

SILVER STATE ENERGY ASSOCIATION
FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

A political subdivision of the State of Nevada

Las Vegas, Nevada

SILVER STATE ENERGY ASSOCIATION

BOARD OF DIRECTORS

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Colorado River Commission of Nevada

PHIL SPEIGHT
Southern Nevada Water Authority

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DR. LARRY MOSES
Overton Power District No. 5

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City of Boulder City
Colorado River Commission of Nevada
Southern Nevada Water Authority

Lincoln County Power District No.1
Overton Power District No. 5

ASSOCIATION STAFF

SCOTT KRANTZ, MANAGER
Silver State Energy Association

SILVER STATE ENERGY ASSOCIATION
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

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PIERCY BOWLER
TAYLOR & KERN

Certified Public Accountants
Business Advisors

**INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

Board of Directors
Silver State Energy Association
Las Vegas, Nevada

We have audited the basic financial statements of the Silver State Energy Association (SSEA) as of June 30, 2011, and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the SSEA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

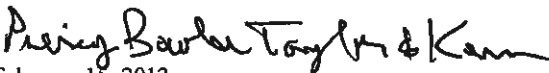
We conducted our audit in accordance with auditing standards generally accepted in the United States, and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the SSEA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 basic financial statements referred to above present fairly, in all material respect, the financial position of the SSEA as of June 30, 2011, and its changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2012, on our consideration of the SSEA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the SSEA's basic financial statements. The schedule of expenses, budget and actual is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The SSEA has not presented a Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is required to supplement, although not required to be part of, the basic financial statements.


February 15, 2012

SILVER STATE ENERGY ASSOCIATION

STATEMENT OF NET ASSETS

JUNE 30, 2011

ASSETS

Current assets:

Cash	\$	9,777
Accounts receivable from members		348,613
Prepaid expenses		101,983
Total current assets		<u>460,373</u>

Capital assets:

Deferred project costs		401,382
Total assets	\$	<u><u>861,755</u></u>

LIABILITIES

Current liabilities:

Accounts payable	\$	50,000
Accounts payable to members		285,908
Advances from members		124,465
Total current liabilities		<u>460,373</u>

NET ASSETS

Invested in capital assets		401,382
Total liabilities and net assets	\$	<u><u>861,755</u></u>

SILVER STATE ENERGY ASSOCIATION

**STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011**

OPERATING REVENUE

Member assessments for operations \$ 386,719

OPERATING EXPENSES

Office supplies and expenses 493
Outside services 30,475
Power purchases and related expenses 355,815
Total expenses 386,783

OPERATING LOSS (64)

Member assessments for deferred project costs 139,592
Investment income 64

CHANGE IN NET ASSETS 139,592

NET ASSETS, BEGINNING 261,790

NET ASSETS, ENDING \$ 401,382

SILVER STATE ENERGY ASSOCIATION

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from members for operations	\$ 150,343
Cash paid for goods and services	<u>(171,369)</u>
Net cash used in operating activities	<u>(21,026)</u>

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:

Cash received from members for project costs	301,860
Acquisition of capital assets	<u>(301,860)</u>
Net cash used in capital financing activities	<u>-</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest received	<u>64</u>
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NET CHANGE IN CASH (20,962)

CASH, BEGINNING 30,739

CASH, ENDING \$ 9,777

RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:

Operating loss	\$ (64)
(Increase) decrease in operating assets:	
Accounts receivable	(341,861)
Prepaid expenses	(101,983)
Increase (decrease) in operating liabilities:	
Accounts payable	40,000
Accounts payable to members	277,397
Advances from members	<u>105,485</u>

NET CASH USED IN OPERATING ACTIVITIES \$ (21,026)

SILVER STATE ENERGY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

1. Summary of significant accounting policies:

A. Reporting entity

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 Silver State Energy Association (SSEA) is an association of public agencies with the common goal of jointly planning, developing, owning and operating power resources to meet their own needs and those of their customers. The economies of scale produced by the SSEA offer improved project development opportunities and power purchasing capabilities, the sharing of resources and expertise, and the opportunity for jointly managed energy needs. The SSEA is a political subdivision of the State of Nevada (Nevada) and was established August 1, 2007, through a cooperative agreement pursuant to the Interlocal Cooperation Act.

The SSEA was established as a joint venture through an interlocal agreement among the member agencies (Members) consisting of the City of Boulder City, the Colorado River Commission of Nevada (CRC), Lincoln County Power District No. 1, Overton Power District No. 5 and the Southern Nevada Water Authority (SNWA), all of which are public agencies in Nevada.

As appropriate projects are selected for development, the Members involved in each project enter into a project service agreement (PSA) indicating each participating Member's allocation of project costs.

The business and other affairs of the SSEA are conducted by a Board of Directors (the Board) consisting of one director appointed by each Member. The appointed director may, but need not be, a member of the governing body of the Member.

Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as

amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, defines the reporting entity as the primary government and those component units for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the entity's governing body, and either the ability of the primary government to impose its will on the entity or the possibility that the entity will provide a financial benefit to or impose a financial burden on the primary government. In addition to financial accountability, component units can be other entities in which the economic resources received or held by that entity are entirely or almost entirely for the direct benefit of the primary government, the primary government is entitled to or has the ability to otherwise access a majority of the economic resources received or held by the entity and the resources to which the primary government is entitled or has the ability to otherwise access are significant to the primary government.

The SSEA has examined its position relative to its Members and determined that there are no requirements of GASB Statements Nos. 14 and 39 that would cause the basic financial statements of the SSEA to be included in the Members' or any other entities' comprehensive annual financial reports (CAFR). In addition, no entities were determined to be component units of the SSEA.

B. Basis of presentation, measurement focus, and basis of accounting

The basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States (GAAP) applicable to government units as prescribed by GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended, along with related pronouncements. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The

SILVER STATE ENERGY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2011

SSEA is not subject to rate regulation by federal or state utility regulatory bodies such as the Federal Energy Regulatory Commission or the Public Utilities Commission of Nevada.

As permitted under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and other Governmental Entities that use Proprietary Fund Accounting*, the SSEA has elected not to follow private-sector guidance for accounting and financial reporting standards issued after November 30, 1989, in reporting business-type activities in enterprise funds.

The SSEA 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 costs of providing goods and services to customers on a continual basis be financed primarily through user charges.

The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows. For the period reported, there were no nonexchange transactions – those for which the SSEA gives (or receives) value without directly receiving (or giving) equal value in exchange – reported in the accompanying financial statements.

Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the SSEA. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues of enterprise funds include investment earnings, revenues resulting from ancillary activities, and capital contributions.

C. Assets, liabilities, and equity

Accounts receivable from Members - Amounts due from Members are recorded at net realizable value and consist of amounts due from member agencies for general and project expenses. It is SSEA's policy to

write off uncollectible receivables based on a case-by-case evaluation of facts and circumstances. At June 30, 2011, all amounts due from members were considered to be collectible.

Capital assets - deferred project costs - Consistent with industry standards and GAAP, the expenditures for preliminary surveys, plans, investigations, etc., made for the purpose of determining the feasibility of utility projects under contemplation are held in a deferred account in accordance with the provisions of the Federal Energy Regulatory Commission (FERC). If the project continues to completion, these deferred amounts would be capitalized to property and equipment. If the project is abandoned, they would be charged to expense at that time. As of June 30, 2011, deferred project costs were \$401,382, for which an equal amount is reported as net assets invested in capital assets.

Advances from Members - In accordance with the cooperative agreement, revenues from Member assessments are recorded when general and administrative expenses and project costs are incurred, with any amounts received from Members in excess of those incurred expenses and costs reflected as advances from Members in the accompanying statements of net assets.

D. Use of estimates

The preparation of financial statements in accordance with GAAP requires the use of estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates and assumptions.

2. Stewardship, compliance, and accountability

Budgetary information - The SSEA manager prepares a tentative budget for administrative and general expenses for each fiscal year on or before April 15th with the final budget being adopted by the Board on or before June 1 of each year. SSEA administrative and general expenses incurred during any fiscal year may not exceed the budgeted level authorized by the Board. This budget may be amended by the Board as necessary.

SILVER STATE ENERGY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2011

The SSEA manager prepares a tentative budget for each project consistent with the requirements of the applicable PSA, which is also adopted by the Board.

No budget amounts for a function or project were exceeded or amended during the period reported upon herein.

3. Project Service Agreements (PSA's)

Except for CRC, each Member is required to execute one or more PSAs with the SSEA within two years from the date the Member becomes a signatory to the Cooperative Agreement, and within two years from the date when all PSAs to which the Member is a signatory are no longer effective.

On November 7, 2007, the Board approved PSA No. 1 – *Joint Generation Resource Planning and Evaluation* (PSA #1). The project participants include the City of Boulder City, Overton Power District No. 5, Lincoln County Power District No. 1 and SNWA.

PSA #1 involves the joint exploration, research, investigation, review, evaluation, and feasibility of implementing, operating, and maintaining electric generation projects and such other projects, whether physical or financial, that may be designed to meet the future power needs of the project participants.

The project consists of three phases. Phase 1, which is complete, consisted of examining different technologies on the basis of their estimated costs, risks, operating characteristics, development time, and environmental considerations. Phase 2, which is also complete, included identifying specific resource options that appear to be viable. Phase 3 consists of conducting a detailed feasibility analysis on the specific generation options chosen. Phase 3 was initiated, but was subsequently put on hold by the project participants.

The project term was November 7, 2007, through December 31, 2010, with provisions to continue from year-to-year thereafter. The project budget is \$1,000,000. Since this is an activity intended to identify projects for future development by the SSEA and not a particular contemplated project, intended to

result in the development of capital assets under GAAP and the FERC provisions, the related costs are not deferred and capitalized, but are recorded as period costs when incurred.

On June 11, 2008, the Board approved PSA No. 2, *Eastern Nevada Transmission Project* (PSA #2). The project participants are the City of Boulder City, Overton Power District No. 5, Lincoln County Power District No. 1 and SNWA.

PSA #2 involves the joint exploration, research, investigation, review, and evaluation of the feasibility of constructing high voltage electrical transmission lines and related facilities to allow the interconnection of the participant electrical systems with Mead Substation in southern Nevada. The project provides for the construction of new facilities, which include a 230 kV transmission line from the existing Newport Substation extending north to a future planned 230 kV transmission line beginning in the Apex valley area and extending north to the planned Gemmill Substation near the intersection of U.S. Highway 93 and State Route 168; a 230 kV transmission line originating at the planned Gemmill Substation and extending east to the existing Tortoise Substation near Moapa, Nevada; and other facilities as may be designed to meet the power demands of the members and to interconnect future generation sources. Work performed under this agreement includes siting, permitting, and preliminary design of the proposed transmission lines, of which \$401,382 has been capitalized and recorded as deferred project costs under the provisions of GAAP and FERC.

The project term was June 11, 2008, through June 11, 2011, unless terminated earlier by the project participants. The project budget is \$2,600,000.

On November 10, 2009, the Board approved PSA No. 3, *Power Supply Management Services Agreement* (PSA #3). The project participants are Lincoln County Power District No. 1, Overton Power District No. 5 and SNWA.

PSA #3 allows the project participants to request that the SSEA provide various power supply management services in connection with the operation, scheduling,

SILVER STATE ENERGY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2011

hedging or optimization of a project participant's resources or in furtherance of meeting the power supply needs of a project participant. Initially there will be two service schedules offered: 1) Load Requirements Service (LRS), which includes full commodity management and 2) Power Purchase and Sale Service (PPSS), which enables the project participant to buy and sell specifically requested products from the SSEA.

The project term is November 10, 2009, to termination of the Cooperative Agreement. The project budget is to be developed once service is initiated by one or more project participants. Since this is an activity intended to provide ongoing services to the participants and not a particular contemplated project that is intended to result in the development of capital assets, under GAAP and the FERC provisions, the related costs are not deferred and capitalized, but are recorded as period costs when incurred.

Effective June 01, 2011, the SSEA began energy deliveries to the City of Boulder City under PSA #3, service schedule LRS. SNWA requested SSEA to provide power services under PSA #3, LRS and that request is currently under review. Lincoln County Power District No. 1 entered into service schedule PPSS under PSA #3 on October 1, 2011.

4. Risk management

The SSEA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which they are self-insured.

The United States is experiencing a widespread and severe recession, which is likely to continue to have

far-reaching effects on the economic activity in the country for an indeterminate period. The near and long-term impact of these factors on the Nevada economy and the SSEA's operations cannot be predicted at this time but may be substantial.

The SSEA may carry cash and cash equivalents on deposit with financial institutions in excess of federally insured limits, and the risk of losses related to such concentrations may be increasing as a result of economic conditions discussed in the foregoing paragraph. The extent of a future loss to be sustained as a result of uninsured deposits in the event of a future failure of a financial institution, if any, is not subject to estimation at this time.

5. Commitments and contingencies

Litigation - The SSEA may from time-to-time be a party in various litigation matters. It is management's opinion, based upon advice from legal counsel, that the risk of financial losses to the SSEA from such litigation, if any, will not have a material adverse effect on the SSEA's future financial position, results of operations or cash flows. Accordingly, no provision has been made for any such losses.

The SSEA does not accrue for estimated future legal and defense costs, if any, to be incurred in connection with outstanding or threatened litigation and other disputed matters but rather, records such as period costs when the services are rendered.

6. Related party transactions

The following transactions occurred with related parties (Members) during the period reported herein:

SILVER STATE ENERGY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED JUNE 30, 2011

<u>Member</u>	<u>Member assessments for operations</u>	<u>Member assessments for project costs</u>	<u>Expenses incurred with members</u>	<u>Receivables</u>	<u>Payables</u>	<u>Advances outstanding</u>
City of Boulder City	\$ 371,333	\$ 1,396		\$ 333,227		\$ 109,862
Colorado River Commission Lincoln County Power District No. 1	4,436	20,939	\$ 21,897	4,436	\$ 285,908	2,010
Overton Power District No. 5	5,450	58,629		5,450		2,010
Southern Nevada Water Authority	5,500	58,628	11,327	5,500		10,583
	<u>\$ 386,719</u>	<u>\$ 139,592</u>	<u>\$ 33,224</u>	<u>\$ 348,613</u>	<u>\$ 285,908</u>	<u>\$ 124,465</u>

SILVER STATE ENERGY ASSOCIATION

SCHEDULE OF EXPENSES, BUDGET AND ACTUAL

For year ended June 30, 2011				
	Budget		Actual	Variance
	Original	Final		
ADMINISTRATIVE AND GENERAL				
Labor	\$ 23,242	\$ 23,242	\$ 30,475	\$ (7,233)
Other	9,750	9,750	493	9,257
Total administrative and general expenses	<u>\$ 32,992</u>	<u>\$ 32,992</u>	<u>\$ 30,968</u>	<u>\$ 2,024</u>
Through June 30, 2011				
	Budget		Actual	Remaining Available
	Original	Final		
PROJECTS				
Project Service Agreement #1				
Phase I	\$ 5,000	\$ 5,000	\$ 2,073	\$ 2,927
Phase II	5,000	5,000	2,971	2,029
Phase III:				
Work Effort 1	2,500	2,500	1,911	589
Work Effort 2	2,500	5,000	1,927	3,073
	<u>15,000</u>	<u>17,500</u>	<u>8,882</u>	<u>8,618</u>
Project Service Agreement #2				
Administrative	20,000	20,000	10,687	9,313
Siting and permitting	2,271,500	2,271,500	390,695	1,880,805
Project management	308,500	308,500		308,500
	<u>2,600,000</u>	<u>2,600,000</u>	<u>401,382</u>	<u>2,198,618</u>
Project Service Agreement #3				
Power purchases and related costs	<u>Not available</u>	<u>Not available</u>	<u>355,815</u>	<u>(355,815)</u>
Total project expenses	<u>\$ 2,615,000</u>	<u>\$ 2,617,500</u>	<u>\$ 766,079</u>	<u>\$ 1,851,421</u>

P B T K

PIERCY BOWLER
TAYLOR & KERN

Certified Public Accountants
Business Advisors

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Silver State Energy Association
Las Vegas, Nevada

We have audited the basic financial statements of the Silver State Energy Association (SSEA) as of and for the year ended June 30, 2011, and have issued our report thereon dated February 15, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

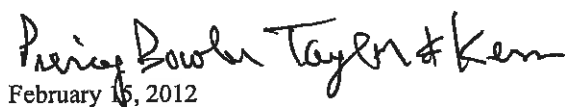
Internal Control over Financial Reporting. Management of the SSEA is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the SSEA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the SSEA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the SSEA's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the SSEA's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and other matters. As part of obtaining reasonable assurance about whether the SSEA'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. 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of management, members of the Board of Directors and others within the SSEA. However, this report is a matter of public record, and its distribution is not limited.


February 15, 2012