

**EXHIBIT 6**  
**FINANCIAL STATEMENTS**

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

Financial Statements, Additional Information  
and Federal Single Audit Reports

Year Ended June 30, 2005

**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 Water

We have audited the accompanying statement of net assets of the Alaska Clean Water Fund (the ACWF), an enterprise fund of the State of Alaska, as of June 30, 2005, 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 the Alaska Clean Water Fund as of June 30, 2005, 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 16, 2005 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

State of Alaska  
Department of Environmental Conservation,  
Division of Water

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.

*Mikunda, Cottrell & Co.*

September 16, 2005

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

Management's Discussion and Analysis

June 30, 2005

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, 2005. 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 water quality improvement 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 financial statements provide detail 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 Year Fiscal Highlights**

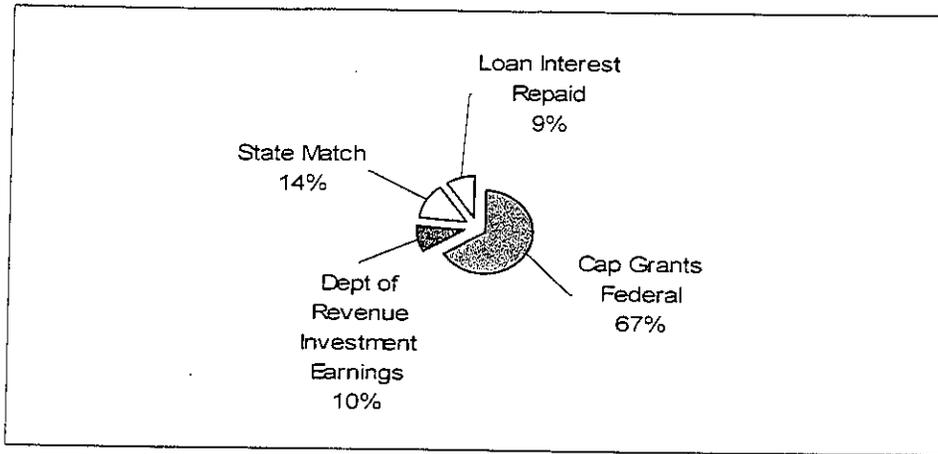
- Loan disbursements of \$14.4 Million were made to communities for ACWF projects; \$12.0 Million (or 83%) of the total amount was from the federal Environmental Protection Agency capitalization grants. Loan disbursements in fiscal year 04 were \$20.7 Million; and again, 83% of the total was drawn from federally provided capitalization grant funds.
- Loan repayments (comprised of principal, interest and fees) in the amount of \$16.3 Million were received. In fiscal year 04, repayments totaled \$10.5 Million.
- The Department of Revenue earned investment interest of \$2.2 Million for the ACWF. In fiscal year 04, the ACWF earned \$646,000 as investment interest.
- Program expenditures for administering the ACWF totaled \$259,000. In fiscal year 04, program expenditures were \$403,000.

### **Historical Financial Highlights**

- To date the Environmental Protection Agency has granted \$137,665,762 to the state for the ACWF.
- The ACWF expects to receive another \$6.5 Million from the EPA; matched by state funds of \$1,302,600 for this federal fiscal year.
- State appropriations of \$19,807,300 and bond receipts of \$9,313,560 have previously been secured.
- Other significant funding sources include investment interest earnings of \$21,704,995 and interest repayments of \$19,371,730.

As was noted and illustrated below, 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.

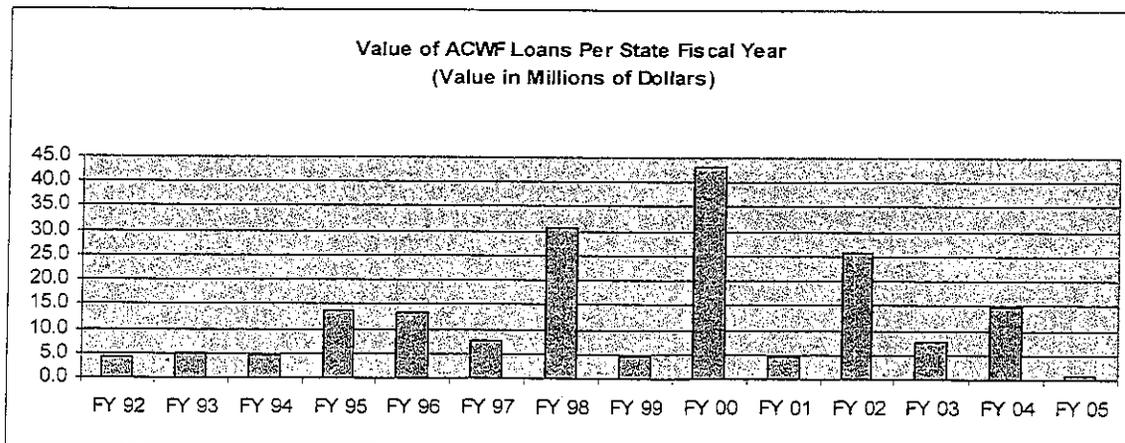
	<u>FY 05</u>	<u>FY 04</u>
Total Assets	\$ 194,251,890	\$ 177,643,326
Total Liabilities	39,448	2,428
Total Net Assets	194,212,442	177,640,898
Operating Revenue	2,592,400	2,326,079
Operating Expenses	262,966	403,493
Non-operating Revenue (net)	2,222,741	644,433
Capital Contributions	12,019,369	17,192,501
Increase in net assets	16,571,544	19,759,520

- During fiscal year 05, total assets increased by \$16.6 million, comprised primarily of cash due to receipt of the EPA grant. Loan receivable balances have increased by roughly \$0.7 million resulting from loan distributions of \$14.4 million and principal repayments of \$13.7 million.
- The increase in liabilities is due to a distribution payable to a loan recipient.
- The increase in operating revenue is due to an increase in loan repayments and the related interest receipts.
- Operating expenses have declined slightly due to a decrease in personnel costs.
- Non-operating revenues have increased due to interest realized on investments of unused cash.
- Capital contributions decreased as a result of lower loan distributions in FY 05 than FY 04.

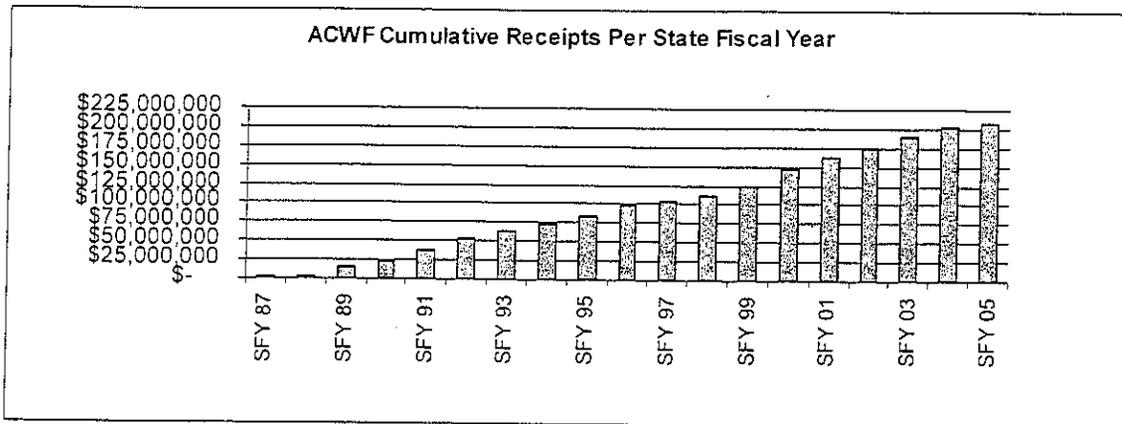
- The ACWF's financial condition continues to remain strong. The ACWF is required by the federal Clean Water Act to "... be established, maintained, and credited with repayments, and the fund balance shall be available in perpetuity for providing financial assistance".
- The federally required annual 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. Past EPA conducted Performance Evaluation Reviews state 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 05 the ACWF made 2 loans for wastewater improvements projects to two different communities. In fiscal year 04, 6 loans were made to two different communities.
- Loan commitments in fiscal year 05 totaled \$606,000, as compared to loan commitments of \$14.8 Million in fiscal year 04.
- Through fiscal year 05, the ACWF has made a total of 85 loans to 27 different communities with a total committed value of \$197,099,338 (During FY 05, a change was made to include in the tally only actual loans executed; rather than also including loan increases.) It is noted that the potential pool of loan recipients is comprised of approximately 35 communities. Therefore, the ACWF has made loans to approximately 78% of all potential borrowers.



- Through SFY 05, the aggregated receipts of the ACWF have been \$207,863,347. This includes federal grants, state matches, loan interest repaid and investment interest earned.



(The committed value [see previous page] also includes loan principal repayments and the above amount [cumulative receipts] does not.

- The finance charge for loans was reduced to 1.5% effective 4/28/05; all loans had their interest rate lowered to this rate for any outstanding balances owed. 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.

<u>Contract Term</u>	<u>Finance Charge %</u>
Less than one Year	.5%
One - Five Years	1% or 12.5% of the current MBI*; whichever is higher
Five - Twenty Years	1.5% or 20% 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; however, there have been late payments. (The communities have paid the associated late penalty fees.)

## **Other Financial Information**

The Alaska Department of Environmental Conservation, Water 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 \$1.3 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 Mike Lewis, Program Manager, Municipal Grants and Loans Section, Water Division, Alaska Department of Environmental Conservation at 555 Cordova Street, Suite 400, Anchorage, Alaska 99501-2617 or by email to [Mike\\_Lewis@dec.state.ak.us](mailto:Mike_Lewis@dec.state.ak.us).

**STATE OF ALASKA**  
**DEPARTMENT OF ENVIRONMENTAL CONSERVATION**  
**Alaska Clean Water Fund**  
 Statement of Net Assets  
 June 30, 2005  
 (With Comparative Amounts for June 30, 2004)

	<u>2005</u>	<u>2004</u>
<u>Assets</u>		
Current assets:		
Cash and investments	\$ 87,508,974	71,551,697
Due from other funds	228,699	71,397
Due from federal government	7,510	43,602
Interest receivable	999,298	1,218,796
Loans receivable, current portion	<u>8,673,692</u>	<u>8,222,566</u>
Total current assets	97,418,173	81,108,058
Loans receivable, net of current portion	<u>96,833,717</u>	<u>96,535,268</u>
Total assets	\$ <u>194,251,890</u>	<u>177,643,326</u>
<u>Liabilities</u>		
Outstanding warrants	<u>39,448</u>	<u>2,428</u>
<u>Net Assets</u>		
Restricted for Revolving Loan Program	\$ <u>194,212,442</u>	<u>177,640,898</u>

See accompanying notes to financial statements.

**STATE OF ALASKA**  
**DEPARTMENT OF ENVIRONMENTAL CONSERVATION**  
**Alaska Clean Water Fund**  
 Statement of Activities  
 Year Ended June 30, 2005  
 (With Comparative Amounts for Year Ended June 30, 2004)

	<u>2005</u>	<u>2004</u>
Operating revenues:		
Grants - Environmental Protection Agency	\$ 219,144	342,171
Interest income on loans	2,372,882	1,983,516
Fines and forfeitures	374	392
Total operating revenues	<u>2,592,400</u>	<u>2,326,079</u>
Operating expenses - program administration:		
Salaries and related benefits	206,170	316,961
Allocated costs	19,937	35,800
Other	36,859	50,732
Total operating expenses	<u>262,966</u>	<u>403,493</u>
Earnings from operations	2,329,434	1,922,586
Nonoperating revenues (expenses):		
Investment income	2,224,593	646,273
Bond fees	(1,852)	(1,840)
Net nonoperating revenues	<u>2,222,741</u>	<u>644,433</u>
Earnings before capital contributions	4,552,175	2,567,019
Capital contributions - Environmental Protection Agency grants	<u>12,019,369</u>	<u>17,192,501</u>
Change in net assets	16,571,544	19,759,520
Beginning net assets	<u>177,640,898</u>	<u>157,881,378</u>
Ending net assets	\$ <u>194,212,442</u>	<u>177,640,898</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, 2005  
(With Comparative Amounts for Year Ended June 30, 2004)

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Cash paid out in loans	\$ (14,386,228)	(20,628,972)
Cash received on loans	16,266,427	10,489,785
Cash paid to employees for services	(206,170)	(316,961)
Cash paid for other operating costs	(56,796)	(86,532)
Cash received from operating grants	255,236	316,826
Cash received from (paid to) central treasury	<u>(157,302)</u>	<u>62,513</u>
Net cash flows provided (used) by operating activities	<u>1,715,167</u>	<u>(10,163,341)</u>
Cash flows from noncapital financing activities:		
Contributions from Environmental Protection Agency	12,019,369	17,192,501
Proceeds from issuance of revenue anticipation bonds	1,582,380	1,620,000
Principal payment on revenue anticipation bonds	(1,582,380)	(1,620,000)
Cash paid for bond fees	<u>(1,852)</u>	<u>(1,840)</u>
Net cash flows from noncapital financing activities	<u>12,017,517</u>	<u>17,190,661</u>
Cash flows from investing activities -		
investment income received	<u>2,224,593</u>	<u>646,273</u>
Net increase in cash and investments	15,957,277	7,673,593
Beginning cash and investments	<u>71,551,697</u>	<u>63,878,104</u>
Ending cash and investments	\$ <u>87,508,974</u>	<u>71,551,697</u>
Reconciliation of earnings from operations to		
net cash flows from operating activities:		
Earnings from operations	2,329,434	1,922,586
Adjustments to reconcile earnings from operations to net cash		
flows from operating activities:		
(Increase) decrease in due from other funds	(157,302)	62,513
(Increase) decrease in due from federal government	36,092	(25,345)
Decrease in interest receivable	219,498	62,419
Increase in loans receivable	(749,575)	(12,187,942)
Increase in outstanding warrants	<u>37,020</u>	<u>2,428</u>
Net cash flows provided (used) by operating activities	\$ <u>1,715,167</u>	<u>(10,163,341)</u>

See accompanying notes to financial statements.

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

Notes to Financial Statements

June 30, 2005

(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 the Alaska Clean Water Fund, 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.

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.

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.

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

Notes to Financial Statements, continued

**Summary of Significant Accounting Policies, continued**

**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 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 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.

**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.

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

Notes to Financial Statements, continued

**Summary of Significant Accounting Policies, continued**

**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 2004**

The amounts shown for 2004 in the accompanying financial statements are presented to provide a basis for comparison with 2005 and are not intended to be a complete financial statement in accordance with generally accepted accounting principles.

(2) **Program Activities**

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

(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 State has created a pooled environment by which it manages investments. Actual investing is performed by investment officers in the State's Department of Revenue, Treasury Division, or by contracted external investment managers. ACWF invests in the State's internally managed General Fund and Other Non Segregated Investments Pool (GeFONSI). GeFONSI consists of investments in the State's internally managed Short-term and Intermediate-term Fixed Income Pools. A complete description of the investment policy for each pool is included in the Department of Revenue, Treasury Division, Policies and Procedures.

Assets are reported at fair value in accordance with Governmental Accounting Standards Board (GASB) Statement No. 31. 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 investment income. GeFONSI investment income is distributed to pool participants monthly if prescribed by statute or if appropriated by state legislature. Income in the Short-term and Intermediate-term Fixed Income Pools is allocated to pool participants daily on a pro rata basis.

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

Notes to Financial Statements, continued

**Cash and Investments, continued**

At June 30, 2005, ACWF had the following investments:

<u>Investment Type</u>	<u>Short-Term Fixed Income Pool</u>	<u>Intermediate Term Fixed Income Pool</u>	<u>Total</u>
Overnight Sweep Account	\$ 61,955	-	61,955
Commercial Paper	3,554,644	-	3,554,644
U.S. Treasury Bills	2,695,820	-	2,695,820
U.S. Treasury Notes	2,341,329	17,264,982	19,606,311
U.S. Treasury Strips	-	361,366	361,366
U.S. Government Agency Discount Notes	595,478	2,440,992	3,036,470
U.S. Government Agency Mortgage-backed	-	4,690,340	4,690,340
Other Assets-backed	6,804,191	7,353,942	14,158,133
Corporate Bonds	19,082,028	1,847,857	20,929,885
Yankees – Corporate	8,654,304	5,575,434	14,229,738
	<u>331,308</u>	<u>14,456</u>	<u>345,764</u>
Total invested assets	44,121,057	39,549,369	83,670,426
Pool related net assets (liabilities)	<u>442,025</u>	<u>(2,211,127)</u>	<u>(1,769,102)</u>
Net invested assets	\$ <u>44,563,082</u>	<u>37,338,242</u>	81,901,324
Unallocated deposits			<u>5,607,650</u>
Total cash and investments			\$ <u>87,508,974</u>

**Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

**Short-term Fixed Income Pool**

As a means of limiting its exposure to fair value losses arising from increasing interest rates, Treasury's investment policy limits individual fixed rate securities to fourteen months in maturity or fourteen months expected average life. Floating rate securities are limited to three years in maturity or three years expected average life. Treasury utilizes the actual maturity date for commercial paper and twelve month prepay speeds for other securities. At June 30, 2005, the expected average life of individual fixed rate securities ranged from one day to ten months and the expected average life of floating rate securities ranged from less than one year to three years.

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

Notes to Financial Statements, continued

**Cash and Investments, continued**

**Intermediate-term Fixed Income Pool**

Through its investment policy, Treasury manages its exposure to fair value losses arising from increasing interest rates by limiting the effective duration of its Intermediate-term Fixed Income Pool to  $\pm 20\%$  of the Merrill Lynch 1-5 year Government Bond Index. The effective duration for the Merrill Lynch 1-5 year Government Bond Index at June 30, 2005, was 2.31 years.

At June 30, 2005, the effective duration by investment type was as follows:

	<u>Effective Duration</u> <u>(in years)</u>
U.S. Treasury Notes	2.26
U.S. Treasury Strips	0.86
U.S. Government Agency	3.01
Mortgage-backed	2.01
Other Assets-backed	0.84
Corporate Bonds	2.60
Yankees – Corporate	3.09
Portfolio Effective Duration	2.10

Duration is a measure of interest rate risk. It measures a security's sensitivity to a 100-basis point change in interest rates. The duration of a pool is the average fair value weighted duration of each security in the pool taking into account all related cash flows.

Treasury uses industry-standard analytical software developed by The Yield Book Inc. to calculate effective duration. The software takes into account various possible future interest rates, historical and estimated prepayment rates, call options and other variable cash flows for purposes of the effective duration calculation.

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

Notes to Financial Statements, continued

**Cash and Investments, continued**

**Credit Risk**

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations.

Treasury's investment policy has the following limitations with regard to credit risk:

With the exception of the sweep account, Short-term Fixed Income Pool investments are limited to instruments with a long-term credit rating of at least A3 or equivalent and instruments with a short-term credit rating of at least A1 or equivalent by Standard & Poor's Corporation, Moody's and Fitch. Asset-backed and non-agency mortgage securities may be purchased if only rated by one of the rating agencies mentioned above if they are rated AAA. Unexpected daily cash surpluses that arise in this pool are invested overnight in the custodian's repurchase agreement sweep account. Treasury does not have a policy to limit credit risk associated with the sweep account.

Intermediate-term Fixed Income Pool investments are limited to securities with a long-term median credit rating of at least BBB3 or equivalent and securities with a median short-term credit rating of at least A1 or equivalent by Standard & Poor's Corporation, Moody's and Fitch. Asset-backed and non-agency mortgage securities may be purchased if only rated by one of the rating agencies mentioned above if they are rated AAA.

At June 30, 2005, the Intermediate-term Fixed Income Pool consisted of investments with credit quality ratings issued by nationally recognized statistical rating organizations as follows (using Standard and Poor's Corporation rating scale):

<u>Investment Type</u>	<u>Rating</u>	<u>Intermediate Term Fixed Income Pool</u>
U.S. Government Agency Discount Notes	Not Rated	7%
U.S. Government Agency Mortgage-backed	Not Rated	13%
Mortgage-backed (Agency)	AAA	6%
Other Assets-backed	Not Rated	11%
Other Assets-backed	AAA	4%
Other Assets-backed	A	1%

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

Notes to Financial Statements, continued

**Cash and Investments, continued**

<u>Investment Type</u>	<u>Rating</u>	<u>Intermediate Term Fixed Income Pool</u>
Corporate Bonds	AAA	1%
Corporate Bonds	AA	2%
Corporate Bonds	A	6%
Corporate Bonds	BBB	6%
No Credit Exposure		<u>43%</u>
		<u>100%</u>

Rating modifiers are not disclosed.

At June 30, 2005, the securities lending collateral was invested in a registered 2(a)-7 money market fund that was not rated.

**Concentration of Credit Risk**

Treasury's policy with regard to concentration of credit risk is to prohibit the purchase of more than five percent of a pool's holdings in corporate bonds of any one company or affiliated group. At June 30, 2005, ACWF had more than five percent of their investments in Federal Home Loan Mortgage Corporation and Federal National Mortgage Association as follows:

	<u>Fair Value</u>	<u>Percent of Total Investments</u>
Federal Home Loan Mortgage Corporation	\$ 5,217,681	6%
Federal National Mortgage Association	\$ 6,794,290	8%

**(4) Securities Lending**

Alaska Statute 37.10.071 authorizes the Commissioner of Revenue to lend assets, under an agreement and for a fee, against deposited collateral of equivalent fair value. The Commissioner entered into an agreement with State Street Corporation (the Bank) to lend fixed income securities. The Bank, acting as the Commissioner's agent under the agreement, transfers securities to broker agents or other entities for collateral in the form of cash or securities and simultaneously agrees to return the collateral for the same securities in the future.

At June 30, 2005, the fair value of securities on loan allocable to ACWF totaled \$678,503.

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

Notes to Financial Statements, continued

**Securities Lending, continued**

There is no limit to the amount that can be loaned and the Commissioner is able to sell securities on loan. Fixed income security loans are collateralized at not less than 102 percent of their fair value. Loaned securities and collateral is marked to market daily and collateral is received or delivered the following day to maintain collateral levels.

Cash collateral is invested in a registered 2(a)-7 money market fund which is valued at amortized cost. Maturities of investments in the money market fund generally do not match the maturities of the loaned securities because the lending agreements are terminable at will. Securities collateral may be pledged or sold upon borrower default. Since the Commissioner does not have the ability to pledge or sell the securities collateral unless the borrower defaults, they are not recorded in the financial statements. Securities on loan, cash collateral and cash collateral payable are not recorded in the financial statements. The Bank, ACWF and the borrower receive a fee from earnings on invested collateral. The Bank and ACWF share a fee paid by the borrower for loans not collateralized with cash.

There is limited credit risk associated with the lending transactions since the Commissioner is indemnified by the Bank against any loss resulting from counterparty failure or default on a loaned security or its related income distributions. The Bank further indemnifies the State against loss due to borrower rebates in excess of earnings on cash collateral. Indemnifications are subject to limitation relating to war, civil unrest or revolution, or beyond the reasonable control of the Bank.

(5) **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 April 28, 2005, all loans were converted from a 2.5% to a 1.5% 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, 2005 consist of the following:

<u>Community</u>	<u>Project Name</u>	<u>Balance</u>
Anchorage	FY 97 miscellaneous	\$ 1,559,895
Anchorage	Facility upgrade	534,972
Anchorage	Wastewater data processing	1,182,000
Anchorage	C-5-7 Trunk sewer upgrade	1,944,590
Anchorage	Asplund WWTF process	4,200,000
Anchorage	SCADA Sewer	2,982,921
Craig	Wastewater treatment	550,000
Homer	Sewer service extension	1,431,034
Juneau	Mendenhall treatment impr.	1,439,000
Juneau	Mendenhall WW treatment phase II	1,272,825
Kodiak Island Borough	Vertical expansion	1,309,658
North Slope Borough	Atqasuk sewer project	1,124,429
North Slope Borough	Kaktovik sewer project	13,493,147
North Slope Borough	Nuiqsut sewer project	1,124,429
Petersburg	Scow Bay sewer extension	643,823
Sitka	Sawmill Creek sewer	250,000
Sitka	WWT solids lime treatment	<u>971,624</u>
Total loans not in repayment		\$ <u>36,014,347</u>

Loans receivable in the repayment phase at June 30, 2005 consist of the following:

<u>Community</u>	<u>Project Name</u>	<u>Balance</u>
Anchorage	Eagle River expansion	\$ 2,718,811
Anchorage	Pt. Woronzof	1,308,436
Anchorage	Regional landfill	5,058,989
Anchorage	Girdwood wastewater	1,116,885
Anchorage	Eagle River TID	1,574,865
Anchorage	Miscellaneous projects	1,817,780
Anchorage	Chester Creek pump station	687,973
Anchorage	Equipment wastewater 1998	224,440
Anchorage	Chester Creek sewer trunk study	270,114
Anchorage	Operations facilities	1,024,424
Anchorage	Operations facilities phase III	1,798,149
Anchorage	Solid waste landfill	6,720,352
Anchorage	FY99 miscellaneous small sewer	1,240,234
Anchorage	Asplund wastewater treatment	3,654,631
Anchorage	Septic system site upgrade	450,000
Anchorage	B-4B Sewer trunk upgrade	2,133,673

**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>
Bristol Bay Borough	Leader Creek sewer	\$ 770,991
Bristol Bay Borough	King Salmon sewer phase II	650,875
Bristol Bay Borough	Sewer project phase III	844,833
Cordova	Sewer system rehab	175,471
Craig	Wastewater treatments	248,011
Fairbanks	Solid waste landfill	7,585,945
Homer	STP upgrade	2,244,081
Juneau	Belt filter press	76,621
Juneau	Channel Drive extension	40,200
Juneau	Goat Hill sewer	14,880
Juneau	Goat Hill sewer, phase II	91,200
Juneau	Auke Bay wastewater	491,837
Juneau	Juneau-Valley Court sewer upgrade	360,000
Juneau	J-D treatment disinfection plant	1,512,000
Juneau	20" Sewer force main upgrade	1,962,402
Kachemak	STP	137,743
Klawock	Planning and design	118,772
Klawock	Wastewater system improvement	237,480
City of Kodiak	Wastewater treatment plant	2,212,070
Kodiak Island Borough	Planning and design	19,520
Kodiak Island Borough	Karluk sanitation project	69,097
Kotzebue	Equipment upgrade	125,358
Nenana	Phase I sewer extension	231,325
Nome	Icy View, phase I	326,220
Nome	Icy View, phase II	360,106
Nome	Solid waste landfill	1,082,204
North Slope Borough	Anatuvuk sewer project	3,985,868
North Slope Borough	Wainwright sewer project	7,971,742
Palmer	Sewer repair	177,000
Seward	Lowell Point lagoon repair	505,399
Seward	Dairy Hill sewer project	13,324
Skagway	Solid waste treatment site	1,514,745
Unalaska	Upper Haystack sewer	506,322
Unalaska	WTP feasibility	63,190
Wasilla	Sewer main improvements	270,959
Wasilla	Sewer main improvements, phase II	42,135
Wrangell	Wastewater treatment	<u>653,380</u>
	Total loans currently in repayment	<u>69,493,062</u>
	Total loans receivable	105,507,409
	Less current portion	<u>(8,673,692)</u>
	Long-term portion	\$ <u>96,833,717</u>

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

Notes to Financial Statements, continued

**Loans Receivable, continued**

Annual scheduled principal repayments for those loans in repayment at June 30, 2005 are as follows:

Year ending June 30:	
2006	\$ 8,673,692
2007	6,986,016
2008	6,944,303
2009	6,940,057
2010	3,949,461
2011-2015	17,032,094
2016-2020	11,076,090
2021-2025	<u>7,891,349</u>
	69,493,062
Loans currently not in repayment	<u>36,014,347</u>
Total loans receivable	<u>\$ 105,507,409</u>

(6) **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, 2005, Due From Other Funds was comprised of \$228,699 for amounts transferred to the General Fund in excess of the actual expenses.

(7) **Due From Federal Government**

Amounts due for reimbursable administrative expenses not yet drawn down on the EPA grant as of June 30, 2005 totaled \$7,510.

(8) **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 2005, \$1,582,380 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.

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

Notes to Financial Statements, continued

**EPA Grant, continued**

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

Federal Fiscal <u>Year</u>	Project Fund <u>Grant Award</u>	Spent in <u>FY05</u>	Spent to <u>Date</u>	Balance <u>Remaining</u>
2003	\$ 7,907,000	5,875,337	7,907,000	-
2004	<u>7,911,900</u>	<u>6,405,074</u>	<u>6,405,074</u>	<u>1,506,826</u>
	<u>\$ 15,818,900</u>	<u>12,280,411</u>	<u>14,312,074</u>	<u>1,506,826</u>

(9) **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, 2005, follows:

**Statement of Net Assets**

Assets:	
Cash	\$ 1,830,894
Due from other funds	<u>86,946</u>
Total assets	<u>\$ 1,917,840</u>
Net assets	<u>\$ 1,917,840</u>

**Statement of Activities**

Fees (included in interest income on loans)	\$ 540,342
Investment income	<u>44,779</u>
Increase in net assets	<u>\$ 585,121</u>

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

Notes to Financial Statements, continued

(10) **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 \$206,170 in fiscal year 2005. 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.

(11) **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 2005, ACWF issued \$1,582,380 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.

(12) **Commitments**

As of June 30, 2005, ACWF is committed to disbursing a net total of \$38,013,399 for future loans. 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.

(13) **Subsequent Event**

Plans are in place to issue Series A Revenue Bond Anticipation Notes for fiscal year 2006. 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, 2005

Federal Grantor / Program Title	Catalog of Federal Domestic Assistance Number	Grant Number	Award Amount	Due From Grantor July 1, 2004	Eligible Expend- itures	State Share of Expend- itures	Federal Share of Expend- itures	Federal Receipts	Adjustments	Due From Grantor June 30, 2005
U. S. Environmental Protection Agency- Major programs:										
Capitalization Grants for State Revolving Fund	66.458	CS020001-03-0	\$ 7,907,000	43,602	7,050,407	1,175,070	5,875,337	5,918,939		-
Capitalization Grants for State Revolving Fund	66.458	CS020001-04-0	7,911,900	-	7,674,319	1,269,245	6,405,074	6,393,430	5	11,649
Total Federal Awards			\$	43,602	14,724,726	2,444,315	12,280,411	12,312,369	5	11,649

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 \$12,019,369 and \$2,403,879 respectively, for FY05. These amounts are recorded as increases in loans receivable in the financial statements but are included as expenditures in this schedule.

(2) Reconciliation of Due from Grantor at June 30, 2005:

Due from federal government per Statement of Net Assets	\$ 7,510
Due from federal government for administrative activities	4,139
Accounted for in other fund	\$ 11,649

**FEDERAL SINGLE AUDIT REPORTS**

# MIKUNDA, COTTRELL & Co.

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## 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 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, 2005, and have issued our report thereon dated September 16, 2005. 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.

### 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 an opinion 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 reportable 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 caused by error or fraud 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.

### Compliance and Other Matters

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

State of Alaska  
Department of Environmental Conservation,  
Division of Water

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.

*Mikunda, Cottrell & Co.*

September 16, 2005

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## 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 Water

### Compliance

We have audited the compliance of the Alaska Clean Water Fund (the ACWF), an enterprise fund of the State of Alaska, 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, 2005. 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, 2005.

State of Alaska  
Department of Environmental Conservation,  
Division of Water

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 reportable 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 caused by error or fraud 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.

*Mikunda, Cottrell & Co.*

September 16, 2005

**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, 2005

**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, 2005

<u>AUDIT COMPONENT</u>	<u>AUDIT RESULT</u>
<b>I. Summary of audit results:</b>	
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.S. Environmental Protection Agency	66.458
	<u>Program</u>
	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
<b>II. Findings relating to the financial statements which are required to be reported in accordance with Government Auditing Standards</b>	None reported
<b>III. Federal awards findings and questioned costs</b>	None reported