OFFICE OF INSPECTOR GENERAL

Catalyst for Improving the Environment

Audit Report

State of Nevada Clean Water State Revolving Fund Program Financial Statements for Year Ended June 30, 2004

Report No. 2006-1-00024

January 23, 2006

Abbreviations

CAFR	Comprehensive Annual Financial Report
EPA	U.S. Environmental Protection Agency
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
GASB	Government Accounting Standards Board
NDEP	Nevada Division of Environmental Protection
OIG	Office of Inspector General
SRF	Clean Water State Revolving Fund

U.S. Environmental Protection Agency
Office of Inspector General

2006-1-00024
January 23, 2006

At a Glance

Catalyst for Improving the Environment

Why We Did This Audit

We performed this audit to determine:

- Whether the Nevada Clean Water State Revolving Fund Program's (the Program) financial statements were fairly presented in all material respects;
- To what extent the Program's internal controls over financial reporting could be relied upon; and
- Whether the Program complied with applicable laws and regulations.

Background

The requirement for audited financial statements was enacted to help ensure that the Program had management practices, systems, and controls in place to provide reliable information for managing the Federally funded program.

For further information, contact our Office of Congressional and Public Liaison at (202) 566-2391.

To view the full report, click on the following link:

www.epa.gov/oig/reports/2006/20060123-2006-1-00024.pdf

State of Nevada Clean Water State Revolving Fund Program Financial Statements for Year Ended June 30, 2004

What We Found

We rendered unqualified opinions on the Nevada Clean Water State Revolving Fund Program financial statements for the year ended June 30, 2004, and Nevada's compliance with applicable laws and regulations. We did not note any weaknesses in internal control that we consider to be material.

UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

OFFICE OF
INSPECTOR GENERAL

January 23, 2006

MEMORANDUM

SUBJECT: Auditor's Report for the State of Nevada
Clean Water State Revolving Fund Program
Financial Statements for Year Ended June 30, 2004
Report No. 2006-1-00024

FROM: Michael A. Rickey /s/ *Michael A. Rickey*
Director for Assistance Agreement Audits

TO: Wayne Nastri, Regional Administrator
EPA Region 9
San Francisco, CA

Attached is a copy of the subject audit we sent to the State of Nevada. The audit contains reports on the financial statements, internal controls, and compliance requirements applicable to the State of Nevada Clean Water State Revolving Fund program for the year ended June 30, 2004.

We issued an unqualified opinion on the financial statements and on the compliance requirements applicable to the State of Nevada Clean Water State Revolving Fund program. In addition, we did not note any matters involving the internal control system and operations that we consider to be material weaknesses.

Since we did not have any compliance matters or costs questioned, we are closing the audit report on issuance.

We have no objection to the release of this report to any member of the public upon request. The report contains no confidential business or proprietary information. If you have any questions or concerns, please contact Mr. William Dayton at (916) 498-6590 or Mr. Paul Felz at (303) 312-6270.

Enclosure

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UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

OFFICE OF
INSPECTOR GENERAL

Independent Auditor's Report

We have audited the accompanying financial statements of the State of Nevada Clean Water State Revolving Fund Program (the Program) as of and for the year ended June 30, 2004. These financial statements are the responsibility of the Program's management. Our responsibility is to express opinions 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.

As discussed in Note 1, the financial statements referred to above are intended to present the financial position, and the changes in financial position and cash flows, where applicable, of the Program. They do not purport to, and do not, present fairly the financial position of the State of Nevada as of June 30, 2004, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Program, as of June 30, 2004, and the changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Office of Inspector General
July 22, 2005

State of Nevada
Clean Water State Revolving Fund Program
Statement of Net Assets
As of June 30, 2004

Assets	
Current Assets:	
Cash and cash equivalents	$ 92,631,798
Loan interest receivable	1,939,217
Investment interest receivable	120,043
Loans receivable - current portion	6,611,526
Due from EPA	41,711
Total current assets	101,344,295
Loans receivable - long term portion	114,629,921
Unamortized cost of bond issuance	308,839
Total assets	216,283,055
Liabilities and Net Assets	
Current Liabilities:	
Due to other funds	$50,045
Bond interest payable	2,121,422
Bonds payable - current portion	3,215,000
Arbitrage rebate payable	3,300
Total current liabilities	5,389,767
Bonds payable – long term portion	107,195,147
Net assets:	
Restricted for revolving loan program	103,698,141
Total net assets	103,698,141
Total liabilities and net assets	$ 216,283,055

State of Nevada
Clean Water State Revolving Fund Program
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2004

Revenues:	
Interest on loans	$ 4,046,043
Interest on investments	1,497,625
EPA administrative reimbursements	271,706
Total revenues	5,815,374
Expenses:	
Bond interest	3,965,400
Amortization of bond issue costs	21,758
Administrative costs:	
Salaries and benefits	182,284
Operating costs	97,828
Indirect costs	45,936
Total Expenses	4,313,206
Operating income	1,502,168
Non-operating income	
EPA contributions	3,086,955
Change in net assets	4,589,123
Net assets, beginning of year	99,109,018
Net assets, end of year	$103,698,141

State of Nevada
Clean Water State Revolving Fund Program
Statement of Cash Flows
For the Year Ended June 30, 2004

Cash flows from operating activities:	
Loan disbursements	$ (12,681,391)
Interest receipts from borrowers	3,834,094
Principal repayments from borrowers	5,135,285
Investment interest	1,507,714
Transfer from Treasurer	679,535
Transfer out for administrative costs	(321,335)
EPA grants for administrative costs	265,447
Net cash used by operating activities	(1,580,650)
Cash flows from noncapital financing activities:	
Grants from EPA	3,086,955
Bond proceeds	67,745,954
Bond principal repayments	(3,040,000)
Bond interest payments	(2,985,607)
Net cash provided by noncapital financing activities	64,807,301
Net increase in cash	63,226,651
Cash and cash equivalents, beginning of year	29,405,148
Cash and cash equivalents, end of year	$92,631,798

Reconciliation of operating income to net cash provided by operating activities:

Operating income	$ 1,502,169
Adjustments to reconcile operating income to net cash used by operating activities:	
Amortization of cost of issuance	21,758
Interest on bonds	3,965,400
Change in assets and liabilities:	
(Increase) in loan interest receivable	(211,949)
Decrease in investment interest receivable	10,089
(Increase) in amount due from EPA	(6,259)
Decrease in amount due from Treasurer	679,535
(Increase) in loans receivable	(7,546,106)
Increase in obligations to other funds	4,713
Total adjustments	(3,082,819)
Net cash (used) by operating activities	$ (1,580,650)

State of Nevada
Clean Water State Revolving Fund Program
Notes to Financial Statements
June 30, 2004

1. Organization of the Fund

The Nevada Clean Water State Revolving Fund Program (the Program) was established pursuant to Title VI of the Federal Water Quality Act of 1987, the Clean Water Act (CWA), and the Nevada Revised Statutes 445A.060. The purpose of the State Revolving Fund (SRF) is to provide low interest loans to local governments for constructing wastewater treatment facilities and non-point source projects. The loan repayment period is normally twenty years, and all repayments, including interest and principal, must be credited to the SRF.

The Program was capitalized by a series of grants from the U.S. Environmental Protection Agency (EPA) starting in 1989. The State is required to provide an additional 20 percent of the Federal capitalization grant amount as matching funds in order to receive the grant from EPA. As of June 30, 2004, EPA awarded $102,257,800 in capitalization grants to the State, and the State is required to provide $20,451,560 to the Program as its matching share. The state match is provided by state bonds issued on behalf of the Program by the State Treasurer's Office.

The SRF Program is administered by the State of Nevada's Department of Conservation and Natural Resources, Division of Environmental Protection (NDEP) through the Bureau of Water Pollution Control (the Bureau). The Bureau has developed policies and procedures for the loan program to meet the objectives of the State and Federal Acts and to properly manage and coordinate the Program. The Bureau determines the level of funding to be contributed to the loan fund and used for loans. The Bureau's primary responsibilities for the SRF include obtaining capitalization grants from EPA, soliciting potential interested parties for loans, negotiating loan agreements with local communities, reviewing and approving payment requests from loan recipients, monitoring the loan repayments and conducting inspection and engineering reviews to ensure compliance with all applicable laws, regulations, and program requirements.

The Bureau has one full-time employee and numerous part-time staff to work on Program activities. The allocated portion of salaries and benefits of employees for time spent working on Program activities, as well as indirect costs based on payroll costs, are charged to the Program. NDEP staff charge the Program for time spent on SRF activities, and the Program reimburses NDEP for such costs in the following month. The charges include the salaries and benefits of the employees, as well as indirect costs allocated to the Program. Employees charging time to the Program are covered by the benefits available to Nevada State Employees.

The Program financial statements, footnotes, and related schedules are presented for the EPA. The Program's account balances and activities are included in Nevada's Comprehensive Annual Financial Report (CAFR) as part of the Water Projects Loan Fund, a major enterprise fund which uses the accrual basis of accounting. Because the Program is blended with other water pollution control programs, its assets, liabilities, equity and activities are not identifiable in Nevada's CAFR. Also, because of the different

1. Organization of the Fund (continued)

reporting methods, there may be differences between the amounts reported in these financial statements and Nevada's CAFR.

2. Summary of Significant Accounting Policies

Basis of Accounting

The program presents its financial statements as an enterprise fund. This method follows the accrual method of accounting, whereby revenues are recorded as earned and expenses are recorded when the liability is incurred. All assets and liabilities associated with the operations of the Program are included in the statement of net assets. An enterprise fund is used since the Program's operations are similar to a financing institution where net income and capital maintenance are appropriate determinations of accountability that provide information to the EPA in evaluating whether the Program is operating with the requirements of the Clean Water Act. In preparing the Program's financial statements, Nevada follows the accounting pronouncements of the Governmental Accounting Standards Board (GASB), as well as statements issued by the Financial Accounting Standards Board (FASB) before November 30, 1989, unless FASB pronouncements conflict with or contradict GASB pronouncements.

Cash and Cash Equivalents

The Nevada State Treasurer is an elected Constitutional Officer and part of the Executive Branch of the State government. The Treasurer is responsible for the handling of all State cash as a fiscal agent for the owning fund as discussed in Note 3. The Treasurer manages an investment pool where all temporary surplus cash is invested. The investment pool has the same general characteristics as demand deposit accounts. Invested funds are considered to be cash equivalents. Management of the Program does not have control over the investment of excess cash, and the statement of cash flows considers all funds deposited with the Treasurer to be cash and cash equivalents, regardless of actual maturities of the underlying investments. Deposits with the Treasurer are accounted for on the statement of net assets as cash and cash equivalents at their fair value. Investment interest earnings on these deposits are received by the Program on a quarterly basis.

Loans Receivable

Nevada operates the Program as a direct loan program, whereby the majority of loans made to waste water treatment facilities are funded by the Federal capitalization grant and/or match from State funds. Additional loans are made from revolving funds that have been repaid to the Program, from Program earnings and from leveraged funds. The Program's loans are evidenced by a formal loan contract between the Division and the borrower. Loan funds are disbursed to borrowers after they incur costs for the purposes of the loan, request reimbursement from the Program, and the Program receives the Federal share from EPA.

2. Summary of Significant Accounting Policies (continued)

Interest rates are based on the Bond Buyer Municipal Index which is published on a weekly basis each Friday, and currently range from 3.1 to 4.0 percent over a term of 20 years. In determining the interest rate that is offered to a loan recipient, the rate of interest as published by the Bond Buyer Municipal Index on the Friday preceding the date of is multiplied by a percentage, which is currently 62.5%. Interest is accrued and payable during the construction period. After the final loan disbursement has been made, the loan and agreement amounts are adjusted for the actual amounts disbursed.

No provision for doubtful accounts has been made as all loans are current, and management believes that all loans will be repaid according to the loan terms.

<u>Bonds Payable</u>

The State issues water pollution control bonds to meet its state match obligation. The State has also issued additional leveraged bonds to accelerate financing certain projects beyond amounts made available by the Federal capitalization grants. Bond discounts, premiums and costs of issuing the bonds are amortized over the life of the bonds. All bonds are backed by the full faith and credit of the State of Nevada, for which the Program is primarily responsible for repayment.

<u>Capitalization Grants</u>

In accordance with generally accepted accounting principles (GAAP), funds received from the EPA for the capitalization of the Program are recorded as non-operating income when received by the State Treasurer's Office.

3. Cash and Cash Equivalents

All monies in the Program are deposited with the State Treasurer's Office and are considered to be cash. The Treasurer is responsible for maintaining and investing the pooled cash balances in accordance with Nevada State laws. The Treasurer is required to maintain a mix of investments in order to allow funds to be withdrawn at any time to meet normal operating needs. The Program's share of the investment income is based on the average daily balance for the period and is credited to the Program quarterly. Details of the investments can be obtained from the State Treasurer's Office.

All cash and investments are stated at fair market value. Investments held by the State Treasurer's Office are not categorized because they are not evidenced by securities that exist in physical or book entry form.

3. Cash and Cash Equivalents (continued)

	Carrying Amount	Market Value
Not subject to categorization:		
Consolidated Cash Pool	$ 92,631,798	$ 92,631,798

4. Loans Receivable

The Program makes loans to qualified entities for projects that meet the eligibility requirements of the Clean Water Act. Loans are financed by capitalization grants, state match, interest earnings, revolving funds and leveraged funds. Interest rates on the loans are based on 62.5 percent of the Bond Buyers Index rate and vary between 3.1 and 4.0 percent. Loan maturities are 20 years. Semiannual payments are due on January 1st or July 1st. Interest during the construction period is calculated from the date funds are advanced until the final loan closing. The loan contract requires the communities to issue local bonds to secure the loan amount that the State has pledged as collateral for bonds payable.

The Program has issued loans for constructing wastewater treatment facilities and for non-point source projects. From inception of the program, three local agencies have had existing loans with a total of $24,195,381 refinanced by the Program at lower interest rates. There are six loan contracts that are funded with approximately $85 million in leveraged funds. In addition, the Program has issued one non-point source loan for approximately $6 million.

Details of loans receivable as of June 30, 2004:

	Authorized Loan Amounts	Amount Disbursed	Principal Paid	Outstanding Balance
Completed projects	$ 159,380,299	$ 145,856,210	$ 35,600,652	$ 110,255,558
Projects in progress	60,653,205	10,985,889		10,985,889
Totals	$ 220,033,504	$156,842,099	$ 35,600,652	$ 121,241,447
Less amounts due within one year				(6,611,526)
Non-current loans receivable, June 30, 2004				$ 114,629,921

4. Loans Receivable (continued)

Loans mature at various intervals through January 1, 2025. The scheduled principle repayments for completely disbursed loans in subsequent years are as follows:

Year ending June 30:	Amount
2005	$ 6,581,160
2006	7,203,247
2007	7,468,638
2008	7,743,899
2009	8,029,400
2010-2014	40,442,882
2015-2019	24,473,792
2020-2024	8,258,684
2025	53,856
	$110,255,558

Loans to Major Local Agencies:

As of June 30, 2004, the Program made loans to six local agencies with contract amounts in excess of $5 million, and principal balances in the aggregate that exceed $97 million. The outstanding principal balances of these loans represent approximately 80 percent of the total loans receivable, as follows:

Borrower	Loan Amount	Outstanding Balance
City of Henderson	$ 41,436,491	$ 24,443,703
City of Sparks	37,014,488	28,112,907
Carson City	10,620,000	8,326,690
Washoe County	32,284,137	28,317,546
City of Mesquite	7,880,000	5,299,267
City of Reno	46,523,205	2,592,139
Total loans to major agencies	$ 175,758,321	$ 97,092,252

5. Bonds Payable

The State provides the required matching funds through state match bonds. As of June 30, 2004, $24,530,000 in such bonds had been issued. As of June 30, 2004, $4,308,905 in state match bond funds were available to match EPA funds. The State also issues leveraged bonds for financing selected projects that exceed the amount of available funding. As of June 30, 2004, $113,175,000 in leveraged bonds had been issued, of which $16,477,991 was available for future projects.

In May 2001, the State defeased $3,170,000 of older state match bonds and $8,875,000 of leveraged bonds in an advanced refunding to take advantage of lower interest rates. These bonds were refunded in the 200lAl series issued for $28,720,000. The refunding portion of the proceeds of the new bond were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Program's financial statements. In accordance with generally accepted accounting principles, the deferred amount was reported as a deferred charge and is amortized over the remaining life of the refunded debt. This amount is deducted from the outstanding balance of the 2001A1 bonds for financial statement presentation. The remaining amount of defeased debt at June 30, 2004 is $11,235,000.

Details of bonds payable as of June 30, 2004 are as follows:

State Match Bonds:

	Balance	Current	Long-term
Series September 1, 1995A, General Obligation Water Pollution Control Revolving Fund Matching Bonds, interest of 4.0% to 5.1% due semi annually, principal due annually to February 1, 2005.	$ 90,000	$ 90,000	$ 0
Series July 1, 1998D, General Obligation Water Pollution Control Revolving Fund Matching Bonds, interest of 4.25% to 4.875% due semiannually, principal due annually to August 1, 2013.	2,310,000	200,000	2,110,000
Series September 1, 1999C, General Obligation Water Pollution Control Revolving Fund Match Bonds, interest of 5.25% to 5.3% due semiannually, principal due annually to August 1, 2012.	1,020,000	100,000	920,000

5. Bonds Payable (continued)

	Balance	Current	Long-term
Series July 1, 2000C, General Obligation Water Pollution Control Revolving Fund Matching Bonds, interest of 5% to 5.25% due semiannually, principal due annually to August 1, 2011.	1,110,000	115,000	995,000
Series May 1, 2001 B, General Obligation (Limited Tax) Water Pollution Control Revolving Fund Matching and Refunding Bonds, interest of 4% to 4.7% due semiannually, principal due annually to August 1, 2013.	3,800,000	735,000	3,065,000
Series November 25, 2003G, General Obligation Water Pollution Control Revolving Fund Match Bonds, interest of 2.00% to 4.00% due semiannually, principal due annually to August 1, 2013.	2,665,000	235,000	2,430,000
Total State match bonds payable:	10,995,000	1,475,000	9,520,000
Leveraged Bonds:			
Series September 1, 1995B, General Obligation Water Pollution Control Revolving Fund Leveraged Bonds, interest of 4.2% to 7.0% due semi-annually principal due annually to February 1, 2005.	455,000	455,000	0
Series May 1, 1996B, General Obligation Water Pollution Control Revolving Fund Leveraged Bonds, interest of 3.75% to 5.15% due semi-annually principal due annually to August 1, 2016.	570,000	180,000	390,000

5. Bonds Payable (continued)

	Balance	Current	Long-term
Series May 1, 2001A-1, General Obligation (Limited Tax) Water Pollution Control Revolving Fund Leveraged and Refunding Bonds, interest of 4% to 5% due semi-annually, principal due annually to August 1, 2019.	27,210,000	800,000	26,410,000
Series May 1, 2001A-2, General Obligation (Limited Tax) Water Pollution Control Revolving Fund Leveraged Bonds, interest of 6% to 6.5% due semiannually, principal due annually to August 1, 2017.	6,455,000	305,000	6,150,000
Series November 25, 2003H, General Obligation (Limited Tax) Water Pollution Control Revolving Fund Leveraged Bonds, interest of 3.0% to 5.0% due semiannually, principal due annually to August 1, 2023.	63,500,000	0	63,500,000
Total Leveraged bonds payable	98,190,000	1,740,000	96,450,000
Total State match and leveraged bonds	109,185,000	3,215,000	105,970,000
Bond premiums and discounts	1,422,329		
Total bonds payable	$ 110,607,329	$ 3,215,000	$ 107,392,329

The debt service requirements to maturity, excluding unamortized premium and discounts, are as follows:

	Principal	Interest	Total
2005	$ 3,215,000	$ 5,034,259	$ 8,249,259
2006	3,275,000	4,877,031	8,152,031
2007	5,780,000	4,676,613	10,456,613
2008	5,815,000	4,405,081	10,220,081
2009	5,815,000	4,124,088	9,939,088
2010-2014	31,275,000	16,613,556	47,888,556
2015-2019	29,105,000	9,379,663	38,484,663
2020-2024	24,905,000	2,443,991	27,348,991
Totals	$109,185,000	$51,554,282	$160,739,282

6. Arbitrage Rebate

In accordance with Internal Revenue Code Section 148(f) relating to arbitrage restrictions on tax-exempt bonds, an arbitrage rebate payable in the amount of $3,300 has been recorded for the Series 1999C state match bond issue, which is due and payable on November 28, 2004.

7. Interfund transfers

All administrative costs of the Program are initially paid by the Agency's general fund accounts. EPA grants directly reimburse those accounts for 83.33% of these costs, and the remaining balance is paid from the SRF fund through quarterly interfund transfers. Amounts due to other funds represent administrative costs incurred by general fund accounts for Program expenditures which are payable at June 30, 2004. The program recognizes the EPA contributed revenue as a reduction of current liabilities at the time the grant portion is received by the Agency.

8. Contributed Capital and Fund Balance

The Program is capitalized by EPA grants authorized by the Clean Water Act. All EPA funds drawn for loans are recorded as non-operating revenues from EPA. The State of Nevada is responsible for matching 20 percent of the EPA capitalization grants and this obligation is met by issuing state match bonds, which are repaid from loan interest receipts (discussed under Note 5). As of June 30, 2004, EPA has awarded capitalization grants of $102,257,800 to the State, of which $82,633,851 has been drawn for loans and administrative expenses.

The following summarizes the EPA capitalization grants awarded, amounts drawn on each grant as of the balance sheet date, and balances available for future draws:

8. Contributed Capital and Fund Balance (continued)

	Grant Amount	Cumulative Draws as of June 30, 2003	2004 Draws	Cumulative Draws as of June 30, 2004	Grant Funds Available June 30, 2004
1989	$ 4,577,200	$ 4,577,200		$ 4,577,200	$ 0
1990	4,738,000	4,738,000		4,738,000	0
1991	10,074,800	10,074,800		10,074,800	0
1992	9,534,900	9,534,900		9,534,900	0
1993	9,431,000	9,431,000		9,431,000	0
1994	5,813,800	5,710,832	$ 102,968	5,813,800	0
1995	6,007,800	5,807,540	162,479	5,970,019	37,781
1996	9,904,700	9,574,544		9,574,544	330,156
1997	2,990,500	2,404,532	486,285	2,890,817	99,683
1998	6,577,300	5,929,265	428,792	6,358,057	219,243
1999	6,577,900	6,358,637		6,358,637	219,263
2000	6,555,200	4,973,560	560,890	5,534,450	1,020,750
2001	6,496,100	166,639	1,610,988	1,777,627	4,718,473
2003	6,510,800				6,510,800
2004	6,467,800				6,467,800
Totals	$ 102,257,800	$ 79,281,449	$ 3,352,402	$ 82,633,851	$ 19,623,949

9. Contingencies

The Program is exposed to various risks of loss related to torts, thefts of assets, errors or omissions, injuries to state employees while performing Program business, or acts of God. The State maintains insurance for all risks of loss that is included in the indirect costs allocated to the Program. There have not been any claims against the Program since its inception in 1989.

10. Related Parties

There are no related party transactions with or related to amounts receivable from management of the Nevada State Division of Environmental Protection Clean Water State Revolving Fund Program.

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*

UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

OFFICE OF
INSPECTOR GENERAL

We have audited the financial statements of the State of Nevada Clean Water State Revolving Fund Program (the Program) as of and for the year ended June 30, 2004, and have issued our report thereon dated July 22, 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 Program'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 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 Program'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. This included tests of specific program requirements governing allowability for specific activities, allowable types of assistance, State matching, period of availability of funds and binding commitments, cash management, program income, and subrecipient monitoring that are applicable to the Program for the year ended June 30, 2004.

The management of the Program is responsible for the Program's compliance with those requirements. Our responsibility is to express an opinion on those requirements based on our audit. An audit includes examining, on a test basis, evidence about the Program's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Program complied, in all material respects, with the specific program requirements that are applicable to the Program for the year ended June 30, 2004.

This report is intended solely for the information and use management of the Program 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.

Office of Inspector General
July 22, 2005

Distribution

EPA Region 9

Regional Administrator
Director, Water Division
State Revolving Fund Coordinator
Audit Followup Coordinator

EPA Headquarters

Director, Grants Administration Division
Director, Financial Management Division
Director, Office of Grants and Debarment
Agency Followup Coordinator
State Revolving Fund Audit Manager
State Revolving Fund Branch, Office of Water

State of Nevada

Division of Environmental Protection, Nevada Department of Conservation and Natural Resources