

VIRGIN VALLEY WATER DISTRICT

FINANCIAL STATEMENTS

June 30, 2014 and 2013

CONTENTS

INDEPENDENT AUDITORS' REPORT	3
MANAGEMENT'S DISCUSSION AND ANALYSIS	5
BASIC FINANCIAL STATEMENTS:	
STATEMENTS OF NET POSITION	13
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION	14
STATEMENTS OF CASH FLOWS	15
NOTES TO FINANCIAL STATEMENTS.....	17
SUPPLEMENTARY INFORMATION:	
BUDGET TO ACTUAL COMPARISON YEAR ENDED JUNE 30, 2014	32
BUDGET TO ACTUAL COMPARISON YEAR ENDED JUNE 30, 2013	33
SUPPLEMENTARY REPORTS:	
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 <i>GOVERNMENT AUDITING STANDARDS</i>	35
INDEPENDENT AUDITORS' REPORT ON STATE LEGAL COMPLIANCE.....	37

INDEPENDENT AUDITORS' REPORT

Directors and Members of the Board Virgin Valley Water District

We have audited the accompanying financial statements of the Virgin Valley Water District (the District), as of and for the years ended June 30, 2014 and 2013, respectively, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibilities for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United State of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Virgin Valley Water District as of June 30, 2014 and 2013 and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

WISAN, SMITH, RACKER & PRESCOTT, LLP

SALT LAKE ~ 155 North 400 West, Suite 400 · Salt Lake City, Utah · 84103 · 801.328.2011 (office) · 801.328.2015 (fax)
LAS VEGAS ~ 1820 East Warm Springs Road, Suite 112 · Las Vegas, Nevada · 89119 · 702.451.3099 (office) · 702.568.5030 (fax)

Licensed to Practice in Utah, Wyoming, Nevada, New Mexico and Idaho.
Member: American Institute, Utah Association and Nevada Society of Certified Public Accountants

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that comprise the District's basic financial statements as a whole. The supplementary schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary schedules are the responsibility of management and were derived from and relate 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 audits of the 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 of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2014, on our consideration of the District'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the district's internal control over financial reporting and compliance.

WSRP, LLC

Salt Lake City, Utah
September 23, 2014

**VIRGIN VALLEY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)**

The following is a discussion and analysis of Virgin Valley Water District's (the District) financial performance providing an overview of the District's financial activities for the years ending June 30, 2014 and 2013, respectively. Please read it in conjunction with the District's financial statements, which follow this section.

Financial Highlights for the year ended June 30, 2014

- Total assets and deferred outflows of resources exceeded total liabilities (net position) by \$57,967,844 at the close of the fiscal year
- Net position decreased by \$1,226,014, or 2.1%
- Operating revenues increased by \$67,164, or 1.0%
- Operating expenses increased by \$454,837, or 6%
- Long-term debt decreased by \$2,414,085, or 7.7%.

Financial Highlights for the year ended June 30, 2013

- Total assets and deferred outflows of resources exceeded total liabilities (net position) by \$59,193,858 at the close of the fiscal year
- Net position decreased by \$556,472, or 0.9%
- Operating revenues decreased by \$34,815, or 0.5%
- Operating expenses increased by \$379,985, or 5.3%
- Long-term debt decreased by \$1,813,765, or 5.8%.

**VIRGIN VALLEY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)**

Overview of the Financial Statements

The discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of two components: 1) Enterprise fund financial statements; and 2) Notes to the financial statements.

Enterprise fund financial statements. The District is a special purpose governmental entity and operates as an enterprise fund. Enterprise funds account for operations that are financed and operated in a manner similar to a private business enterprise where the intent of the governing body is that the costs of providing goods and services to the general public be financed or recovered primarily through user charges. The District is financed primarily through water sales, service fees, and impact fees.

The *statement of net position* presents information on all of the District's assets, deferred outflows of resources, liabilities, with the net of these categories being reported as *total net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of revenues, expenses, and changes in net position* presents information showing how the District's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flow in future fiscal periods.

The *statement of cash flows* presents information showing how the District's cash and cash equivalents changed during the most recent fiscal year.

The basic financial statements can be found on pages 13 through 16 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements can be found on pages 17 through 30 of this report.

**VIRGIN VALLEY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)**

District Financial Analysis as a Whole

Net Position

The District's net position at June 30, 2014 and 2013 was \$57,967,844 and \$59,193,858, respectively. This is presented in the following condensed statement of net position.

Assets	<u>2014</u>	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 10,837,021	\$ 11,147,290	\$ 11,007,831
Restricted assets	1,384,138	2,155,072	2,397,995
Capital assets	<u>71,411,891</u>	<u>73,931,098</u>	<u>75,814,930</u>
Total assets	<u>83,633,050</u>	<u>87,233,460</u>	<u>89,220,756</u>
Deferred Outflows of Resources	<u>2,608,819</u>	<u>2,790,896</u>	<u>2,972,972</u>
Liabilities			
Current liabilities	2,656,066	2,796,206	2,523,279
Long-term obligations, less current maturities	<u>25,617,959</u>	<u>28,034,292</u>	<u>29,920,119</u>
Total liabilities	<u>28,274,025</u>	<u>30,830,498</u>	<u>32,443,398</u>
Net Position			
Net investment in capital assets	44,145,513	44,250,635	44,320,702
Restricted	1,384,138	2,155,072	2,397,995
Unrestricted	<u>12,438,193</u>	<u>12,788,151</u>	<u>13,031,633</u>
Total net position	<u>\$ 57,967,844</u>	<u>\$ 59,193,858</u>	<u>\$ 59,750,330</u>

The District's net position is comprised of the following three components: unrestricted current and other assets, restricted assets, and investment in capital assets. Detail on total net position is described further:

At June 30, 2014, unrestricted net position comprised \$12,438,193 or 21.5% (\$12,788,151 or 21.6% at June 30, 2013) of total net position and may be used to meet the District's obligations to customers, employees, and creditors and to honor next year's budget.

**VIRGIN VALLEY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)**

District Financial Analysis as a Whole (Continued)

At June 30, 2014, restricted net position comprised \$1,384,138 or 2.4% (\$2,155,072 or 3.6% at June 30, 2013) of total net position and represents funds that are subject to restriction on how they may be used. At June 30, 2014 and 2013, respectively, the restricted balance consists of two components: 1) Funds reserved for bond requirements and payments as payments come due; and 2) Fees received from Ordinance No. 2 which are funds intended for the purchase of water rights.

At June 30, 2014 net investment in capital assets comprised \$44,145,513 or 76.2% (\$44,250,635 or 74.8% at June 30, 2013) of total net position. This represents capital assets (i.e. land, buildings, operating equipment, wells, office capital assets, and water rights) less any related debt outstanding that was used to acquire those assets. The District uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Resources needed to repay capital related debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate any liabilities.

At the end of the fiscal year, the District is able to report positive balances in all three categories of total assets.

Change in Net Position

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Revenues:			
Operating revenues	\$ 6,915,412	\$ 6,848,248	\$ 6,883,063
Non-operating revenues	<u>1,301,564</u>	<u>1,643,579</u>	<u>4,257,903</u>
Total revenues	8,216,976	8,491,827	11,140,966
Expenses:			
Depreciation	2,993,534	3,010,120	3,091,904
Other operating expenses	5,022,213	4,550,790	4,089,021
Non-operating expenses	<u>1,427,243</u>	<u>1,487,389</u>	<u>1,168,827</u>
Total expenses	<u>9,442,990</u>	<u>9,048,299</u>	<u>8,349,752</u>
Change in net position	(1,226,014)	(556,472)	2,791,214
Total net position:			
Beginning of year	59,193,858	59,750,330	57,810,908
Adjustments to net position	<u>-</u>	<u>-</u>	<u>(851,792)</u>
End of year	<u>\$ 57,967,844</u>	<u>\$ 59,193,858</u>	<u>\$ 59,750,330</u>

**VIRGIN VALLEY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)**

District Financial Analysis as a Whole (Continued)

During the year ended June 30, 2014, the District's operating revenues increased \$67,164 or 1.0% from the prior year.

During the year ended June 30, 2013, the District's operating revenues decreased \$34,815 or 0.5% from the prior year.

During the year ended June 30, 2014, total non-operating revenues decreased by \$342,015 or 20.8% from the prior year. Virtually all of this reduction came from two categories: Impact Fee revenue was \$182,070 less than the previous year and Ordinance 2 Fees were down by \$209,050. Both of these reductions were the result of a continued slowdown in new land development in the District's service area during 2014.

During the year ended June 30, 2013, total non-operating revenues decreased \$2,614,324 or 61.4% from the prior year. The single largest category decrease consisted of other income decreasing by \$2,795,906; this was driven primarily by a one-time litigation settlement of \$2,788,282 received in fiscal 2012. The single largest category increase consisted of Impact Fees increasing by \$182,320; this was a result of new land development in the District's service area.

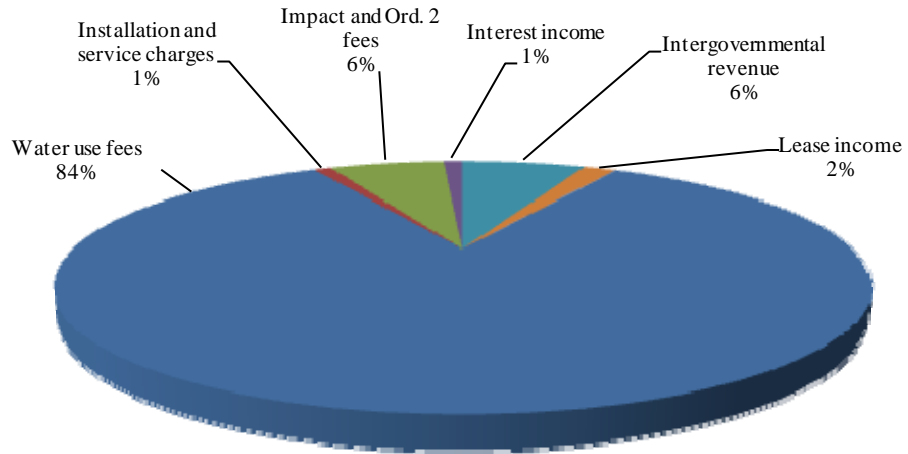
During the year ended June 30, 2014, there were two expense categories showing significant variances from the prior year. Operations and maintenance expense increased by \$223,200 or 24% from the prior year. This increase was due to major repairs on several transmission lines and approximately \$98,000 in expense related to the shutdown of the Bunkerville Secondary System. Professional and legal services expense increased by \$105,068 or 11.6% from the prior year. This increase was the result of a continuing large amount of work performed by the District's legal counsel on certain ongoing litigation issues.

During the year ended June 30, 2013, there were two expense categories showing significant variances from the prior year. Professional and legal services expense increased by \$497,457 or 121.0% from the prior year. This increase was the result of a large amount of additional work performed by the District's legal counsel on certain ongoing litigation issues. Engineering services expense decreased by \$74,691 or 66.8% from the prior year. This decrease was the result of fewer non-capitalized engineering projects.

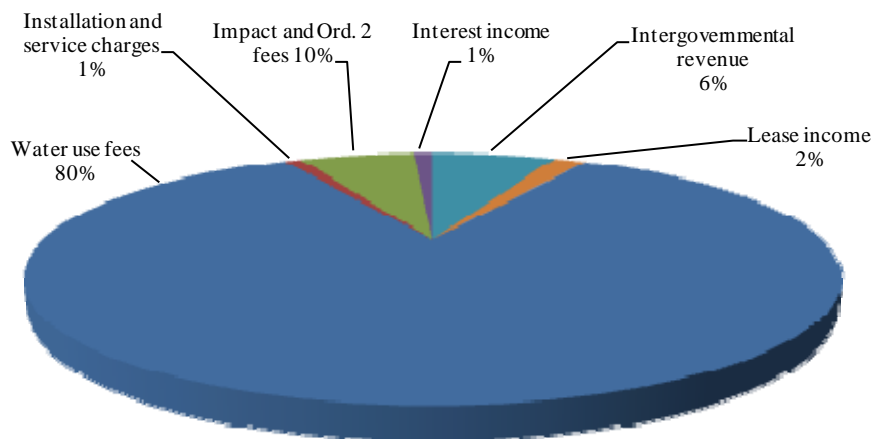
VIRGIN VALLEY WATER DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

The following graphs provide a breakdown of revenues by source for all District activities during the past two years.

Revenue by Source during the year ended June 30, 2014



Revenue by Source during the year ended June 30, 2013



**VIRGIN VALLEY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)**

Capital Assets and Debt Administration

Capital Assets

The District operates as an enterprise fund, which includes capitalization and depreciation of assets. Asset categories include land, buildings, water system, construction in process, equipment, and water rights. The District's capital assets (net of accumulated depreciation) as of June 30, 2014 totaled \$71,411,891, which represents a decrease of \$2,519,207 or 3.4% compared to the prior fiscal year. As of June 30, 2013, the District's net capital assets totaled \$73,931,098 which was a \$1,883,832 or 2.5% decrease from the prior fiscal year end.

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Land	\$ 931,392	\$ 931,392	\$ 591,064
Buildings and improvements	20,918,458	20,918,458	20,918,458
Operating equipment and wells	51,085,446	50,784,267	51,379,869
Engineering and other equipment and tools	311,745	250,931	289,711
Water Shares	<u>22,400,460</u>	<u>22,400,460</u>	<u>22,400,460</u>
	95,647,501	95,285,508	95,579,562
Less accumulated depreciation	<u>(25,406,285)</u>	<u>(22,412,751)</u>	<u>(20,846,850)</u>
	70,241,216	72,872,757	74,732,712
Construction in progress	<u>1,170,675</u>	<u>1,058,341</u>	<u>1,082,218</u>
Net capital assets	<u>\$ 71,411,891</u>	<u>\$ 73,931,098</u>	<u>\$ 75,814,930</u>

**VIRGIN VALLEY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)**

Capital Assets and Debt Administration (Continued)

Major capital asset events and approximate costs incurred during the related fiscal years include the following:

- During 2014, well-related equipment was installed for approximately \$248,000 to improve or replace the existing equipment.
- During 2013, well-related equipment was installed for approximately \$591,000 to improve or replace the existing equipment.
- During 2013, land directly neighboring the District's building was obtained at a cost of approximately \$340,300.
- During 2013, a new transmission line was installed in Bunkerville for \$212,900 to convey water from Well #2 to the main transmission line along Riverside Road.
- During 2013, an internal fixed asset audit was performed by the District. This audit revealed 77 assets that had been previously replaced or otherwise disposed of, but were still being carried on the books of the District. These assets, totaling approximately \$1,846,000 were removed from the books of the District along with the corresponding accumulated depreciation.

Long-Term Debt

The District's long-term debt activity consisted of the following:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Medium term bonds	\$ 2,850,000	\$ -	\$ -
Water revenue bonds	11,026,378	15,815,463	17,169,228
General Obligation (Limited Tax) Water Bond (Additionally Secured by Pledged Revenues)	<u>13,390,000</u>	<u>13,865,000</u>	<u>14,325,000</u>
	<u>\$ 27,266,378</u>	<u>\$ 29,680,463</u>	<u>\$ 31,494,228</u>

Additional information on the District's long-term debt can be found in the notes to the financial statements.

REQUESTS FOR INFORMATION

This financial report is designed to give its readers a general overview of the District's finances. For questions regarding any information contained in this report or requests for additional financial information, please contact the District's office at 500 Riverside Road, Mesquite, Nevada 89027.

VIRGIN VALLEY WATER DISTRICT
STATEMENTS OF NET POSITION
June 30, 2014 and 2013

	2014	2013
ASSETS		
Cash and cash equivalents	\$ 5,353,210	\$ 5,103,816
Investments	4,278,038	4,787,770
Accounts receivable	655,750	671,096
Accrued interest income	13,425	15,927
Due from other governmental units	133,812	124,979
Prepaid expenses	5,361	25,347
Inventory	174,669	191,980
Restricted cash and cash equivalents	1,384,138	2,155,072
Deposits	202,500	202,500
Capital assets, net	71,411,891	73,931,098
Original issue discount, net	20,256	23,875
TOTAL ASSETS	83,633,050	87,233,460
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on defeasance of debt	2,608,819	2,790,896
LIABILITIES		
Accounts payable	324,256	407,840
Accrued interest payable	296,493	309,499
Accrued payroll and payroll taxes	86,191	114,803
Retention payable	9,451	9,765
Prepaid water use fees	50,087	45,765
Prepaid lease income	35,000	39,450
Current portion of bonds payable	1,854,588	1,869,084
Bond premiums, net of amortization	206,169	222,913
Bonds payable, net of current portion	25,411,790	27,811,379
TOTAL LIABILITIES	28,274,025	30,830,498
NET POSITION		
Net investment in capital assets	44,145,513	44,250,635
Restricted for bond requirements and Ordinance No. 2	1,384,138	2,155,072
Unrestricted	12,438,193	12,788,151
TOTAL NET POSITION	\$ 57,967,844	\$ 59,193,858

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

VIRGIN VALLEY WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
Years ended June 30, 2014 and 2013

	2014	2013
OPERATING REVENUES		
Water use fees	\$ 6,876,912	\$ 6,789,538
Installation charges	38,500	58,710
TOTAL OPERATING REVENUES	6,915,412	6,848,248
OPERATING EXPENSES		
Salaries and wages	1,093,592	1,072,990
Office expense	111,387	128,696
Professional and legal services	1,013,975	908,907
Engineering services	41,506	37,136
Payroll taxes	60,435	48,981
Retirement plan contributions	255,789	221,805
Travel and training	9,936	11,464
Bad debt expense	-	42
Dues and subscriptions	56,656	46,529
Uniforms and safety equipment	9,456	7,506
Water rights applications	14,050	15,009
Insurance	421,271	397,516
Utilities	760,901	709,528
Operations and maintenance	1,148,921	925,721
Miscellaneous	24,338	18,960
Depreciation	2,993,534	3,010,120
TOTAL OPERATING EXPENSES	8,015,747	7,560,910
OPERATING LOSS	(1,100,335)	(712,662)
NON-OPERATING REVENUES (EXPENSES)		
Service charges	35,308	35,824
Interest income	82,209	71,687
Impact fees	322,490	504,560
Ordinance No. 2 fees	176,050	385,100
Lease income	139,598	140,598
Other income	6,924	611
Loss on disposal of assets	-	(12,626)
Intergovernmental revenue	538,985	505,199
Unrealized loss on investments	(4,893)	(1,100)
Interest expense	(1,422,350)	(1,473,663)
TOTAL NON-OPERATING REVENUES, NET	(125,679)	156,190
CHANGE IN NET POSITION	(1,226,014)	(556,472)
Net position - beginning of year	59,193,858	59,750,330
Net position - end of year	\$ 57,967,844	\$ 59,193,858

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

VIRGIN VALLEY WATER DISTRICT
STATEMENTS OF CASH FLOWS
Years ended June 30, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers, water usage fees	\$ 6,896,580	\$ 6,817,296
Cash received from customers, installation charges	38,500	58,710
Cash paid for operating expenses	(3,975,222)	(3,308,967)
Cash paid to employees	(1,122,204)	(1,066,652)
Net cash flows from operating activities	1,837,654	2,500,387
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(474,327)	(1,138,914)
Principal paid on long-term debt	(2,414,085)	(1,813,765)
Impact fees collected	322,490	504,560
Ordinance No. 2 fees collected	176,050	385,100
Intergovernmental revenue	530,152	498,485
Lease revenue	142,072	140,009
Service charges collected	35,308	35,824
Interest paid	(1,266,404)	(1,316,171)
Net cash used by capital and related financing activities	(2,948,744)	(2,704,872)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	84,711	67,553
Decrease in restricted cash	770,934	242,923
Sale of investments	504,839	950,000
Purchase of investments	-	(1,976,626)
Net cash flows from (used by) investing activities	1,360,484	(716,150)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	249,394	(920,635)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	5,103,816	6,024,451
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 5,353,210	\$ 5,103,816

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

VIRGIN VALLEY WATER DISTRICT
STATEMENTS OF CASH FLOWS (CONTINUED)
Years ended June 30, 2014 and 2013

	2014	2013
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	\$ (1,100,335)	\$ (712,662)
Adjustments to reconcile operating loss to net cash flows from operating activities:		
Depreciation	2,993,534	3,010,120
Bad debts	-	42
(Increase) decrease in assets:		
Accounts receivable	15,346	32,441
Prepaid expenses	19,986	3,962
Inventory	17,311	(66,283)
Deposits	-	2,500
Increase (decrease) in liabilities:		
Accounts payable	(83,584)	218,847
Accrued expenses	(28,612)	6,338
Retention payable	(314)	9,765
Prepaid water use fees	4,322	(4,683)
Net cash flows from operating activities	\$ 1,837,654	\$ 2,500,387

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

VIRGIN VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Virgin Valley Water District (the District) was created pursuant to Senate Bill 100, which was passed by the 1993 Nevada Legislature and signed into law by the governor and in accordance with a June 29, 1993 vote by the membership of the District's predecessor Mesquite Farmstead Water Association. As of June 30, 1993, Mesquite Farmstead Water Association ceased operations and the District was created. The District is a governmental special service district. The District began operations on July 1, 1993 and has a fiscal year end of June 30.

Basis of Accounting

The District is an enterprise fund, which is reported using the *economic resources measurement focus* and the *accrual basis of accounting*. An enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing services to the general public on a continuing basis are financed or recovered primarily through user charges. User charges are classified as operating revenues and revenues from other sources as non-operating revenues. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The District applies all Governmental Accounting Standards Board (GASB) pronouncements.

Budget Policy and Process

The District adheres to the local Government Budget Act incorporated within state statutes, which include the following major procedures to establish the budgetary data which is reflected in these financial statements.

1. On or before April 15, the District's Board of Directors files a tentative budget with the Nevada Department of taxation.
2. Public hearings on the tentative budget are held on the third Thursday or Friday in May.
3. Prior to June 1, at a public hearing, the Board indicates changes, if any, to be made to the tentative budget and adopts a final budget by the favorable vote of a majority of the members of the Board and by adopting a resolution. The final budget must then be forwarded to the Nevada Tax Commission for final hearings and approval.

VIRGIN VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budget Policy and Process (continued)

4. Formal budgetary integration in the financial records is employed to enhance management control during the year.
5. The budget is adopted on a basis consistent with generally accepted accounting principles (GAAP). Appropriations lapse at year end.
6. Budget amounts may be transferred if amounts do not exceed the original budget. Such transfers are to be approved with a resolution by the Board of Directors. Budget augmentations in excess of original budgetary amounts may not be made without prior approval of the Board of Directors, following a properly scheduled public hearing.

In accordance with State Statute and the Nevada Administrative Code, actual expenses may not exceed the sum of budgeted operating and non-operating expenses.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less when purchased.

Investments

Cash balances are invested as permitted by law. Investments are recorded at lower of cost or market.

Pursuant to NRS 355.170, the District may only invest in the following types of securities:

- United States bonds and debentures maturing within ten years from the date of purchase.
- Certain farm loan bonds.

VIRGIN VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (continued)

- Securities of the United States Treasury, United States Postal Service, or the Federal National Mortgage Association maturing within ten years from the date of purchase.
- Negotiable certificates of deposit from commercial banks and insured savings and loan associations within the State of Nevada.
- Certain securities issued by local governments of the State of Nevada.
- Other securities expressly provided by other statutes, including repurchase agreements.

Accounts Receivable

Accounts receivable represent water usage billings for which payment has not yet been received. Due to the nature of such receivables and the District's ability to collect them, an allowance for doubtful accounts is not considered necessary.

Inventory

Inventory, consisting of piping and maintenance supplies, is stated at the lower of cost or market. Cost is determined on a first-in, first-out basis.

Capital Assets

All capital assets are valued at historical cost. Donated capital assets are valued at their estimated fair value on the date donated.

Depreciation of capital assets is computed using the straight-line method over the following estimated useful lives:

Improvements	15-40 years
Vehicles	5 years
Office furniture and equipment	3-15 years
Buildings	7-20 years

Prepaid Water Use Fees

The District recognizes prepaid water usage fees in the period the respective revenues are earned.

Prepaid Lease Income

The District recognizes prepaid water rights lease income in the period the respective revenues are earned.

VIRGIN VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

Certain prior year items have been reclassified to conform to the current year presentation.

Subsequent Events

Management of the District has evaluated subsequent events through September 23, 2014, which is also the date the financial statements were available to be issued. No subsequent events were noted during this evaluation that required recognition or disclosure in these financial statements.

NOTE 2 - DEPOSITS AND INVESTMENTS

Deposits and investments of the District are governed by the Nevada Revised Statutes (NRS). Following are discussions of the District's exposure to various risks related to its cash management activities.

A. Custodial Credit Risk

Deposits: Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Agency's deposits may not be recovered. The District does not have a formal policy for custodial credit risk.

As of June 30, 2014 and 2013, the District's bank balance was \$6,747,737 and \$7,274,899, respectively. As of June 30, 2014 and 2013, \$5,352,569 and \$4,690,404 was on deposit with the Bank of Nevada, respectively. Of this amount \$250,000 is insured by FDIC insurance. The Bank of Nevada has pledged securities set aside with the State of Nevada to collateralize the District's funds through the Nevada Pooled Collateral Program that are equal to or in excess of the remaining amount on deposit above the FDIC insurance limit of \$250,000. Thus, at June 30, 2014 and 2013, respectively, none of the District's funds with the Bank of Nevada were both uninsured and uncollateralized.

As of June 30, 2014 and 2013, \$14,059 and \$2,584,495, respectively, was on deposit with Wells Fargo Bank and as of June 30, 2014, \$1,381,109 was on deposit with U.S. Bank in various government money market funds which are short-term money market instruments that consist of U.S. Government obligations and repurchase agreements collateralized by U.S. Government obligations.

Investments: Custodial credit risk for investments is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments that are in the possession of an outside party.

**VIRGIN VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013**

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

As of June 30, 2014 and 2013, respectively, the entire \$1,263,574 and \$1,780,163 of the District's investments in U.S. government securities and the entire \$3,014,464 and \$3,007,607 of the District's inventory in certificates of deposit are uninsured, unregistered, and held by the counterparty's trust department but not in the District's name and are therefore exposed to custodial credit risk.

B. Credit Risk

Credit risk is the risk that the counterparty to an investment transaction will not fulfill its obligations. The District's policy for reducing its exposure to credit risk is to comply with State law (NRS 355.170).

The following are the District's investments at June 30, 2014:

<u>Investment Type</u>	<u>Maturity less than one year</u>	<u>1-5 years</u>	<u>6-10 years</u>	<u>More than 10 years</u>	<u>Quality Ratings</u>
U.S. Government Securities	\$ 754,613	\$ 508,961	\$ -	\$ -	AA+
Certificates of Deposit	1,241,266	1,773,198	-	-	Unrated
Total	<u>\$ 1,995,879</u>	<u>\$ 2,282,159</u>	<u>\$ -</u>	<u>\$ -</u>	

The following are the District's investments at June 30, 2013:

<u>Investment Type</u>	<u>Maturity less than one year</u>	<u>1-5 years</u>	<u>6-10 years</u>	<u>More than 10 years</u>	<u>Quality Ratings</u>
U.S. Government Securities	\$ 504,629	\$ 1,275,534	\$ -	\$ -	AA+
Certificates of Deposit	-	3,007,607	-	-	Unrated
Total	<u>\$ 504,629</u>	<u>\$ 4,283,141</u>	<u>\$ -</u>	<u>\$ -</u>	

A summary of unrestricted cash and cash equivalents and restricted investment is as follows:

	<u>2014</u>	<u>2013</u>
Cash and cash equivalents	\$ 5,353,210	\$ 5,103,816
Investments	4,278,038	4,787,770
Restricted cash and cash equivalents	<u>1,384,138</u>	<u>2,155,072</u>
	<u>\$ 11,015,386</u>	<u>\$ 12,046,658</u>

**VIRGIN VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013**

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

	2014	2013
Cash on hand	\$ 850	\$ 850
Deposits (book balance)	6,736,498	7,258,038
U.S. Government Securities	1,263,574	1,780,163
Certificates of Deposit	3,014,464	3,007,607
	\$ 11,015,386	\$ 12,046,658

C. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District's policy for managing its exposure to fair value loss arising from increasing interest rates is to maintain compliance with the provisions of State law (NRS 355.170). State law, under NRS355.170, limits the type of investments the District can be involved in where the risk of losing value is mitigated by the safety of the instrument (i.e., government debt, certificates of deposit with insured institutions, commercial paper with an A-1 rating, etc.) or by the limited amount of time a local government may hold the debt (i.e., 270 days for corporate debt).

D. Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District's policy for reducing the risk of loss is to comply with the provisions of State law (NRS 355.170).

During fiscal year 1996, the Board passed Ordinance No. 2 which requires that any applicant requesting water services to a new location shall dedicate to the District either water rights and water supply sufficient for the anticipated usage or pay the District the fair market value of the water rights so the District can purchase them. In fiscal years 2014 and 2013, respectively, \$176,050 and \$385,100 was collected from customers as payments for Ordinance No. 2. At June 30, 2014 and 2013, respectively, the balance in the Ordinance No. 2 account was \$3,000 and \$105,702. The entire balance is restricted.

VIRGIN VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 3 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014 was as follows:

	<u>Beginning Balance</u>	<u>Additions / Transfers In</u>	<u>Disposals / Transfers Out</u>	<u>Ending Balance</u>
Capital assets not depreciated:				
Land	\$ 931,392	\$ -	\$ -	\$ 931,392
Water shares	22,400,460	-	-	22,400,460
Construction in progress	<u>1,058,341</u>	<u>112,334</u>	<u>-</u>	<u>1,170,675</u>
Total capital assets not depreciated	<u>24,390,193</u>	<u>112,334</u>	<u>-</u>	<u>24,502,527</u>
Capital assets being depreciated:				
Buildings and improvements	20,918,458	-	-	20,918,458
Operating equipment and wells	50,784,267	301,179	-	51,085,446
Engineering and other equipment	<u>250,931</u>	<u>60,814</u>	<u>-</u>	<u>311,745</u>
Total capital assets being depreciated	71,953,656	361,993	-	72,315,649
Accumulated depreciation	<u>(22,412,751)</u>	<u>(2,993,534)</u>	<u>-</u>	<u>(25,406,285)</u>
Total capital assets being depreciated, net	<u>49,540,905</u>	<u>(2,631,541)</u>	<u>-</u>	<u>46,909,364</u>
Total capital assets, net	<u>\$ 73,931,098</u>	<u>\$ (2,519,207)</u>	<u>\$ -</u>	<u>\$ 71,411,891</u>

Capital asset activity for the year ended June 30, 2013 was as follows:

	<u>Beginning Balance</u>	<u>Additions / Transfers In</u>	<u>Disposals / Transfers Out</u>	<u>Ending Balance</u>
Capital assets not depreciated:				
Land	\$ 591,064	\$ 340,328	\$ -	\$ 931,392
Water shares	22,400,460	-	-	22,400,460
Construction in progress	<u>1,082,218</u>	<u>877,292</u>	<u>(901,169)</u>	<u>1,058,341</u>
Total capital assets not depreciated	<u>24,073,742</u>	<u>1,217,620</u>	<u>(901,169)</u>	<u>24,390,193</u>
Capital assets being depreciated:				
Buildings and improvements	20,918,458	-	-	20,918,458
Operating equipment and wells	51,379,869	810,904	(1,406,506)	50,784,267
Engineering and other equipment	<u>289,711</u>	<u>23,797</u>	<u>(62,577)</u>	<u>250,931</u>
Total capital assets being depreciated	72,588,038	834,701	(1,469,083)	71,953,656
Accumulated depreciation	<u>(20,846,850)</u>	<u>(3,010,120)</u>	<u>1,444,219</u>	<u>(22,412,751)</u>
Total capital assets being depreciated, net	<u>51,741,188</u>	<u>(2,175,419)</u>	<u>(24,864)</u>	<u>49,540,905</u>
Total capital assets, net	<u>\$ 75,814,930</u>	<u>\$ (957,799)</u>	<u>\$ (926,033)</u>	<u>\$ 73,931,098</u>

**VIRGIN VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013**

NOTE 4 - LONG-TERM DEBT

The following is a summary of changes in long-term debt for the year ended June 30, 2014:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Bonds Payable				
Water Revenue Bonds, Series 2003	\$ 3,060,463	\$ -	\$ (159,085)	\$ 2,901,378
Water Revenue Bonds, Series 2004	3,930,000	-	(3,930,000)	-
Water Revenue Bonds, Series 2006	5,520,000	-	(340,000)	5,180,000
General Obligation (Limited Tax)				
Water Bonds (Additional Secured by Pledged Revenues), Series 2008	13,865,000	-	(475,000)	13,390,000
Water Revenue Bonds, Series 2011	3,305,000	-	(360,000)	2,945,000
Medium Term Bonds, Series 2014	<u>-</u>	<u>2,850,000</u>	<u>-</u>	<u>2,850,000</u>
Total bonds payable	<u>\$ 29,680,463</u>	<u>\$ 2,850,000</u>	<u>\$ (5,264,085)</u>	<u>\$ 27,266,378</u>

The following is a summary of changes in long-term debt for the year ended June 30, 2013:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Bonds Payable				
Water Revenue Bonds, Series 2003	\$ 3,214,228	\$ -	\$ (153,765)	\$ 3,060,463
Water Revenue Bonds, Series 2004	4,445,000	-	(515,000)	3,930,000
Water Revenue Bonds, Series 2006	5,845,000	-	(325,000)	5,520,000
General Obligation (Limited Tax)				
Water Bonds (Additional Secured by Pledged Revenues), Series 2008	14,325,000	-	(460,000)	13,865,000
Water Revenue Bonds, Series 2011	<u>3,665,000</u>	<u>-</u>	<u>(360,000)</u>	<u>3,305,000</u>
Total bonds payable	<u>\$ 31,494,228</u>	<u>\$ -</u>	<u>\$ (1,813,765)</u>	<u>\$ 29,680,463</u>

**VIRGIN VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013**

NOTE 4 - LONG-TERM DEBT (CONTINUED)
Long term debt consists of the following:

	<u>Current Portion (due within one year)</u>	<u>Long-Term Portion</u>	<u>Total Outstanding at June 30, 2014</u>
<p>Water revenue bonds, series 2003. Bonds have not been fully issued. Estimated semi-annual interest installments range from \$22,150 to \$62,518 and estimated semi-annual principal installments range from \$68,835 to \$129,138, bearing interest of 3.43%, maturing in June 30, 2028</p>	\$ 164,588	\$ 2,736,790	\$ 2,901,378
<p>Water revenue bonds, series 2006, due in semi-annual interest installments ranging from \$10,931 to \$163,626 and annual principal installments ranging from \$250,000 to \$530,000, bearing interest between 3.75 and 5%, maturing June 1, 2026.</p>	355,000	4,825,000	5,180,000
<p>General Obligation (Limited Tax) Water Bonds (Additionally Secured by Pledged Revenues), Series 2008, due in semi-annual interest installments ranging from \$4,125 to \$330,463 and beginning in March 2013, annual principal installments ranging from \$165,000 to \$1,070,000, bearing interest between 3.5 and 5%, maturing March 31, 2033.</p>	495,000	12,895,000	13,390,000

**VIRGIN VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013**

NOTE 4 - LONG-TERM DEBT (CONTINUED)

	<u>Current Portion (due within one year)</u>	<u>Long-Term Portion</u>	<u>Total Outstanding at June 30, 2014</u>
Water revenue bonds, series 2011, due in semi-annual interest installments ranging from \$10,094 to \$87,058 and annual principal installments ranging from \$340,000 to \$475,000, bearing interest between 2 and 4.25%, maturing June 30, 2022.	375,000	2,570,000	2,945,000
Medium term bonds, series 2014, due in semi-annual interest installments ranging from \$8,272 to \$30,514 and annual principal installments ranging from \$465,000 to \$940,000, bearing interest at 1.76%, maturing June 1, 2019	<u>465,000</u>	<u>2,385,000</u>	<u>2,850,000</u>
Total bonds payable	<u>1,854,588</u>	<u>25,411,790</u>	<u>27,266,378</u>
Total long-term debt	<u><u>\$ 1,854,588</u></u>	<u><u>\$ 25,411,790</u></u>	<u><u>\$ 27,266,378</u></u>

**VIRGIN VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013**

NOTE 4 - LONG-TERM DEBT (CONTINUED)

The annual requirements for the next five years and 5-year increments thereafter to amortize long-term debt outstanding at June 30, 2014, including interest of \$9,729,696 are as follows:

2015	\$ 2,923,848
2016	2,910,689
2017	2,916,480
2018	2,906,504
2019	2,910,123
2020-2024	11,016,961
2025-2029	7,908,411
2030-2033	<u>3,503,058</u>
Total	36,996,074
Less Interest	<u>(9,729,696)</u>
Total Principal	<u>\$ 27,266,378</u>

NOTE 5 - DEFEASANCE OF LONG-TERM DEBT

In April 2014, the District issued \$2,850,000 in medium term bonds bearing interest at 1.76%. The proceeds were used to currently refund \$3,395,000 of outstanding 2004 water revenue bonds which had interest rates ranging from 3.5% to 4.0%. The net proceeds of \$2,850,000 plus reserve funds of \$610,715 were used for the repayment of the 2004 bonds in full and the liability has been removed from the financial statements.

The reacquisition price equaled the net carrying amount of the old debt and reserve funds. Therefore, there was no deferred charge to be amortized over the remaining life of the refunding debt. The District refunded the 2004 water revenue bonds to reduce its total debt service payments over 5 years by \$203,371 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$160,916.

VIRGIN VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 5 - DEFEASANCE OF LONG-TERM DEBT (CONTINUED)

In prior years, the District defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2014, \$7,480,000 of bonds outstanding is considered defeased.

NOTE 6 - LEASES

The District has entered into various agreements with various organizations to lease water rights. The minimum future cash leases receivable on non-cancelable leases in each of the next five years and thereafter are as follows:

2015	\$ 124,870
2016	123,250
2017	123,250
2018	123,250
2019	47,500
Thereafter	<u>-</u>
Total	<u><u>\$ 542,120</u></u>

NOTE 7 - DEFINED BENEFIT PENSION PLAN

The District is a public employer participating in the Public Employees Retirement System of the State of Nevada (PERS), a cost sharing multiple-employer program. All full-time employees are covered under the system. In addition, those part-time employees working at least 20 hours per week and more than 120 days are covered, except for those employees who participate in PERS with an employer other than the District. For the years ended June 30, 2014 and 2013, respectively, of the District's total payroll of \$1,093,592 and \$1,072,990, the payroll for employees covered by the system for the years ended June 30, 2014 and 2013, respectively, was \$1,057,956 and \$991,338.

Benefits, as required by statute, are determined by the number of years of accredited service at the time of retirement and the member's highest average compensation in any 36 consecutive months. Benefit payments to which participants may be entitled under the Plan include pension benefits, disability benefits, and death benefits.

VIRGIN VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 7 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

Monthly benefit allowances for members are computed as 2.5% of average compensation (36 consecutive months of highest compensation) for each accredited year of service prior to retirement with a ceiling of 75% of the average compensation. PERS offers several alternatives to the unmodified service retirement allowance which, in general, allows retired employees to accept a reduced service retirement allowance payable monthly during their lives and various optional monthly payments to a named beneficiary after their deaths.

Ordinary members are eligible for retirement at age 65 with 5 years of service, age 60 with 10 years of service, or any age with 30 years of service. Members who retired on or after July 1, 1977, or are active members whose effective date of membership is before July 1, 1985, and who have 36 years of service are entitled to a benefit of up to 90% of their average compensation. When members are eligible for the earlier retirement, due to the increased service years, the ceiling limitation on monthly benefit allowances increases from the normal 75% to a maximum of 90% of average compensation. Ordinary members become fully vested as to benefits upon completion of 5 years of service.

Member contribution rates are established by NRS 286.465. The statute, which is tied to the increase in taxable sales within the State each year, provides for yearly increases of up to 1% until such time as the actuarially determined unfunded liability of the Plan is reduced to zero.

The District is enrolled in the employer-paid plan of PERS. Under this plan the District is required to contribute 23.75% of covered employees' salaries to the plan, the actuarially determined contribution rate as of June 30, 2013. The contribution requirements for the years ended June 30, 2014 and 2013 were \$255,789 and \$221,805, respectively. A copy of the PERS June 30, 2014 and 2013 annual financial reports may be obtained by writing to the Public Employee's Retirement System of Nevada, 693 W. Nye Lane, Carson City, Nevada 89703-1599, or by calling (775) 687-4200.

NOTE 8 - DEFERRED COMPENSATION PLAN

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all regular employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

**VIRGIN VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013**

NOTE 8 - DEFERRED COMPENSATION PLAN (CONTINUED)

The amounts of compensation deferred under the plan, the property and rights purchased with those amounts, and the income attributable to those amounts, property or rights are not the property of the District, and therefore, they are not subject to the claims of the District's general creditors.

NOTE 9 - RESTRICTED NET ASSETS

Book balances of restricted net assets consist of the following:

	2014	2013
Ordinance No. 2 Fees	\$ 3,000	\$ 241,456
Bond Reserves	<u>1,381,138</u>	<u>2,156,539</u>
Total	<u>\$ 1,384,138</u>	<u>\$ 2,397,995</u>

NOTE 10 - CONTINGENCIES

During the current fiscal year, a settlement in favor of the District for approximately \$4.7 million was reached between the District and former employees of the District and others regarding the inappropriate transfer of water rights in previous years. However, in order to complete the sale or transfer of these water rights, approval must be obtained from the Nevada State Water Engineer. Issues involved include clear title, place of use and type of use. The application must go through a hearing and review process. Management believes that the approval of the transfer is so uncertain, that it does not meet the criteria to be accrued in the current fiscal year.

SUPPLEMENTARY INFORMATION

**VIRGIN VALLEY WATER DISTRICT
BUDGET TO ACTUAL COMPARISON
Year ended June 30, 2014**

<u>Description</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
OPERATING REVENUES:			
Water use fees	\$ 6,836,000	\$ 6,876,912	\$ 40,912
Installation charges	<u>34,000</u>	<u>38,500</u>	<u>4,500</u>
Total operating revenues	6,870,000	6,915,412	45,412
OPERATING EXPENSES:			
Salaries and wages	1,159,340	1,093,592	65,748
Office expense	135,483	111,387	24,096
Professional and legal services	1,044,500	1,013,975	30,525
Engineering services	90,000	41,506	48,494
Payroll taxes	63,477	60,435	3,042
Retirement plan contributions	255,812	255,789	23
Travel and training	20,000	9,936	10,064
Dues and subscriptions	30,200	56,656	(26,456)
Uniforms and safety equipment	12,908	9,456	3,452
Water rights applications	19,000	14,050	4,950
Insurance	469,308	421,271	48,037
Utilities	783,776	760,901	22,875
Operations and maintenance	1,354,470	1,148,921	205,549
Miscellaneous	23,060	24,338	(1,278)
Depreciation	<u>2,997,540</u>	<u>2,993,534</u>	<u>4,006</u>
Total operating expenses	<u>8,458,874</u>	<u>8,015,747</u>	<u>443,127</u>
Operating loss	<u>(1,588,874)</u>	<u>(1,100,335)</u>	<u>488,539</u>
NON-OPERATING INCOME (EXPENSES)			
Service charges	34,000	35,308	1,308
Interest income	55,000	82,209	27,209
Impact fees	275,000	322,490	47,490
Ordinance No. 2 fees	176,000	176,050	50
Lease income	140,598	139,598	(1,000)
Other income	6,000	6,924	924
Loss on disposal of assets	-	-	-
Intergovernmental revenue	515,000	538,985	23,985
Unrealized loss on investments	(6,000)	(4,893)	1,107
Interest expense	<u>(1,435,355)</u>	<u>(1,422,350)</u>	<u>13,005</u>
Total nonoperating income (expense)	<u>(239,757)</u>	<u>(125,679)</u>	<u>114,078</u>
Change in net assets	(1,828,631)	(1,226,014)	602,617
Total net assets - beginning	<u>59,193,858</u>	<u>59,193,858</u>	<u>-</u>
Total net assets - ending	<u>\$ 57,365,227</u>	<u>\$ 57,967,844</u>	<u>\$ 602,617</u>

**VIRGIN VALLEY WATER DISTRICT
BUDGET TO ACTUAL COMPARISON
Year ended June 30, 2013**

<u>Description</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
OPERATING REVENUES:			
Water use fees	\$ 7,026,000	\$ 6,789,538	\$ (236,462)
Installation charges	<u>36,000</u>	<u>58,710</u>	<u>22,710</u>
Total operating revenues	7,062,000	6,848,248	(213,752)
OPERATING EXPENSES:			
Salaries and wages	1,151,758	1,072,990	78,768
Office expense	153,574	128,696	24,878
Professional and legal services	388,700	908,907	(520,207)
Engineering services	40,000	37,136	2,864
Payroll taxes	60,229	48,981	11,248
Retirement plan contributions	229,988	221,805	8,183
Travel and training	19,500	11,464	8,036
Bad debt expense	-	42	(42)
Dues and subscriptions	36,400	46,529	(10,129)
Uniforms and safety equipment	9,200	7,506	1,694
Water rights applications	19,000	15,009	3,991
Insurance	437,940	397,516	40,424
Utilities	789,000	709,528	79,472
Operations and maintenance	1,154,847	925,721	229,126
Miscellaneous	30,000	18,960	11,040
Amortization	48,368	-	48,368
Depreciation	<u>3,162,385</u>	<u>3,010,120</u>	<u>152,265</u>
Total operating expenses	<u>7,730,889</u>	<u>7,560,910</u>	<u>169,979</u>
Operating loss	<u>(668,889)</u>	<u>(712,662)</u>	<u>(43,773)</u>
NON-OPERATING INCOME (EXPENSES)			
Service charges	35,000	35,824	824
Interest income	40,000	71,687	31,687
Impact fees	200,000	504,560	304,560
Ordinance No. 2 fees	50,000	385,100	335,100
Lease income	140,598	140,598	-
Other income	1,000	611	(389)
Loss on disposal of assets	-	(12,626)	(12,626)
Intergovernmental revenue	440,000	505,199	65,199
Unrealized gain on investments	-	(1,100)	(1,100)
Interest expense	<u>(1,486,788)</u>	<u>(1,473,663)</u>	<u>13,125</u>
Total nonoperating income (expense)	<u>(580,190)</u>	<u>156,190</u>	<u>736,380</u>
Change in net assets	(1,249,079)	(556,472)	692,607
Total net assets - beginning	<u>59,750,330</u>	<u>59,750,330</u>	<u>-</u>
Total net assets - ending	<u>\$ 58,501,251</u>	<u>\$ 59,193,858</u>	<u>\$ 692,607</u>

SUPPLEMENTARY REPORTS

**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***

**The Board of Directors
Virgin Valley Water District**

We have audited, in accordance with the 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, the basic financial statements of Virgin Valley Water District, which comprise the statement of net position as of June 30, 2014 and the statement of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 23, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Virgin Valley Water District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Virgin Valley Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of Virgin Valley Water District's internal control.

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 and correct, 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

WISAN, SMITH, RACKER & PRESCOTT, LLP

SALT LAKE ~ 155 North 400 West, Suite 400 · Salt Lake City, Utah · 84103 · 801.328.2011 (office) · 801.328.2015 (fax)
LAS VEGAS ~ 1820 East Warm Springs Road, Suite 112 · Las Vegas, Nevada · 89119 · 702.451.3099 (office) · 702.568.5030 (fax)

Licensed to Practice in Utah, Wyoming, Nevada, New Mexico and Idaho.
Member: American Institute, Utah Association and Nevada Society of Certified Public Accountants

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Virgin Valley Water District's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

WSRP, LLC

Salt Lake City, Utah
September 23, 2014

INDEPENDENT AUDITORS' REPORT ON STATE LEGAL COMPLIANCE**The Board of Directors
Virgin Valley Water District**

We have audited the financial statements of Virgin Valley Water District (the District) as of and for the year ended June 30, 2014, and have issued our report thereon dated September 23, 2014. Our audit also included test work on the District's compliance with selected requirements identified in the State of Nevada Revised Statutes (NRS) including, but not limited to, NRS section 354.624 and section 354.6241.

The management of the District is responsible for the District's compliance with all requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit and make specific statements regarding funds established and the status of prior year findings and recommendations; accordingly, we make the following statements:

The District has established one Enterprise Fund in accordance with NRS 354.624. The District appears to be using the fund expressly for the purposes for which it was created and in accordance with NRS 354.624. The fund is being administered in accordance with generally accepted accounting principles and the reserves, as applicable, appear reasonable and necessary to carry out the purposes of the fund. Sources of revenues available and retained earnings or net assets are reflected in the fund financial statements.

The statutory and regulatory requirements of the funds are as follows:

Enterprise Fund: Board of Director's intended purpose and State resolution.

The result of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, Virgin Valley Water District complied, in all material respects, with the requirements identified above for the year ended June 30, 2014.

WSRP, LLC

Salt Lake City, Utah
September 23, 2014

WISAN, SMITH, RACKER & PRESCOTT, LLP

SALT LAKE ~ 155 North 400 West, Suite 400 · Salt Lake City, Utah · 84103 · 801.328.2011 (office) · 801.328.2015 (fax)
LAS VEGAS ~ 1820 East Warm Springs Road, Suite 112 · Las Vegas, Nevada · 89119 · 702.451.3099 (office) · 702.568.5030 (fax)