

**STATE OF ALASKA
DEPARTMENT OF
ENVIRONMENTAL CONSERVATION
ALASKA CLEAN WATER FUND**

Financial Statements, Additional Information
and Federal Single Audit Reports

Year Ended June 30, 2003

STATE OF ALASKA
DEPARTMENT OF ENVIRONMENTAL CONSERVATION
Alaska Clean Water Fund

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Independent Auditor's Report

State of Alaska
Department of Environmental Conservation,
Division of Facility Construction and Operation

We have audited the accompanying statement of net assets of State of Alaska, Department of Environmental Conservation, Alaska Clean Water Fund (the ACWF) as of June 30, 2003, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the ACWF's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of State of Alaska, Department of Environmental Conservation, Alaska Clean Water Fund as of June 30, 2003, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2003 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information as listed in the table of contents 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 required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

September 12, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Alaska Clean Water Fund's (ACWF) annual financial report presents our discussion and analysis of the ACWF's financial performance during the fiscal year ended on June 30, 2003. Please read it in conjunction with the ACWF's financial statements and accompanying notes.

Program Description

The ACWF provides low interest loans to communities throughout the state for financing wastewater improvements and certain types of solid waste projects. Loans can also be provided to refinance debt from previous, eligible projects. Loans can finance up to 100% of a project's eligible costs for planning, design, and construction of publicly owned facilities. In addition, loans can be used to meet local match requirements for the Alaska Department of Environmental Conservation Municipal Matching Grants program or other federal or state funding sources. Annually, management of the ACWF identifies funding sources, selects projects and distributes the loan funds to projects according to approved criteria and federal and state regulations.

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 Assets – This statement presents information on all assets and liabilities of the ACWF, with the difference between assets and liabilities reported as net assets. Net assets for the ACWF are classified as restricted or unrestricted, depending on limitations of use imposed by third parties and/or enabling federal or state legislation.
- Statement of Activities – This statement presents all revenues and expenses of the ACWF and the change in net assets. 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.

- The notes to the financials statements provide detail concerning the financial activities and balances of the ACWF. Additional 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 presented.

Current Year Financial Highlights

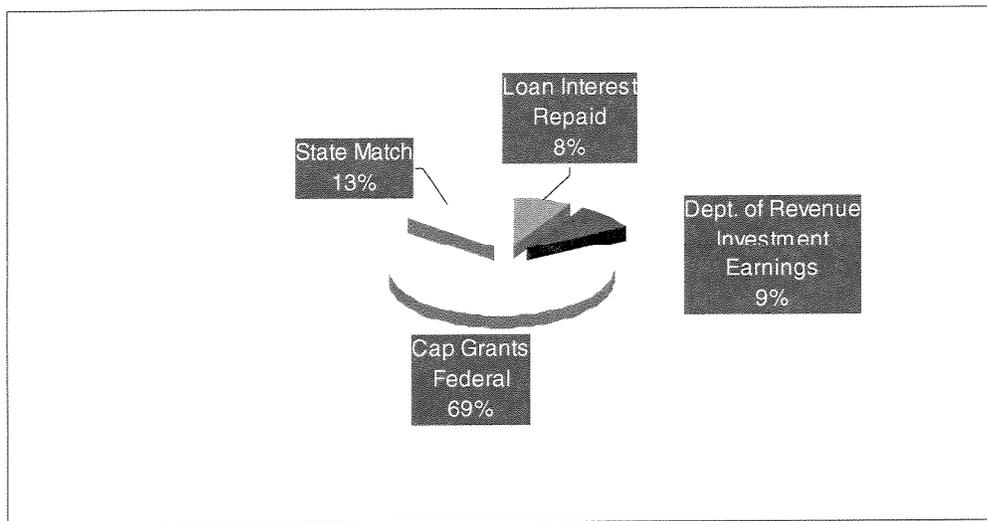
- Loan disbursements of \$10.2 Million were made to communities for ACWF projects; \$8.5 Million (or 83%) of the total amount was from the federal Environmental Protection Agency capitalization grants. Loan disbursements in Fiscal year 02 were \$7.1 Million; and again, 83% of the total was drawn from federally provided capitalization grant funds.
- Loan repayments (comprised of principal, interest and fees) in the amount of \$10.5 Million were received, as compared to loan repayments of \$7.5 Million in Fiscal year 02.
- The Department of Revenue earned investment interest of \$2.8 Million for the ACWF. In Fiscal year 02, the ACWF earned \$2.4 Million as investment interest.
- Program expenditures for administering the ACWF totaled \$385,000. In Fiscal year 02, program expenditures were \$370,000.

Historical Financial Highlights

- To date the Environmental Protection Agency has granted \$121,846,862 to the state for the ACWF.
- The ACWF expects to receive another \$7.9 Million from the EPA; matched by state funds of \$1,580,000 for this federal fiscal year.
- State appropriations of \$19,827,575 and bond receipts of \$4,854,879 have previously been secured.
- Other significant funding sources include investment interest earnings of \$15,820,106 and interest repayments of \$14,733,708.

As was noted earlier and illustrated on the next page, the majority of the ACWF comes from the federal capitalization grants received from the EPA under the Clean Water Act. For each federal dollar granted, the State of Alaska must contribute 20 cents. Other sources of funds include loan interest and investment earnings on the unused cash balance.

Alaska Clean Water Funding Sources



Financial Analysis

The following information presents comparative information for the ACWF.

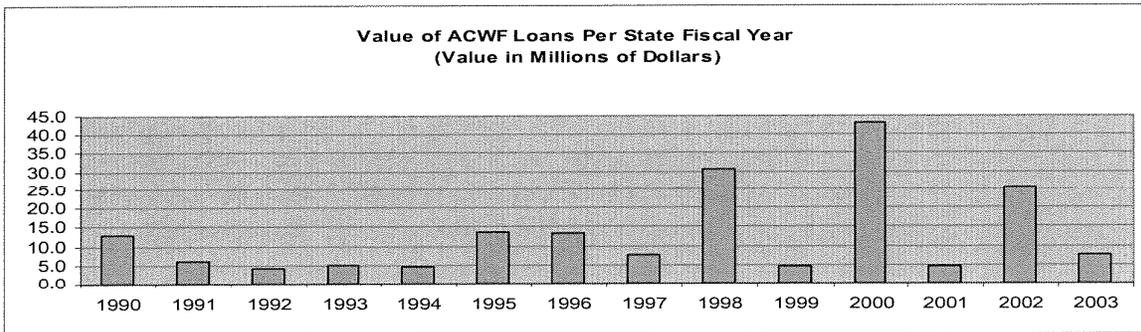
	FY 03	FY 02
Total Assets	\$157,881,378	\$144,818,255
Total Liabilities	-	301,805
Total Net Assets	157,881,378	144,516,450
Operating Revenue	2,357,690	1,582,049
Operating Expenses	385,715	387,638
Non-operating Revenue (net)	2,862,048	2,395,425
Capital Contributions	8,530,905	5,951,396
Increase in net assets	13,364,928	9,541,232

- During Fiscal Year 03, total assets increased by 13.063 million, comprised primarily of cash due to receipt of the EPA grant. Loan receivable balances have increased by roughly \$2.4 million resulting from loan distributions of \$10.4 million and principal repayments of \$7.8 million.
- As the ACWF has no liabilities, net assets have increased by the same amount.
- The increase in operating revenue is due to an increase in balances in repayment and the related interest receipts.
- Operating expenses have remained relatively constant.

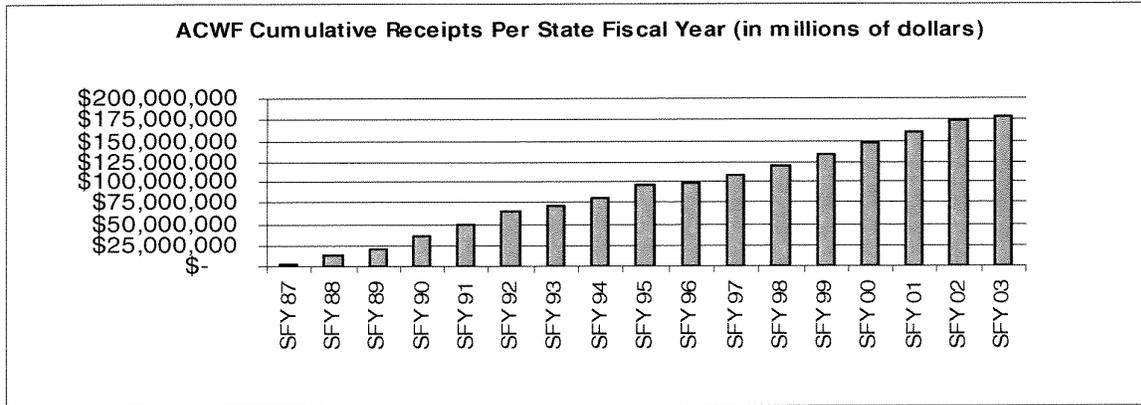
- Non-operating revenues have increased due to interest realized on investments of unused cash.
- Capital contributions increase is the result of higher loan distributions in FY 03 than FY 02.
- The ACWF's financial condition continues to remain strong. The ACWF is required by the federal Clean Water 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 (IUP) details management's short and long term goals established to meet this requirement of managing the fund for perpetuity. The goals of management are to continue to maintain the availability of money for meeting future wastewater facility and other water quality management needs as well as protecting the fiscal health of the ACWF. The most recently completed EPA conducted Performance Evaluation Review states that management is indeed operating the fund in this manner and states 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 Fiscal Year 03 the ACWF made 6 loans for wastewater improvements projects to 6 different communities. In Fiscal Year 02, 12 loans were made to 9 different communities.
- Loan commitments in Fiscal Year 03 totaled \$7.6 Million, as compared to loan commitments of \$25.9 Million in Fiscal Year 02.
- Through Fiscal Year 03, the ACWF has made a total of 80 loans to 26 different communities with a total committed value of \$171,995,623. (It is noted that the potential pool of loan recipients is comprised of approximately 35 communities. Therefore, the ACWF has made loans to approximately 75% of all potential borrowers.)



- Through SFY 03, the aggregated receipts of the ACWF have been \$177,014,033. This includes federal grants, state matches, loan interest repaid and investment interest earned.



(The committed value is greater than the aggregated receipts of the fund as loan principal repayments are loaned backed out; however, loan principal repayments are not counted in the aggregated receipts.)

- The finance charge for loans remains the same as last year. Finance charges are fixed at the time of the loan commitment and are dependent on the contract term, but cannot exceed a 20-year amortization period. Rates are the higher of either the flat rate, or the current bond rate, as defined by the Municipal Bond Index*. Accrual of interest begins one year after the date of the first payment to the borrower.

Contract Term

Finance Charge %

Less than Five Years

1% or 12.5% of the current MBI*; whichever is higher

Five – Twenty Years

2.5% or 30% of the current MBI*; whichever is higher

* Municipal Bond Index rate refers to the Merrill – Lynch 500 Municipal Bond Index published in the Wall Street Journal once a week.

- One-half of one percent (.5%) of the finance charge noted above is taken as a fee to help offset future operational costs. This will help run the ACWF program once federal capitalization grants are no longer available.
- Currently, the default rate is zero and the number of late payments is zero. This is the same as last year.

Other Financial Information

The Alaska Department of Environmental Conservation, Facility Construction and Operation Division, Municipal Grants and Loans Section manages the ACWF. The ACWF loan program is regulated by Title 18, Chapter 76 of the Alaska Administrative Code and is audited annually per EPA issued guidance for the review and audit of state revolving loan funds.

The Municipal Grants and Loan Section has a budget to complete its mission, and the ACWF provides a portion of those funds needed for the funding of that budget. Consequently, the ACWF itself does not have a budget, but rather is a funding source for expenditures related to administration of the loan program. Currently, these funds come from the allowable 4% administrative set-aside from the federal capitalization grants. However, in anticipation of capitalization grants ending, a loan fee was instituted and is being collected to cover the costs of managing the ACWF loan program once the administrative set-aside funds are depleted.

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

The ACWF does issue 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 income of the ACWF to acquire bond receipts and save approximately \$1.6 million in general funds from the State budget annually. This process effectively substitutes bond receipts for interest income. 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 ACWF to grow in perpetuity. Audits of the ACWF 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 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.

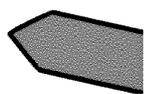
Contacting the Alaska Clean Water Fund Management

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 Rollo Pool, Program Manager, Municipal Grants and Loans Section, Facility Construction and Operation Division, Alaska Department of Environmental Conservation at 410 Willoughby Avenue, Suite 303, Juneau, Alaska 99801 or by email to Rollo_Pool@dec.state.ak.us.

STATE OF ALASKA
DEPARTMENT OF ENVIRONMENTAL CONSERVATION
Alaska Clean Water Fund
Statement of Net Assets
June 30, 2003
(With Comparative Amounts for June 30, 2002)

	<u>2003</u>	<u>2002</u> <u>(Restated)</u>
<u>Assets</u>		
Current assets:		
Cash and investments	\$ 63,878,104	52,741,772
Due from other funds	133,910	19,185
Due from federal government	18,257	2,884
Interest receivable	1,281,215	1,880,899
Loans receivable, current portion	<u>7,893,507</u>	<u>2,833,374</u>
Total current assets	73,204,993	57,478,114
Loans receivable, net of current portion	<u>84,676,385</u>	<u>87,340,141</u>
Total assets	<u>157,881,378</u>	<u>144,818,255</u>
<u>Liabilities</u>		
Outstanding warrants	<u>-</u>	<u>301,805</u>
<u>Net Assets</u>		
Restricted for Revolving Loan Program	<u>\$ 157,881,378</u>	<u>144,516,450</u>

See June 2002
11/11/03
John



See accompanying notes to financial statements.

STATE OF ALASKA
DEPARTMENT OF ENVIRONMENTAL CONSERVATION
Alaska Clean Water Fund

Statement of Activities

Year Ended June 30, 2003

(With Comparative Amounts for Year Ended June 30, 2002)

	<u>2003</u>	<u>2002</u> <u>(Restated)</u>
Operating revenues:		
Grants - Environmental Protection Agency	\$ 326,767	327,598
Interest income on loans	<u>2,030,923</u>	<u>1,254,451</u>
Total operating revenues	<u>2,357,690</u>	<u>1,582,049</u>
 Operating expenses - program administration:		
Salaries and related benefits	295,051	291,614
Allocated costs	32,100	29,300
Other	<u>58,564</u>	<u>66,724</u>
Total operating expenses	<u>385,715</u>	<u>387,638</u>
Earnings from operations	1,971,975	1,194,411
 Nonoperating revenues (expenses):		
Investment income	2,865,437	2,404,110
Bond fees	<u>(3,389)</u>	<u>(8,685)</u>
Net nonoperating revenues	<u>2,862,048</u>	<u>2,395,425</u>
Earnings before capital contributions	4,834,023	3,589,836
Capital contributions - Environmental Protection Agency grant	<u>8,530,905</u>	<u>5,951,396</u>
Change in net assets	13,364,928	9,541,232
Beginning net assets	144,516,450	134,840,457
Cumulative effect of a change in the reporting entity	<u>-</u>	<u>134,761</u>
Ending net assets	\$ <u><u>157,881,378</u></u>	<u><u>144,516,450</u></u>

See accompanying notes to financial statements.

STATE OF ALASKA
DEPARTMENT OF ENVIRONMENTAL CONSERVATION
Alaska Clean Water Fund
Statement of Cash Flows
Year Ended June 30, 2003
(With Comparative Amounts for Year Ended June 30, 2002)

	<u>2003</u>	<u>2002</u> <u>(Restated)</u>
Cash flows from operating activities:		
Cash paid out in loans	\$ (10,538,891)	(6,839,876)
Cash received on loans	10,471,316	7,497,661
Cash paid to employees for services	(295,051)	(291,614)
Cash paid for other operating costs	(90,664)	(96,024)
Cash received from operating grants	311,394	357,528
Cash received from (paid to) central treasury	<u>(114,725)</u>	<u>68,874</u>
Net cash flows from operating activities	<u>(256,621)</u>	<u>696,549</u>
 Cash flows from noncapital financing activities:		
Contributions from Environmental Protection Agency	8,530,905	5,951,396
Proceeds from issuance of revenue anticipation bonds	1,611,880	1,588,300
Principal payment on revenue anticipation bonds	(1,611,880)	(1,588,300)
Cash paid for bond fees	<u>(3,389)</u>	<u>(8,685)</u>
Net cash flows from noncapital financing activities	<u>8,527,516</u>	<u>5,942,711</u>
 Cash flows from investing activities -		
investment income received	<u>2,865,437</u>	<u>2,404,110</u>
 Net increase in cash and investments	11,136,332	9,043,370
 Beginning cash and investments	<u>52,741,772</u>	<u>43,698,402</u>
 Ending cash and investments	\$ <u>63,878,104</u>	<u>52,741,772</u>
 Reconciliation of earnings from operations to		
net cash flows from operating activities:		
Earnings from operations	\$ 1,971,975	1,194,411
Adjustments to reconcile earnings from operations to net cash		
flows from operating activities:		
(Increase) decrease in due from other funds	(114,725)	68,874
(Increase) decrease in due from federal government	(15,373)	29,930
Decrease in interest receivable	599,684	493,771
Increase in loans receivable	(2,396,377)	(1,392,242)
Increase (decrease) in outstanding warrants	<u>(301,805)</u>	<u>301,805</u>
 Net cash flows from operating activities	\$ <u>(256,621)</u>	<u>696,549</u>

See accompanying notes to financial statements.

STATE OF ALASKA
DEPARTMENT OF ENVIRONMENTAL CONSERVATION
Alaska Clean Water Fund

Notes to Financial Statements

June 30, 2003

(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.

Financial Reporting Entity

These financial statements reflect activities related to Alaska's Clean Water Fund (ACWF), 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 Facility Construction and Operation.

Accounting Principles

The accounting policies of the ACWF conform to accounting principles generally accepted in the United States of America. The ACWF reports are based on all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Review Boards of the Committee on Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

In June 1999 GASB approved Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments followed by Statements 37 and 38 which amend Statement No. 34. These statements, along with Statement 36, have been adopted and implemented by ACWF.

STATE OF ALASKA
DEPARTMENT OF ENVIRONMENTAL CONSERVATION
Alaska Clean Water Fund

Notes to Financial Statements, continued

Summary of Significant Accounting Policies, continued

Basis of Presentation

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.

Grant Revenue

Funds drawn from the EPA grant for loans to qualifying Alaskan communities are considered earned upon loan distribution and recorded as capital contributions.

State Appropriation and Operating Transfers

Funds appropriated by the State are intended to fulfill the EPA grant's matching requirement. Those amounts used to provide loans to qualifying Alaskan communities are recorded as State appropriations (non-operating revenue) in the year appropriated by the State Legislature. Amounts of State appropriations that exceed the matching requirement are recorded as operating transfers.

Interest Income

Per State regulations at 18 AAC 76.080, loans to qualified Alaskan communities must be repaid within twenty (20) years; interest accrual begins one year after the date of the first payment to the borrower. For financial statement purposes, interest income on outstanding loans is accrued when earned; calculation of accrued interest begins as each loan enters the repayment phase.

STATE OF ALASKA
DEPARTMENT OF ENVIRONMENTAL CONSERVATION
Alaska Clean Water Fund

Notes to Financial Statements, continued

Summary of Significant Accounting Policies, continued

Investment Income

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

Equipment

Because the purchases of equipment are insignificant to these financial statements, they are expensed in the year of acquisition.

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 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.

Columns for 2002

The amounts shown for 2002 in the accompanying financial statements are presented to provide a basis for comparison with 2003 and are not intended to be a complete financial statement in accordance with generally accepted accounting principles. Certain amounts in the 2002 statements have been reclassified and restated to conform to the current year's presentation.

(2) **Program Activities**

Program objectives carried out in the Division of Facility Construction and Operation (FC&O) include all activities surrounding loan approvals, disbursements and repayments as well as program administration.

STATE OF ALASKA
DEPARTMENT OF ENVIRONMENTAL CONSERVATION
Alaska Clean Water Fund

Notes to Financial Statements, continued

(3) **Cash and Investments**

Cash and investments represent cash on deposit in banks and cash invested in various investments as a part of the State's short-term fixed income and intermediate-term fixed income cash management pools. The assets of the short-term fixed income pools are comprised of money market instruments, U.S. Treasury bills, U.S. Government agency and sponsored securities, mortgage and asset-backed securities, collateralized mortgage obligations, corporate debt and other U.S. dollar-denominated bonds and cash. The assets of the intermediate-term fixed income pools are comprised of U.S. Treasury bills, U.S. Government agency and sponsored debt, corporate bonds, mortgage and asset-backed securities, and other U.S. dollar-denominated bonds and an equity ownership in the short-term fixed income pool. By law, all deposits and investments relating to ACWF are under the control of the Commissioner of the State Department of Revenue.

The State's cash is invested pursuant to State laws which mandate that investments shall be made with the judgment and care exercised by an institutional investor of ordinary professional prudence, discretion and intelligence. All deposits are insured or collateralized with securities held by the State or by its custodian in its name. This places all of the State's General Investment Fund's deposits and investments, of which ACWF cash and investments are a part, in Governmental Accounting Standards Board credit risk Category I.

(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 terms ranging from five to twenty years, with annual scheduled principal and interest payments. Interest rates are fixed at the time the loan agreement is signed. Effective December 29, 2000, all loans were converted to a 2.5% interest rate.

STATE OF ALASKA
DEPARTMENT OF ENVIRONMENTAL CONSERVATION
Alaska Clean Water Fund

Notes to Financial Statements, continued

Loans Receivable, continued

Balances outstanding on loans which are not yet in the repayment phase as of June 30, 2003 consist of the following:

<u>Community</u>	<u>Project Name</u>	<u>Balance</u>
Anchorage	FY 97 miscellaneous	\$ 356,992
Anchorage	Chester Creek sewer study	300,127
Anchorage	Facility upgrade	136,600
Anchorage	Operations facilities	1,138,248
Anchorage	Wastewater data processing	1,182,000
Anchorage	Operations facilities Phase III	1,997,943
Anchorage	Septic system site upgrade	500,000
Anchorage	B-4AB sewer trunk upgrade	2,370,748
Bristol Bay Borough	Sewer project III	938,703
Homer	Sewer service extension	910,140
Juneau	Valley Court sewer system	400,000
Juneau	J-D treatment disinfections	1,680,000
Juneau	Mendenhall treatment impr.	1,295,868
Juneau	20" sewer force main upgrade	1,851,703
Kodiak Island Borough	Vertical expansion	1,241,254
Nenana	Phase I sewer extension	256,080
North Slope Borough	Atqasuk sewer project	1,250,000
North Slope Borough	Nuiqsut sewer project	1,250,000
Petersburg	Scow Bay sewer extension	42,350
Sitka	Sawmill Creek sewer	250,000
Wasilla	Sewer main improvements	301,066
Wasilla	Sewer main improvements, Phase 2	32,671
Wrangell	WTP Facility Project	<u>667,051</u>
Total loans not in repayment		<u>\$ 20,349,544</u>

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

Notes to Financial Statements, continued

Loans Receivable, continued

Loans receivable in the repayment phase at June 30, 2003 consist of the following:

<u>Community</u>	<u>Project Name</u>	<u>Balance</u>
Anchorage	Eagle River expansion	\$ 3,413,127
Anchorage	Pt. Woronzof	1,561,780
Anchorage	Regional landfill	5,978,805
Anchorage	Girdwood wastewater	1,259,420
Anchorage	Eagle River TID	1,758,620
Anchorage	Miscellaneous projects	1,985,701
Anchorage	Chester Creek pump station	775,554
Anchorage	Equipment wastewater 1998	248,564
Anchorage	Solid waste landfill	7,616,399
Anchorage	FY99 miscellaneous small sewer	1,354,803
Anchorage	Asplund wastewater treatment	3,908,109
Bristol Bay Borough	Leader Creek sewer	1,027,987
Bristol Bay Borough	King Salmon sewer phase II	720,835
Cordova	Sewer system rehab	225,605
Craig	Wastewater improvements	333,786
Craig	Wastewater treatments	550,000
Fairbanks	Solid waste landfill	5,930,255
Homer	STP upgrade	2,817,164
Juneau	Belt filter press	127,702
Juneau	Back loop sewer	92,700
Juneau	Channel Drive extension	120,600
Juneau	Goat Hill sewer	44,640
Juneau	Goat Hill sewer, phase II	136,800
Juneau	Auke Bay wastewater	557,415
Kachemak	Sewage system	161,595
Klawock	Planning and design	132,047
Klawock	Wastewater system impr.	264,024
Kodiak Island Borough	Wastewater treatment plant	2,614,264
Kodiak Island Borough	Planning and design	21,373
Kodiak Island Borough	Karluk sanitation project	75,646
Kotzebue	Equipment upgrade	250,718
Nome	Icy View, phase I	385,532
Nome	Icy View, phase II	425,580
Nome	Solid waste landfill	1,253,453

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

Notes to Financial Statements, continued

Loans Receivable, continued

<u>Community</u>	<u>Project Name</u>	<u>Balance</u>
North Slope Borough	Anatuvuk sewer project	\$ 6,975,272
North Slope Borough	Wainwright sewer project	13,950,547
Palmer	Sewer repair	196,025
Seward	Lowell Point lagoon repair	603,254
Seward	Dairy Hill sewer project	15,990
Skagway	Solid waste treatment site	1,691,485
Unalaska	Upper Haystack sewer	584,957
Unalaska	WTP feasibility	<u>72,215</u>
	Total loans currently in repayment	<u>72,220,348</u>
	Total loans receivable	92,569,892
	Less current portion	<u>(7,893,507)</u>
	Long-term portion	<u>\$ 84,676,385</u>

Annual scheduled principal repayments for those loans in repayment at June 30, 2003 are as follows:

Year ending June 30:	
2004	\$ 7,893,507
2005	7,881,875
2006	7,964,971
2007	6,231,475
2008	6,212,013
2009-2013	18,506,832
2014-2018	10,384,104
2019-2023	<u>7,145,571</u>
	72,220,348
Loans currently not in repayment	<u>20,349,544</u>
Total loans receivable	<u>\$ 92,569,892</u>

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

Notes to Financial Statements, continued

(5) **Due From Other Funds**

Program administrative and set-aside expenses for ACWF are accounted for in the State of Alaska's General Fund. Funds are transferred from ACWF to the General Fund in advance and expended as program administration and set-aside costs are incurred. At June 30, 2003, Due From Other Funds was comprised of \$133,910 for amounts transferred to the General Fund in excess of the actual expenses.

(6) **Due From Federal Government**

Amounts due for reimbursable administrative expenses not yet drawn down on the EPA grant as of June 30, 2003 totaled \$18,257.

(7) **EPA Grant**

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 2003, \$1,611,880 was appropriated for the State's matching share and was funded by revenue anticipation bonds.

Funds from the EPA's portion of the grant are from a federal appropriation and are drawn down as loan disbursements and administrative costs are incurred. Federal drawdowns 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 the EPA appropriations:

<u>Federal Fiscal Year</u>	<u>Project Fund Grant Award</u>	<u>Spent in FY03</u>	<u>Spent to Date</u>	<u>Balance Remaining</u>
1999	\$ 16,081,700	446,182	16,081,700	-
2000	8,013,600	8,013,600	8,013,600	-
2001	7,941,500	397,890	397,890	7,543,610
2002	<u>7,959,400</u>	<u>-</u>	<u>-</u>	<u>7,959,400</u>
	<u>\$ 39,996,200</u>	<u>8,857,672</u>	<u>24,493,190</u>	<u>15,503,010</u>

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

Notes to Financial Statements, continued

(8) **Administrative Fees**

Effective December 29, 2000, pursuant to Alaska statute 18 AAC 76.085, ACWF began assessing an administrative fee equal to one-half of one percent of the outstanding loan balance. The fee is included in the interest rate charged. 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 Alaska Clean Water Fund can only access these funds following a legislative appropriation. The financial activities of the fee account have been included in these financial statements.

Summarized audited financial data of the account for the year ended June 30, 2003, follows:

Statement of Net Asset

Assets - cash	\$ <u>932,827</u>
Net assets	\$ <u>932,827</u>

Statement of Activities

Fees (included in interest income on loans)	\$ 393,590
Investment income	<u>36,003</u>
Increase in net assets	\$ <u>429,593</u>

(9) **Pension Plan**

All full-time employees of the State of Alaska, Department of Environmental Conservation participate in the State of Alaska Public Employees Retirement System (PERS), a multiple-employer public employee retirement system. Salaries and benefits for employees charged to ACWF and covered by PERS totaled \$295,051 in fiscal year 2003. Employees are required to contribute 6.75% of their annual salaries to PERS. The State of Alaska contributes the remaining amounts which are actuarially determined to be necessary to pay future benefits related to wages earned during the current period. These contributions are included in salaries and related benefits in these financial statements.

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

Notes to Financial Statements, continued

(10) **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 2003, ACWF issued \$1,611,880 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.

(11) **Commitments**

ACWF has committed to loans totaling \$47,963,940 for which amounts have not been disbursed as of June 30, 2003. The total amounts to be disbursed under these agreements is uncertain as not all of the loans are expected to be fully drawn; accordingly, they are not included in these financial statements.

(12) **Change in Reporting Entity**

During fiscal year 2003, it was determined by the State of Alaska Legislative Audit Division that the administrative fees that had been excluded from ACWF's financial statements in prior years should in fact be included. The cumulative effect of the change resulted in an increase in net assets of \$134,761 as of June 30, 2001. In addition, the 2002 balances have been restated from those presented in the prior year as follows:

Statement of Net Assets

Cash and investments increased by	\$ 811,248
Due from other funds decreased by	<u>(6,210)</u>
Net change in assets	805,038
 Outstanding warranted increased by	 <u>301,805</u>
Increase in net assets	\$ <u>503,233</u>

Statement of Activities

Interest income on loans increased by	\$ 351,430
Investment income increased by	<u>17,042</u>
Increase in change in net assets	\$ <u>368,472</u>

STATE OF ALASKA
DEPARTMENT OF ENVIRONMENTAL CONSERVATION
Alaska Clean Water Fund

Notes to Financial Statements, continued

(13) **Subsequent Event**

Plans are in place to issue Series A Revenue Bond Anticipation Notes for fiscal year 2004. Although this transaction has not yet been finalized, the issuance of the bonds is imminent. The borrowing is to be secured by interest earnings of the Alaska Clean Water Fund.

ADDITIONAL INFORMATION

STATE OF ALASKA
DEPARTMENT OF ENVIRONMENTAL CONSERVATION
Alaska Clean Water Fund

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2003

<u>Federal Grantor / Program Title</u>	Catalog of Federal Domestic Assistance <u>Number</u>	<u>Grant Number</u>	Award <u>Amount</u>	Due From Grantor July 1, <u>2002</u>	Eligible Expend- <u>itures</u>	State Share of Expend- <u>itures</u>	Federal Share of Expend- <u>itures</u>	Federal <u>Receipts</u>	Due From Grantor June 30, <u>2003</u>
U. S. Environmental Protection Agency-									
Major programs:									
Capitalization Grants for State Revolving Fund	66.458	CSC20001-99-1	\$ 16,081,700	\$ 2,884	535,418	89,236	446,182	449,066	-
Capitalization Grants for State Revolving Fund	66.458	CSC20001-00-0	8,013,600	-	9,609,909	1,596,309	8,013,600	8,013,600	-
Capitalization Grants for State Revolving Fund	66.458	CSC20001-01-0	7,941,500	-	<u>477,475</u>	<u>79,585</u>	<u>397,890</u>	<u>379,633</u>	<u>18,257</u>
Total Federal Awards				\$ <u>2,884</u>	<u>10,622,802</u>	<u>1,765,130</u>	<u>8,857,672</u>	<u>8,842,299</u>	<u>18,257</u>

Notes:

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the State of Alaska, Department of Environmental Conservation Alaska Clean Water Fund and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*. Because generally accepted accounting principles dictate that disbursements for loans to be repaid be recorded as receivables, expenses included in the financial statements are less than expenditures presented in this schedule. The federal and state shares of capitalized loans totaled \$8,530,905 and \$1,706,182 respectively, for FY03. These amounts are recorded as increases in loans receivable in the financial statements but are included as expenditures in this schedule.

FEDERAL SINGLE AUDIT REPORTS

Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting
Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing
Standards*

State of Alaska
Department of Environmental Conservation,
Division of Facility Construction and Operation

We have audited the financial statements of the State of Alaska Department of Environmental Conservation, Alaska Clean Water Fund (the ACWF) as of and for the year ended June 30, 2003, and have issued our report thereon dated September 12, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the ACWF's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

State of Alaska
Department of Environmental Conservation,
Division of Facility Construction and Operation

This report is intended solely for the information and use of the State of Alaska Department of Environmental Conservation and the U.S. Environmental Protection Agency and is not intended to be and should not be used by anyone other than these specified parties.

September 12, 2003

Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

State of Alaska
Department of Environmental Conservation,
Division of Facility Construction and Operation

Compliance

We have audited the compliance of the State of Alaska Department of Environmental Conservation, Alaska Clean Water Fund (the ACWF) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The ACWF's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the ACWF's management. Our responsibility is to express an opinion on the ACWF's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the ACWF's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the ACWF's compliance with those requirements.

In our opinion, the ACWF complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

State of Alaska
Department of Environmental Conservation,
Division of Facility Construction and Operation

Internal Control Over Compliance

The management of the ACWF is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the ACWF's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the State of Alaska Department of Environmental Conservation and the U.S. Environmental Protection Agency and is not intended to be and should not be used by anyone other than these specified parties.

September 12, 2003

STATE OF ALASKA
DEPARTMENT OF ENVIRONMENTAL CONSERVATION
Alaska Clean Water Fund
Summary Schedule of Prior Audit Findings and Corrective Action Plan
Year Ended June 30, 2003

Summary Schedule of Prior Audit Findings

There were no prior year findings made in accordance with OMB Circular A-133.

Corrective Action Plan

There are no current year audit findings; therefore, no corrective action plan is required.

STATE OF ALASKA
DEPARTMENT OF ENVIRONMENTAL CONSERVATION
Alaska Clean Water Fund
Schedule of Findings and Questioned Costs
Year Ended June 30, 2003

<u>AUDIT COMPONENT</u>	<u>AUDIT RESULT</u>	
I. Summary of audit results:		
Financial Statements:		
Type of auditor's report issued:	Unqualified	
Internal control over financial reporting:		
• Material weaknesses identified?	No	
• Reportable conditions identified, that are not considered material weaknesses?	None reported	
• Noncompliance material to the financial statements noted?	No	
Federal Awards:		
Internal control over major programs:		
• Material weaknesses identified?	No	
• Reportable conditions identified that are not considered material weaknesses?	None reported	
Type of auditor's report issued on major program compliance:	Unqualified	
Any audit findings that are required to be reported in accordance with section 510(a) of OMB Circular 1-133	No	
Major Program:		
<u>Agency</u>	<u>CFDA Number</u>	<u>Program</u>
U.S. Environmental Protection Agency	66.458	Capitalization Grants for State Revolving Fund
Dollar threshold used to distinguish between Type A and Type B programs	\$ 300,000	
Auditee qualified as low-risk?	Yes	
II. Findings relating to the financial statements which are required to be reported in accordance with Government Auditing Standards	None reported	
III. Federal awards findings and questioned costs	None reported	