of this Report

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

Elgee Rehfeld

November 10, 2022



Elgee Rehfeld Alaska's CPA Firm

Founders: George Elgee, CPA & Robert Rehfeld, CPA

Partners

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

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

State of Alaska
Department of Environmental Conservation,
Division of Water

Report on Compliance for Each Major Federal Program

Opinion on the Major Federal Program

We have audited the Alaska Drinking Water Fund's (the ADWF), an enterprise fund of the State of Alaska, compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on the ADWF's major federal program for the year ended June 30, 2022. The ADWF's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the ADWF complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2022.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the ADWF's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the ADWF's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the ADWF's internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Internal Control Over Compliance

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

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

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

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

Elgee Rehfeld

November 10, 2022

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

SUMMARY OF AUDIT RESULTS

Financial Statements

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

Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? Yes x No

Federal Awards

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

Unmodified

Internal control over major federal program:

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

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

Major program:

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

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

\$ 750,000

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

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

FINDINGS – FINANCIAL STATEMENT AUDIT

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

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

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

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

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

Context: An adjustment of \$447,196 was necessary to increase pre-equivalency revenue, and a further adjustment was necessary in the amount of \$8,941,304 to decrease revenue to qualified equivalency expenditures.

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

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

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

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

during the year, and at year-end prior to the conclusion of the re-appropriation period.

View of responsible

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

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS PROGRAM AUDIT

No findings reported for 2022.



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

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2022

FINDINGS - FINANCIAL STATEMENT AUDIT

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

Condition: Internal controls over financial reporting were not sufficiently designed or implemented to ensure that significant balance sheet and revenue accounts were properly reconciled throughout the year and at year-end.

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

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

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

No findings reported for 2021.



THE STATE
of **ALASKA**
GOVERNOR MIKE DUNLEAVY

**Department of Environmental
Conservation**

DIVISION OF ADMINISTRATIVE SERVICES
Director's Office

PO Box 111800
Juneau, AK 99811-1800
Main: 907.465.5010
Fax: 907.465.5097

Corrective Action Plan

June 30, 2022

November 4, 2022

RE: Alaska Drinking Water Fund Corrective Action Plan

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

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

Contact Person: Larry Dunivin, Finance Officer

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

Completion Date: SFY23

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

Letter to the Commissioner

Year Ended June 30, 2022

November 10, 2022



Elgee Rehfeld Alaska's CPA Firm

Founders: George Elgee, CPA & Robert Rehfeld, CPA

Partners

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

November 10, 2022

State of Alaska
Department of Environmental Conservation,
Division of Water

We have audited the financial statements of the Alaska Drinking Water Fund (the ADWF), an enterprise fund of the State of Alaska, as of and for the year ended June 30, 2022, and have issued our report thereon dated November 10, 2022. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated July 20, 2022, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the ADWF solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

The completion of the audit was delayed, slightly, due to management needing additional time to prepare for the audit.

Significant Risks Identified

Our audit standards require we communicate significant risks identified in the planning phase and that we design our audit to provide reasonable assurance that the financial statements are free of material misstatement whether caused by error or fraud. The significant risks identified are consistent with the risks we discussed with you during planning.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the ADWF is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during fiscal year 2022. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are:

Management's estimate of the investment value is based on current market information. We evaluated the key factors and assumptions used to develop the above mentioned values in determining that it is reasonable in relation to the financial statements taken as a whole. Actual results could differ from those estimates.

Loans receivable recorded in the financial statements assume that communities will be able to repay. The ADWF's experience has been that communities have repaid, and management believes all amounts currently owed the ADWF will be repaid as specified in the terms of the loan agreements. Accordingly, an allowance for doubtful accounts has not been recorded.

Financial Statement Disclosures

ADWF's financial statement disclosures are neutral, consistent, and clear.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate, and communicate to the appropriate level of management:

- All known and likely misstatements identified during the audit, other than those that we believe are trivial.
- All material, corrected misstatements that were brought to the attention of management as a result of our audit procedures.
- The effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole.

The following significant and material adjustment, identified as a result of our audit procedures, was brought to the attention of, and corrected by, management:

- An adjustment of \$447,196 was necessary to increase pre-equivalency revenue.
- An adjustment of \$8,941,304 was necessary to decrease revenue to qualified equivalency expenditures.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the ADWF's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management which are included in the attached letter.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the ADWF, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the ADWF's auditors.

Other Information in Documents Containing Audited Financial Statements

Pursuant to professional standards, our responsibility as auditors for other information in documents containing the ADWF's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform any

procedures to corroborate such other information. However, in accordance with such standards, we have read the information and considered whether such information, and the manner of its presentation, was materially inconsistent with its presentation in the financial statements.

Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

Internal Control and Other Matters

Material Weakness in Internal Controls over Financial Reporting

As described in our *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*, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness, as described below.

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

Other Internal Control Matters Noted During the Prior Year Audit and Their Current Status

The following are other control matters reported in the prior year audit, along with their current year status:

Equivalency Tracking

In the prior audit, neither of the equivalency tracking sources accurately tracked equivalency projects and the funding recipients were not accurately notified of the amount of federal financial assistance that had been received during the reporting period. We recommended that a system be implemented to accurately track equivalency disbursements and reconcile these to LGTS and IRIS on a regular basis. We recommended that the reconciliation between these records be reviewed by someone independent of completing the reconciliation.

Status: Improvements were made to this area, however, there are still discrepancies between the various equivalency tracking sources. We continue to recommend improvements be made to equivalency tracking.

Grant Drawdowns

In the prior audit, there were significant delays in the drawdown of federal funding. Federal funding is typically drawn down shortly after a qualifying loan disbursement is made. We recommended that drawdowns be completed shortly after loan disbursements and at least monthly.

Status: Improvements were made to this area, however, during fiscal year 2022 this process often took several months, resulting in the lost potential of interest earnings for the fund. We continue to recommend that drawdowns are completed shortly after loan disbursements and at least monthly.

Material Weakness Noted during the Prior Year Audit and its Current Status

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

Recommendation: We recommended that management design and implement review processes for accounts receivable revenue, set-aside balances and individual loan balances.

Status: Comment repeated. See above.

This report is intended solely for the information and use of the State of Alaska, the Commissioner and management of the ADWF and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Elgee Rehfeld



THE STATE
of **ALASKA**
GOVERNOR MIKE DUNLEAVY

Department of Environmental
Conservation

OFFICE OF THE COMMISSIONER

Post Office Box 111800
Juneau, Alaska 99811-1800
Main: 907.465.5066
Fax: 907.465.5070

November 10, 2022
Elgee Rehfeld, LLC
9309 Glacier Highway
Suite B-200
Juneau, Alaska 99801

This representation letter is provided in connection with your audit of the financial statements of the Alaska Drinking Water Fund (ADWF), an enterprise fund of the State of Alaska, which comprise the statement of net position as of June 30, 2022, and the related statements of revenues, expenses, and changes in fund net position, and cash flows for the year then ended, and the related notes to the financial statements, for the purpose of expressing an opinion on whether the financial statements of the various opinion units are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of November 10, 2022.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated July 20, 2022, for the preparation and fair presentation of the financial statements of the various opinion units referred to above in accordance with U.S. GAAP.
2. The financial statements referred to above have been fairly presented in accordance with U.S. GAAP and include all properly classified funds, required supplementary information, and notes to the basic financial statements.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. With respect to nonaudit services performed by you, we have performed the following:
 - a. Made all management decisions and performed all management functions;
 - b. Assigned a competent individual to oversee the services;
 - c. Evaluated the adequacy of the services performed;
 - d. Evaluated and accepted responsibility for the result of the service performed; and

- e. Established and maintained internal controls, including monitoring ongoing activities.
- 6. Significant assumptions used by us in making accounting estimates are reasonable.
- 7. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
- 8. There is no summary of unrecorded misstatements since all adjustments proposed by the auditor, material and immaterial, have been recorded.
- 9. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
- 10. With regard to items reported at fair value:
 - a. The underlying assumptions are reasonable, and they appropriately reflect management's intent and ability to carry out its stated courses of action.
 - b. The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.
 - c. The disclosures related to fair values are complete, adequate, and in conformity with U.S. GAAP.
 - d. There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.
- 11. All funds and activities are properly classified.
- 12. All net position components and fund balance classifications have been properly reported.
- 13. All revenues within the statement of activities have been properly classified as program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
- 14. All expenses have been properly classified in or allocated to functions and programs in the statement of activities, and allocations, if any, have been made on a reasonable basis.
- 15. All interfund and intra-entity transactions and balances have been properly classified and reported.
- 16. Special items and extraordinary items have been properly classified and reported.
- 17. Deposit and investment risks have been properly and fully disclosed.
- 18. All required supplementary information is measured and presented within the prescribed guidelines.

Information Provided

- 19. We have provided you with:
 - a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements of the various opinion units referred to above, such as records, documentation, meeting minutes, and other matters;
 - b. Additional information that you have requested from us for the purpose of the audit; and
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- 20. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- 21. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- 22. We have provided to you our evaluation of the entity's ability to continue as a going concern, including significant conditions and events present, and we believe that our use of the going concern basis of accounting is appropriate.
- 23. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - a. Management;
 - b. Employees who have significant roles in internal control; or
 - c. Others where the fraud could have a material effect on the financial statements.
- 24. We have no knowledge of any instances, that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance, whether communicated by employees, former employees, vendors (contractors), regulators, or others.

25. We have no knowledge of any instances that have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that has a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
26. We have no knowledge of any instances that have occurred or are likely to have occurred of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
27. We have a process to track the status of audit findings and recommendations.
28. We have identified for you all previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
29. We have provided views on your reported audit findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
30. We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements.
31. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
32. We have disclosed to you all communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
33. The ADWF has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
34. We have disclosed to you all guarantees, whether written or oral, under which ADWF is contingently liable.
35. We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
36. There are no:
 - a. Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations.
 - b. Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with GASB-62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB-62.
37. ADWF has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.
38. We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
39. We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB-62. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.

Single Audit

40. With respect to federal awards, we represent the following to you:
 - a. We are responsible for understanding and complying with, and have complied with, the 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).
 - b. We are responsible for the preparation and presentation of the schedule of expenditures of federal awards in accordance with the Uniform Guidance.
 - c. We believe the schedule of expenditures of federal awards, including its form and content, is fairly presented in accordance with the Uniform Guidance.


- d. The methods of measurement or presentation have not changed from those used in the prior period.
- e. We believe significant assumptions or interpretations underlying the measurement or presentation of the schedule of expenditures of federal awards, and the basis for our assumptions and interpretations, are reasonable and appropriate in the circumstances.
- f. We are responsible for including the auditor's report on the schedule of expenditures of federal awards in any document that contains the schedule and that indicates that the auditor has reported on such information.
- g. We have identified and disclosed all of our government programs and related activities subject to the Uniform Guidance and compliance audit.
- h. We have notified you of federal awards and funding increments that were received before December 26, 2014 and differentiated those awards from awards and funding increments received on or after December 26, 2014, and subject to the audit requirements of the Uniform Guidance.
- i. When the schedule of expenditures of federal awards is not presented with the audited financial statements, management will make the audited financial statements readily available to the intended users of the schedule of expenditures of federal awards no later than the date of issuance by the entity of the schedule of expenditures of federal awards and the auditor's report thereon.
- j. We have, in accordance with the Uniform Guidance, identified in the schedule of expenditures of federal awards, expenditures made during the audit period for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, food commodities, direct appropriations, and other assistance.
- k. We have provided to you our interpretations of any compliance requirements that have varying interpretations.
- l. We have made available to you all federal awards (including amendments, if any) and any other correspondence relevant to federal programs and related activities that have taken place with federal agencies or pass-through entities.
- m. We have received no requests from a federal agency to audit one or more specific programs as a major program.
- n. We have identified and disclosed to you all amounts questioned and any known noncompliance with the direct and material compliance requirements of federal awards, including the results of other audits or program reviews, or stated that there was no such noncompliance. We also know of no instances of noncompliance with direct and material compliance requirements occurring subsequent to period covered by the auditor's report.
- o. We have disclosed to you any communications from federal awarding agencies and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.
- p. We have made available to you all documentation related to compliance with the direct and material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
- q. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the basic financial statements have been prepared (and are prepared on a basis consistent with the schedule of expenditures of federal awards).
- r. The copies of federal program financial reports provided to you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.
- s. We have monitored subrecipients, as necessary, to determine if they have expended subawards in compliance with federal statutes, regulations, and the terms and conditions of the subaward and have met the other pass-through entity requirements of the Uniform Guidance.
- t. We have issued management decisions timely after the receipt of subrecipients' auditor reports that identified noncompliance with laws, regulations, or the provisions of contracts or grant agreements, and have ensured that the subrecipients have taken the appropriate and timely corrective action on findings.
- u. We have considered the results of subrecipients' audits and have made any necessary adjustments to our own books and records.

- v. We have properly classified amounts claimed or used for matching in accordance with related guidelines in the Uniform Guidance, as applicable.
- w. We have charged costs to federal awards in accordance with applicable cost principles.
- x. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by the Uniform Guidance, and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
- y. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.
- z. The reporting package does not contain personally identifiable information.
- aa. We have reviewed, approved, and taken responsibility for the financial statements and related notes and an acknowledgment of the auditor's role in the preparation of this information.
- bb. We have reviewed, approved, and taken responsibility for accrual adjustments and an acknowledgment of the auditor's role in the preparation of the adjustments.
- cc. We have disclosed to you the nature of any subsequent events that provide additional evidence with respect to conditions that existed at the end of the reporting period that affect noncompliance during the reporting period.
- dd. We are responsible for understanding and complying with the requirements of federal statutes, regulations, and the terms and conditions of federal awards related to each of our federal programs and have identified and disclosed to you the federal statutes, regulations, and the terms and conditions of federal awards that are considered to have a direct and material effect on each major federal program; and we have complied with these direct and material compliance requirements.
- ee. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal programs that provide reasonable assurance that we are managing our federal awards in compliance with federal statutes, regulations, and the terms and conditions of the federal award that could have a material effect on our federal programs. Also, no changes have been made in the internal control over compliance or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies and material weaknesses in internal control over compliance, have occurred subsequent to the period covered by the auditor's report.


DocuSigned by:

0C5A9012E6A04DF...

Larry Dunivin, Accountant V

DocuSigned by:

013C3561EEBE477...

Brook Larson, Division Operations Manager

DocuSigned by:

14DE012F50D944F...

Carrie Bohan, Environmental Program Manager II

DocuSigned by:

1810B2EFCE4B476...

Myra Pugh, Administrative Operations Manager I