

Illustrative Example

**State of New Water
Department of Health and Environment**

**Financial Statements
and Independent Auditor's Report**

as of
June 30, 1999

DRINKING
W A T E R

REVOLVING
LOAN FUND

Table of Contents

Independent Auditor's Report	1
Combined Balance Sheet as of June 30, 1999	2
Special Revenue Funds - Statement of Revenues, Expenditures and Changes in Fund Balance for the years ended June 30, 1999	3
Enterprise Funds - Statement of Revenues, Expenses and Changes in Retained Earnings for the years ended June 30, 1999	4
Enterprise Funds - Statement of Cash Flows for the years ended June 30, 1999	5
Notes to Financial Statements	6
Independent Auditor's Report on Compliance and Internal Controls	12

Jones & Smith, LLP

Certified Public Accountants

Independent Auditor's Report

State of New Water
Drinking Water Revolving Loan Fund Program

We have audited the accompanying financial statements of the State of New Water Drinking Water Revolving Loan Fund Program as of and for the years ended June 30, 1999, as listed in the table of contents. These financial statements are the responsibility of the Program's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 audits provide 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 Drinking Water Revolving Loan Program at June 30, 1999, and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

Jones & Smith, LLP
Certified Public Accountants

New Water, New Water
August 17, 1999

BALANCE SHEET

For the Reporting Year Ended June 30, 1999

ASSETS	Loan and Related Enterprise Funds				Set-Aside Related Special Revenue Funds					Totals
	DWRLF Loan Account	Administration Fee Account	1452(k) Land Acq. Account	Total	2% Technical Assistance	4% Administration Account	10% State Program Management	15% Local Assistance	Total	(Memorandum Only)
Cash and Cash Equivalents	\$ 7,716,042	\$ -	\$ -	\$ 7,716,042	\$ -	\$ -	\$ 118,571	\$ -	\$ 118,571	\$ 7,834,613
Loans	\$ 2,668,934	\$ -	\$ 346,000	\$ 3,014,934	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,014,934
Receivables										
Investment Interest	\$ 27,328	\$ -	\$ -	\$ 27,328	\$ -	\$ -	\$ 6,125	\$ -	\$ 6,125	\$ 33,453
Loan Interest	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal Grant Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 43,750	\$ -	\$ -	\$ 43,750	\$ 43,750
Administrative Fees	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Assets	\$ 10,412,304	\$ -	\$ 346,000	\$ 10,758,304	\$ -	\$ 43,750	\$ 124,696	\$ -	\$ 168,446	\$ 10,926,750
LIABILITIES AND FUND EQUITY										
Liabilities										
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 43,750	\$ -	\$ -	\$ 43,750	\$ 43,750
Total Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 43,750	\$ -	\$ -	\$ 43,750	\$ 43,750
Fund Equity										
Contributed Capital:										
State Contributions	\$ 8,100,000	\$ -	\$ -	\$ 8,100,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,100,000
Federal Capitalization	\$ 2,265,686	\$ -	\$ 346,000	\$ 2,611,686	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,611,686
Retained Earnings	\$ 46,618	\$ -	\$ -	\$ 46,618	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 46,618
Fund Balance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 124,696	\$ -	\$ 124,696	\$ 124,696
Total Fund Equity	\$ 10,412,304	\$ -	\$ 346,000	\$ 10,758,304	\$ -	\$ -	\$ 124,696	\$ -	\$ 124,696	\$ 10,883,000
Total Liabilities and Fund Equity	\$ 10,412,304	\$ -	\$ 346,000	\$ 10,758,304	\$ -	\$ 43,750	\$ 124,696	\$ -	\$ 168,446	\$ 10,926,750

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

Special Revenue Funds

For the Reporting Year Ended June 30, 1999

	1999				
	2% Technical Assistance	4% Administration Account	10% State Program Management	15% Local Assistance	Total
Revenues					
Income on Investments	\$ -	\$ -	\$ 6,125	\$ -	\$ 6,125
State Appropriations	\$ -	\$ -	\$ 480,000	\$ -	\$ 480,000
Grant Revenue	\$ 240,000	\$ 525,000	\$ 903,571	\$ 400,000	\$ 2,068,571
Total Revenue	\$ 240,000	\$ 525,000	\$ 1,389,696	\$ 400,000	\$ 2,554,696
Expenditures					
Travel	\$ -	\$ -	\$ 7,000	\$ 20,000	\$ 27,000
Contractors	\$ 240,000	\$ 27,000	\$ 335,000	\$ 100,000	\$ 702,000
Equipment	\$ -	\$ 39,000	\$ 95,000	\$ -	\$ 134,000
Salaries and related benefits	\$ -	\$ 459,000	\$ 828,000	\$ 280,000	\$ 1,567,000
Total Expenditures	\$ 240,000	\$ 525,000	\$ 1,265,000	\$ 400,000	\$ 2,430,000
EXCESS OF REVENUES OVER EXPENDITURES	\$ -	\$ -	\$ 124,696	\$ -	\$ 124,696
Fund balance, beginning of year	\$ -	\$ -	\$ -	\$ -	\$ -
Fund balance, end of year	\$ -	\$ -	\$ 124,696	\$ -	\$ 124,696

STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN RETAINED EARNINGS

Enterprise Funds

For the Reporting Year Ended June 30, 1999

	1999			
	DWRLF Loan Account	Administration Fee Account	1452(k) Land Acq. Account	Total
Revenue				
Interest on Loans	\$ -	\$ -	\$ -	\$ -
Loan Administration Fees	\$ -	\$ -	\$ -	\$ -
Interest on Investments	\$ 247,552	\$ -	\$ -	\$ 247,552
Grant Revenue	\$ -	\$ -	\$ -	\$ -
Total Revenue	\$ 247,552	\$ -	\$ -	\$ 247,552
Expenses				
Principal Forgiveness	\$ 200,934	\$ -	\$ -	\$ 200,934
Salaries and related benefits	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 200,934	\$ -	\$ -	\$ 200,934
EXCESSS OF REVENUES OVER EXPENSES	\$ 46,618	\$ -	\$ -	\$ 46,618
Retained earnings, beginning of year	\$ -	\$ -	\$ -	\$ -
Retained earnings, end of year	\$ 46,618	\$ -	\$ -	\$ 46,618

STATEMENT OF CASH FLOWS

Enterprise Funds

For the Reporting Year Ended June 30, 1999

	1999			
	DWRLF Loan Account	Administration Fee Account	1452(k) Land Acq. Account	Total
Cash flows from operating activities				
Excess of revenue over expenses	\$ 46,618	\$ -	\$ -	\$ 46,618
Loan Repayments	\$ -	\$ -	\$ -	\$ -
Loan Disbursements	\$ (2,668,934)	\$ -	\$ (346,000)	\$ (3,014,934)
(Increase) decrease in investment interest receivable	\$ (27,328)	\$ -	\$ -	\$ (27,328)
(Increase) decrease in loan interest receivable	\$ -	\$ -	\$ -	\$ -
Increase (decrease) in accounts payable and other liabilities	\$ -	\$ -	\$ -	\$ -
Net cash used in operating activities	\$ (2,649,644)	\$ -	\$ (346,000)	\$ (2,995,644)
Cash flows from non-capital financing activities				
Contributions received from EPA	\$ 2,265,685	\$ -	\$ 346,000	\$ 2,611,685
Contributions received from State	\$ 8,100,000	\$ -	\$ -	\$ 8,100,000
Net cash provided by non-capital financing activities	\$ 10,365,685	\$ -	\$ 346,000	\$ 10,711,685
Cash flows from investing activities				
Net cash used in investing activities	\$ -	\$ -	\$ -	\$ -
INCREASE (DECREASE) IN CASH AND CASH EQUIVALANTS	\$ 7,716,042	\$ -	\$ -	\$ 7,716,042
Cash and cash equivalents, beginning of year	\$ -	\$ -	\$ -	\$ -
Cash and cash equivalents, end of year	\$ 7,716,042	\$ -	\$ -	\$ 7,716,042

NOTE 1 NATURE OF ORGANIZATION

The State of New Water Drinking Water Revolving Loan Fund (DWRLF) established through State Regulations 45-2.12, provides financial assistance to eligible Public Water Systems in New Water for the planning, design and construction of drinking water facilities as well as loans for land acquisition for source water protection purposes. The DWRLF is funded through federal capitalization grants as established under Section 1452 of the Safe Drinking Water Act. The Act requires the State of New Water to provide matching funds equal to 20 percent of federal funds received. Standard loans made by the Fund must be repaid within 20 years. Disadvantaged loans made by the Fund may have a repayment period of up to 30 years. All repayments, including interest and principal, must remain in the Fund.

The Fund is administered by the New Water Department of Health and Environment (NWDHE). NWDHE primary activities include making loans, providing direct assistance and managing the coordination of the Fund to meet the objectives of the Safe Drinking Water Act. As of June 30, 1999, Congress, in the first year of capitalization, authorized the EPA to award \$20,000,000 in capitalization grants to the State of New Water. New Water has already committed \$8,848,000 to the program, exceeding their state match requirements.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Fund Accounting

The DWRLF is organized on the basis of funds, each of which is considered a separate accounting entity. Fund types used for the DWRLF are described below:

Enterprise Funds

The accounting policies of the enterprise funds (DWRLF loan account, administration account, and land acquisition account) conform to generally accepted accounting principles as applicable to governmental units accounted for as an enterprise fund. Fund accounting is used because NWDHE is operated in a manner similar to a financing institution where net income and capital maintenance are appropriate determinations of accountability.

Special Revenue Funds

The special revenue funds are used to account for the proceeds of specific grant revenues that are legally restricted to expenditures for specified purposes. This excludes all set-aside accounts that are restricted to capital construction or acquisition, or are used for fee supported operating costs.

b. Basis of Accounting

The accrual basis of accounting is utilized in the enterprise fund types. Revenue is recognized when earned and expenses are recognized when the liability is incurred. The modified accrual basis of accounting is followed in the special revenue funds. Revenue is recorded when susceptible to accrual, i.e., both measurable and available.

c. Revenue Recognition

Grant Revenue: New Water receives administrative revenue and set-aside program revenues. These are recognized when earned.

Principal Forgiveness: New Water offers principal forgiveness of between 20 and 60 percent to Disadvantaged Communities. Forgiven principal is recognized as an expense as loan disbursements are made.

d. Cash and Cash Equivalents

All monies of the Fund are deposited with the New Water Treasurer's Office, and are considered cash. According to New Water law, the Treasurer is responsible for maintaining the cash balances and investing excess cash of the Fund. Therefore, management of the Fund does not have any control over the investment of excess cash, and the statement of cash flows considers all funds deposited with the Treasurer to be cash or cash equivalents, regardless of actual maturities of the underlying investments.

As of June 30, 1999, New Water's total pooled investments were approximately \$7.2 billion, and the average life of the securities invested was 203 days.

All cash of the Fund is stated at cost. Investments are not categorized because they are not evidenced by securities that exist in physical or book entry form.

e. Available Funding, Disbursements and Remaining Balance by Funding Year

As of June 30, 1999, New Water had total available funding in the amount of \$28,580,000 and had total disbursements of \$5,645,868 equating to a balance of \$22,934,132. A portion of the disbursements made to projects will be for disadvantaged communities that are receiving a subsidy in the form of principal forgiveness. As a result, a portion of the disbursed funds will be recorded as an expense and the loan account on the balance sheet will be reduced accordingly. The breakdown for all accounts is as follows:

Enterprise Funds

Loan Account

Grant Year	Committed Portion of Available Funding	Disbursed to Date	Remaining Balance
1999	\$23,100,000	\$2,869,868	\$20,230,132
Total	\$23,100,000	\$2,869,868	\$20,230,132

Administration Fee Account

Grant Year	Committed Portion of Available Funding	Disbursed to Date	Remaining Balance
1999	\$0	\$0	\$0
Total	\$0	\$0	\$0

Land Acquisition Account

Grant Year	Committed Portion of Available Funding	Disbursed to Date	Remaining Balance
1999	\$600,000	\$346,000	\$254,000
Total	\$600,000	\$346,000	\$254,000

Enterprise Fund Totals

Grant Year	Committed Portion of Available Funding	Disbursed to Date	Remaining Balance
1999	\$23,700,000	\$3,215,868	\$20,484,132
Total	\$23,700,000	\$3,215,868	\$20,484,132

Special Revenue Funds

Administration

Grant Year	Committed Portion of Available Funding	Disbursed to Date	Remaining Balance
1999	\$800,000	\$525,000	\$275,000
Total	\$800,000	\$525,000	\$275,000

Technical Assistance

Grant Year	Committed Portion of Available Funding	Disbursed to Date	Remaining Balance
1999	\$400,000	\$240,000	\$160,000
Total	\$400,000	\$240,000	\$160,000

State Program Management

Grant Year	Committed Portion of Available Funding	Disbursed to Date	Remaining Balance
1999	\$1,680,000	\$1,265,000	\$415,000
Total	\$1,680,000	\$1,265,000	\$415,000

Local Assistance

Grant Year	Committed Portion of Available Funding	Disbursed to Date	Remaining Balance
1999	\$2,000,000	\$400,000	\$1,600,000
Total	\$2,000,000	\$400,000	\$1,600,000

Special Revenue Fund Totals

Grant Year	Committed Portion of Available Funding	Disbursed to Date	Remaining Balance
1999	\$4,880,000	\$2,430,000	\$2,450,000
Total	\$4,880,000	\$2,430,000	\$2,450,000

Total Program Balance

Grant Year	Committed Portion of Available Funding	Disbursed to Date	Remaining Balance
1999	\$28,580,000	\$5,645,868	\$22,934,132
Total	\$28,580,000	\$5,645,868	\$22,934,132

f. Unused Federal Funds (ACH)

The following is a summary of the federal funding, cash draws and remaining balance for 1999.

Year	1999
Federal Grant Payments	\$20,000,000
Loan Disbursements	2,265,685
Set Aside Disbursements	2,414,571
Unused federal funds	\$15,319,744

g. Loans Receivable

The Fund makes loans to entities for projects that meet the eligibility requirements of the Act. Effective interest rates on the loans vary from 1.1 to 4.0 percent and are generally repaid over 20 years starting one year after the project completion. Up to 30 percent of federal grants can be used for principal forgiveness for communities meeting “Disadvantaged” criteria. Thus certain loans may appear to be non-performing, or under-performing, yet within program guidelines. Currently Disadvantaged Communities are eligible for principal forgiveness of 20 to 60 percent. In addition, a minimum of 15 percent of all dollars credited to the Fund must provide loans to small systems, those that serve fewer than 10,000 persons. As of June 30, 1999, the Fund had made loans to 10 communities. The status of these loans is as follows:

Borrower	Total Commitment	Amount Drawn	Amount Repaid	Commitment Outstanding	Type of Loan
Town of Beverton	\$ 43,524	\$ 43,524	\$ 0	\$ 0	Small, Disadvantaged
Bevin Water Company	\$ 332,000	\$ 83,000	\$ 0	\$ 249,000	Small, Private
Chandler Heights Water District	\$ 668,223	\$ 167,056	\$ 0	\$ 501,167	Standard
Fish Hook Mobile Home Park	\$ 341,500	\$ 85,375	\$ 0	\$ 256,125	Small, Private
Haskins Water Department	\$ 3,587,260	\$ 896,815	\$ 0	\$ 2,690,445	Standard

Langley Water Department	\$ 412,000	\$ 103,000	\$ 0	\$ 309,000	Small
Milltown Water Department	\$ 3,525,509	\$ 881,377	\$ 0	\$ 2,644,132	Standard
Pinecrest Water District	\$ 1,538,844	\$ 384,711	\$ 0	\$ 1,154,133	Small, Disadvantaged
Puryear Water Department	\$ 323,866	\$ 80,967	\$ 0	\$ 242,899	Small, Disadvantaged
Spring Valley Water Department	\$ 576,174	\$ 144,044	\$ 0	\$ 432,130	Small, Disadvantaged
Total	\$ 11,348,900	\$2,869,869	\$ 0	\$ 8,479,031	

h. Allowance for Loan Losses and Credit Risk

The SRF makes loans to both public and private entities for the planning, design and construction of drinking water infrastructure projects. The loans are secured by the full faith and credit or revenue pledges of the municipalities and collateral and revenue pledges from private borrowers. No allowance for loan losses is considered necessary based on management's evaluation of the collectibility of the loans. The evaluation takes into consideration such factors as size of individual loans, overall quality, current economic conditions and trends that may affect the borrowers' ability to pay.

i. Contingencies

The Fund is exposed to various risks of loss related to torts, thefts or assets, errors or omissions, injuries to state employees while performing Fund business, or acts of God.

The Fund maintains insurance for all risks of loss which is included in the indirect costs charged to the Fund. There have not been any claims against the Fund since its inception in 1998.

**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 New Water
Drinking Water Revolving Loan Fund**

We have audited the financial statements of the New Water Drinking Water Revolving Loan Fund as of and for the year ended June 30, 1999, and have issued our report thereon dated August 17, 1999. We conducted our audit in accordance with generally accepted auditing standards 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 State'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 consider the State'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 of 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.

This information is intended for the information of the State of New Water and the U.S. Environmental Protection Agency. However, this report is a matter of public record and its distribution is not limited.

August 19, 1999