VIRGIN VALLEY WATER DISTRICT

FINANCIAL STATEMENTS

June 30, 2011

CONTENTS

WISAN, SMITH, RACKER & PRESCOTT, LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Directors and Members of the Board
Virgin Valley Water District

We have audited the accompanying basic financial statements of the Virgin Valley Water District (the District), as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit. The partial prior year comparative information has been derived from the District's 2010 financial statements which were audited by other auditors, whose report dated September 30, 2010, expressed an unqualified opinion on those statements.

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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Virgin Valley Water District as of June 30, 2011 and the changes in financial position and cash flows thereof 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 our report dated September 30, 2011, on our consideration of Virgin Valley Water 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* and should be considered in assessing the results of our audit.

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LICENSED TO PRACTICE IN UTAH, WYOMING, NEVADA, NEW MEXICO AND IDAHO

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 11 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 an opinion on the basic financial statements of Virgin Valley Water District. The Budget to Actual Comparison is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. The Budget to Actual Comparison and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit 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 financial statements or to the 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.

Wisan Smith Racker & Prescott, LLP

Salt Lake City, Utah
September 30, 2011

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 year ended June 30, 2011. 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 $57,810,908 at the close of the fiscal year.
- Total net assets decreased by $215,150 or 0.4%
- Operating revenues increased by $1,053,442 or 21% from $4,979,128 to $6,032,570.
- Operating expenses decreased by $186,072 or 2% from $7,699,770 to $7,513,698.

This fiscal year was so different from previous years that some additional explanation is warranted to document what happened. The Board and General Manager made policy changes and took actions to shift the District's direction from rapid expansion to economy and stability. The full impact of these changes will be seen in the next fiscal year, although 2011 already shows a significant shift in the balance of revenues and expenditures.

Actions that reflected that policy change included:

- Elimination of planned large capital improvement projects that focused on expansion.
- Defeasement (sell-back) of approximately $9 million of a 2008 bond that would no longer be needed, reducing debt and debt service. This defeasance saved the District $18.8 million in principle and interest over the life of the bonds.
- Defeasance of the 2001 bond to reduce the debt service.
- Effective in December 2010, increasing the monthly water rates by 36% to balance operating costs and revenues.
- Operating cost reductions, primarily through electrical efficiency improvements.
- Limiting some legal costs through the assignment of a major lawsuit to a contingency basis.
- Concerted efforts to resolve other legal issues and their continuing liabilities.

Some of the conditions that led to this shift included:

- A dramatic drop in new connections due to the recession, reducing the non-operating revenues as well as the push for facility expansions.
- Re-assessment of the benefit of some of the proposed capital improvement projects.
- A decrease in intergovernmental revenues (grants) as previous capital improvement projects were completed.
- A management shift, with a new Hydrologist and General Manager.

There will be future capital improvement projects, but first studies to determine long-term values, with an emphasis on cost efficacy and sustainability. The District will also continue its focus on improving the maintenance and thus extending the value of its current assets.

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 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 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 District'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 District's cash changed during the most recent fiscal year.

The basic financial statements can be found on pages 12 through 16 of this report.

Notes to the finanical statements. The notes provide additional information that is essential to fully understanding of the data provided in the basic financial statements. The notes to the financial statements can by found on pages 17 through 29 of this report.

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

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 assets exceed liabilities at June 30 2011 and 2010 by $57,810,908 and $58,026,058, respectively. This is presented in the following condensed statement of net assets.

Assets	**2011**	**2010**
Current and other assets	$ 7,256,088	$ 6,897,525
Restricted assets	2,671,163	13,293,697
Capital assets	78,362,558	80,875,123
Total assets	$ 88,289,809	$ 101,066,345
Liabilities		
Current liabilities	$ 1,883,322	$ 2,655,719
Long-term obligations, less current maturities	28,595,579	40,384,568
Total liabilities	$ 30,478,901	$ 43,040,287
Net Assets		
Invested in capital assets, net of related debt	$ 45,569,706	$ 38,528,968
Restricted for capital projects	2,671,163	13,293,697
Unrestricted	9,570,039	6,203,393
Total net assets	$ 57,810,908	$ 58,026,058

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 $45,569,706 or 79% 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 $2,671,163 or 5% of total net assets and represent funds that are subject to restriction 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 which are funds intended for the purchase of water rights.

DISTRICT FINANCIAL ANALYSIS AS A WHOLE (CONTINUED)

Unrestricted net assets comprised $9,584,348 or 16% 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.

	2011	2010
Revenues:		
Operating revenues	$ 6,032,570	$ 4,979,128
Non-operating revenues	2,421,192	4,035,015
Total revenues	8,453,762	9,014,143
Expenses:		
Depreciation and amortization	3,110,784	2,471,812
Other operating expenses	4,402,914	5,227,958
Non-operating expenses	1,155,214	1,489,088
Total expenses	8,668,912	9,188,858
Change in net assets	(215,150)	(174,715)
Total net assets:		
Beginning of year	58,026,058	58,200,773
End of year	$ 57,810,908	$ 58,026,058

The District's operating revenues increased $1,053,442 or 21% over the prior year.

Total non-operating revenues decreased $1,613,823 or 40% over the prior year. The single largest category decrease consisted of intergovernmental revenues of $1,329,893 or 46% 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 2011. Other selected non-operating account changes over the prior year consisted of decreases in Ordinance No. 2 fees of $232,900, impact fees of $163,240, and interest income of $59,191.

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

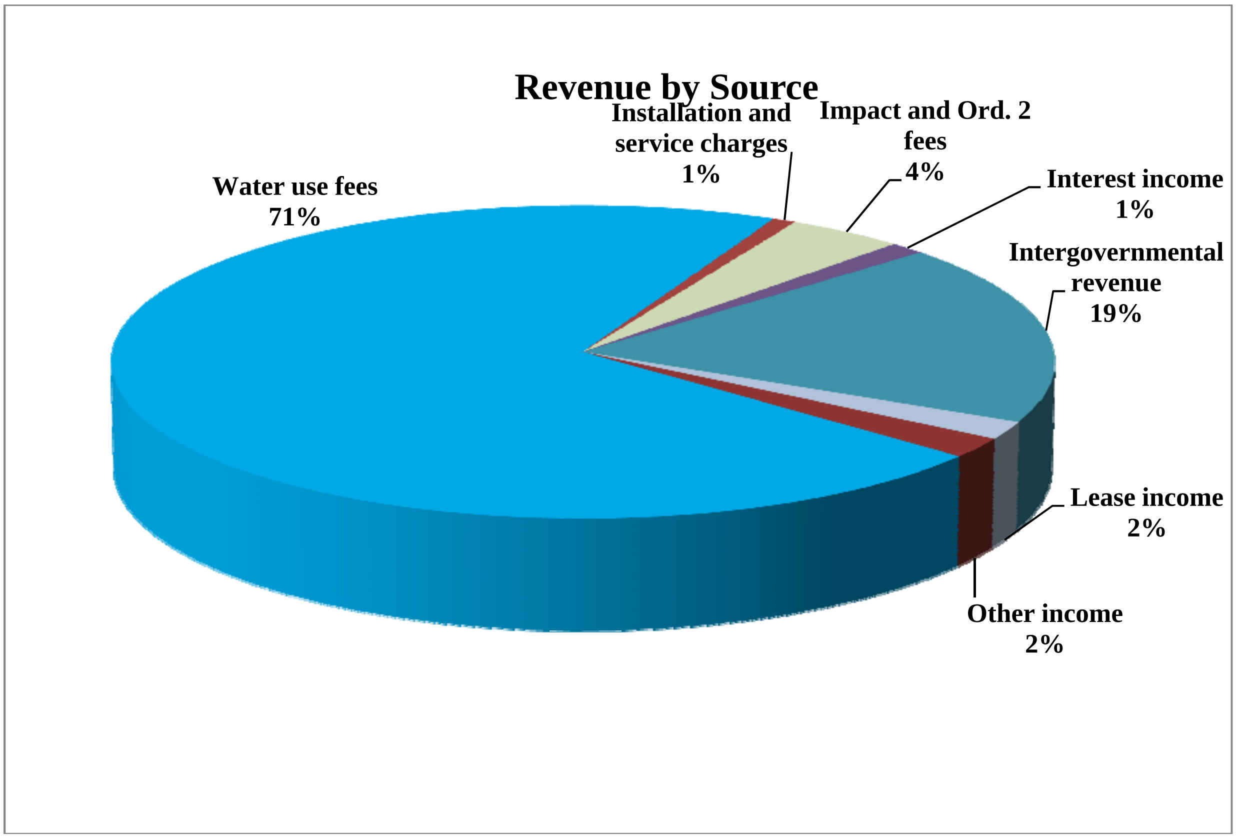
DISTRICT FINANCIAL ANALYSIS AS A WHOLE (CONTINUED)

Three expense categories showed the biggest changes this year. There were significant decreases in contracted services and repairs and maintenance expense. Contracted services was $264,539 or 20% less than 2010 and repairs and maintenance was $320,111 or 29% less than the prior year.

Depreciation expense increased over the previous year by $637,132 or 26%. A primary reason for the increase in depreciation was related to the arsenic treatment plants that were placed in service during the year. Total operating expenses decreased by $186,072 or 2.4% over the prior year.

Total non-operating expenses decreased $333,874 or 22% over the prior year, which consisted primarily of the decrease in interest expense resulting from the bond defeasance.

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



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, 2011 amount to $78,362,558, which represents a decrease of $2,512,565 or 3% over the prior fiscal year.

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

- Asphalt roads were completed at approximately $315,000 to improve the road access to three well locations.
- Arsenic removal equipment was acquired for approximately $165,000.

	2011	2010
Land	$ 591,064	$ 591,064
Buildings and improvements	20,916,041	19,867,462
Operating equipment and wells	51,060,348	50,460,652
Engineering and other equipment and tools	290,811	270,321
Office furniture and equipment	22,400,460	22,400,460
	95,258,724	93,589,959
Less accumulated depreciation	(17,995,869)	(14,935,111)
	77,262,855	78,654,848
Construction in progress	1,099,703	2,220,275
Net capital assets	$ 78,362,558	$ 80,875,123

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

Long-Term Debt

The District's long-term debt activity during the fiscal year 2011 consisted of the following:

	2011	2010
Water revenue bonds	$ 18,467,852	$ 19,581,506
General Obligation (Limited Tax) Water Bond (Additionally Secured by Pledged Revenues)	14,325,000	22,680,000
Notes payable	32,749	84,649
	$ 32,825,601	$ 42,346,155

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. Questions regarding any information contained 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, 2011

	June 30, 2011	Memorandum Only June 30, 2010
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 1,031,042	$ 627,557
Investments	4,192,485	4,181,138
Accounts receivable	671,372	507,162
Accrued interest income	10,956	23,204
Due from other governmental units	113,114	158,235
Prepaid expenses	27,407	157,897
Inventory	124,309	115,119
TOTAL CURRENT ASSETS	6,170,685	5,770,312
NON-CURRENT ASSETS		
Restricted cash and cash equivalents	242,079	240,749
Restricted investments	2,429,084	13,052,948
Deposits	202,500	202,500
Capital assets, net	78,362,558	80,875,123
Original issue discount, net	31,111	34,729
Bond issuance costs, net	851,792	889,984
TOTAL NON-CURRENT ASSETS	82,119,124	95,296,033
TOTAL ASSETS	$ 88,289,809	$ 101,066,345

VIRGIN VALLEY WATER DISTRICT
STATEMENT OF NET ASSETS (CONTINUED)
June 30, 2011

	June 30, 2011	Memorandum Only June 30, 2010
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 199,731	$ 282,652
Accrued interest payable	125,003	471,242
Accrued payroll and payroll taxes	103,239	97,834
Retention payable	50,000	50,000
Deferred revenue	73,976	43,437
Current portion of notes payable	32,749	51,900
Current portion of bonds payable	1,298,624	1,658,654
TOTAL CURRENT LIABILITIES	1,883,322	2,655,719
NON-CURRENT LIABILITIES		
Bond premiums, net of amortization	256,400	271,215
Notes payable, net of current portion	-	32,749
Bonds payable, net of current portion	31,494,228	40,602,852
Loss on defeasance of debt	(3,155,049)	(522,248)
TOTAL NON-CURRENT LIABILITIES	28,595,579	40,384,568
TOTAL LIABILITIES	30,478,901	43,040,287
NET ASSETS		
Invested in capital assets, net of related debt	45,569,706	38,528,968
Restricted for bond requirements and Ordinance #2	2,671,163	13,293,697
Unrestricted	9,570,039	6,203,393
TOTAL NET ASSETS	57,810,908	58,026,058
TOTAL LIABILITIES AND NET ASSETS	$ 88,289,809	$ 101,066,345

VIRGIN VALLEY WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Year ended June 30, 2011

	June 30, 2011	Memorandum Only June 30, 2010
OPERATING REVENUES		
Water use fees	$ 5,995,820	$ 4,935,758
Installation charges	36,750	43,370
TOTAL OPERATING REVENUES	6,032,570	4,979,128
OPERATING EXPENSES		
Salaries and wages	1,059,053	1,092,924
Office expense	117,604	109,458
Professional and legal services	857,939	1,237,332
Engineering services	163,608	32,089
Payroll taxes	37,596	44,117
Retirement plan contributions	200,367	213,022
Travel and training	8,447	11,672
Bad debt expense	115	15
Dues and subscriptions	22,199	27,894
Uniforms and safety equipment	13,014	10,747
Water rights applications	3,104	33,092
Insurance	403,413	385,127
Utilities	711,776	893,856
Operations and maintenance	784,907	1,115,870
Miscellaneous	19,772	20,743
Amortization	40,642	38,802
Depreciation	3,070,142	2,433,010
TOTAL OPERATING EXPENSES	7,513,698	7,699,770
OPERATING LOSS	(1,481,128)	(2,720,642)
NON-OPERATING REVENUES (EXPENSES)		
Service charges	35,820	28,200
Interest income	108,829	168,020
Impact fees	309,520	472,760
Ordinance No. 2 fees	49,600	282,500
Lease income	155,853	163,038
Other income	174,389	1,772
Gain on disposal of assets	-	1,651
Intergovernmental revenue	1,587,181	2,917,074
Unrealized loss on investments	(26,525)	(22,995)
Realized loss on investments	-	(1,927)
Interest expense	(1,128,689)	(1,464,166)
TOTAL NON-OPERATING REVENUES - NET	1,265,978	2,545,927
CHANGE IN NET ASSETS	(215,150)	(174,715)
Net assets - beginning of year	58,026,058	58,200,773
Net assets - end of year	$ 57,810,908	$ 58,026,058

VIRGIN VALLEY WATER DISTRICT
STATEMENT OF CASH FLOWS
Year ended June 30, 2011

	June 30, 2011	Memorandum Only June 30, 2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers, water usage fees	$ 5,826,734	$ 4,952,660
Cash received from customers, installation charges	36,750	43,370
Cash paid for operating expenses	(3,305,367)	(5,972,964)
Cash paid to employees	(1,053,648)	(1,350,063)
Net cash flows from (used by) operating activities	1,504,469	(2,326,997)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(645,807)	(7,382,481)
Proceeds from sale of capital assets	-	1,651
Principal paid on long-term debt	(13,525,554)	(1,650,831)
Proceeds from 2011 Bond	4,005,000	
Defeasement of 2008 bond	(2,788,696)	-
Impact fees collected	309,520	477,212
Ordinance No. 2 fees collected	49,600	282,500
Intergovernmental revenue	1,632,302	6,956,475
Lease revenue	194,798	142,559
Insurance reimbursement	170,744	-
Service charges collected	35,820	29,972
Interest paid	(1,474,928)	(1,332,769)
Net cash used by capital and related financing activities	(12,037,201)	(2,475,712)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	121,077	184,278
Decrease in restricted cash	10,622,534	2,324,211
Sale of investments	2,732,476	3,640,279
Purchase of investments	(2,780,619)	(2,217,266)
Net cash flows from investing activities	10,695,468	3,931,502
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	162,736	(871,207)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	868,306	1,739,513
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 1,031,042	$ 868,306

VIRGIN VALLEY WATER DISTRICT
STATEMENT OF CASH FLOWS (CONTINUED)
Year ended June 30, 2011

	June 30, 2011	Memorandum Only June 30, 2010
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	$ (1,481,128)	$ (2,720,642)
Adjustments to reconcile operating loss to net cash flows from (used by) operating activities:		
Depreciation	3,070,142	2,433,010
Amortization	40,642	38,802
(Increase) decrease in assets:		
Accounts receivable	(164,210)	16,902
Inventory	(9,190)	13,459
Prepaid expenses	130,490	(6,050)
Increase (decrease) in liabilities:		
Accounts payable	(82,921)	(1,061,248)
Retention payable	-	(1,048,933)
Accrued expenses	5,405	7,703
Deferred revenue	(4,761)	-
Net cash flows from (used by) operating activities	$ 1,504,469	$ (2,326,997)
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Write-off of construction in process	$ 88,230	$ -

VIRGIN VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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 as well as Financial Accounting Standards Board 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 budge 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.

4. Formal budgetary integration in the financial records is employed to enhance management control during the year.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budget Policy and Process (Continued)

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 and Restricted 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.

- 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.

VIRGIN VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and Restricted Investments (Continued)

- 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

Deferred Revenue

Deferred revenue is comprised of prepaid water usage fees and lease revenues which are recognized by the District in the period the respective revenues are earned.

Net Assets

Net assets are 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 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

Management of the District has evaluated subsequent events through September 30, 2011, 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.

Memorandum Only Column

The basic financial statements include certain prior-year summarized comparative information but exclude certain disclosures and required supplementary information required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2010, from which the summarized information was derived.

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, 2011, the District's bank balance was $1,686,131. Of this amount $242,079 was on deposit with America First Credit Union. The entire amount with America First was covered by the NCUA federal depository insurance. As of June 30, 2011, $1,444,052 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 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, 2011, none of the District's funds with the Bank of Nevada were uninsured or uncollateralized.

Investments: Custodial credit risk for investments is the risk that in the event of the failure of the counterparty, the Agency will not be able to recover the value of its investments that are in the possession of an outside party. The provisions of State law (NRS 355.170) govern the investment of public funds. The Nevada State Treasurer's Office operates the Local Government Pooled Investment Fund (LGPIF). The LGPIF is available for investment of funds administered by the Nevada Public Treasurer. LGPIF deposits are permitted by NRS and are made in accordance with the District's investment policy.

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued): 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 entire $3,805,162 of the District's inventory in the US agencies and obligations 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, 2011:

Investment Type	Maturity less than one year	1-5 years	6-10 years	More than 10 years	Quality Ratings
U.S. Government Securities	$ 1,317,695	$ 2,487,467	$ -	$ -	AA+
Wells Fargo Bank Treasury Obligations	1,996,876	-	-	-	AA+
Bank of Nevada Treasury Obligations	432,208	-	-	-	AA+
Nevada Local Government Pooled Investment Fund	387,323	-	-	-	Unrated
Total	$ 4,134,102	$ 2,487,467	$ -	$ -	

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

A summary of unrestricted cash and cash equivalents and restricted investment at June 30, 2011 is as follows:

Cash and cash equivalents	$ 1,031,042
Restricted cash and cash equivalents	242,079
Investments	4,192,485
Restricted investments	2,429,084
	$ 7,894,690

Cash on hand	$ 650
Deposits (book balance)	1,272,471
U.S. Government Securities	3,805,162
Wells Fargo Bank Treasury Obligations	1,996,876
Bank of Nevada Treasury Obligations	432,208
Nevada Local Government Pooled Investment Fund	387,323
	$ 7,894,690

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).

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 than 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 2011, $49,600 was collected from customers as payments for Ordinance No. 2. At June 30, 2011, the balance in the Ordinance No. 2 account was $574,606. The entire balance is restricted.

VIRGIN VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 3 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 was as follows:

	Beginning Balance	Additions / Transfers In	Disposals / Transfers Out	Ending Balance
Capital assets not depreciated:				
Land	$ 591,064	$ -	$ -	$ 591,064
Construction in progress	2,220,275	19,112	(1,139,684)	1,099,703
Total capital assets not depreciated	2,811,339	19,112	(1,139,684)	1,690,767
Capital assets being depreciated:				
Buildings and improvements	19,867,462	1,048,579	-	20,916,041
Operating equipment and wells	50,460,652	609,080	(9,384)	51,060,348
Engineering and other equipment	270,321	20,490	-	290,811
Water shares	22,400,460	-	-	22,400,460
Total capital assets being depreciated	92,998,895	1,678,149	(9,384)	94,667,660
Accumulated depreciation	(14,935,111)	(3,070,142)	9,384	(17,995,869)
Total capital assets being depreciated, net	78,063,784	(1,391,993)	-	76,671,791
Total capital assets, net	$ 80,875,123	$ (1,372,881)	$ (1,139,684)	$ 78,362,558

NOTE 4 - LONG-TERM DEBT

The following is a summary of changes in long-term debt for the year ended June 30, 2011:

	Beginning Balance	Additions	Reductions	Ending Balance
Notes Payable				
Jimmy and Angie Hughes	$ 84,649	$ -	$ (51,900)	$ 32,749
Bonds Payable				
Water Revenue Bonds, Series 2001	4,190,000	-	(4,190,000)	-
Water Revenue Bonds, Series 2003	3,506,506	-	(143,654)	3,362,852
Water Revenue Bonds, Series 2004	5,435,000	-	(490,000)	4,945,000
Water Revenue Bonds, Series 2006	6,450,000	-	(295,000)	6,155,000
General Obligation (Limited Tax) Water Bonds (Additional Secured by Pledged Revenues), Series 2008	22,680,000	-	(8,355,000)	14,325,000
Water Revenue Bonds, Series 2011	-	4,005,000	-	4,005,000
Total bonds payable	$ 42,346,155	$ 4,005,000	$(13,525,554)	$ 32,825,601

NOTE 4 - LONG-TERM DEBT (CONTINUED)

Long term debt consists of the following:

	Current	Long-Term	Total
Notes Payable			
10% note payable to Jimmy and Angie Hughes, due in monthly installments of $4,836, through January 2012	$ 32,749	$ -	$ 32,749
Total notes payable	32,749	-	32,749
Bonds Payable			
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	148,624	3,214,228	3,362,852
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 and 4%, maturing June 1, 2019.	500,000	4,445,000	4,945,000
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 and 5%, maturing June 1, 2026.	310,000	5,845,000	6,155,000

NOTE 4 - LONG-TERM DEBT (CONTINUED)

	Current	Long-Term	Total
Bonds Payable (Continued)			
General Obligation (Limited Tax) Water Bonds (Additionally Secured by Pledged Revenues), Series 2008, due in semi-annual interest installments ranging from $335,875 to $540,124 and annual principal installments ranging from $420,000 to $1,435,000, bearing interest between 3.5 and 5%, maturing March 31, 2038.	-	14,325,000	14,325,000
Water revenue bonds, series 2011, due in semi-annual interest installments ranging from $10,094 to $87,058 and annual principal installments ranging from $240,000 to $475,000, bearing interest between 2 and 4.25%, maturing June 30, 2022.	340,000	3,665,000	4,005,000
Total bonds payable	1,298,624	31,494,228	32,792,852
Total long-term debt	$1,331,373	$31,494,228	$32,825,601

VIRGIN VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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, 2011, including interest of $13,283,298, are as follows:

	Notes Payable	Bonds Payable	Total
2012	$ 33,850	$ 2,214,978	$ 2,248,828
2013	-	3,121,113	3,121,113
2014	-	3,112,943	3,112,943
2015	-	3,113,533	3,113,533
2016	-	3,094,410	3,094,410
2017-2021	-	14,055,084	14,055,084
2022-2026	-	10,031,666	10,031,666
2027-2031	-	6,048,006	6,048,006
2032-2036	-	1,284,417	1,284,417
2037-2038	-	-	-
Total	33,850	46,076,150	46,110,000
Less Interest	(1,101)	(13,283,298)	(13,284,399)
Total Principal	$ 32,749	$32,792,852	$32,825,601

NOTE 5 - DEFEASANCE OF LONG-TERM DEBT

On April 19, 2011, the District issued $4,005,000 in General Obligation Bonds (Limited Tax) with an average interest rate of 3.66 percent to advance refund $3,890,000 of outstanding 2001 Series bonds with an average interest rate of 3.99 percent. The net proceeds of $3,876,423 (after payment of $174,772 in underwriting fees, insurance, and other issuance costs) plus an additional $92,449 of 2001 Series sinking fund monies were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2001 Series bonds. As a result, the 2001 Series bonds are considered to be defeased and the liability for those bonds has been removed from the statement of net assets.

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

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $13,577. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2022 using the straight-line method. The District completed the advance refunding to reduce its total debt service payments over the next 11 years by $81,595 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $69,476.

On October 12, 2010 the District used $11,000,000 of unspent bond proceeds to defease a portion of the 2008 bonds. The funds were placed in an irrevocable escrow account to provide for the defeasance of $8,355,000 of bonds. Maturities in 2011, 2012 and 2033 to 2038 were in-substance defeased. As a result of the defeasance the District is no longer obligated to pay the $8,355,000 of principal nor the $9,455,637 of interest associated with those bonds. In addition to the interest associated with the defeased bonds, an additional $991,389 representing the remaining interest due on March 1, 2011, September 1, 2011 and March 1, 2012 was defeased. As a result of the defeasance, the District lowered total debt service payments by $18.8 million with no debt service on the 2008 bonds due on March 1, 2011 or during fiscal year 2012. Annual debt service was lowered by $374,000 beginning in fiscal year 2013 until fiscal year 2033 when additional reductions begin due to the defeasance of principal.

Prior-year Defeasance of Debt

In prior years, the District defeased certain general obligation 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.

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:

2012	$ 171,080
2013	130,148
2014	130,148
2015	130,148
2016	114,000
Thereafter	266,750
Total	$ 942,274

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. Of the District's total payroll of $1,059,053, the payroll for employees covered by the system for the year ended June 30, 2011, was $980,869.

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 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.

NOTE 7 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

The District is enrolled in the employer-paid plan of PERS. Under this plan the District is required to contribute 21.5% 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, 2011 and 2010 were $200,367 and $213,022, respectively. These contributions represented 20% of the covered payroll. A copy of the PERS June 30, 2011 annual financial report 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.

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

Restricted net assets consist of the following:

	Book Balances
Ordinance No. 2 Fees	$ 242,079
Bond Reserves	2,429,084
Total	$ 2,671,163

SUPPLEMENTARY INFORMATION

VIRGIN VALLEY WATER DISTRICT
BUDGET TO ACTUAL COMPARISON
Year ended June 30, 2011

Description	Budget	Actual	Variance Positive (Negative)
OPERATING REVENUES:			
Water use fees	$ 5,132,000	$ 5,995,820	$ 863,820
Installation charges	42,300	36,750	(5,550)
Total operating revenues	5,174,300	6,032,570	858,270
OPERATING EXPENSES:			
Salaries and wages	1,077,465	1,059,053	18,412
Office expense	135,478	117,604	17,874
Professional and legal services	856,950	857,939	(989)
Engineering services	25,000	163,608	(138,608)
Payroll taxes	47,815	37,596	10,219
Retirement plan contributions	218,420	200,367	18,053
Travel and training	18,500	8,447	10,053
Bad debt expense	-	115	(115)
Dues and subscriptions	29,130	22,199	6,931
Uniforms and safety equipment	13,800	13,014	786
Water rights applications	22,500	3,104	19,396
Insurance	444,124	403,413	40,711
Utilities	967,460	711,776	255,684
Operations and maintenance	1,162,419	784,907	377,512
Miscellaneous	19,700	19,772	(72)
Amortization	38,801	40,642	(1,841)
Depreciation	2,078,000	3,070,142	(992,142)
Total operating expenses	7,155,562	7,513,698	(358,136)
Net operating income (loss)	(1,981,262)	(1,481,128)	500,134
NON-OPERATING INCOME (EXPENSES)			
Service charges	26,000	35,820	9,820
Interest income	144,250	108,829	(35,421)
Impact fees	508,800	309,520	(199,280)
Ordinance No. 2 fees	99,000	49,600	(49,400)
Lease income	149,780	155,853	6,073
Other income	2,000	174,389	172,389
Intergovernmental revenue	1,975,000	1,587,181	(387,819)
Unrealized loss on investments	-	(26,525)	(26,525)
Interest expense	(1,919,839)	(1,128,689)	791,150
Total nonoperating revenue	984,991	1,265,978	280,987
Change in net assets	(996,271)	(215,150)	781,121
Total net assets - beginning	58,026,058	58,026,058	-
Total net assets - ending	$ 57,029,787	$ 57,810,908	$ 781,121

SUPPLEMENTARY REPORTS

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 the financial statements of Virgin Valley Water District (the District) as of and for the year ended June 30, 2011, and have issued our report thereon dated September 30, 2011. 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 the 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.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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.*

We noted certain matters that we reported to management of Virgin Valley Water District in a separate letter dated September 30, 2011.

This report is intended solely for the information and use of management, the Members of the Board, others within the entity, 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 distributions is not limited.

Wisan Smith Racker & Prescott, LLP

Salt Lake City, Utah
September 30, 2011

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

The Board of Directors
Virgin Valley Water District

Compliance

We have audited Virgin Valley Water District's (the District) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2011. The District's major federal programs are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, Virgin Valley Water District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

MEMBER
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

132 PIERPONT AVENUE, SUITE 250
SALT LAKE CITY, UTAH 84101
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MEMBER
UTAH ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS

LICENSED TO PRACTICE IN UTAH, WYOMING, NEVADA, NEW MEXICO AND IDAHO

Internal Control Over Compliance

Management of Virgin Valley Water District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing the audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as item 11-1 and 11-2. A significant deficiency in internal control is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

This report is intended solely for the information and use of management, the Members of the Board, others within the entity, and various state and federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

Wisan Smith Racker & Prescott, LLP

Salt Lake City, Utah
September 30, 2011

VIRGIN VALLEY WATER DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2011

Federal Grantor / Pass-through Grantor / Program Title	**Federal CFDA Number**	**Federal Expenditures**
U.S. Army Corps of Engineers		
Virgin Valley Water District Arsenic Removal Project 1	12.121*	$ 328,154
Total expenditures of federal awards		$ 328,154

* Major grant

See accompanying notes to schedule of expenditures of federal awards.

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Virgin Valley Water District, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of Virgin Valley Water District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Virgin Valley Water District.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

NOTE 3 - PREVIOUS YEAR EXPENDITURES

The District received authorization from the Army Corps of Engineers (ACE) to claim expenses incurred in previous years for additional work related to the arsenic removal project that had not been contemplated in the original contract. Since the expenditures were incurred in previous fiscal years, they are not reported in the amount shown above. The amount claimed was $1,154,584 and the ACE reimbursed the District $865,938 (75% reimbursement).

VIRGIN VALLEY WATER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2011

SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Virgin Valley Water District.

2. No material weaknesses were identified during the audit of the financial statements.

3. No instances of noncompliance material to the financial statements of Virgin Valley Water District were disclosed during the audit.

4. No material weaknesses were identified during the audit of the major federal award programs. Significant deficiencies were identified.

5. The auditors' report on compliance for the major federal award programs for Virgin Valley Water District expresses an unqualified opinion.

6. There were audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.

7. The program tested as a major program included: U.S. Army Corps of Engineers - Virgin Valley Water District Arsenic Removal Project 1, CFDA #12.121.

8. The threshold for distinguishing Types A and B programs was $500,000.

FINDINGS-FINANCIAL STATEMENT AUDIT

NONE

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS PROGRAMS AUDIT - SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL

Program	Finding/Noncompliance	Questioned Costs
U.S. Army Corps of Engineers Virgin Valley Water District Arsenic Removal Project 1 (CFDA 12.121) **11-1**	*Criteria* - The Davis-Bacon Act requires the District to obtain documentation from contractors that they have paid prevailing wages if the contract is for more than $2,000.	

VIRGIN VALLEY WATER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2011

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS PROGRAMS AUDIT - SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL (CONTINUED)

Program	Finding/Noncompliance	Questioned Costs
U.S. Army Corps of Engineers Virgin Valley Water District Arsenic Removal Project 1 (CFDA 12.121) **11-1** (Continued)	*Condition* – During the year, the District used several contractors to complete work on the Arsenic Removal project. However, documentation was not obtained from some contractors to verify that prevailing wages had been paid employees of the contractors.	
	Effect – Employees of the contractors may not have been paid prevailing wages for work performed on this project.	Unknown
	WSRP was not able to determine a questioned cost amount since the documentation provided by the contractors did not include detail of wages versus materials supplied.	
	Cause – The District was not aware of federal requirements to ensure that prevailing wages were paid to employees of the contractors as required by the Davis-Bacon Act.	
	WSRP discussed this finding with the District manager and the District has taken steps to ensure compliance in the future.	
	Recommendation – We recommend that the District follow newly implemented procedures to ensure that it complies with the requirements of the Davis-Bacon Act by obtaining documentation on the payment of prevailing wages from the contractors for all contracts over $2,000 using federal funds.	

VIRGIN VALLEY WATER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2011

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS PROGRAMS AUDIT - SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL (CONTINUED)

Program	Finding/Noncompliance	Questioned Costs
U.S. Army Corps of Engineers Virgin Valley Water District Arsenic Removal Project 1 (CFDA 12.121) **11-1** (Continued)	*Management's Response* – In late 2010 the Virgin Valley Water District (VVWD) had a few additional tasks for the Arsenic Removal Project. This work, totaling about $348,000, was funded approximately 75% with U.S. Army Corp of Engineers grant funds. Normally we would have had a consulting engineer in charge of projects of this size, but time was short and we judged that the paving and grading work was simple enough to be managed by in-house personnel. We were aware of the Nevada prevailing wage threshold of $100,000 and we do have prevailing wage documentation from the contractor whose scope was for $220,239. Unfortunately, for the other 3 smaller aspects of the work, we were not aware of the $2,000 threshold for Davis-Bacon prevailing wages for federally funded projects. Therefore, while we informed the contractors that the projects would be paid for with federal funds, the District neglected to execute written agreements with the contractors containing certain required prevailing wage provisions and neglected to obtain documentation from the contractors confirming that prevailing wages were paid. The District General Manager is ultimately responsible to ensure that we have controls to ensure compliance with the Davis-Bacon Act. Thanks to our auditor, we are now aware of this oversight. I will review each project in the future that has any federal funding and determine if it is subject to the Davis-Bacon Act requirements in order to ensure that written agreements are entered into with the contractors and that the contractors provide appropriate documentation demonstrating that they are paying applicable prevailing wages.	

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS PROGRAMS AUDIT - SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL (CONTINUED)

Program	Finding/Noncompliance	Questioned Costs
U.S. Army Corps of Engineers Virgin Valley Water District Arsenic Removal Project 1 (CFDA 12.121) **11-2**	*Criteria* – The A-102 Common Rule prohibits contracting with parties that have been suspended or debarred if the contract is for goods or services in excess of $25,000. Recipients are required to verify that the contracting party has not been debarred or suspended.	
	Condition – The District did not have procedures to ensure that the contractors used on the Arsenic Removal project had not been debarred or suspended by the federal government from participation in federally financed projects.	
	Effect – Without procedures in place to verify that contractors/providers have not been debarred or suspended, the District could incur costs that are not reimbursable.	$0
	WSRP has verified that none of the contractors/providers used on the project were debarred or suspended. Therefore, there are no questioned costs.	
	Cause – The District was not aware of the federal requirement to ensure that contractors/providers are not debarred or suspended.	
	WSRP discussed this finding with the District manager and the District has taken steps to ensure compliance in the future.	
	Recommendation – We recommend that the District follow newly implemented procedures to ensure that contractors used on federally funded projects in excess of $25,000 have not been debarred or suspended by referring to the Excluded Parties List System.	

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS PROGRAMS AUDIT - SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL (CONTINUED)

Program	Finding/Noncompliance	Questioned Costs
U.S. Army Corps of Engineers Virgin Valley Water District Arsenic Removal Project 1 (CFDA 12.121) **11-2** (Continued)	*Management's Response* – Our auditor informs us that the A-102 Common Rule for federally funded work prohibits contracting with parties that have been suspended or debarred if the contract is for goods or services in excess of $25,000. To our knowledge none of the contractors we dealt with were suspended or debarred, but we will require verification of that requirement in all future contracts paid in part with federal funds.	

WISAN, SMITH, RACKER & PRESCOTT, LLP
CERTIFIED PUBLIC ACCOUNTANTS

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, 2011, and have issued our report thereon dated September 30, 2011. 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 American 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, 2011.

Wisan Smith Racker & Prescott, LLP

Salt Lake City, Utah
September 30, 2011

MEMBER
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MEMBER
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LICENSED TO PRACTICE IN UTAH, WYOMING, NEVADA, NEW MEXICO AND IDAHO