

McGladrey & Pullen

Certified Public Accountants

Clean Water Coalition

Financial and Compliance Report

06.30.2003

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CLEAN WATER COALITION

ORGANIZATION

Location: County of Clark
State of Nevada

Board of Trustees:	Chip Maxfield	Chairperson
	Larry Brown	Vice-Chairperson
	Steven Kirk	Secretary

Program Administrator: Douglas Karafa

Business: To undertake implementation of all aspects of the Systems Conveyance and Operations Program

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report on the Financial Statements and Supplementary Information

Board of Trustees
Clean Water Coalition
Las Vegas, Nevada

We have audited the accompanying basic financial statements of the Clean Water Coalition (the Coalition) of Clark County, Nevada, as of June 30, 2003 and for the period beginning November 20, 2002 (inception) and ended June 30, 2003 as listed in the table of contents. These financial statements are the responsibility of the Coalition's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards," issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Coalition as of June 30, 2003, and the change in its financial position and its cash flows for the period beginning November 20, 2002 (inception) and ended June 30, 2003, in conformity with accounting principles generally accepted in the United States of America.

The Coalition has not presented a Management Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with Government Auditing Standards, we have also issued our report dated October 28, 2003, on our consideration of the Coalition's internal control over financial reporting and our tests of its compliance with certain laws and regulations. That report is an integral part of an audit performed in accordance with "Government Auditing Standards" and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Coalition taken as a whole. The supplementary information included in this report for the period beginning November 20, 2002 (inception) and ended June 30, 2003 is presented for purposes of additional analysis, as required by the Nevada Revised Statutes, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

McGladrey & Pullen, LLP

Las Vegas, Nevada
October 28, 2003

McGladrey & Pullen, LLP is an independent member firm of
RSM International, an affiliation of independent accounting
and consulting firms.

Clean Water Coalition

Statement of Net Assets
June 30, 2003

Assets

Current Assets:	
Cash	\$ 1,132,410
Due from members	168,000
Total current assets	<u>1,300,410</u>
Non current Assets:	
Capital assets, construction in process (Note 2)	<u>9,601,563</u>
Total assets	<u>\$ 10,901,973</u>

Liabilities and Net Assets

Current Liabilities:	
Accounts payable	\$ 89,816
Construction contracts payable	1,186,432
Total liabilities	<u>1,276,248</u>

Commitments (Note 2)

Net Assets:	
Invested in capital assets, net of related debt (Note 2)	9,601,563
Unrestricted	24,162
Total net assets	<u>\$ 9,625,725</u>

See Notes to Financial Statements.

Clean Water Coalition

Statement of Revenues, Expenses and Changes in Net Assets
Period Beginning November 20, 2002 (Inception) and Ended June 30, 2003

Operating expenses:	
Professional services	\$ 132,360
Office	3,398
Travel	2,143
Other expenses	993
Dues	520
Utilities	140
Loss from operations	<u>139,554</u>
Nonoperating income:	
Unrestricted investment earnings	<u>148</u>
Loss before contributions	(139,406)
Capital contributions	<u>9,765,131</u>
Change in net and total assets	<u><u>\$ 9,625,725</u></u>

See Notes to Financial Statements.

Clean Water Coalition

Statement of Cash Flows

Period Beginning November 20, 2002 (Inception) and Ended June 30, 2003

Cash Flows from Operating Activities:	
Cash Outflows:	
Professional services	\$ (45,593)
Office	(2,005)
Travel	(1,565)
Dues	(520)
Other expenses	(55)
Net cash (used in) operating activities	<u>(49,738)</u>
Cash Flows from Capital and Related Financing Activities:	
Cash Inflows:	
Member contributions	1,182,000
Net cash provided by capital and related financing activities	<u>1,182,000</u>
Cash Flows from Investing Activities:	
Cash Inflows:	
Interest on investments	<u>148</u>
Net cash provided by investing activities	<u>148</u>
Net increase in cash	<u>\$ 1,132,410</u>
Reconciliation of Loss from Operations to Net Cash Used in Operating Activities:	
Loss from Operations	\$ (139,554)
Adjustments:	
Increase in accounts payable	<u>89,816</u>
Net cash (used in) operating activities	<u>\$ (49,738)</u>
Noncash investing and capital related financing activities:	
Contribution of construction in process	<u>\$ 8,415,131</u>

See Notes to Financial Statements.

Clean Water Coalition

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

The Clean Water Coalition (the Coalition) was established as a joint venture on November 20, 2002, through an interlocal agreement among the City of Las Vegas, City of Henderson, and the Clark County Sanitation District (name later changed to Clark County Water Reclamation District), all of which are public agencies in the State of Nevada. Under the provisions of Chapter 277 of the Nevada Revised Statutes (NRS) any one or more public agencies may enter into an agreement for the joint exercise of any power, privilege, or authority and may create a separate legal or administrative entity to conduct the joint or cooperative undertaking. The Coalition was created as an enterprise activity and a quasi-municipal corporation to undertake implementation of all aspects of the Systems Conveyance and Operations Program. Each of the members appoints a member of the Board of Trustees.

The accounting policies of the Coalition conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant policies.

Basis of Accounting

The Coalition is accounted for as an enterprise fund. Enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed primarily through user charges. The acquisition, maintenance, and improvement of the physical plant facilities required to provide services are financed from existing cash resources, the issuance of bonds (revenue or general obligation), and federal grants under the Clean Water Act.

The Coalition uses the accrual basis of accounting under which revenues are recognized when they are earned, and expenses are recognized when they are incurred. Earned but unbilled receivables are recorded as revenue. There were no earned but unbilled receivables at June 30, 2003.

Governmental Accounting Standards Board (GASB) Statement No. 1, *Authoritative Status of NCGA Pronouncements and AICPA Industry Audit Guide*, states "GASB will establish accounting and financial reporting standards for activities and transactions of state and local governmental entities and the Financial Accounting Standards Board (FASB) will establish such standards for activities and transactions of all other entities." In reference to Statement No. 1, GASB issued Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, which provides governmental proprietary funds with the option of applying FASB pronouncements after November 1989. In accordance with GASB Statement No. 20, the Coalition has chosen not to apply FASB pronouncements issued after November 1989.

Cash

The bank balance and book balance of cash is \$1,132,580 and \$1,132,410, respectively, at June 30, 2003.

At various times throughout the year, the Coalition maintains cash balances in excess of federally insured limits at a financial institution in Nevada. The Coalition has not incurred any losses in this account. The cash balances are not collateralized and are unsecured.

Clean Water Coalition

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

Investments

Investments are made periodically through a Nations Funds Money Market Fund – Nations Treasury Reserve. Securities are restricted to U.S. Treasury obligations, repurchase agreements and reverse repurchase agreements secured by U.S. Treasury obligations and U.S. government obligations or obligations whose principal and interest are backed by the U.S. government. The Fund will invest at least 80 percent of assets in U.S. Treasury obligations and securities secured by U.S. Treasury obligations. At the time of investment the Fund seeks securities with remaining maturities of 397 days or less.

State statutes authorize the Coalition to invest in obligations of the U.S. Treasury and U.S. agencies having maturity dates that do not extend more than ten years from the date of purchase, negotiable notes or short-term negotiable bonds issued by other local governments of the State of Nevada and banker's acceptances not exceeding 180 days maturity and eligible by law for rediscount with the Federal Reserve Banks (purchases are subject to 10 percent of the money available for local government investment).

As of June 30, 2003, the Coalition did not have any investments.

Due from members

As of June 30, 2003, the Coalition has only related party member agencies as customers. By interlocal agreement all agencies must pay bills due to the Coalition on a timely basis. If a member fails to pay, the other members must cover the cost and commence legal action to collect from the delinquent agency.

Capital Assets

Property, plant, and equipment when acquired will be accounted for at historical cost. Depreciation will be computed using the straight-line method over the estimated useful lives of the assets. The cost of maintenance and repairs will be charged to expense as incurred, whereas significant renewals and betterments will be capitalized. Bond interest costs will be capitalized as part of the cost of construction when appropriate. Inexhaustible capital assets such as land are not depreciated. Equipment costing less than \$3,000 is not capitalized. All capitalized items must have a useful life of at least 3 years.

Accounts Payable

The Coalition paid expenses of approximately \$96,000 to member agencies for the period ended June 30, 2003. The Coalition had accounts payable to member agencies of approximately \$59,000 at June 30, 2003. Amounts payable to member agencies include billings for accounting and management services.

Long-term Obligations

In accordance with NRS 350.013, the Coalition has established a debt management policy. When bonds are issued, the following will hold true. Bond premiums and discounts, as well as issuance costs will be deferred and amortized over the life of the bonds using a method, which approximates the effective interest method. Bond issuance costs will be reported as deferred charges and amortized over the term of the related debt.

Clean Water Coalition

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

Budget and Budgetary Accounting

The Coalition uses the following procedures to establish, modify, and control budgetary data:

1. Prior to April 15, the County Manager submits to the Nevada State Department of Taxation the tentative budget for the next fiscal year, commencing on July 1. The budget, as submitted, contains the proposed expenses and means of financing them.
2. The Nevada State Department of Taxation notifies the County Manager of its acceptance of the budget.
3. Public hearings are conducted on the third Thursday in May.
4. After all changes have been noted and hearings closed, the Board of Trustees, by unanimous consent, adopts the budget on or before June 1.
5. Increases to the budget (augmentations) must be approved by the Board of Trustees during a public meeting. The letter to the Department of Taxation must be filed prior to fiscal year end and must explain where the additional revenue to cover the increase is coming from.
6. Statutory regulations require budget controls to be exercised at the function level.
7. All appropriations lapse at the end of the fiscal year.
8. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP).

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, reduced by any outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the Coalition or through external restrictions imposed by creditors, grantors, or laws and regulations of other governments. Restricted resources are used first to fund appropriation.

Capital Contributions

The Coalition's sources of capital contributions, which are considered to be non-exchange, are billings to the member agencies. Each member agency is billed for its share of capital expenditures discussed in Note 2. As of June 30, 2003, the percentage allocations for each member agency were as follows: Clark County Water Reclamation District 46%, City of Las Vegas 40%, and City of Henderson 14%. These percentages are based on the amount of waste each agency contributes.

Professional Services

Professional services include legal expenses as well as accounting and management related services contracted through member agencies.

Clean Water Coalition

Notes to Financial Statements

Note 2. Commitments

The Coalition entered into a contract with a company to perform studies for discharge options to address water quality issues in the Las Vegas Wash and Las Vegas Bay of Lake Mead, which resulted in a program referred to as the System Conveyance & Operations Program (SCOP). The costs related to this program are capitalized as construction in process until the completion of the contract. As of June 30, 2003, \$9,601,563 of costs has been incurred and the uncompleted portion of the construction contract was \$3,268,108.

Note 3. Subsequent Events

Effective September 2003, the Coalition acquired equipment under a capital lease. The lease is secured by the financed equipment. Lease payments are due in monthly installments of approximately \$420, maturing through September 2008.

Effective July 2003, the Coalition entered into an agreement to rent office space under an operating lease expiring in October 2006 with monthly lease payments of \$3,060 during the first year and increasing by 3% in each of the successive two years.

The future minimum lease payments under the operating lease agreement are as follows:

<u>Year ending June 30,</u>	
2004	\$ 27,540
2005	37,548
2006	38,679
2007	12,988
	<u>\$ 116,755</u>

Clean Water Coalition

Schedule of Revenues and Expenses Compared to Budget
 Period Beginning November 20, 2002 (Inception) and Ended June 30, 2003

	Original Budget	Actual	Over (Under)
<hr/>			
Operating Revenues:			
Local Governments	\$ 150,000	\$ -	\$ (150,000)
Operating Expenses:			
Professional services	130,000	132,360	2,360
Office	-	3,398	3,398
Travel	12,000	2,143	(9,857)
Other expenses	8,000	993	(7,007)
Dues	-	520	520
Utilities	-	140	140
Total operating expenses	<hr/> 150,000	<hr/> 139,554	<hr/> (10,446)
Loss from operations	-	(139,554)	(139,554)
Nonoperating Income:			
Unrestricted investment earnings	-	148	148
Loss before contributions	-	(139,406)	(139,406)
Capital contributions	-	9,765,131	9,765,131
Change in Net Assets	<hr/> \$ -	<hr/> \$ 9,625,725	<hr/> \$ 9,625,725

Clean Water Coalition

Schedule of Cash Flows Compared to Budget

Period Beginning November 20, 2002 (Inception) and Ended June 30, 2003

	Increase (Decrease) in Cash		Over (Under)
	Budget	Actual	
Cash Flows from Operating Activities (direct method):			
Cash Inflows:			
Local Governments	\$ 150,000	\$ -	\$ (150,000)
Cash Outflows:			
Professional services	(130,000)	(45,593)	84,407
Office	-	(2,005)	(2,005)
Travel	(12,000)	(1,565)	10,435
Dues	-	(520)	(520)
Other expenses	(8,000)	(55)	7,945
Net cash (used in) operating activities	8,000	(49,683)	(57,683)
Cash Flows from Capital and Related Financing Activities:			
Cash Inflows:			
Member contributions	3,164,100	1,182,000	(1,982,100)
Cash Outflows:			
Construction of capital assets	(3,164,100)	-	3,164,100
Net cash provided by capital and related financing activities	-	1,182,000	1,182,000
Cash Flows from Investing Activities:			
Cash Inflows:			
Interest on investments	-	148	148
Net cash provided by investing activities	-	148	148
Net increase in cash	\$ -	\$ 1,132,465	\$ 1,132,465
Reconciliation of Loss from Operations to Net Cash Used in Operating Activities (indirect method):			
Loss from Operations	\$ -	\$ (139,554)	\$ (139,554)
Adjustments:			
Increase in accounts payable	-	89,816	89,816
Net cash (used in) operating activities	\$ -	\$ (49,738)	\$ (49,738)

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

Board of Trustees
Clean Water Coalition
Las Vegas, Nevada

We have audited the financial statements of the Clean Water Coalition (the Coalition), a separate legal entity, as of and for the period beginning November 20, 2002 (inception) and ended June 30, 2003, and have issued our report thereon dated October 28, 2003. 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.

Compliance

As part of obtaining reasonable assurance about whether the Coalition's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, including Nevada Revised Statute (NRS) 354.624, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Coalition's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Coalition's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions noted at the Coalition related to a general lack of segregation of duties. One person performs all of the accounting functions with limited review and/or supervision by the Board of Trustees.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

McGladrey & Pullen

Certified Public Accountants

This report is intended solely for the information and use of the State of Nevada Tax Commission and the Coalition management, and is not intended to be and should not be used by anyone other than those specified parties.

McGladrey & Pullen, LLP

Las Vegas, Nevada
October 28, 2003