

VIRGIN VALLEY WATER DISTRICT
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010
WITH REPORT OF
CERTIFIED PUBLIC ACCOUNTANTS

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FINANCIAL SECTION



HINTONBURDICK

HINTON BURDICK HALL & SPILKER PLLC

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MARK E. TICHENOR

**Independent Auditors' Report on the
Basic Financial Statements**

Directors and Members of the Board
Virgin Valley Water District
Mesquite, Nevada

We have audited the accompanying basic financial statements of Virgin Valley Water District as of June 30, 2010, and for the year then ended, as listed in the Table of Contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic 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 basic financial statements referred to above present fairly, in all material respects, the financial position of Virgin Valley Water District, as of June 30, 2010 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 30, 2010, on our consideration of the District's internal control structure 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 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.

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 audit 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The other supplementary information as listed in the table of contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.



HINTON, BURDICK, HALL & SPILKER, PLLC
September 30, 2010

**VIRGIN VALLEY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

The following is a discussion and analysis of Virgin Valley Water District's (District) financial performance providing an overview of the District's financial activities for the year ended June 30, 2010. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- Total assets exceed total liabilities (net assets) by \$58,026,058 at the close of the fiscal year.
- Total net assets decreased by -\$174,715 or -0.3%.
- Operating revenues increased by \$31,726 or 0.6% from \$4,947,402 to \$4,979,128.
- Operating expenses increased by \$1,696,058 or 28% from \$6,003,712 to \$7,699,770.

OVERVIEW OF THE FINANCIAL STATEMENTS

This 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 government 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 assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 assets* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets 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 government's cash changed during the most recent fiscal year.

The basic financial statements can be found on pages 9-13 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a fully understanding of the data provided in the basic financial statements. The notes to the financial statements can be found on pages 15-25 of this report.

**VIRGIN VALLEY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

DISTRICT FINANCIAL ANALYSIS AS A WHOLE

Net assets may serve over time as a useful indicator of the District's financial position. The District's combined assets exceed liabilities at June 30, 2010 and 2009 by \$58,026,058 and \$58,200,773, respectively. This is presented in the following condensed statement of net assets.

**Condensed Statement of Net Assets
As of June 30th**

	2010	2009
ASSETS		
Current and other assets	\$ 6,897,525	\$ 13,341,601
Restricted assets	13,293,697	15,617,909
Capital assets	80,875,123	75,996,660
Total assets	101,066,345	104,956,170
LIABILITIES		
Current and other liabilities	2,655,719	4,704,694
Long-term liabilities	40,384,568	42,050,703
Total liabilities	43,040,287	46,755,397
NET ASSETS		
Invested in capital assets, net of related debt	38,528,968	31,999,673
Restricted for bond requirements and Ordinance No. 2	13,293,697	15,617,909
Unrestricted	6,203,393	10,583,191
Total net assets	\$ 58,026,058	\$ 58,200,773

The District's net assets are comprised of three components:

Capital assets (i.e. land, buildings, operating equipment, wells, office capital assets, and water rights) comprised of \$38,528,968 or 66.4% of total net assets, 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.

Restricted net assets comprised of \$13,293,697 or 22.9% of total net assets and represents funds that are subject to restrictions on how they may be used. 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 are funds intended for the purchase of water rights.

Unrestricted net assets comprised of \$6,203,393 or 10.7% of total net assets and may be used to meet the District's obligations to customers, employees, and creditors and to honor next year's budget.

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

**VIRGIN VALLEY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

DISTRICT FINANCIAL ANALYSIS AS A WHOLE (Continued)

**Condensed Statement of Revenues, Expenses
and Changes in Net Assets
As of June 30th**

	2010	2009
Revenues:		
Operating revenue	\$ 4,979,128	\$ 4,947,402
Non-operating revenues	4,035,015	11,458,344
Total Revenues	9,014,143	16,405,746
Expenditures:		
Depreciation and amortization - operating expenses	2,471,812	1,479,195
Other operating expenses	5,227,958	4,524,517
Non-operating expenses	1,489,088	941,087
Total Expenses	9,188,858	6,944,799
Increase/-decrease in net assets	-174,715	9,460,947
Net assets, beginning	58,200,773	48,739,826
Net assets, ending	\$ 58,026,058	\$ 58,200,773

The District's operating revenues increased \$31,726 or 0.6% over the prior year.

Total non-operating revenues decreased -\$7,423,329 or -64.8% over the prior year. The single largest category decrease consisted of intergovernmental revenues of -\$6,947,293 or -93.6% of the total decrease; the intergovernmental revenues consisted primarily of grants received for construction related to the arsenic treatment plants, mostly constructed in prior years and completed during fiscal 2010. Other selected non-operating account changes over the prior year consisted of decreases in ordinance no.2 fees of -\$260,354, impact fees of -\$137,800, and interest income of -\$130,907 with an increase in lease income of \$64,395.

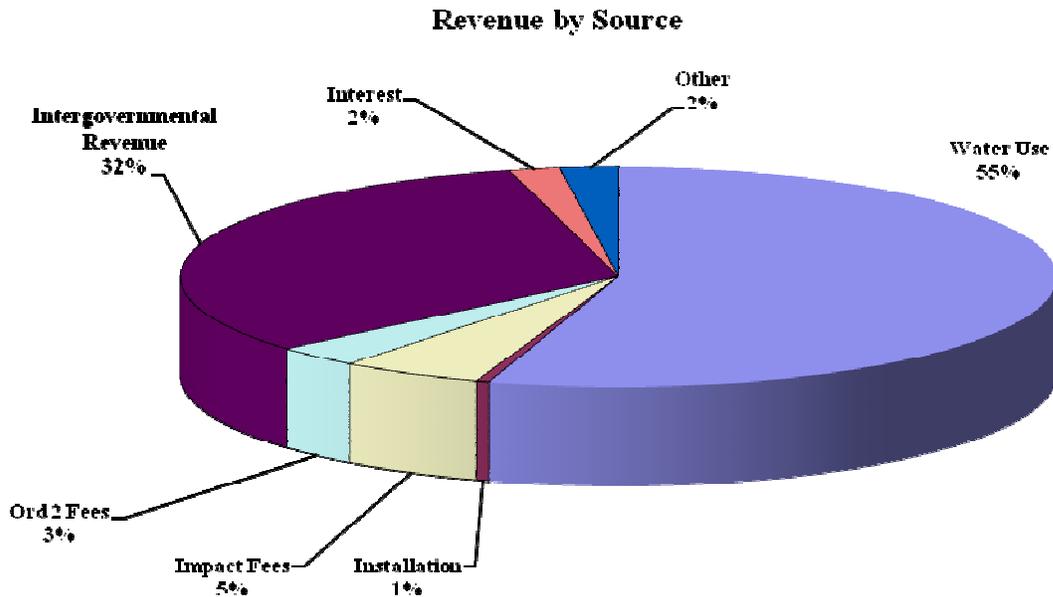
Total operating expenses increased \$1,696,058 or 28.3% over the prior year. Largely two expense categories made up most of increase; depreciation expense increased over the amount of the previous year by \$1,009,205 or 70.9% and contracted services increase by \$675,402 or 107.6%. A primary reason for the increase of depreciation expense was the depreciation related to the arsenic treatment plants that were placed in service during the year.

Total non-operating expenses increased \$548,001 or 58.2% over the prior year, which consisted primarily of interest expense.

**VIRGIN VALLEY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

DISTRICT FINANCIAL ANALYSIS AS A WHOLE (Continued)

The following graph provides a breakdown of revenues by source for all District activities.



BUDGETARY HIGHLIGHTS

Over the course of the year, the Board made revised the District's budget.

Since the District operates as an enterprise fund, it is only required to comply with the budget on an entity wide basis. Budget amendments were made to increase expenses by \$300,000; the actual expenditures for the fiscal year 2010 were \$98,355 less than the final budgeted amounts.

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, 2010 amount to \$80,875,123, which represents an increase of \$4,878,463 or 6.4% over the prior fiscal year.

Major capital assets events and approximate costs incurred during the current fiscal year included the following:

- Additional construction in progress costs were incurred of approximately \$2,700,000 for the completion of the arsenic treatment plants.

**VIRGIN VALLEY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)

- The arsenic treatment plants were completed as noted above and placed in service at a total capitalized cost (including capitalized interest expense) in excess of \$27,000,000 and was transferred from construction in progress to fixed assets for depreciating
- Purchases of water rights consisted of approximately \$3,650,000. Approximately \$3,420,000 was paid for from the 2008 bond funds with the remaining balance of water rights paid from funds that had been accumulated in the current and prior years from Ordinance No. 2 fees, as is the intended use by the District for such fees.

**Capital Assets
(net of accumulated depreciation)
As of June 30th**

	<u>2010</u>	<u>2009</u>
Land	\$ 591,064	\$ 161,401
Buildings and improvements	19,867,462	1,283,215
Operating equipment and wells	50,460,652	41,981,188
Office capital assets	270,321	252,773
Water shares	<u>22,400,460</u>	<u>18,749,042</u>
	93,589,959	62,427,619
Less accumulated depreciation	<u>(14,935,111)</u>	<u>(12,526,429)</u>
	49,901,190	49,901,190
Construction in process	<u>2,220,275</u>	<u>26,095,470</u>
Net capital assets	<u>\$ 80,875,123</u>	<u>\$ 75,996,660</u>

Long-Term Debt

The District's long-term debt activity during fiscal year 2010 in general consisted of the following:

**Outstanding Debt
As of June 30th**

	<u>2010</u>	<u>2009</u>
Water revenue bonds	\$ 19,581,506	\$ 20,765,356
General Obligation (Limited Tax) Water Bond (Additionally Secured by Pledged Revenues)	22,680,000	23,100,000
Notes payable	<u>84,649</u>	<u>131,630</u>
	<u>\$ 42,346,155</u>	<u>\$ 43,996,986</u>

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

**VIRGIN VALLEY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Virgin Valley Water District's finances for all those with an interest in the District's finances. Questions regarding any of the information provided in this report, or requests for additional financial information should contact the District's office at 500 Riverside Road, Mesquite, Nevada 89027.

VIRGIN VALLEY WATER DISTRICT
Statement of Net Assets
June 30, 2010 and 2009

	Proprietary Fund	Memorandum Only June 30, 2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 627,557	\$ 1,498,763
Investments	4,181,138	5,629,072
Accounts receivable	507,162	524,064
Accrued interest income	23,204	32,017
Deposits	202,500	202,500
Due from other governmental units	158,235	4,197,636
Inventory	115,119	128,578
Total current assets	<u>5,814,915</u>	<u>12,212,630</u>
Noncurrent assets:		
Restricted cash and cash equivalents	240,749	513,397
Restricted investments	13,052,948	15,104,512
Prepaid expenses	157,897	151,847
Capital assets:		
Land	591,064	161,401
Buildings & improvements	19,867,462	1,283,215
Operating equipment & wells	50,460,652	41,981,188
Office capital assets	270,321	252,773
Water shares	22,400,460	18,749,042
Construction in process	2,220,275	26,095,469
Less: accumulated depreciation	(14,935,111)	(12,526,429)
Total noncurrent assets	<u>94,326,717</u>	<u>91,766,415</u>
Other assets:		
Original issue discount, net of amortization	34,729	38,348
Bond issuance costs, net of amortization	889,984	938,777
Total other assets	<u>924,713</u>	<u>977,125</u>
Total assets	<u>\$ 101,066,345</u>	<u>\$ 104,956,170</u>

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VIRGIN VALLEY WATER DISTRICT
Statement of Net Assets - Continued
June 30, 2010 and 2009

	Proprietary Fund	Memorandum Only June 30, 2009
Liabilities		
Current liabilities:		
Accounts payable	\$ 282,652	\$ 1,343,900
Accrued interest payable	471,242	481,914
Accrued payroll & payroll taxes	97,834	90,131
Retention payable	50,000	1,098,933
Deferred revenue	43,437	38,985
Current portion of notes payable	51,900	46,980
Current portion of bonds payable	1,658,654	1,603,851
Total current liabilities	<u>2,655,719</u>	<u>4,704,694</u>
Noncurrent liabilities:		
Bond premiums, net of amortization	271,215	284,824
Notes payable - net of current portion	32,749	84,650
Bonds payable - net of current portion	40,602,852	42,261,505
Loss on defeasance of debt	(522,248)	(580,276)
Total noncurrent liabilities	<u>40,384,568</u>	<u>42,050,703</u>
Total liabilities	<u>43,040,287</u>	<u>46,755,397</u>
Net Assets		
Invested in capital assets, net of related debt	38,528,968	31,999,673
Restricted for bond requirements and ordinance #2	13,293,697	15,619,233
Unrestricted	6,203,393	10,581,867
Total net assets	<u>\$ 58,026,058</u>	<u>\$ 58,200,773</u>

VIRGIN VALLEY WATER DISTRICT
Statement of Revenues, Expenses and Changes in Net Assets
For the Years Ended June 30, 2010 and 2009

	Proprietary Fund	Memorandum Only June 30, 2009
Operating revenues		
Water use fees	\$ 4,935,758	\$ 4,886,922
Installation charges	43,370	60,480
Total operating revenues	<u>4,979,128</u>	<u>4,947,402</u>
Operating expenses		
Salaries & wages	1,092,924	1,018,939
Office expense	109,458	106,762
Professional & legal services	1,237,332	496,477
Engineering services	32,089	90,703
Payroll taxes	44,117	44,752
Employers share PERS	213,022	189,782
Travel & training	11,672	16,141
Bad debt expense	15	75
Dues & subscriptions	27,894	25,689
Uniforms & safety equipment	10,747	15,384
Water rights applications	33,092	33,682
Insurance	385,127	287,936
Utilities	893,856	944,090
Operations & maintenance	1,115,870	1,237,444
Miscellaneous	20,743	16,661
Amortization	38,802	55,390
Depreciation	<u>2,433,010</u>	<u>1,423,805</u>
Total operating expenses	<u>7,699,770</u>	<u>6,003,712</u>
Net operating income / (loss)	<u>\$ (2,720,642)</u>	<u>\$ (1,056,310)</u>

Continued on next page

VIRGIN VALLEY WATER DISTRICT
Statement of Revenues, Expenses and Changes in Net Assets - Continued
For the Years Ended June 30, 2010 and 2009

	Proprietary Fund	Memorandum Only June 30, 2009
Non-operating income (expenses)		
Service charges	\$ 28,200	\$ 26,618
Interest income	168,020	300,127
Impact fees	472,760	610,560
Ordinance No. 2 fees	282,500	542,854
Ordinance No. 3 fees	-	500
Lease income	163,038	97,440
Other income	1,772	1,887
Gain (loss) on disposal of assets	1,651	1,711
Intergovernmental revenue	2,917,074	9,864,367
Unrealized gain / (loss) on investments	(22,995)	12,280
Realized gain / (loss) on investments	(1,927)	-
Interest expense	(1,464,166)	(941,087)
Total nonoperating revenue (expenses)	<u>2,545,927</u>	<u>10,517,257</u>
Change in net assets	(174,715)	9,460,947
Total net assets--beginning	<u>58,200,773</u>	<u>48,739,826</u>
Total net assets--ending	<u>\$ 58,026,058</u>	<u>\$ 58,200,773</u>

VIRGIN VALLEY WATER DISTRICT
Statement of Cash Flows
For the Years Ended June 30, 2010 and 2009

	Proprietary Fund	Memorandum Only Year ended June 30, 2009
Cash flows from operating activities:		
Cash received from customers, water usage fees	\$ 4,952,660	\$ 4,893,831
Cash received from customers, installation charges	43,370	60,480
Cash paid for operating expenses	(5,972,964)	(3,078,356)
Cash paid to employees	(1,350,063)	(1,253,473)
Net cash flows from operating activities	<u>(2,326,997)</u>	<u>622,482</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	(7,382,481)	(21,910,732)
Proceeds from sale of capital assets	1,651	3,422
Deposits	-	(202,500)
Principal paid on long-term debt	(1,650,831)	(1,176,735)
Bond Premiums	-	68,268
Impact fees collected	477,212	615,906
Ordinance No. 2 and No. 3 fees collected	282,500	543,354
Intergovernmental revenue	6,956,475	10,766,440
Lease revenue	142,559	97,440
Service charges collected	29,972	30,216
Interest paid	(1,332,769)	(741,249)
Net cash flows from capital and related financing activities	<u>(2,475,712)</u>	<u>(11,906,170)</u>
Cash flows from investing activities:		
Interest on investments	184,278	359,995
(Increase)/decrease in restricted cash	2,324,211	11,287,432
Sale of investments	3,640,279	7,454,205
Purchase of investments	(2,217,266)	(6,851,231)
Net cash flows from investing activities	<u>3,931,502</u>	<u>12,250,401</u>
Net change in cash and cash equivalents	(871,207)	966,713
Cash and cash equivalents at beginning of year	<u>1,498,764</u>	<u>532,051</u>
Cash and cash equivalents at end of year	<u><u>\$ 627,557</u></u>	<u><u>\$ 1,498,764</u></u>

Continued on next page

VIRGIN VALLEY WATER DISTRICT
Statement of Cash Flows - Continued
For the Years Ended June 30, 2010 and 2009

	Proprietary Fund	Memorandum Only Year ended June 30, 2009
Reconciliation of operating loss to net cash used by operating activities:		
Net income from operations	\$ (2,720,642)	\$ (1,056,310)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,433,010	1,423,805
Amortization	38,802	55,390
Changes in operating assets and liabilities:		
(Increase)/decrease in receivables	16,902	6,909
(Increase)/decrease in inventories	13,459	1,612
(Increase)/decrease in prepaid expenses	(6,050)	(77,553)
Increase/(decrease) in accounts payable	(1,061,248)	(423,571)
Increase/(decrease) in retention payable	(1,048,933)	678,590
Increase/(decrease) in accrued liabilities	7,703	13,610
	<u>\$ (2,326,997)</u>	<u>\$ 622,482</u>

SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING AND INVESTING ACTIVITIES

Completed construction in progress transferred to fixed assets	\$ 27,400,244
Unrealized appreciation and premium/discount on investments	\$ (49,897)

SUPPLEMENTAL SCHEDULE OF PAYMENTS FOR INTEREST

During fiscal year 2010, the District incurred interest costs of \$1,522,194. Of this amount, \$58,027 was amortization of deferred losses resulting from a prior year bond refinance. Interest payable at the beginning of the year was \$481,913 and the interest actually paid during 2010 was \$1,380,126 leaving interest payable of \$471,242 at June 30, 2010.

VIRGIN VALLEY WATER DISTRICT
Notes to the Financial Statements
June 30, 2010

Note 1. Summary of Significant Accounting Policies

NATURE OF ORGANIZATION

Virgin Valley Water District, (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 PRESENTATION-FUND ACCOUNTING

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The District's only fund is an enterprise fund.

BASIS OF ACCOUNTING

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. The only fund of the District is an enterprise fund. The accrual basis of accounting is generally followed as revenues are from services which are susceptible to accrual and expenditures are recorded when the liability is incurred. The District applies all applicable GASB pronouncements as well as FASB pronouncements issued on or before November 30, 1989 unless those pronouncements conflict with or contradict 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 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 the Financial Statements
June 30, 2010

Note 1. Summary of Significant Accounting Policies, 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 Virgin Valley Water District 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.

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 from the date of acquisition.

CASH AND 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 (10) years from the date of purchase.
- Certain farm loan bonds.
- Securities of the United States Treasury, United States Postal Service, or the Federal National Mortgage Association maturing within ten (10) 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 has not been provided.

VIRGIN VALLEY WATER DISTRICT
Notes to the Financial Statements
June 30, 2010

Note 1. Summary of Significant Accounting Policies, Continued

USE OF ESTIMATES

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

NET ASSETS

Net assets is the difference between assets and liabilities. Net assets invested in capital assets, net of related debt are capital assets, less accumulated depreciation and any outstanding debt related to the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use by District legislation or external restrictions by other governments, creditors or grantors. A portion of net assets is restricted for bond payments as the payments come due and for Ordinance No. 2 fees as described in Note 2.

Note 2. Deposits and Investments

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.

Custodial Credit Risk

For deposits this is the risk that in the event of a bank failure, the government's deposit may not be returned to it. The District does not have a formal policy for custodial credit risk. As of June 30, 2010, the District's bank balance was \$12,190,609. Of this amount \$243,951 was on deposit with America First Credit Union. The entire amount with America First was covered by NCUA federal depository insurance. \$11,946,658 was on deposit with the Bank of Nevada. Of this amount \$250,000 is insured by FDIC insurance. The Bank of Nevada has pledged securities equal to the remaining amount, thus at June 30, 2010 none of the deposits with the Bank of Nevada were uninsured or uncollateralized.

VIRGIN VALLEY WATER DISTRICT
Notes to the Financial Statements
June 30, 2010

Note 2. Deposits and Investments, Continued

Investments

Investment Fund

The Nevada State Treasurer's Office operates the Local Government Pooled Investment Fund (LGPIF). The LGPIF is available for investment of funds administered by any Nevada Public Treasurer. LGPIF deposits are permitted by NRS and are made in accordance with the District's investment policy.

The LGPIF is not registered with the SEC as an investment company. Deposits in the LGPIF are not insured or otherwise guaranteed by the State of Nevada, and participants share proportionally in any realized gain or losses on investments.

The provisions of State law (NRS 355.170) govern the investment of public funds.

As of June 30, 2010 the District had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
U.S. Government Securities	\$ 3,794,618	\$ 550,000	\$ 3,244,618	\$ -	\$ -
Wells Fargo Bank Treasury Obligations	1,443,567	1,443,567	-	-	-
Bank of Nevada Treasury Obligations	11,609,381	11,609,381	-	-	-
Nevada Local Government Pooled Investment Fund	386,520	386,520	-	-	-
Total Fair Value	\$17,234,086	\$13,989,468	\$ 3,244,618	\$ -	\$ -

VIRGIN VALLEY WATER DISTRICT
Notes to the Financial Statements
June 30, 2010

Note 2. Deposits and Investments, Continued

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).

Credit risk

Credit risk is the risk that an issuer or other counterparty to an investment 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).

At June 30, 2010 the District had the following investments and quality ratings:

Investment Type	Fair Value	Quality Ratings			
		AAA	AA	A	Unrated
U.S. Government Securities	\$ 3,794,618	\$ 3,794,618	\$ -	\$ -	\$ -
Wells Fargo Bank Treasury Obligations	1,443,567	1,443,567	-	-	-
Bank of Nevada Treasury Obligations	11,609,381	11,609,381	-	-	-
Nevada Local Government Pooled Investment Fund	386,520	-	-	-	386,520
Total Fair Value	\$17,234,086	\$16,847,566	\$ -	\$ -	\$ 386,520

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 year 2010, \$282,500 was collected from customers as payments for Ordinance No. 2. At June 30, 2010, the balance in the Ordinance No. 2 account was \$1,052,246. The entire balance is restricted.

VIRGIN VALLEY WATER DISTRICT
Notes to the Financial Statements
June 30, 2010

Note 3. Capital Assets and Depreciation

All capital assets are valued at historical cost or estimated historical cost if actual cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Depreciation has been provided over the estimated useful lives of the assets using the straight-line method as follows:

	Useful Life
Improvements	15-40 years
Vehicles	5 years
Office furniture & equipment	3-15 years
Buildings	7-20 years

A summary of changes in capital assets follows:

	Balance at June 30, 2009	Additions	Deletions	Balance at June 30, 2010
Capital Assets				
Land	\$ 161,401	\$ 429,663	\$ -	\$ 591,064
Buildings and improvements	1,283,215	18,584,247	-	19,867,462
Operating equipment and wells	41,981,188	8,503,792	24,328	50,460,652
Office capital assets	252,773	17,548	-	270,321
Water shares	18,749,042	3,651,418	-	22,400,460
Subtotal	62,427,619	31,186,668	24,328	93,589,959
Accumulated depreciation	(12,526,429)	(2,469,697)	61,015	(14,935,111)
Net capital assets	\$ 49,901,190	\$ 28,716,971	\$ 36,687	\$ 78,654,848
 Construction in Process				
CIP - Arsenic Treatment Plants	\$ 25,044,969	\$ 2,124,619	\$ 27,169,588	\$ -
CIP - Capitalized Interest	-	1,051,455	-	1,051,455
CIP - Well #34	1,033,781	46,810	-	1,080,591
CIP - Halfway Wash - Ranney Collector	16,719	16,075	-	32,794
CIP - Aquifer Recharge	-	55,435	-	55,435
CIP - PRV Project	-	230,657	230,657	-
Total construction in process	\$ 26,095,469	\$ 3,525,051	\$ 27,400,245	\$ 2,220,275

VIRGIN VALLEY WATER DISTRICT
Notes to the Financial Statements
June 30, 2010

Note 4. Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2010:

Notes Payable	June 30, 2009	Additions	Retirements	June 30, 2010
Jimmy and Angie Hughes	\$ 131,630	\$ -	\$ 46,981	\$ 84,649
Total notes payable	<u>131,630</u>	<u>-</u>	<u>46,981</u>	<u>84,649</u>
Bonds Payable				
Water Revenue Bonds, Series 2001	4,480,000	-	290,000	4,190,000
Water Revenue Bonds, Series 2003	3,645,356	-	138,850	3,506,506
Water Revenue Bonds, Series 2004	5,905,000	-	470,000	5,435,000
Water Revenue Bonds, Series 2006	6,735,000	-	285,000	6,450,000
General Obligation (Limited Tax) Water Bonds (Additionally Secured by Pledged Revenues), Series 2008	<u>23,100,000</u>	<u>-</u>	<u>420,000</u>	<u>22,680,000</u>
Total bonds payable	<u>43,865,356</u>	<u>-</u>	<u>1,603,850</u>	<u>42,261,506</u>
Total long-term debt	<u>\$ 43,996,986</u>	<u>\$ -</u>	<u>\$ 1,650,831</u>	<u>\$ 42,346,155</u>

-Continued on following page-

VIRGIN VALLEY WATER DISTRICT
Notes to the Financial Statements
June 30, 2010

Note 4. Long-Term Debt, Continued

Long-term debt consists of the following:

<u>Notes Payable</u>	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
10% note payable to Jimmy and Angie Hughes, due in monthly installments of \$4,836 through January 15, 2012.	\$ 51,900	\$ 32,749	\$ 84,649
Total notes payable	51,900	32,749	84,649
 <u>Bonds Payable</u>			
Water revenue bonds, series 2001, due in semi-annual interest installments ranging from \$12,000 to \$134,799 and annual principal installments ranging from \$100,000 to \$480,000, bearing interest between 2.5% and 5%, maturing June 1, 2022.	300,000	3,890,000	4,190,000
Water revenue bonds, series 2003. Bonds have not been fully issued. Estimated semi-annual interest installments range from \$2,2150 to \$62,518 and estimated semi-annual principal installments range from \$68,835 to \$129,138, bearing interest of 3.43%.	143,654	3,362,852	3,506,506
Water revenue bonds, series 2004, due in semi-annual interest installments ranging from \$21,500 to \$108,670 and annual principal installments ranging from \$35,000 to \$1,075,000, bearing interest between 2.25% to 4%, maturing June 1, 2019.	490,000	4,945,000	5,435,000
Water revenue bonds, series 2006, due in semi-annual interest installments ranging from \$21,853 to \$327,253 and annual principal installments ranging from \$250,000 to \$530,000, bearing interest between 3.75% to 5%, maturing June 1, 2026.	295,000	6,155,000	6,450,000
General Obligation (Limited Tax) Water Bonds (Additionally Secured by Pledged Revenues), Series 2008, due in semi-annual interest installments ranging from \$540,124 to \$335,875 and annual principal installments ranging from \$420,000 to \$1,435,000, bearing interest between 3.50% to 5%, maturing March 31, 2038.	430,000	22,250,000	22,680,000
Total bonds payable	1,658,654	40,602,852	42,261,506
Total long-term debt	\$ 1,710,554	\$ 40,635,601	\$ 42,346,155

VIRGIN VALLEY WATER DISTRICT
Notes to the Financial Statements
June 30, 2010

Note 4. Long-Term Debt, Continued

The annual requirements for the next five year and 5 year increments thereafter to amortize long-term debt outstanding at June 30, 2010, including interest of \$25,321,939 are as follows:

Year Ending June 30,	Notes Payable	Bonds Payable	Total
2011	58,029	3,514,336	3,572,365
2012	33,850	3,511,786	3,545,636
2013	-	3,510,601	3,510,601
2014	-	3,505,375	3,505,375
2015	-	3,507,386	3,507,386
2016-2020	-	16,725,004	16,725,004
2021-2025	-	12,472,251	12,472,251
2026-2030	-	8,785,225	8,785,225
2031-2035	-	7,527,500	7,527,500
2036-2038	-	4,516,751	4,516,751
Total	91,879	67,576,215	67,668,094
Less Interest	<u>(7,230)</u>	<u>(25,314,709)</u>	<u>(25,321,939)</u>
Total Principal	<u>\$ 84,649</u>	<u>\$ 42,261,506</u>	<u>\$ 42,346,155</u>

VIRGIN VALLEY WATER DISTRICT
Notes to the Financial Statements
June 30, 2010

Note 5. Defined Benefit Pension Plan

Virgin Valley Water District (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. The payroll for employees covered by the system for the year ended June 30, 2010, was \$994,374; the District's total payroll was \$1,092,924.

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.

Monthly benefit allowances for members are computed at 2.5 percent of average compensation (36 consecutive months of highest compensation) for each accredited year of service prior to retirement with a ceiling of 75 percent 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 percent of their average compensations. 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 percent to a maximum of 90 percent 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. That statute, which is tied to the increase in taxable sales within the State each year, provides for yearly increases of up to one percent until such time as the actuarially determined unfunded liability of the Plan is reduced to zero.

The District is enrolled in the employer-paid contribution plan of PERS. Under this plan the District is required to contribute 21.5 percent of covered employees' salaries to the plan. The actuarially determined contribution rate as of July 1, 2009. The contribution requirements for the years ended June 30, 2010 and June 30, 2009 were \$213,022 and \$189,782, respectively. These contributions represented 20 percent of the covered payroll. A copy of the PERS June 30, 2010 annual financial report may be obtained by writing to the Public Employee's Retirement System of Nevada, 693 W. Nye Lane, Carson City, NV 89703-1599, or by calling (775) 687-4200.

VIRGIN VALLEY WATER DISTRICT
Notes to the Financial Statements
June 30, 2010

Note 6. 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.

None of the amounts of compensation deferred under the plan, none of the property and rights purchased with those amounts, and none of the income attributable to those amounts, property or rights are the property of the District, subject to the claims of the District's general creditors.

Note 7. Restricted Net Assets

Restricted net assets consist of the following:

Ordinance No. 2 Fees (See Note 2)	\$ 240,749
Bond Reserves (See Note 2)	<u>13,052,948 *</u>
Total	<u><u>\$ 13,293,697</u></u>

*Amount includes accumulated interest income on fund.

Note 8. Defeasance of Long-Term Debt

In prior years, the District defeased certain bonds by placing the proceeds of the new bonds in irrevocable trusts to provide for all future debt service payment on the old bonds. Accordingly, the trust accounts and the defeased bonds are not included in the District's financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

VIRGIN VALLEY WATER DISTRICT
Statement of Revenues, Expenses, and Changes in Net Assets – Budget and Actual
For the Year Ended June 30, 2010

	Proprietary Fund			
	Budgeted Amounts		Actual Amounts (Budgetary)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Basis</u>	
Operating revenues				
Water use fees	\$ 5,446,000	\$ 5,446,000	\$ 4,935,758	\$ (510,242)
Installation charges	75,200	75,200	43,370	(31,830)
Total operating revenues	<u>5,521,200</u>	<u>5,521,200</u>	<u>4,979,128</u>	<u>(542,072)</u>
Operating expenses				
Salaries & wages	1,060,450	1,060,450	1,092,924	(32,474)
Office expense	127,010	127,010	109,458	17,552
Professional & legal services	670,400	970,400	1,237,332	(266,932)
Engineering services	68,000	68,000	32,089	35,911
Payroll taxes	47,570	47,570	44,117	3,453
Employers share PERS	228,000	228,000	213,022	14,978
Travel & training	16,000	16,000	11,672	4,328
Bad debt expense	-	-	15	(15)
Dues & subscriptions	31,495	31,495	27,894	3,601
Uniforms & safety equipment	6,524	6,524	10,747	(4,223)
Water rights applications	37,500	37,500	33,092	4,408
Insurance	355,820	355,820	385,127	(29,307)
Utilities	1,027,335	1,027,335	893,856	133,479
Operations & maintenance	1,286,344	1,286,344	1,115,870	170,474
Miscellaneous	23,200	23,200	20,743	2,457
Amortization	38,801	38,801	38,802	(1)
Depreciation	1,978,500	1,978,500	2,433,010	(454,510)
Total operating expenses	<u>7,002,949</u>	<u>7,302,949</u>	<u>7,699,770</u>	<u>(396,821)</u>
Net operating income / (loss)	<u>\$ (1,481,749)</u>	<u>\$ (1,781,749)</u>	<u>\$ (2,720,642)</u>	<u>\$ (938,893)</u>

Continued on next page

VIRGIN VALLEY WATER DISTRICT
Statement of Revenues, Expenses, and Changes in Net Assets – Budget and Actual
For the Year Ended June 30, 2010

	Proprietary Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts (Budgetary)	
	<u>Original</u>	<u>Final</u>	<u>Basis</u>	
Non-operating income (expenses)				
Service charges	\$ 27,500	\$ 27,500	\$ 28,200	\$ 700
Interest income	439,300	439,300	168,020	(271,280)
Impact fees	600,000	600,000	472,760	(127,240)
Ordinance No. 2 fees	750,000	750,000	282,500	(467,500)
Ordinance No. 3 fees	-	-	-	-
Lease income	122,770	122,770	163,038	40,268
Other income	2,427	2,427	1,772	(655)
Gain (loss) on disposal of assets	(10,000)	(10,000)	1,651	11,651
Intergovernmental revenue	2,241,400	2,241,400	2,917,074	675,674
Unrealized gain / (loss) on investments	-	-	(22,995)	(22,995)
Realized gain / (loss) on investments	-	-	(1,927)	(1,927)
Interest expense	(1,974,264)	(1,974,264)	(1,464,166)	510,098
Total nonoperating revenue (expenses)	<u>2,199,133</u>	<u>2,199,133</u>	<u>2,545,927</u>	<u>346,794</u>
Change in net assets	717,384	417,384	(174,715)	(592,099)
Total net assets--beginning	<u>58,200,773</u>	<u>58,200,773</u>	<u>58,200,773</u>	<u>-</u>
Total net assets--ending	<u>\$ 58,918,157</u>	<u>\$ 58,618,157</u>	<u>\$ 58,026,058</u>	<u>\$ (592,099)</u>

**OTHER COMMUNICATIONS
FROM
INDEPENDENT AUDITORS**



**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***

Directors and Members of the Board
Virgin Valley Water District
Mesquite, Nevada

MEMBERS:

CHAD B. ATKINSON
KRIS J. BRAUNBERGER
DEAN R. BURDICK
ROBERT S. COX
TODD B. FELTNER
BRENT R. HALL
TODD R. HESS
KENNETH A. HINTON
MORRIS J. PEACOCK
PHILLIP S. PEINE
MICHAEL K. SPILKER
MARK E. TICHENOR

We have audited the basic financial statements of Virgin Valley Water District, as of and for the year ended June 30, 2010, and have issued our report thereon dated September 30, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Virgin Valley Water District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of finding and recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

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. We did not identify any deficiencies in internal control that we consider to be significant deficiencies, as defined above.

We noted certain other matters that we reported to management of the District in a separate letter, dated September 30, 2010.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District'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 solely for the information and use of management, the Members of the Board, audit committee, management, and various state and federal agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



HINTON, BURDICK, HALL, & SPILKER, PLLC
September 30, 2010



**Independent Auditors' Report
 on State Legal Compliance**

Directors and Members of the Board
 Virgin Valley Water District
 Mesquite, Nevada

MEMBERS:

CHAD B. ATKINSON
 KRIS J. BRAUNBERGER
 DEAN R. BURDICK
 ROBERT S. COX
 TODD B. FELTNER
 BRENT R. HALL
 TODD R. HESS
 KENNETH A. HINTON
 MORRIS J. PEACOCK
 PHILLIP S. PEINE
 MICHAEL K. SPILKER
 MARK E. TICHENOR

We have audited the basic financial statements of Virgin Valley Water District, for the year ended June 30, 2010, and have issued our report thereon dated September 30, 2010. Our audit also included test work on Virgin Valley Water 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 Virgin Valley Water 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 and one Trust and Agency Fund (an expendable trust fund) in accordance with NRS 354.624. The District appears to be using the funds 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 statement.

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

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

The results 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the 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, 2010.

Hinton Burdick Hall & Spilker PLLC

HINTON, BURDICK, HALL, & SPILKER, PLLC
September 30, 2010