



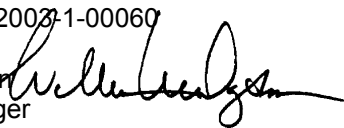
**UNITED STATES ENVIRONMENTAL PROTECTION AGENCY**  
WASHINGTON, D.C. 20460

OFFICE OF  
INSPECTOR GENERAL

February 5, 2003

Memorandum

Subject: Auditor's Report for the Nevada Clean Water State Revolving Fund  
as of June 30, 2001  
Audit Report No. 2002-1-00060

From: William M. Dayton   
SRF Audit Manager

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 Clean Water State Revolving Fund (SRF) program in Nevada for the year ended June 30, 2001.

We issued an unqualified opinion on the financial statements. We qualified our opinion on the compliance requirements applicable to the SRF program because the Nevada Clean Water State Revolving Fund did not comply with certain compliance matters required by the Clean Water Act and regulations. We also noted several matters involving the internal control system and operations that we consider to be reportable conditions. In response to the draft audit report, management agreed with all of our compliance and internal control issues, and are taking appropriate steps to correct the deficiencies.

In accordance with EPA directive 2750, the Action Official is required to take action on the findings and recommendations in this report within 150 days.

The OIG has 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 regarding this matter, please feel free to contact me at (916) 498-6590 or Ms. Jan Lister at (415) 947-4532.

Attachment



**OIG**  
OFFICE OF INSPECTOR GENERAL

*Catalyst for Improving the Environment*

## **Audit Report**

### **State of Nevada Division of Environmental Protection Water Pollution Control Revolving Fund**

**Financial Statements with  
Independent Auditor's Report, June 30, 2001**

**Audit Report Number 2003-1-00060**

**Issued February 5, 2003**



Windmill and Water Tank, Eastern Nevada

Inspector General Division  
Conducting the Audit:

Western Audit Division  
San Francisco, California

Region Covered:

Region 9

Program Office Involved:

Division of Environmental Protection  
Bureau of Water Pollution Control

State Offices:

Nevada State Department of Conservation  
and Natural Resources,  
Division of Environment Protection,  
Bureau of Water Pollution Control  
Administrative Services Division

Auditors Conducting Audit:

Janet Lister  
Eileen Collins

**State of Nevada  
Water Pollution Control Revolving Fund**

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

OFFICE OF  
INSPECTOR GENERAL

### Independent Auditor's Report

To: Alan Biaggi, Administrator  
Division of Environmental Protection  
Department of Conservation and Natural Resources  
State of Nevada

We have audited the accompanying balance sheet of the Nevada Division of Environmental Protection Water Pollution Control Revolving Fund Program (the Program) as of June 30, 2001, and the related statements of revenues, expenses and changes in retained earnings balance, and cash flows for the year then ended. 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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.

The scope of our audit did not include an audit of the financial statements of the preceding year sufficient to enable us to express, and we do not express, an opinion on the balance sheet of the Program as of June 30, 2000 or the related statements of revenue, expenses and changes in retained earnings balance, and cash flows for the year then ended, nor do we express an opinion on the consistency of application of accounting principles with the preceding year.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Nevada Division of Environmental Protection Water Pollution Control Revolving Fund Program as of June 30, 2001 and the results of its operation and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Note 1, the financial statements referred to above are intended to present the financial position and results of operations of the Nevada Division of Environmental Protection Water Pollution Control Revolving Fund Program, a component fund of the State of Nevada. These statements are not intended to present the financial position or results of operations for the State of Nevada or the Nevada Division of Environmental Protection, in conformity with accounting principles generally accepted in the United States, of which the Water Pollution Control Revolving Fund Program is a part.

In accordance with *Government Auditing Standards*, we have also issued a report, dated December 5, 2002, on our consideration of the Nevada Division of Environmental Protection Water Pollution Control Revolving Fund Program's internal control structure and a report dated December 5, 2002 on its compliance with laws and regulations. Those reports are integral parts of an audit prepared in accordance with auditing standards generally accepted in the United States of America and should be read in conjunction with the report in considering the results of our audit.

A handwritten signature in black ink, appearing to read "William Biaggi", is written over a faint, larger signature.

Office of the Inspector General  
Environmental Protection Agency

December 5, 2002

**NEVADA DIVISION OF ENVIRONMENTAL PROTECTION  
Water Pollution Control Revolving Fund**

**Balance Sheet  
As of June 30, 2001, with unaudited  
comparative totals for June 30, 2000**

<b>Assets</b>	<b>2001</b>	<b>(Unaudited) 2000 Memorandum Only</b>
Current Assets:		
Cash and cash equivalents	\$ 42,732,987	\$ 15,611,653
Current receivables:		
Loan interest	1,493,628	1,207,422
Investment interest	361,700	231,702
Due from other governments	43,329	79,040
Bond proceeds	7,031	0
Current portion of loans receivable	<u>4,539,422</u>	<u>3,549,713</u>
Total current receivables	<u>6,445,110</u>	<u>5,067,877</u>
Total current assets	49,178,097	20,679,530
Non-Current Assets:		
Loans receivable, net of current portion	86,336,131	79,109,133
Unamortized cost of bond issuance	<u>193,704</u>	<u>50,773</u>
Total non-current assets	<u>86,529,835</u>	<u>79,159,906</u>
Total assets	<u>\$ 135,707,932</u>	<u>\$ 99,839,436</u>
<b>Liabilities and Equity</b>		
Current Liabilities:		
Accrued bond interest payable	\$ 557,117	\$ 496,242
Construction costs payable	0	426,793
Accrued administrative costs payable	51,991	94,814
Current maturities of bonds payable	<u>1,745,000</u>	<u>1,670,000</u>
Total current liabilities	<u>2,354,108</u>	<u>2,687,849</u>
Non-Current Liabilities:		
Bonds payable, net of current maturities	48,625,830	21,007,316
Arbitrage rebate	<u>99,800</u>	<u>8,383</u>
Total non-current liabilities	<u>48,725,630</u>	<u>21,015,699</u>
Total liabilities	51,079,738	23,703,548
Equity:		
Contributed capital:		
Environmental Protection Agency	69,070,035	63,369,864
Retained Earnings	<u>15,558,159</u>	<u>12,766,024</u>
Total equity	<u>84,628,194</u>	<u>76,135,888</u>
Total liabilities and equity	<u>\$ 135,707,932</u>	<u>\$ 99,839,436</u>

**NEVADA DIVISION OF ENVIRONMENTAL PROTECTION  
Water Pollution Control Revolving Fund**

**Statement of Revenues, Expenses and Changes in Retained Earnings  
For the year ended June 30, 2001 with unaudited  
comparative totals for June 30, 2000**

	<u>2001</u>	<b>(Unaudited) 2000 Memorandum Only</b>
<b>Revenues:</b>		
Loan interest	\$ 3,246,160	\$ 2,973,605
Investment earnings	<u>1,162,885</u>	<u>882,100</u>
Total revenues	<u>4,409,045</u>	<u>3,855,705</u>
<b>Expenses:</b>		
Bond interest	1,325,351	1,242,755
Amortization of bond issuance costs	7,082	5,345
Arbitrage rebate	91,417	8,383
Administrative costs:		
Salaries and benefits	107,644	183,226
Operating costs	43,172	32,963
Indirect costs	27,019	40,493
Data processing	8,576	352
Travel	5,127	4,892
Training	<u>1,522</u>	<u>0</u>
Total expenses	<u>1,616,910</u>	<u>1,518,409</u>
Revenues over expenses	<u>2,792,135</u>	<u>2,337,296</u>
Retained Earnings, beginning of year	<u>12,766,024</u>	<u>10,428,728</u>
Retained Earnings, end of year	<u>\$ 15,558,159</u>	<u>\$ 12,766,024</u>

The accompanying notes are an integral part of these financial statements.

**NEVADA DIVISION OF ENVIRONMENTAL PROTECTION**  
**Water Pollution Control Revolving Fund**

**Combined Statement of Cash Flows**  
**For the year ended June 30, 2001, with unaudited**  
**comparative totals for June 30, 2000**

	<u>2001</u>	<u>(Unaudited) 2000 Memorandum Only</u>
Cash flows from operating activities:		
Revenues over expenses and transfers	\$ 2,792,135	\$ 2,337,296
Adjustments to reconcile operating income to net cash flow provided by operating activities:		
Amortization	20,558	21,907
(Increase) decrease in current receivables	( 387,523)	( 204,220)
Increase (decrease) in current liabilities	<u>( 317,324)</u>	<u>495,171</u>
Net cash provided by operating activities	2,107,846	2,650,154
Cash flows from capital and related financing activities:		
Funds received from EPA	5,700,171	4,772,771
Proceeds from the sale of bonds	41,774,992	1,321,129
Refunding of bonds	( 12,045,000)	0
Deferred amounts on refunding	( 529,967)	0
Retirement of bonds payable	<u>( 1,670,000)</u>	<u>( 1,655,000)</u>
Net cash provided by capital and related financing activities	33,230,196	4,438,900
Cash flows from non-capital and related financing activities:		
Loan disbursements	( 12,028,053)	( 8,752,311)
Repayment of loans	<u>3,811,345</u>	<u>3,769,466</u>
Net cash used by non-capital and related financing activities	(8,216,708)	(4,982,845)
Increase (decrease) in cash and cash equivalents	27,121,334	2,106,209
Cash and cash equivalents, beginning of year	<u>15,611,653</u>	<u>13,505,444</u>
Cash and cash equivalents, end of year	<u>\$ 42,732,987</u>	<u>\$ 15,611,653</u>

The accompanying notes are an integral part of these financial statements.



**NEVADA STATE DIVISION OF ENVIRONMENTAL PROTECTION**  
**Clean Water State Revolving Fund**  
**Notes to Financial Statements**

**1. Organization of the Fund**

The Nevada Water Pollution Control 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 20 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. State's are 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, 2001, EPA awarded \$82,783,100 in capitalization grants to the State, and the State is required to provide \$16,556,620 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 Division of Environmental Protection (NDEP) in the Bureau of Water Pollution Control. The Bureau has developed policies and procedures for the loan program to meet the objectives of the State and Federal Acts and 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 numerous staff dedicated solely or in part 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 direct 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 U.S. Environmental Protection Agency. The Program's account balances and activities are included in Nevada's Comprehensive Annual Financial Report (CAFR) as part of the Municipal Bond Bank special revenue fund, which uses the modified accrual basis of accounting. Because the Program is blended into this special revenue fund, 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.

**2. Summary of Significant Accounting Policies**

***Basis of Accounting***

The Program's financial statements are presented as an enterprise fund using the accrual method of accounting whereby revenues are recorded when earned and expenses are recorded when the

**NEVADA STATE DIVISION OF ENVIRONMENTAL PROTECTION**  
**Clean Water State Revolving Fund**  
**Notes to Financial Statements**

**2. Summary of Significant Accounting Policies (continued)**

related liability is incurred. All assets and liabilities associated with the operations of the Program are included in the balance sheet. 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 to assist in evaluating whether the Program is operating with the requirements of the CWA. 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 Office and part of the Executive Branch of 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 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 waste water treatment facilities are funded by the Federal capitalization grant and/or match from State funds. Additional loans can be made from revolving funds that have been repaid to the Program, 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. Interest rates are based on the Bond Buyer Municipal Index and currently range from 3.125 to 4.0 percent and are calculated from the date that funds are advanced. 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. Full repayment must be received by the Program within 20 years of first disbursement. 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.

***Bonds Payable***

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.

**NEVADA STATE DIVISION OF ENVIRONMENTAL PROTECTION**  
**Clean Water State Revolving Fund**  
**Notes to Financial Statements**

**2. Summary of Significant Accounting Policies (continued)**

***Contributed Capital***

In accordance with generally accepted accounting principles (GAAP), funds received from the EPA for the capitalization of the Program are recorded under equity as contributed capital. The State match obligation is not recognized under contributed capital, as discussed above under *Bonds Payable*. Nevada provides the state match obligation by issuance of general obligation bonds for which the Program is primarily responsible for repayment. As such, it is recorded as a liability on the balance sheet.

***Reclassifications***

Certain amounts in the 2000 unaudited financial statements have been reclassified to conform to the presentation in the 2001 financial statements.

**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 cost, which approximates 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>Market Value</u>
Not subject to categorization:		
Consolidated Cash Pool	<u>\$ 42,732,987</u>	<u>\$ 42,732,987</u>

**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 ½ percent of the Bond Buyers Index rate and vary between 3.125 and 4.00 percent. Loan maturities are 20 years. Semiannual payments are due on January 1<sup>st</sup> or July 1<sup>st</sup>. 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 which the State has pledged as collateral for bonds payable.

**NEVADA STATE DIVISION OF ENVIRONMENTAL PROTECTION**  
**Clean Water State Revolving Fund**  
**Notes to Financial Statements**

**4. Loans Receivable (continued)**

The Program has issued loans for constructing wastewater treatment facilities and for non-point source projects. From inception of the program, two local agencies have had existing loans with balances of \$10,784,950 refinanced by the Program at lower interest rates. There are four loans have been funded with approximately \$39 million in leveraged funds. In addition, the Program has issued one non-point source loan for \$12 million.

***Details of loans receivable as of June 30, 2001:***

	<u>Authorized Loan Amounts</u>	<u>Amount Disbursed</u>	<u>Principal Repaid</u>	<u>Outstanding Balance</u>
Completed projects	\$ 91,537,820	\$ 91,377,437	\$ 20,521,157	\$ 70,856,280
Projects in progress	<u>52,750,000</u>	<u>20,019,273</u>	<u>0</u>	<u>20,019,273</u>
Totals	<u>\$ 144,287,820</u>	<u>\$ 111,396,710</u>	<u>\$ 20,521,157</u>	\$ 90,875,553
Less amounts due within one year				<u>4,539,422</u>
Non-current loans receivable, June 30, 2001				<u>\$ 86,336,131</u>

Loans mature at various intervals through January 1, 2021. The scheduled minimum principle repayments on loans for completed projects in subsequent years are as follows

Year ending June 30:	<u>Amount</u>
2002	\$ 4,539,422
2003	4,990,830
2004	5,262,362
2005	5,509,489
2006	5,719,472
Thereafter	<u>64,853,978</u>
	<u>\$ 90,875,553</u>

***Loans to Major Local Agencies:***

As of June 30, 2001, the Program made loans to six local agencies that had balances totaling \$5 million or more, and with balances in the aggregate which exceeded \$73 million. The outstanding principal balances of these loans represent approximately 81 percent of the total loans receivable, as follows:

**NEVADA STATE DIVISION OF ENVIRONMENTAL PROTECTION**  
**Clean Water State Revolving Fund**  
**Notes to Financial Statements**

**4. Loans Receivable (continued)**

***Loans to Major Local Agencies (continued):***

<u>Borrower</u>	<u>Original Loan Amount</u>	<u>Outstanding Balance</u>
City of Henderson	\$ 41,436,490	\$ 30,443,527
City of Sparks	15,014,488	12,484,562
Carson City	10,620,000	9,677,084
Washoe County	36,759,520	8,657,151
City of Mesquite	7,880,000	6,249,296
City of Elko	<u>7,500,000</u>	<u>5,784,464</u>
Total loans to major agencies	119,210,498	73,296,084
 Loans to all other agencies	 25,077,322	 17,579,469
 Total loans receivable as of June 30, 2001	 <u>\$ 144,287,820</u>	 <u>\$ 90,875,553</u>

**5. Bonds Payable:**

***Bonds Payable - All Series (State Match, Leveraged and Refunded)***

The State provides the required matching funds through state match bonds. As of June 30, 2001, \$12,315,000 in such bonds have been issued. As of June 30, 2001, \$4,374,132 in state match bond funds were available to match EPA funds. The State also issues bonds for financing projects that exceed the amount of available funding, which are known as leveraged bonds. As of June 30, 2001, \$38,510,000 in leveraged bonds had been issued, and \$ 28,148,071 was available for current and future projects.

In May 2001, the State refinanced (called refunding) \$3,170,000 of older state match bonds and \$8,875,000 of leveraged bonds to take advantage of lower interest rates. These bonds were refunded in the 2001A1 series that were issued for \$28,720,000. In accordance with generally accepted accounting principles, deferred amounts of \$529,967 due on refunding are deducted from the outstanding balance of the 2001A1 bonds for financial statement presentation.

***Details of bonds payable as of June 30, 2001 are as follows:***

<b>State Match Bonds:</b>	<b><u>Balance</u></b>	<b><u>Current</u></b>	<b><u>Long-Term</u></b>
<b>Series September 1, 1991,</b> General Obligation Water Pollution Control Revolving Fund Bonds, interest of 5.20% to 6.10% due semiannually, principal due annually to August 1, 2001.	\$ 150,000	\$ 150,000	\$ 0
<b>Series September 1, 1992,</b> General Obligation Water Pollution Control Revolving Fund Bonds, interest of 3.0% to 5.4% due semiannually, principal due annually to August 1, 2002.	590,000	300,000	290,000

**NEVADA STATE DIVISION OF ENVIRONMENTAL PROTECTION**  
**Clean Water State Revolving Fund**  
**Notes to Financial Statements**

**5. Bonds Payable (continued)**

<b>Series June 1, 1994</b> , General Obligation Water Pollution Control Revolving Fund Bonds, interest of 5.125% to 5.5% due semiannually, principal due annually to February 1, 2004.	705,000	240,000	465,000
<b>Series September 1, 1995A</b> , General Obligation Water Pollution Control Revolving Fund Matching Bonds, interest of 4.0% to 5.1% due semiannually, principal due annually to February 1, 2005.	380,000	100,000	280,000
<b>Series May 1, 1996A</b> , General Obligation Water Pollution Control Revolving Fund Match Bonds, interest of 3.75% to 4.85% due semiannually, principal due annually to August 1, 2003.	335,000	110,000	225,000
<b>Series July 1, 1998D</b> , 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.	2,895,000	190,000	2,705,000
<b>Series September 1, 1999C</b> , 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.	1,320,000	100,000	1,220,000
<b>Series July 1, 2000C</b> , General Obligation Water Pollution Control Revolving Fund Matching Bonds, interest of 5% to 5.25% due semiannually, principal due annually to August 1, 2011.	1,315,000	0	1,315,000
<b>Series May 1, 2001B</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.	<u>4,625,000</u>	<u>0</u>	<u>4,625,000</u>
Total State match bonds payable	12,315,000	1,190,000	11,125,000

**NEVADA STATE DIVISION OF ENVIRONMENTAL PROTECTION**  
**Clean Water State Revolving Fund**  
**Notes to Financial Statements**

**5. Bonds Payable (continued)**

<b>Series September 1, 1995B</b> , General Obligation Water Pollution Control Revolving Fund Leveraged Bonds, interest of 4.2% to 7.0% due semiannually, principal due annually to February 1, 2005.	1,700,000	395,000	1,305,000
<b>Series May 1, 1996B</b> , 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.	1,070,000	160,000	910,000
<b>Series May 1, 2001A-1</b> , 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.	28,190,033	0	28,190,033
<b>Series May 1, 2001A-2</b> , 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.	<u>7,020,000</u>	<u>0</u>	<u>7,020,000</u>
Total Leveraged bonds payable	37,980,033	555,000	37,425,033
Total State match and leveraged bonds payable	50,295,033	1,745,000	48,550.033
Bond premiums and discounts	<u>75,797</u>	<u>0</u>	<u>75,797</u>
Total bonds payable	<u>\$ 50,370,830</u>	<u>\$ 1,745,000</u>	<u>\$ 48,625,830</u>

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

	<u>Principle</u>	<u>Interest</u>	<u>Total</u>
2002	\$1,745,000	\$ 2,019,000	\$ 3,764,000
2003	3,020,000	2,395,000	5,415,000
2004	3,040,000	2,253,000	5,293,000
2005	2,980,000	2,108,000	5,088,000
2006	3,035,000	1,958,000	4,993,000
Thereafter	<u>37,005,000</u>	<u>12,106,000</u>	<u>49,111,000</u>
Totals	<u>\$ 50,825,000</u>	<u>\$ 22,839,000</u>	<u>\$ 73,664,000</u>

**NEVADA STATE DIVISION OF ENVIRONMENTAL PROTECTION**  
**Clean Water State Revolving Fund**  
**Notes to Financial Statements**

**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 \$99,800 has been recorded for the Series 1999C state match bond issue and Series 2001 A-1 Leveraged and Refunding bond issue. As of June 30, 2001, the portion of the rebate due for the 1999C bonds will be due by November 28, 2004, and the portion due for the 2001 A-1 bonds will be due July 23, 2006.

**7. 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 contributed capital from EPA. The State of Nevada is responsible for matching 20 percent of the EPA capitalization grants and this obligation is met by funds provided by state match bonds which are repayable from loan interest repayments (discussed under Note 5). As of June 30, 2001, EPA has awarded capitalization grants of \$82,783,100 to the State, of which \$69,070,035 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 loans:

	Grant Amount	Total Draws As of June 30, 2000	2001 Draws	Total Draws as of June 30, 2001	Grant Funds Available, June 30, 2001
1989	\$ 4,577,200	\$ 4,577,200	\$ 0	\$ 4,577,200	\$ 0
1990	4,738,000	4,738,000	0	4,738,000	0
1991	10,074,800	10,074,800	0	10,074,800	0
1992	9,534,900	9,329,608	160,883	9,490,491	44,409
1993	9,431,000	9,116,633	0	9,116,633	314,367
1994	5,813,800	5,620,007	0	5,620,007	193,793
1995	6,007,800	5,807,540	0	5,807,540	200,260
1996	9,904,700	4,976,813	2,126,316	7,103,129	2,801,571
1997	2,990,500	0	0	0	2,990,500
1998	6,577,300	5,929,265	0	5,929,265	648,035
1999	6,577,900	3,199,998	3,158,639	6,358,637	219,263
2000	6,555,200	0	254,333	254,333	6,300,867
Totals	<u>\$ 82,783,100</u>	<u>\$ 63,369,864</u>	<u>\$ 5,700,171</u>	<u>\$ 69,070,035</u>	<u>\$ 13,713,065</u>

**8. Contingencies and Subsequent Events**

***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 which is included in the indirect costs allocated to the Program. There have not been any claims against the Program since its inception in 1989 and no contingencies came to our attention during our audit which require disclosure or accrual under Statement of Financial Accounting Standards No. 5.



**NEVADA STATE DIVISION OF ENVIRONMENTAL PROTECTION**  
**Clean Water State Revolving Fund**  
**Notes to Financial Statements**

**8. Contingencies and Subsequent Events (continued)**

***Related Parties***

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

***Subsequent Events***

Subsequent to June 30, 2001, several events occurred that have a direct and material effect on the Program's operations and the financial position as of June 30, 2001. These events are as follows:

The U.S. EPA awarded the fiscal year 2001 capitalization grant to the State on September 11, 2001 for a total of \$7,795,320, the federal component is \$6,496,100 and the required state matching funds is \$1,299,220.

The Program also entered into 3 binding commitments totaling \$15,130,000, between July 1, 2000 and November 30, 2002.

No other subsequent events following the fiscal year-end required disclosure in these financial statements.

**Independent Auditor's Report on the  
Internal Control Structure Based on an  
Audit of the Financial Statements  
Performed in Accordance with  
*Government Auditing Standards***



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY  
WASHINGTON, D.C.

OFFICE OF  
INSPECTOR GENERAL

TO: Alan Biaggi, Administrator  
Division Environmental Protection  
Department of Conservation and Natural Resources  
State of Nevada

We have audited the financial statements of Nevada Division of Environmental Protection Water Pollution Control Revolving Fund Program (the Program) as of and for the year ended June 30, 2001, and have issued our report thereon dated December 5, 2002.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 from material misstatement.

The management of the Nevada Division of Environmental Protection Water Pollution Control Revolving Fund Program is responsible for establishing and maintaining an internal control structure. In fulfilling its responsibilities, estimates and judgements by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the Nevada Division of Environmental Protection Water Pollution Control Revolving Fund Program for the year ended June 30, 2001, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk 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 structure. Accordingly, we do not express such an opinion.

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 under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted the following matters involving the internal control structure and its operations, as discussed in the following paragraphs, that we consider to be reportable conditions, but we do not consider these to be material weaknesses as defined above.

The control environment established by management does not ensure that management's assertions over financial and accounting matters are being achieved. Specifically, we noted:

**P The accounting function needs to be dedicated solely to this program.**

The Nevada Division of Environmental Protection has not established a dedicated accounting position to the SRF program. The accounting for the CWSRF is one of many responsibilities within the Administrative Services Office. As a result, Nevada has not been able to provide basic financial information, such as financial statements, trial balances, and loan information necessary to properly manage the program. These matters are discussed in the more detail in the following section.

**Trial balances and financial statements.**

CWSRF's are required to establish fiscal controls to assure proper accounting for program operations. Part of those controls include a trial balance, balance sheet, statement of revenues, expenses and changes in retained earnings, a statement of cash flows and notes to the financial statements. However, Nevada had not prepared a trial balance or financial statements in preparation of our audit. The OIG has assisted the State in preparation of these statements in the prior and current audit, however, we will be unable to do so in the future. New auditing standards prohibits our providing these types of services in future years. For this reason, the State must now ensure these statements are prepared for the CWSRF. In the event that it is not corrected during the next year audited, we will be forced to disclaim an opinion on the fair presentation of the financial statements.

**Loan schedules.**

The loan schedules maintained are not adequate to provide sufficient detail on loans outstanding. There are numerous versions of loan summary schedules, some prepared by the Financial Analyst, some by the State Treasurer, and some by the program office. Much of the data available was based on the transaction level instead of the summary level by loan. Ideally, the State could provide a summary sheet for all activity on the loan, including disbursements, construction period interest and repayment activity. Full utilization of the project management database should achieve this.

We commend Nevada for reclassifying the SRF programs as an enterprise fund. However, we recommend that it take the next step in managing and accounting for this program and make the accounting position dedicated to the SRF, and providing meaningful financial information in a timely manner.

**P Project management database not utilized.**

We previously recommended Nevada implement a project and financial management database to track loan and other SRF activity. In response to this recommendation, EPA assisted Nevada in funding approximately \$35,000 for the development of this software. At the time of our fieldwork, neither the SRF program office nor the Administrative Services Office were utilizing the software to maintain the loan database. While we understand that new software programs are time consuming to learn and install, the program is proven in many states and provides a great deal of information that management can, and should, use to operate the program. When the database is actively utilized by both offices and periodically reconciled to the State's official accounting system, it can assist in preparing financial statements and other required reporting.

**P Communication and cooperation between departments is lacking.**

During the course of the audit we found that better communication is need between the various program offices involved with management of the CWSRF. The Treasurer's Office maintain the bond and loan information, while the Division maintains the other information. The CWSRF is a combination of all these activities, and coordination and communication among the departments is necessary and vital to properly record all activities.

**Nevada of Nevada Response**

The preceding matters have been discussed with the Nevada Division of Environmental Protection, and provided the following comments:

*We have reviewed the draft Independent Auditor's Report and feel it fairly presents NDEP's situation. We have discussed these issues in great detail and have already made significant strides in resolving some of them. The database has been debugged and is being utilized effectively and should be able to provide the information for which it was designed. In fact, there is the possibility of further enhancements that could extend the database's ability to provide financial information.*

*There is also the possibility that pending legislation may give us the dedicated position discussed in your report. This would enable us to provide timely communication between all components of the SRF program and needed financial information and planning activities.*

This report is intended for the information of management of the Nevada Division of Environmental Protection Water Pollution Control Revolving Fund Program and the United States Environmental Protection Agency. However, this report is a matter of public record and distribution is not limited.

  
Office of Inspector General  
Environmental Protection Agency

December 5, 2002

**Independent Auditor's Report  
on Compliance with Requirements Applicable to the  
Environmental Protection Agency's  
State Revolving Fund Program  
in Accordance with  
*Government Auditing Standards***



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY  
WASHINGTON, D.C.

OFFICE OF  
INSPECTOR GENERAL

TO: Alan Biaggi, Administrator  
Division of Environmental Protection  
Department of Conservation and Natural Resources  
State of Nevada

We have audited the financial statements of the Nevada Division of Environmental Protection Water Pollution Control Revolving Fund Program (the Program) as of and for the year ended June 30, 2001, and have issued our report thereon dated December 5, 2002.

We have also audited the Program's compliance with requirements governing the following:

- c Allowability for Specific Activities;
- c Allowable Costs/Cost Principles;
- c Cash Management;
- c State Matching;
- c Period of Availability of Funds and Binding Commitments;
- c Program Income;
- c Reporting;
- c Sub-recipient Monitoring, and;
- c Special tests and provisions;

The above compliance requirements are applicable to the Nevada Division of Environmental Protection Water Pollution Control Revolving Fund Program for the year ended June 30, 2001. The management of the Program is responsible for its compliance with those requirements. Our responsibility is to express an opinion on those requirements based on our audit.

We conducted our audit 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 *U.S. Environmental Protection Agency, Clean Water State Revolving Fund Audit Guide* (June 1998). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements of the SRF program occurred. 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.

As part of obtaining reasonable assurance about whether the Nevada Division of Environmental Protection Water Pollution Control Revolving Fund Program's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and grants, noncompliance with which could have a direct and material effect on the determination financial statement amounts. The results of our tests disclosed no instances of noncompliance that we are required to report under *Government Auditing Standards*.

In our opinion, the Nevada Division of Environmental Protection Water Pollution Control State Revolving Fund Program complied, in all material respects, with the specific program requirements listed above for the year ended June 30, 2001, except as discussed in the following section.

EPA regulation 40 CFR 35.3130(c) requires that the state have the “legal, managerial, technical and operational capabilities to administer the program” in order to receive a capitalization grant. In addition, the State’s financial management systems must provide accurate, current and complete disclosure of the financial results of the program, as required by 40 CFR 31.20(b)(1). In our opinion, the State of Nevada has not fully demonstrated these capabilities. The State needs to assure that it fully complies with these regulations, and take corrective action to address the issues identified in the internal control and compliance sections of this report.

As discussed in the Report on Internal Controls, several reportable conditions were identified during the course of this audit which could also be considered compliance deficiencies. We identified the following matters which, while related to internal controls discussed in the preceding section, also affect compliance with certain provisions of laws, regulations, and grants. These items were: the need for dedicated accounting services for this program; the failure to prepare trial balances or financial statements; the project management database was not being fully utilized; numerous versions of loan summary schedules and, the need for improved communication and information exchange.

This report is intended for the information of management of Nevada Division of Environmental Protection Water Pollution Control Revolving Fund Program and the United States Environmental Protection Agency. However, this report is a matter of public record and distribution is not limited.



Office of Inspector General  
Environmental Protection Agency

December 5, 2002



***Supplemental Information***

**Details of changes in bonds payable for the year ended June 30, 2001:****Schedule 1**

	<u>Balance</u>	<u>July 1, 2000 Issues</u>	<u>Loan New Retirements</u>	<u>Repayment Refund</u>	<u>June 30, 2001 Balance</u>
<u>State Match Bonds:</u>					
1991 Series	\$ 925,000	-	( 175,000)	( 600,000)	\$ 150,000
1992 Series	2,110,000	-	( 315,000)	( 1,205,000)	590,000
1994 Series	1,940,000	-	( 245,000)	( 990,000)	705,000
1995A Series	860,000	-	( 105,000)	( 375,000)	380,000
1996A Series	445,000	-	( 110,000)	-	335,000
1998D Series	3,090,000	-	( 195,000)	-	2,895,000
1999C Series	1,320,000	-	-	-	1,320,000
2000C Series	-	1,315,000	-	-	1,315,000
2001B Series	-	4,625,000	-	-	4,625,000
					<u>12,315,000</u>
<u>Leveraged Bonds:</u>					
1995B Series	8,325,000	-	( 375,000)	( 6,250,000)	1,700,000
1996B Series	3,845,000	-	( 150,000)	( 2,625,000)	1,070,000
2001A2 Series	-	7,020,000	-	-	7,020,000
2001A1 Series	-	<u>28,720,000</u>	-	-	<u>28,720,000</u>
					<u>38,510,000</u>
 Gross Total	 <u>22,860,000</u>	 <u>41,680,000</u>	 <u>( 1,670,000)</u>	 <u>(12,045,000)</u>	 <u>50,825,000</u>
Discount	( 194,957)	( 46,935)	17,956	-	( 223,936)
Premium	12,273	291,940	( 4,480)	-	299,733
Deferred Costs	<u>0</u>	<u>( 545,554)</u>	<u>15,587</u>	-	<u>( 529,967)</u>
 Net Total	 <u>\$ 22,677,316</u>	 <u>\$ 41,379,451</u>	 <u>(\$ 1,640,937)</u>	 <u>(\$ 12,045,000)</u>	 <u>\$ 50,370,830</u>

**Detail of Refunded Bonds:****Schedule 2**

	<b>Stated Maturity</b>	<b>Amount</b>
<b>State Match Bonds:</b>		
<b>Series September 1, 1991,</b>		
General Obligation (Limited Tax)	August 1, 2002	\$ 150,000
Water Pollution Control Revolving Fund	August 1, 2003	125,000
Matching Bonds	August 1, 2004	125,000
	August 1, 2005	100,000
	August 1, 2006	<u>100,000</u>
Refunded Amount		600,000
<b>Series September 1, 1992,</b>		
General Obligation (Limited Tax)	August 1, 2003	275,000
Water Pollution Control Revolving Fund	August 1, 2004	260,000
Matching Bonds	August 1, 2005	245,000
	August 1, 2006	225,000
	August 1, 2007	<u>200,000</u>
Refunded Amount		1,205,000
<b>Series June 1, 1994</b>		
General Obligation (Limited Tax)	February 1, 2005	220,000
Water Pollution Control Revolving Fund	February 1, 2006	210,000
Matching Bonds	February 1, 2007	200,000
	February 1, 2008	185,000
	February 1, 2009	<u>175,000</u>
Refunded Amount		990,000
<b>Series June 1, 1995A</b>		
General Obligation (Limited Tax)	February 1, 2006	85,000
Water Pollution Control Revolving Fund	February 1, 2007	80,000
Matching Bonds	February 1, 2008	75,000
	February 1, 2009	70,000
	February 1, 2010	<u>65,000</u>
Refunded Amount		375,000
<b>Leveraged Bonds:</b>		
<b>Series September 1, 1995B,</b>		
General Obligation (Limited Tax) Water	February 1, 2006	480,000
Pollution Control Revolving Fund	February 1, 2007	505,000
Leveraged Bonds	February 1, 2008	535,000
	February 1, 2009	565,000
	February 1, 2010	600,000
	February 1, 2011	630,000
	February 1, 2012	670,000
	February 1, 2013	710,000
	February 1, 2014	755,000
	February 1, 2015	<u>800,000</u>
Refunded Amount		6,250,000
<b>Series May 1, 1996B,</b>		
General Obligation (Limited Tax)	August 1, 2007	210,000
Water Pollution Control Revolving Fund	August 1, 2008	225,000
Leveraged Bonds	August 1, 2009	235,000
	August 1, 2010	250,000
	August 1, 2011	265,000
	August 1, 2012	280,000
	August 1, 2013	295,000
	August 1, 2014	310,000
	August 1, 2015	330,000
	August 1, 2016	<u>225,000</u>
Refunded Amount		<u>2,625,000</u>
Total Amount of Advance Refund		<u>\$12,045,000</u>

## Report Distribution

### **EPA, Region 9:**

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Associate Administrator for Congressional  
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Associate Administrator for Communication, Education,  
And Public Affairs  
State Revolving Fund Audit Manager  
State Revolving Fund Branch, Office of Wastewater Management

### **Other:**

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