



OFFICE OF INSPECTOR GENERAL

Catalyst for Improving the Environment

Audit Report

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

Report No. 2006-1-00018

November 29, 2005

Abbreviations

| | |
|------|---|
| CAFR | Comprehensive Annual Financial Report |
| DEP | Nevada Division of Environmental Protection |
| EPA | U.S. Environmental Protection Agency |
| FASB | Financial Accounting Standards Board |
| GASB | Governmental Accounting Standards Board |
| SDWA | Safe Drinking Water Act |



At a Glance

Catalyst for Improving the Environment

Why We Did This Audit

We performed this audit to determine:

- Whether the Nevada Drinking 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 State Revolving Fund Programs 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/2006/20051129-2006-1-00018.pdf

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

What We Found

We rendered unqualified opinions on the State of Nevada Drinking Water State Revolving Fund Program's Fiscal Year 2004 financial statements, and Nevada's compliance with applicable laws and regulations. Specifically, the financial statements present fairly, in all material respects, the financial position of the Program. Further, in our opinion, the Program complied, in all material respects, with applicable program requirements. We noted no matters involving the internal control over financial reporting and its operations that we considered to be material weaknesses.



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

OFFICE OF
INSPECTOR GENERAL

November 29, 2005

MEMORANDUM

SUBJECT: Auditor's Report for the State of Nevada
Drinking Water State Revolving Fund Program
Financial Statements for Year Ended June 30, 2004
Report No. 2006-1-00018

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 Drinking 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 Drinking 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 Ms. Yeon Kim at (617) 918-1482.

Enclosure

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At a Glance

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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 Drinking 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. The accompanying financial statements are not intended to present the financial position of the State of Nevada as of June 30, 2004, or the changes in its financial position and 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
April 8, 2005

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

Assets

Current assets:

| | |
|--------------------------------------|--------------|
| Cash and cash equivalents | \$8,666,447 |
| Loan interest receivable | 645,865 |
| Investment interest receivable | 9,878 |
| Federal grants receivable | 605,448 |
| Loans receivable – current portion | 1,213,297 |
| Total current assets | 11,140,935 |
| Loans receivable – long term portion | 36,941,942 |
| Unamortized cost of bond issuance | 148,646 |
| Equipment, net of depreciation | 17,194 |
| | \$48,248,717 |

Liabilities and Net Assets

Current liabilities:

| | |
|----------------------------------|------------|
| Accounts payable | \$570,220 |
| Accrued payroll | 16,434 |
| Accrued Interest | 225,146 |
| Arbitrage rebate payable | 11,800 |
| Current portion of bonds payable | 590,000 |
| Total current liabilities | 1,413,600 |
| Long-term liabilities: | |
| Bonds payable | 10,857,716 |
| Total long-term liabilities | 10,857,716 |

Total liabilities 12,271,316

Net Assets:

| | |
|----------------------------------|--------------|
| Invested in capital assets | 17,194 |
| Restricted for revolving loans | 35,960,207 |
| Total net assets | 35,977,401 |
| Total Liabilities and Net Assets | \$48,248,717 |

See accompanying notes to the financial statements.

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

Revenues:

| | |
|--------------------------------|-------------|
| Interest earned on loans | \$1,238,789 |
| Federal set-aside revenues | 2,254,462 |
| Interest earned on investments | 144,935 |
| Total revenues | 3,638,186 |

Expenses:

| | |
|----------------------------------|-----------|
| Set-asides: | |
| Administrative | 278,663 |
| State program management | 835,884 |
| Local assistance | 864,581 |
| Technical assistance | 147,336 |
| Debt service on matching bonds | 490,126 |
| Trust agent fees | 924 |
| Depreciation expense | 5,865 |
| Amortization of cost of issuance | 9,318 |
| Arbitrage rebate expense | (39,600) |
| Total expenses | 2,593,097 |

Operating income 1,045,089

Non-operating income:

| | |
|--------------------------|-----------|
| EPA capitalization grant | 5,206,788 |
|--------------------------|-----------|

Change in net assets 6,251,877

Net assets, beginning of year 29,725,524

Net assets, end of year \$35,977,401

See accompanying notes to the financial statements.

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

Cash flows from operating activities:

| | |
|---------------------------------------|-------------|
| Principal received on loans | \$1,131,681 |
| Interest received on loans | 1,130,066 |
| Interest received on investments | 156,782 |
| Cash received from EPA for set-asides | 2,808,519 |
| Disbursements to loan recipients | (7,538,945) |
| Trust agent fees | (924) |
| Cash paid for set-aside activities | (2,118,145) |
| | <hr/> |

Net cash used by operating activities (4,430,966)

Cash flows from noncapital financing activities:

| | |
|----------------------------|-----------|
| Grants from EPA for loans | 6,049,796 |
| Bond proceeds | 3,252,493 |
| Bond principal redemption | (305,000) |
| Interest payments on bonds | (457,501) |
| | <hr/> |

Net cash provided by noncapital financing activities 8,539,788

Net increase in cash 4,108,822

Cash and cash equivalents, beginning of year

4,557,625

Cash and cash equivalents, end of year

\$8,666,447

See accompanying notes to the financial statements.

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

Reconciliation of Operating Income to Net Cash Used for Operating Activities

| | |
|---|-----------------------------|
| Operating income | \$1,045,089 |
| Adjustments to reconcile operating income to net cash used by operating activities: | |
| Depreciation and amortization | 15,812 |
| Interest on bonds | 490,127 |
| Change in assets and liabilities: | |
| (Increase) in loan interest receivable | (108,723) |
| Decrease in investment interest receivable | 11,847 |
| (Increase) in loans receivable | (5,319,274) |
| Decrease (increase) in grants receivable | 554,057 |
| Increase in accounts payable | 531 |
| Increase (decrease) in accrued payroll | 7,158 |
| (Decrease) increase in construction costs payable | (1,087,990) |
| (Decrease) increase in arbitrage rebate payable | (39,600) |
| Total adjustments | <u>(5,476,055)</u> |
| Net cash used by operating activities | <u><u>(\$4,430,966)</u></u> |

See accompanying notes to the financial statements.

State of Nevada
Drinking Water State Revolving Fund Program
Notes to Financial Statements

Note 1. Organization of the Fund

The Nevada Drinking Water State Revolving Fund Program (the Program) was established in 1997 pursuant to Nevada Revised Statutes 445A.200 - 445A.295 and the Federal Safe Drinking Water Act (SDWA). The Program was established to provide assistance to Nevada's public water systems for projects that meet the eligibility requirements of the SDWA. The SDWA also allows the State to "set aside" up to 31% of the annual capitalization grants for administration of the Program (up to 4%), supplemental funding for the State's Public Water System Supervision program (up to 10%), for technical assistance to small public water systems (up to 2%), and for other technical or financial assistance to public water systems (up to 15%).

The Program is administered by the State of Nevada's Department of Conservation and Natural Resources, Division of Environmental Protection (DEP) through the Bureau of Water Pollution Control (the Bureau). The Bureau has developed policies and procedures for the loan and set-aside programs 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 and the amount to be set-aside for other eligible activities. The Bureau reviews loan applications for eligibility and subsequently prioritizes eligible projects with those compliance-related projects addressing public health risks receiving the highest ranking. The Bureau's staff reviews each loan applicant to determine its ability to repay the loan, its readiness to proceed with the project, its ability to complete the project, and the environmental impacts of the project. A list of prioritized loan applications is forwarded to the Board for Financing Water Projects for approval. Funding is offered to the highest-ranking projects that are ready to proceed, until all available funds are used.

Beginning in 1997, the Program received annual capitalization grants from the U.S. Environmental Protection Agency (EPA). Nevada is required to provide an amount equaling 20 percent of the Federal capitalization grant as matching funds in order to receive each grant. As of June 30, 2004, EPA had awarded \$58,524,157 in capitalization grants for the Program, and Nevada is required to provide \$11,749,320 as its matching share. The state match has been funded from proceeds of state match bonds issued on behalf of the Program by the State Treasurer's Office.

The Bureau has a small professional staff dedicated solely to performing services for the 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 direct costs, are charged to the Program. Employees charging time to the Program are covered by the State of Nevada Public Employee's Benefit Plan.

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

State of Nevada
Drinking Water State Revolving Fund Program
Notes to Financial Statements

Note 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. 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 within the requirements of the SDWA. All assets and liabilities associated with the operations of the Program are included in the balance sheet. Fixed assets are depreciated over the useful life of the asset, using the straight-line method. 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's cash as a fiscal agent for the fund. 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, and 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 Nevada State Treasurer are accounted for on the balance sheet as cash and cash equivalents. 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 water systems are funded by the Federal capitalization grant and from state matching funds. Additional loans can be made from revolving funds that have been repaid to the Program and Program earnings. The Program's loans are evidenced by a formal loan contract between the DEP and the borrower. Loan funds are disbursed to borrowers after they incur costs for the purposes of the loan. Federal grant funds are distributed to the State when the disbursement is made to the borrower.

Interest rates are based on the 20-year Bond Buyer Municipal Index for publicly-owned water systems and on the 25-year Bond Buyer Municipal index for privately-owned systems. Rates currently range from 3.1 to 4.0 percent. 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 that the loan contract is executed is multiplied by a set percentage, which is currently sixty-six percent (66%).

State of Nevada
Drinking Water State Revolving Fund Program
Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (continued)

Bonds Payable

The State issues state match bonds to meet its state match obligation. Bond premiums, discounts and cost of issuance are amortized over the life of the bonds. All bonds are backed by the full faith and credit of the State of Nevada, with the Program primarily responsible for repayment.

Contributed Capital

In accordance with generally accepted accounting principles applicable for the reported periods, funds received from the EPA for the capitalization of the revolving loan fund are recorded as contributed capital rather than as fund revenue and are recognized when all eligibility requirements have been met.

Note 3. Cash and Cash Equivalents

All monies in the Program are deposited with the Nevada State Treasurer and are considered to be cash and cash equivalents. The Treasurer is responsible for maintaining and investing the pooled cash balances in accordance with Nevada 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 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.

| | <u>Carrying Amount</u> | <u>Fair Market Value</u> |
|--|----------------------------|------------------------------|
| Not subject to categorization: Consolidated Cash Pool | \$8,643,536 | \$8,666,447 |

Note 4. Loans Receivable

The Program makes loans to qualified public water systems for projects that meet the eligibility requirements of the SDWA. Loans have been financed by federal capitalization grants and state match contributions. As of June 30, 2004, \$32,954,590 in federal funds and \$8,214,750 in state match had been disbursed for loans. Effective interest rates on loans vary between 3.19 and 4.03 percent. Loan maturities are 20 years. Semi-annual payments are due January 1 and July 1, beginning six months after the project is completed, or three years after the first loan draw is paid. The loan contract requires the public entities to issue local bonds to secure the loan amount which the State has pledged as collateral for bonds payable.

State of Nevada
Drinking Water State Revolving Fund Program
Notes to Financial Statements

Note 4. Loans Receivable (continued)

Loans receivable as of June 30, 2004 are as follows:

| Loan Status | Authorized Loan Amounts | June 30, 2003 Balance | Amount Disbursed | Principal Repaid | Outstanding Balance |
|------------------|----------------------------|--------------------------|---------------------|---------------------|------------------------|
| Completed | \$31,730,624 | \$29,848,204 | - | \$1,121,460 | \$28,726,744 |
| In Disbursements | 17,605,340 | 2,987,761 | 6,450,955 | 10,221 | 9,428,495 |
| Total | <u>\$49,335,964</u> | <u>\$32,835,965</u> | <u>\$6,450,955</u> | <u>\$1,131,681</u> | <u>\$38,155,239</u> |

Breakouts:

| | |
|-------------|--------------|
| Current | \$1,213,297 |
| Non-Current | \$36,941,942 |

Loans mature at various intervals through July, 2023. The scheduled principal and interest payments on completely disbursed loans maturing in subsequent years are as follows:

| Fiscal Year | Projected Principal | Projected Interest | Projected Total Payments |
|-------------------------|------------------------|-----------------------|-----------------------------|
| 2005 | \$ 1,213,297 | \$1,022,898 | \$2,236,195 |
| 2006 | 1,260,047 | 979,436 | 2,239,484 |
| 2007 | 1,305,736 | 933,748 | 2,239,484 |
| 2008 | 1,353,083 | 886,401 | 2,239,484 |
| 2009 | 1,402,148 | 837,336 | 2,239,484 |
| 2010 – 2014 | 7,811,380 | 3,386,039 | 11,197,419 |
| 2015 – 2019 | 9,326,064 | 1,863,282 | 11,189,345 |
| 2020 – 2023 | 5,065,407 | 335,094 | 5,400,501 |
| | <u>28,737,162</u> | <u>10,244,234</u> | <u>38,981,396</u> |
| Indian Hills GID 1* | (10,418) | (11,701) | (22,119) |
| Loans in Completion | 28,716,744 | <u>\$10,232,533</u> | <u>\$38,959,277</u> |
| Loans in Disbursements | 9,428,495 | | |
| Loan Balance at 6/30/04 | <u>\$ 38,155,239</u> | | |

*Indian Hills General Improvement District 1 is still in disbursement status even though the loan date is 8/11/00; therefore the amortization schedule has not been finalized yet. The payments on interest only, however, started on 7/1/01, and principal repayments started in FY 04. Thus both principal and interest that are due in FY 2005 have been added to the 2005 projected amounts, and subtracted later to arrive at the correct amount of the loans in completion.

State of Nevada
Drinking Water State Revolving Fund Program
Notes to Financial Statements

Note 4. Loans Receivable (continued)

As of June 30, 2004, the Program made three loans to two communities that exceeded \$5,000,000. These three loans represent 65.17% of the total loans receivable of \$38,155,239.

| <u>Community</u> | <u>Loan Authorized</u> | <u>Loan Outstanding</u> | <u>Percentage of Total Outstanding</u> |
|-----------------------------------|----------------------------|-----------------------------|--|
| Southern Nevada Water Authority 1 | \$12,269,695 | \$10,463,759 | 27.42% |
| Southern Nevada Water Authority 2 | 10,000,000 | 9,091,761 | 23.83% |
| City of Henderson | 5,500,000 | 5,309,149 | 13.92% |
| Total | <u>\$27,769,695</u> | <u>\$24,864,669</u> | <u>65.17%</u> |

Note 5. State Match Bonds Payable

The State issues bonds to provide the required matching funds. As of June 30, 2004, Nevada had deposited matching funds from the net proceeds of these bonds totaling \$11,805,705. The bonds are general obligations of the State to which the full faith and credit of the State is pledged. The State expects that the loan interest payments received from public water systems will be in excess of the requirements necessary to service debt on the bonds. Interest on the bonds is payable semiannually with rates ranging from 5.1% to 5.75%. Principal is due annually through 2020 with optional early redemption, at the option of the State, with early redemption premiums ranging from 0 to 1 percent.

As of June 30, 2004, the status of the state match deposits was as follows:

| | <u>June 30, 2003 Balance</u> | <u>FY 2004 Contribution</u> | <u>June 30, 2004 Balance</u> |
|-------------------------------|----------------------------------|---------------------------------|----------------------------------|
| Net Bond Proceeds | \$1,744,326 | \$3,252,493 | \$4,996,819 |
| Amount Used on Loans in FY 04 | | | <u>(1,405,864)</u> |
| State Match Available | | | <u>\$3,590,955</u> |

State of Nevada
Drinking Water State Revolving Fund Program
Notes to Financial Statements

Note 5. State Match Bonds Payable (continued)

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

| Bonds | Beginning Balance | 2004 Issues | 2004 Retirements | Year-End Balance |
|---|----------------------|--------------------|---------------------|---------------------|
| September 1, 1999, 1999B general obligation bonds, interest of 5.1% to 5.75% due semi-annually, principal due annually through 2020. | \$5,235,000 | | \$205,000 | \$5,030,000 |
| December 1, 2000, 2000C general obligation bonds, interest of 5.25% to 5.375 due semi-annually, principal due annually through 2018. | 1,555,000 | | 100,000 | 1,455,000 |
| September 1, 2001, 2001C general obligation bonds, interest of 5.1% to 5.75 due semi-annually, principal due annually through 2020. | 1,560,000 | | | 1,560,000 |
| November 1, 2003, 2003J general obligation bonds, interest of 2.00% to 4.25 due semi-annually, principal due annually through 2019. | | 3,300,000 | | 3,300,000 |
| | <u>\$8,350,000</u> | <u>\$3,300,000</u> | <u>\$305,000</u> | <u>11,345,000</u> |
| Add: Bonds Premium | | | | 102,716 |
| Total Bonds Payable | | | | <u>\$11,447,716</u> |
| <u>Breakouts:</u> | | | | |
| Current | | | | \$590,000 |
| Long Term | | | | \$10,857,716 |

**State of Nevada
Drinking Water State Revolving Fund Program
Notes to Financial Statements**

Note 5. State Match Bonds Payable (continued)

The Program's debt service requirements to maturity, excluding unamortized premium, are as follows:

| <u>Year Ending June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------------|---------------------|--------------------|---------------------|
| 2005 | \$590,000 | \$568,604 | \$1,158,604 |
| 2006 | 600,000 | 583,320 | 1,183,320 |
| 2007 | 615,000 | 555,920 | 1,170,920 |
| 2008 | 635,000 | 486,979 | 1,121,979 |
| 2009 | 645,000 | 417,289 | 1,062,289 |
| 2010 - 2014 | 3,550,000 | 1,621,088 | 5,171,088 |
| 2015 - 2019 | 4,255,000 | 675,994 | 4,930,994 |
| 2020 | 455,000 | 13,081 | 468,081 |
| Total | <u>\$11,345,000</u> | <u>\$4,922,275</u> | <u>\$16,267,275</u> |

Note 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 \$11,800 has been recorded for the 1999B state match bond, which is due in November of 2004. No arbitrage liability exists on the other three bond issues.

Note 7. Set-Aside Expenses

Set-aside costs were incurred mainly for the following activities:

- a) Administrative Costs (4% Set-Aside) – Costs incurred for salaries and associated expenses of personnel administering the Program.
- b) State Program Management (10% Set-Aside) – Costs incurred for five different areas: Enhancement of the Public Water System Supervision (PWSS) including development of the information management system, Technical Assistance/Source Water Protection Education, Underground Injection Control, Implementation of Nevada's Capacity Development Strategy, and Operator Certification.
- c) Technical Assistance (2% Set-Aside) – Costs incurred for technical assistance for small public water systems that serve 10,000 or fewer persons.
- d) Local Assistance (15% Set-Aside) - Costs incurred for providing fund to public water systems to provide technical or financial assistance under the capacity development strategy, and to enhance the Wellhead Protection Program and Source Water Assessment Program.

**State of Nevada
Drinking Water State Revolving Fund Program
Notes to Financial Statements**

Note 8. Contributed Capital

The Program is capitalized by the EPA grants authorized by SDWA and matching funds provided by state match bonds. All EPA funds drawn for loans are recorded as contributed capital from EPA. All EPA funds drawn for set-asides are recorded as revenue. As of June 30, 2004, EPA had awarded to Nevada \$45,604,904 in capitalization grants for loans of which \$32,954,590 had been drawn and recorded as contributed capital. An additional \$8,868,338 has been drawn for set-aside expenses since inception of the Program and recorded as revenue.

The following summarizes the federal capitalization grants:

| Year of Allotment | Grant Amount | Cumulative Draws As of June 30, 2003 | 2004 Draws | Cumulative Draws As of June 30, 2004 | Fund Available As of June 30, 2004 |
|-------------------|----------------------------|--------------------------------------|---------------------------|--------------------------------------|------------------------------------|
| 1998 | \$12,558,800 | \$12,062,082 | \$377,970 | \$12,440,052 | \$118,748 |
| 1999 | 14,585,100 | 14,584,470 | 630 | 14,585,100 | - |
| 2001 | 7,757,000 | 6,318,060 | 1,438,940 | 7,757,000 | - |
| 2002 | 15,841,600 | - | 7,040,776 | 7,040,776 | 8,800,824 |
| 2003 | 8,004,100 | - | - | - | 8,004,100 |
| Total | <u>\$58,746,600</u> | <u>\$32,964,612</u> | <u>\$8,858,316</u> | <u>\$41,822,928</u> | <u>\$16,923,672</u> |
| Breakouts: | | | | | |
| Set-Asides | \$13,141,696 | \$6,059,818 | \$2,808,520 | \$8,868,338 | \$4,273,358 |
| Loans | \$45,604,904 | \$26,904,794 | \$6,049,796 | \$32,954,590 | \$12,650,314 |

Note 9. Contingencies, Subsequent Events and Other Matters

Contingencies

The Program is exposed to various risks of loss related to torts; thefts of, damage to or destruction of assets; errors or omissions; injuries to state employees while performing the Program business; or acts of God. Nevada is self-insured against certain property and liability claims up to \$1 000,000 and carries excess liability insurance for any claim in excess of \$1,000,000. There have not been any claims against the Program since its inception.

Related Parties

There are no related party transactions with or related to amounts receivable from management of the Program.

Subsequent Events

In July 2004, the Board for Water Financing Projects committed additional loan funds of 8,000,000 for two projects.

**Independent Auditor's Report on Internal Control and 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

Mr. Jon Palm, Chief, Bureau of Water Pollution Control
Nevada Division of Environmental Protection

We have audited the financial statements of the Nevada Drinking Water State Revolving Fund Program (the Program) as of and for the year ended June 30, 2004, and have issued our report thereon dated April 8, 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 Nevada Division of Environmental Protection'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 costs, cash management, State matching, period of availability of funds and binding commitments, program income, reporting, 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.

State Response: The State of Nevada did not have any comments.

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

Office of Inspector General
April 8, 2005

Supplemental Information

**State of Nevada
Drinking Water State Revolving Fund Program
Schedule of Set-Aside Expenses
Year Ended June 30, 2004**

| <u>Cost Category</u> | <u>Administration</u> | <u>State Program Management</u> | <u>Technical Assistance</u> | <u>Local Assistance</u> | <u>Total</u> |
|----------------------|-----------------------|---|---------------------------------|-----------------------------|--------------------|
| Salaries/Benefits | \$178,802 | \$3,167 | - | \$53,009 | \$234,978 |
| Indirect Costs | 46,153 | - | - | 13,062 | 59,215 |
| Operating | 29,103 | 1,630 | - | 2,625 | 33,358 |
| Equipment | - | 1,670 | - | - | 1,670 |
| Contract | 20,539 | 828,499 | \$147,336 | 795,732 | 1,792,106 |
| Travel | 4,066 | 919 | - | 153 | 5,138 |
| Total | <u>\$278,663</u> | <u>\$835,885</u> | <u>\$147,336</u> | <u>\$864,581</u> | <u>\$2,126,465</u> |

Distribution

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State Revolving Fund Coordinator
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State of Nevada

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