

Western Regional Water Commission

STAFF REPORT

DATE: September 15, 2016

TO: Chairman and Members, Western Regional Water Commission ("WRWC")

FROM: Ben Hutchins, Director, Finance & Administration Division, Washoe County Community Services Department ("CSD")

SUBJECT: Discussion and possible approval of the fiscal year 2015 - 2016 WRWC financial statements and audit opinion, and possible direction to staff.

SUMMARY

The attached report presents the WRWC's financial statements for the year ended June 30, 2016, and the auditor's opinion thereof. It is the auditor's expressed opinion that the financial statements present fairly, in all material respects, the financial position of the WRWC as of June 30, 2016, and the changes in its financial position and budgetary comparison for the year then ended in conformity with accounting principles generally accepted in the United States of America. The report is being presented for consideration, discussion and approval.

PREVIOUS ACTION

On November 18, 2015, the WRWC voted to designate Schettler, Macy & Associates, LLC as the WRWC's external auditors for fiscal year 2015 - 2016.

BACKGROUND

Pursuant to NRS 354.624, each local government shall provide for an annual audit of its financial statements. In keeping with this statute, the WRWC engaged Schettler, Macy & Associates, LLC to provide the audit services of its financial statements for the year ending June 30, 2016. The audit results, and opinion and findings of the auditor, must be presented at a meeting of the governing body and immediately thereafter filed as a public record with the secretary of the governing body, the county clerk, and the Nevada Department of Taxation.

FISCAL IMPACT

None.

RECOMMENDATION

Staff recommends that the WRWC approve the financial statements and audit opinion from Schettler, Macy & Associates, LLC for fiscal year 2015 - 2016.

POSSIBLE MOTION

Should the Commission agree with the above recommendation, a suggested motion is: "Move to approve the WRWC financial statements and audit opinion from Schettler, Macy & Associates, LLC for fiscal year 2015 - 2016, and direct staff to file the same as a public record, as required by law."

Attachment: Financial Statements

**WESTERN REGIONAL
WATER COMMISSION**

Financial Statements

JUNE 30, 2016

WESTERN REGIONAL WATER COMMISSION

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of the
Western Regional Water Commission
Reno, Nevada

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the General Fund of the Western Regional Water Commission (Commission) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the General Fund of the Western Regional Water Commission as of June 30, 2016, and the respective changes in its financial position and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2016, on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.

Schettler Macy & Associates, LLC

Reno, Nevada
September 14, 2016

WESTERN REGIONAL WATER COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

As management of the Western Regional Water Commission (Commission), we offer readers of the Commission's financial statements this narrative overview and analysis of the financial activities of the Commission for the fiscal year ended June 30, 2016. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Commission's financial statements, which follow this narrative.

The Commission was created on April 1, 2008 upon passage of 2007 Nevada Legislature Senate Bill 487 to improve water resource planning at the regional level and facilitate coordinated resource management among the four then existing public water purveyors of Washoe County (Truckee Meadows Water Authority, Washoe County Water Resources, Sun Valley General Improvement District and South Truckee Meadows General Improvement District).

A cooperative agreement was entered into upon the creation of the Commission among the following member agencies at the time: the cities of Reno and Sparks, the South Truckee Meadows General Improvement District, the Sun Valley General Improvement District, the Truckee Meadows Water Authority, and Washoe County, to form a Joint Powers Authority to operate the Commission.

On December 31, 2014, the Truckee Meadows Water Authority assumed the assets and obligations of the Washoe County and South Truckee Meadows General Improvement District water utilities. Washoe County is still in existence and plays an integral part in the cooperative agreement; however, the South Truckee Meadows General Improvement District has been dissolved. To this end, the Commission is directed by a Board of Trustees composed of members from each of the original governing agencies, excluding the South Truckee Meadows General Improvement District.

Financial Highlights

- The Commission's Government-wide net position decreased by \$87 thousand to \$1.16 million.
- The Commission's General Fund reported a decrease in fund balance of \$86 thousand to \$1.19 million.

WESTERN REGIONAL WATER COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

Governmental Activities:

- General revenues decreased by nearly \$102 thousand or 7% from the prior year.
- Expenses decreased by \$405 thousand or 22% from the prior year. This decrease is largely due to a reduction in water-rights purchases made in the current year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Commission's basic financial statements. The Commission's basic financial statements consist of three components; the 1) Government-wide financial statements, 2) Fund financial statements and 3) Notes to the financial statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the Commission's finances, similar in format to a financial statement of a private-sector business.

The *Statement of Net Position* presents information on all of the Commission's assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources, with the balance reported as the net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Commission is improving or deteriorating.

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

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Commission uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the Nevada Revised Statutes (NRS) and the Commission's regulations.

WESTERN REGIONAL WATER COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

Unlike the government-wide financial statements, fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year.

The Commission's General Fund is a governmental fund. Governmental funds focus on how assets can be readily converted into cash, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* that provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Commission's programs.

Notes to Financial Statements

The notes to the financial statements provide additional information which is essential for a full understanding of the information provided in the government-wide and fund financial statements.

Government-Wide Financial Analysis

The following is a summary of the Commission's government-wide Statement of Net Position as of June 30, 2016 and 2015:

WESTERN REGIONAL WATER COMMISSION NET POSITION

	<u>2016</u>	<u>2015</u>
Assets		
Current assets	\$ 1,544,991	\$ 1,545,846
Liabilities		
Current liabilities	353,386	268,888
Long-term liabilities	28,022	25,918
	<u>381,408</u>	<u>294,806</u>
Net Position		
Unrestricted	<u>\$ 1,163,583</u>	<u>\$ 1,251,040</u>

WESTERN REGIONAL WATER COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

Governmental Activities

The Commission's governmental activities for the years ended June 30, 2016 and 2015 are presented in the following table:

WESTERN REGIONAL WATER COMMISSION CHANGES IN NET POSITION

	<u>2016</u>	<u>2015</u>
Revenues		
General revenues:		
Water surcharge fees	\$ 1,355,733	\$ 1,466,562
Earnings on investments	27,587	18,891
Total Revenues	<u>1,383,320</u>	<u>1,485,453</u>
Expenses		
Services and supplies	<u>1,470,777</u>	<u>1,875,296</u>
Total Expenses	<u>1,470,777</u>	<u>1,875,296</u>
Change in Net Position	(87,457)	(389,843)
Net Position, July 1	<u>1,251,040</u>	<u>1,640,883</u>
Net Position, June 30	<u><u>\$ 1,163,583</u></u>	<u><u>\$ 1,251,040</u></u>

Economic Factors / Next Year's Budget / Other Significant Matters

Overall revenue was 6.9% less than the previous fiscal year due to conservation efforts in the region. In the opinion of management, revenue is sufficient and will continue to be stable since member purveyors regularly monitor water rates to insure an acceptable level of cash flow for operations. As a result, a consistent and stable source of revenue should continue to provide sufficient financial resources for the Commission to achieve its desired goals and objectives.

WESTERN REGIONAL WATER COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

Unrestricted net position as of June 30, 2016 was \$1.16 million, whereas operating expenses in the June 30, 2017 budget are only \$728 thousand, or 28% of the total budget. All other budgeted expenses relate to projects and can be managed in a way that aligns with remaining resources and expected future revenues.

REQUESTS FOR INFORMATION

This report is designed to provide an overview of the Commission's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to:

Western Regional Water Commission
c/o Washoe County Community Services Department
1001 E. Ninth Street
Reno, NV 89512

FINANCIAL STATEMENTS

WESTERN REGIONAL WATER COMMISSION

STATEMENT OF NET POSITION

JUNE 30, 2016

(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2015)

	GOVERNMENTAL ACTIVITIES	
	2016	2015
ASSETS		
Current Assets		
Cash and investments	\$ 1,212,710	\$ 1,182,852
Accounts receivable	329,121	359,292
Due from other governments	-	5
Interest receivable	3,160	3,697
Total Current Assets	1,544,991	1,545,846
LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts payable	36,670	43,034
Accrued salaries payable	16,881	12,240
Due to other governments	299,835	213,614
Total Current Liabilities	353,386	268,888
Accrued Compensated Absences	28,022	25,918
Total Liabilities	381,408	294,806
Net Position, Unrestricted	\$ 1,163,583	\$ 1,251,040

See accompanying notes.

WESTERN REGIONAL WATER COMMISSION

STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2016

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015)

	<u>2016</u>	<u>2015</u>
Program Expenses		
Services and supplies	\$ 1,470,777	\$ 1,875,296
General Revenues		
Water surcharge fees	1,355,733	1,466,562
Unrestricted investment earnings	27,587	18,891
Total General Revenues	<u>1,383,320</u>	<u>1,485,453</u>
 Change in Net Position	 (87,457)	 (389,843)
 Net Postion - July 1	 <u>1,251,040</u>	 <u>1,640,883</u>
 Net Position - June 30	 <u>\$ 1,163,583</u>	 <u>\$ 1,251,040</u>

See accompanying notes.

WESTERN REGIONAL WATER COMMISSION

GOVERNMENTAL FUND BALANCE SHEET

JUNE 30, 2016

(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2015)

	GENERAL FUND	
	2016	2015
ASSETS		
Cash and investments	\$ 1,212,710	\$ 1,182,852
Accounts receivable	329,121	359,292
Due from other governments	-	5
Interest receivable	3,160	3,697
Total Assets	<u>\$ 1,544,991</u>	<u>\$ 1,545,846</u>
LIABILITIES		
Accounts payable	\$ 36,670	\$ 43,034
Accrued salaries payable	16,881	12,240
Due to other governments	299,835	213,614
Total Liabilities	<u>353,386</u>	<u>268,888</u>
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue - surcharge fees	<u>1,493</u>	<u>860</u>
FUND BALANCE		
Assigned to subsequent year's budget	1,120,314	839,448
Unassigned	69,798	436,650
Total Fund Balance	<u>1,190,112</u>	<u>1,276,098</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 1,544,991</u>	<u>\$ 1,545,846</u>

See accompanying notes.

WESTERN REGIONAL WATER COMMISSION

GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

YEAR ENDED JUNE 30, 2016

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015)

	GENERAL FUND	
	2016	2015
REVENUES		
Water surcharge fees	\$ 1,355,100	\$ 1,466,805
Earnings on investments	27,587	18,891
	<u>1,382,687</u>	<u>1,485,696</u>
EXPENDITURES		
Services and supplies	<u>1,468,673</u>	<u>1,872,024</u>
Net Change in Fund Balance	(85,986)	(386,328)
FUND BALANCE, July 1	<u>1,276,098</u>	<u>1,662,426</u>
FUND BALANCE, June 30	<u><u>\$ 1,190,112</u></u>	<u><u>\$ 1,276,098</u></u>

See accompanying notes.

WESTERN REGIONAL WATER COMMISSION

RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2016

Net Change in Fund Balance - Governmental Fund \$ (85,986)

Amounts reported for governmental activities in the Statement of Activities are different because:

The change in accrued compensated absences is reported in the Statement of Activities. This does not require the use of current financial resources and therefore is not reported as an expenditure in the governmental fund. (2,104)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental fund. 633

Change in Net Position of Governmental Activities \$ (87,457)

See accompanying notes.

WESTERN REGIONAL WATER COMMISSION

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2016
(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2015)

	2016			2015
	Original And Final Budget	Actual	Variance To Final Budget	Actual
REVENUES				
Water surcharge fees	\$ 1,475,479	\$ 1,355,100	\$ (120,379)	\$ 1,466,805
Grant revenue	40,000	-	(40,000)	-
Earnings on investments	58,028	27,587	(30,441)	18,891
	<u>1,573,507</u>	<u>1,382,687</u>	<u>(190,820)</u>	<u>1,485,696</u>
EXPENDITURES				
Services and supplies	<u>2,412,955</u>	<u>1,468,673</u>	<u>944,282</u>	<u>1,872,024</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(839,448)	(85,986)	753,462	(386,328)
FUND BALANCE, July 1	<u>887,509</u>	<u>1,276,098</u>	<u>388,589</u>	<u>1,662,426</u>
FUND BALANCE, June 30	<u>\$ 48,061</u>	<u>\$ 1,190,112</u>	<u>\$ 1,142,051</u>	<u>\$ 1,276,098</u>

See accompanying notes.

WESTERN REGIONAL WATER COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Western Regional Water Commission (Commission) was created on April 1, 2008 upon passage of 2007 Nevada Legislature Senate Bill 487 to improve water resource planning at the regional level and facilitate coordinated resource management among the public water purveyors of Washoe County. Previously, the four water purveyors consisted of the Truckee Meadows Water Authority, Washoe County Water Resources, Sun Valley General Improvement District and South Truckee Meadows General Improvement District. However, as of December 31, 2014, Washoe County Water Resources and South Truckee Meadows General Improvement District merged with the Truckee Meadows Water Authority.

A cooperative agreement was entered into upon the creation of the Commission by the following member agencies at the time: the cities of Reno and Sparks, the South Truckee Meadows General Improvement District, the Sun Valley General Improvement District, the Truckee Meadows Water Authority, and Washoe County, to form a Joint Powers Authority to operate the Commission. The Commission is currently directed by a Board of Trustees comprised of members from each of the original governing agencies, excluding the South Truckee Meadows General Improvement District.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The basic financial statements include both government-wide and fund financial statements.

Government-Wide Statements

The government-wide Statement of Net Position is presented on a full accrual, economic resource basis that recognizes all long-term assets as well as long-term debt and obligations.

The government-wide Statement of Activities reports both the gross and net cost of each of the Commission's functions. The functions are also supported by the general government revenues. The Statement of Activities reduces gross expenses by related program revenues and operating grants. The Statement of Activities is also presented on a full accrual basis

WESTERN REGIONAL WATER COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

where revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of when the related cash flows take place.

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when measurable and available (susceptible to accrual). Interest and surcharges are accrued when their receipt occurs within sixty days after the end of the accounting period so as to be measurable and available. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, certain expenditures are recorded only when payment is due.

The General Fund is the Commission's sole fund; therefore, it accounts for all financial resources of the general government.

Accounts Receivable

Accounts receivable arise from water surcharge fees. No allowance for doubtful accounts is required as all receivables are considered to be fully collectible (also see Note 6).

Compensated Absences

As described in Note 6, the Commission entered into an agreement with Washoe County on November 8, 2008 to retain the services of certain assigned County employees to perform duties of the Commission. The Commission interprets this agreement to obligate the Commission to pay any applicable accrued vacation and sick pay for its assigned employees upon their termination. Accordingly, since the payroll reimbursement payments from the Commission to the County are exclusive of these termination payments, the Commission's policy is to provide for this obligation in their financial statements in the same manner as if the assigned employees were deemed to be actual employees of the Commission.

Earned vacation and compensatory time may each be accumulated up to a maximum of 240 hours. The earned vacation and compensatory time is payable upon termination and the liability is reported at the employees' current rate of pay.

WESTERN REGIONAL WATER COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Sick leave is only applicable for payout after 10 years of employment. Personnel are paid sick leave upon termination on half of the total accumulated hours in excess of 300 hours up to a maximum of 800 hours.

Revenue

The Commission is funded by imposing a 1.5% surcharge fee on customer water bills. The surcharge fee is collected by each non-exempt water purveyor and supplier of water within the Washoe County planning area and remitted to the Commission.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Prior Year Information

The basic financial statements include certain prior-year summarized information but which is not at the level of detail required for a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Commission's financial statements for the year ended June 30, 2015, from which the summarized information was derived. Certain amounts presented in the prior year data may be reclassified to be consistent with the current year's presentation.

NOTE 2 – BUDGETS AND BUDGETARY ACCOUNTING

The Commission adheres to the *Local Government Budget and Finance Act* incorporated within the statutes of the State of Nevada, which includes the following major procedures to establish the budgetary data which is reflected in these financial statements:

1. Prior to April 15, the Commission's Board of Trustees (the "Board") files a tentative budget with the Nevada Department of Taxation for the fiscal year beginning the following July 1. The tentative budget includes proposed expenditures and the means of financing them.

WESTERN REGIONAL WATER COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

2. 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 Board's members.
3. The Commission's Program Manager is authorized to transfer appropriations between accounts within the Water Management Fund, if amounts do not exceed the original budget, subject to subsequent Board approval. Augmentations in excess of the original budget require approval from the Board.
4. Formal budgetary integration is employed as a management control device for the Commission's General Fund. The budget is legally adopted, and its annual appropriations lapse at year-end.
5. Budgeted appropriations may not be exceeded by actual expenditures of the various programs in the budgeted governmental fund (the General Fund).
6. All budgets are adopted on a basis consistent with GAAP. The accompanying financial statements reflect the Original Budget and the Final Budget in one columnar presentation as there were no adjustments made to the Original Budget.

NOTE 3 – CASH IN COUNTY TREASURY

Cash at June 30, 2016 consisted of the following:

Cash in County Treasury	<u>\$1,212,710</u>
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The Commission maintains all of its cash and investments with the Washoe County Treasurer in an investment pool. The Treasurer allocates interest to participants based upon their average balances. Required disclosure information regarding categorization of investments and other deposit and investment risk disclosures can be found in the County's financial statements. The Washoe County financial statements may be obtained by contacting the Office of the Comptroller at 1001 E. Ninth Street, Room D-200, Reno, NV 89512. The Investment Committee oversees the Washoe County Treasurer's investments and policies.

WESTERN REGIONAL WATER COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Investments held in the County's investment pool are available on demand and are stated at cost plus accrued interest, which approximates fair value. The fair value of the Commission's position in the pool equals the value of the pool shares.

Interest Rate Risk – Interest rate risk is the risk of possible reduction in the value of a security, especially a bond, resulting from the rise in interest rates. To limit exposure to interest rate risk, the Nevada Revised Statutes limits bankers' acceptances to 180 days maturities, repurchase agreements to 90 days, U.S. Treasuries and Agencies to less than 10 years, and commercial paper to 270 days.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation and is a function of the credit quality ratings of its investments. In accordance with Nevada Revised Statutes, the Commission limits its investment instruments by their credit risk. The Washoe County Investment Pool is an unrated external investment pool.

NOTE 4 – LONG-TERM LIABILITIES

The following is a summary of long-term liability activity of the Commission for the year ended June 30, 2016:

	<u>June 30, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2016</u>	<u>Amount Due Within One Year</u>
Compensated absences	<u>\$ 25,918</u>	<u>\$ 2,104</u>	<u>\$ -</u>	<u>\$ 28,022</u>	<u>\$ -</u>

NOTE 5 – NET POSITION AND FUND BALANCE

Net Position

Equity is classified as net position in the government-wide financial statements. Net position is categorized as invested in capital assets (net of related debt), restricted and unrestricted.

WESTERN REGIONAL WATER COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Net position is reported as restricted when there are limitations imposed on their use either through legislation or through external restrictions imposed by creditors or laws or regulations of other governments.

As of June 30, 2016, the Commission's net position was comprised of:

- *Unrestricted Net Position* – Net position of the Commission which is not restricted for any project or other purpose.

Fund Balance

The Commission has adopted Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which establishes standards for fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The Commission reports the following classifications:

Non-spendable – amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted – amounts that can be spent only for specific purposes because of constitutional provisions, charter requirements or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – amounts that can be used only for specific purposes determined by a formal action of the Board. The Board is the highest level of decision making authority for the Commission. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board.

Assigned – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the Board's adopted policy, only the Board may assign amounts for specific purposes.

WESTERN REGIONAL WATER COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Appropriated assigned fund balance is an appropriation of existing fund balance to eliminate a projected budgetary deficit in the subsequent year's budget in an amount no greater than the projected excess of expected expenditures over expected revenues.

Unassigned – the residual classification for the General Fund.

When both restricted and unrestricted resources are available for use, it is the Board's policy to use externally restricted resources first, then unrestricted resources – committed, assigned, and unassigned – as needed, unless the Board has provided for otherwise in its commitment or assignment actions.

NOTE 6 – RELATED PARTY TRANSACTIONS

On November 8, 2008, the Commission entered into an agreement with Washoe County ("County") whereby the County will provide to the Commission, on a contractual and reimbursable basis, services of employees from the County's Community Services Department (assigned employees), who have historically been fully dedicated to supporting and performing the duties associated with planning and implementation of regional water matters. Assigned employees retain all rights and status of Washoe County employees.

The Commission reimburses the County for all actual costs for the services provided by the assigned employees, including wages, hours, compensatory time, sick leave, special sick leave, annual leave, insurance premiums, worker's compensation insurance, and all other benefits the County currently provides or may provide in the future. Reimbursable future obligations of the Commission include compensated absences, but do not include postemployment benefits other than pensions. Total costs reimbursed by the Commission to the County for these services were \$353,632 for the year ended June 30, 2016.

In addition to the services provided by the assigned employees, routine and general administrative activities in support of the Commission's mission are provided by other personnel of the County Community Services Department. Total costs reimbursed by the Commission to the County for these services were \$94,931 for the year ended June 30, 2016.

As discussed in Note 1, the Commission derives its revenue from a surcharge on customer water bills within the region collected by water purveyors in Washoe County. Some members of the governing bodies of the purveyors are also members of the Commission's

WESTERN REGIONAL WATER COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Board of Trustees. Total water surcharge revenues for the year ended June 30, 2016 were \$1,355,100, which includes accounts receivable of \$329,121.

NOTE 7 – COMMITMENTS

On May 16, 2013, the Commission entered into an interlocal agreement with Truckee Meadows Water Authority (TMWA) to implement plans to manage and maximize the yield of regional water supplies in furtherance of the Truckee River Operating Agreement (TROA). Part of the TROA provides that Reno, Sparks and Washoe County agree to provide 6,700 acre-feet of water rights for water quality purposes. TMWA is actively engaged in the water rights market in the ordinary course of its operation of the public water system. Through this agreement the Commission intends to budget Regional Water Management Fund monies up to \$2,700,000 to reimburse TMWA for costs incurred to purchase these water rights. Title of the water rights purchased under this agreement shall be conveyed to Reno, Sparks and Washoe County as tenants in common with undivided 1/3 interest each. Total costs for purchases made under this agreement through June 30, 2016 were \$2,567,414.

This agreement shall terminate in the event of a) thirty days written notice by either party; b) non-appropriation by the Commission; or c) upon expenditure of the \$2,700,000 as discussed above.

NOTE 8 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 14, 2016, the date the financial statements were available to be issued. The Commission has determined there are no material transactions that have not been disclosed.

COMPLIANCE SECTION



SchettlerMacy
& Associates LLC
CERTIFIED PUBLIC ACCOUNTANTS

**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**

To the Board of Trustees of the
Western Regional Water Commission
Reno, Nevada

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and the General Fund of the Western Regional Water Commission (the Commission) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated September 14, 2016.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission'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*.

Purpose of this Report

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

Schettler Macy & Associates, LLC

Reno, Nevada
September 14, 2016

WESTERN REGIONAL WATER COMMISSION

AUDITORS' COMMENTS
JUNE 30, 2016

STATUTE COMPLIANCE

Current Year

The Commission complied with all significant statutory constraints on its financial administration during the year.

Prior Year

During the prior year, the Commission complied with all significant statutory constraints on its financial administration.

AUDIT RECOMMENDATIONS

Current Year

We did not note any financial weaknesses of a magnitude to justify inclusion within our report.

Prior Year

There were no prior year recommendations related to financial statement weaknesses of a magnitude to justify inclusion within the audit report.