

NEVADA IRRIGATION DISTRICT
AUDITED FINANCIAL STATEMENTS
December 31, 2014

NEVADA IRRIGATION DISTRICT

BASIC FINANCIAL STATEMENTS

For the Year Ended December 31, 2014

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Nevada Irrigation District
Grass Valley, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Water and Electric Funds of the Nevada Irrigation District (the District), which comprise the balance sheet as of December 31, 2014, and the related statement of revenues, expenses, changes in net position, and cash flows for the year then ended and the related notes to the financial statements.

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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's Minimum Audit Requirements for California Special Districts. 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 opinion.

To the Board of Directors
Nevada Irrigation District

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water and Electric Funds of the District as of December 31, 2014 and the results of their operations and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress of the employee retirement plan and schedule of funding progress of the other postemployment benefits plan, as listed in the accompanying table of contents, 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 July 13, 2015 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Richardson & Company, LLP

July 13, 2015

Management's Discussion and Analysis

This section presents management's analysis of the Nevada Irrigation District's (the District) financial condition, narrative overview and analysis of the financial activities of the District, for the fiscal year ended December 31, 2014. Management's discussion and analysis is intended to serve as an introduction to the District's audited financial statements and should be read in conjunction with those financial statements.

The Nevada Irrigation District (District or NID) is an independent California special district formed in 1921 under the State's California Water Code for the purpose of providing a water supply and operating a distribution system for domestic, municipal, industrial and agricultural use. The District is a diversified water agency governed by a five-member Board of Directors elected by District voters. The Board is the District's policy-making body and that policy is carried out by approximately 200 full-time and part-time employees. The District also generates renewable hydroelectric energy and provides outdoor recreation. The electric power is produced at various hydroelectric facilities and is sold to Pacific Gas and Electric Utility Company (PG&E) under a Power Purchase Agreement. Unique in many respects, NID collects water from its own high mountain watershed, operates a network of seven water treatment plants, generates renewable hydroelectric energy, maintains 425 miles of canals, 300 miles of pipeline and provides outdoor recreation at the District's reservoirs to customers in Nevada, Placer and Yuba counties.

Today, the District serves approximately 20,000 treated water connections and 6,000 irrigation water customers located within its 287,000 acre boundary. The seven water treatment plants have a peak capacity of 41.8 mgd (million gallons per day). About ninety percent of the District's average 145,000 acre-feet of raw water supplied per year is used for local irrigation. NID also generates electricity from seven power plants which have a combined generation capacity of 82.3 megawatts. And finally, NID's mountain and foothill reservoirs provide recreational experiences which are important economic attractions for the local tourism industry.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$408,102,683 (*net position*). Of the amount of \$71,054,132 (*unrestricted net position*), the District designated \$33.5 million for specific purposes (see Note 5) and the remainder of \$37.6 million may be used to meet the District's ongoing obligations to citizens and creditors.
- The District's change in net position increased by \$12.8 million from 2013 to 2014. This represents a \$7.3 million decrease compared to the net position increase of \$20.1 million in 2013. Despite a relatively modest decrease of \$0.3 million in water sales, an increase in taxes and assessments of \$0.4 million, and a decrease in contributed capital of \$0.2 million, these changes were offset by a \$13,000 decrease in electric power revenue from the prior year. The District's investment income and gain on investments of \$0.7 million in 2014 is slightly higher than the \$0.4 million investment income and gain in 2013.
- The District experienced a net increase of \$4.9 million in cash and cash equivalents in 2014 primarily due to net income of \$12.9 million from increased electric power sales.
- The District experienced a \$5 million or 14.7% increase in operating expenses from 2013 to 2014. In an effort to mitigate the shortfall between operating revenue and operating expenses, cost savings measures were implemented to control operating expenses. These measures included several department reorganizations, performing more tasks with internal staff, and improving operational efficiencies. Higher regulatory fees and increasing retirement and health benefit costs offset some of the District's efforts to reduce operating costs. In addition, the District continued maintenance projects that had been previously deferred.

- The District has a net Other Post- Employment Benefits (OPEB) asset of \$702,000 at December 31, 2014. During 2014, the District paid \$1,018,000 in retiree health care premiums and made \$1,955,000 of contributions to the trust account (see Note 7). These contributions exceed the annual required contribution by \$741,000.
- During 2014, the Nevada Irrigation District's total liabilities decreased by \$2.6 million due to the payments of long-term debt. The District's financial strength allowed it to maintain credit ratings of AA and AA+ from Fitch and Standard & Poor's, respectively.
- As more fully described in Note 10, the District has outstanding commitments as of December 31, 2014 of \$4.4 million.

Overview of the District's Financial Statements

This discussion and analysis is intended to serve as an introduction to the Nevada Irrigation District's basic financial statements. The District's basic financial statements report information about the District using accounting methods similar to those used by companies in the private sector. The financial statements provide separate information for the water and electric utilities. These financial statements include the following:

- 1) Fund financial statements and
- 2) Notes to the financial statements

This report also contains required supplementary information in addition to the basic financial statements themselves.

In addition, there are several different types of financial statements within the first components identified above:

The **Balance Sheet** is intended to disclose the financial position of the District at a specific point in time, December 31, 2014. It reflects the assets of the District, its liabilities, and net position (equity). Assets and liabilities are listed in order of their estimated liquidity. Cash and other unrestricted assets readily convertible to cash are listed first. Capital assets consisting primarily of property, plant and equipment appear at the bottom of the list because of the distinctive nature of those items. The District's fiscal year is the calendar year of January 1st through December 31st.

Capital assets are presented on the balance sheet net of accumulated depreciation. Accumulated depreciation is the estimated reduction of value attributable to the wear and tear of assets caused by usage and the passage of time.

The **Statement of Revenues, Expenses and Changes in Net Position** is intended to disclose the results of operations over a period of time, the year ended December 31, 2014. This statement reflects revenues earned (whether collected or not), and expenses incurred (whether paid or not) during the year.

This statement differs significantly from the balance sheet in that it discloses the activities of the District over the course of a year, and reconciles the net income of the District to its beginning and ending net position. The net earnings of the District flows into the net position of the District as reflected on the Statement of Revenues, Expenses and Changes in Net Position.

The **Statement of Cash Flows** combines aspects of both the balance sheet and the income statement detailing the sources of District receipts and uses of District disbursements.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes provide a narrative description of certain items contained in the financial statements to enhance the understanding of those items. The notes to the financial statements are found on pages 17 - 37 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the District's progress in funding its pension and other post-employment benefit obligations. Required supplementary information can be found on page 38 of this report.

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$408,102,683 at the close of the most recent fiscal year.

By far the largest portion of the Nevada Irrigation District's net position (80.1% percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment). The Nevada Irrigation District uses these capital assets to provide services to the citizens of its community. Consequently, these assets are not available for future spending. Although the Nevada Irrigation District's investment in its capital assets is reported net of related debt, it is not a spendable resource. The resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The following table summarizes changes in the District's balance sheet between December 31, 2013 and 2014:

Table 1
Statements of Net Position

	2014	2013	Change
Assets			
Current and other assets	\$ 88,198,481	\$ 79,278,580	\$ 8,919,901
Capital assets (net of accumulated depreciation)	363,751,603	362,181,360	1,570,243
Deferred outflows	895,165	918,106	(22,941)
Total Assets and Deferred Outflows	\$ 452,845,249	\$ 442,378,046	\$ 10,467,203
Liabilities			
Current Liabilities	\$ 9,167,902	\$ 8,420,044	\$ 747,858
Long-Term Liabilities	35,487,672	38,651,087	(3,163,415)
Total Liabilities	\$ 44,655,574	\$ 47,071,131	\$ (2,415,557)
Net Position			
Invested in capital assets, net of related debts	\$ 326,939,315	\$ 322,987,110	\$ 3,952,205
Restricted for capacity expansion by statute	6,770,673	7,925,108	(1,154,435)
Restricted for debt service	1,968,863	2,838,443	(869,580)
Restricted for improvement districts	1,369,700	1,369,700	-
Unrestricted	71,054,132	60,186,554	10,867,578
Net Position	\$ 408,102,683	\$ 395,306,915	\$ 12,795,768

The District's restricted net position represents resources that are subject to statutory restrictions of \$6,770,673 for capacity expansion, debt service requirements of \$1,968,683 and other restrictions related to the improvement districts of \$1,369,700. Of the remaining balance of *unrestricted net position* of \$71,054,132, \$33.5 million has been designated for specific purposes (see Note 5) and the remainder of \$37.6 million may be used to meet the District's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the District was able to report positive balances in its net position. The same situation held true for the prior fiscal year.

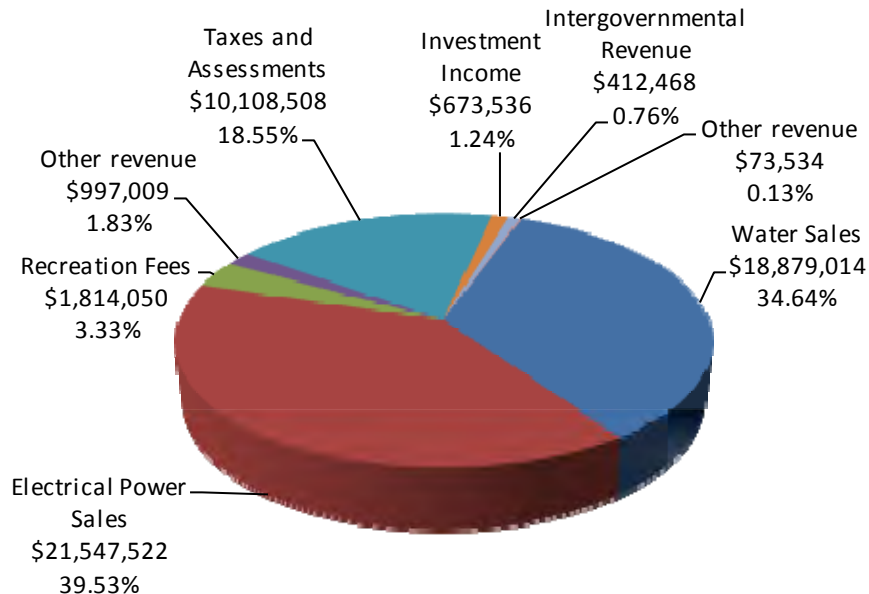
Statement of Revenues, Expenses and Changes in Net Position

	2014	2013	Change
Operating Revenues			
Water Sales	\$ 18,879,014	\$ 19,226,399	\$ (347,385)
Electrical Power Sales	21,547,522	21,560,091	(12,569)
Recreation Fees	1,814,050	1,773,812	40,238
Other revenue	997,009	863,188	133,821
Total Operating Revenues	<u>43,237,595</u>	<u>43,423,490</u>	<u>(185,895)</u>
Non-Operating Revenues			
Taxes and Assessments	10,108,508	9,750,780	357,728
Investment Income	673,536	433,678	239,858
Intergovernmental Revenue	412,468	863,830	(451,362)
Loss on asset disposal	(2,199,003)	73,534	(2,272,537)
Other revenue	73,534	85,599	(12,065)
Total Non-Operating Revenues	<u>9,069,043</u>	<u>11,207,421</u>	<u>(2,138,378)</u>
Total Revenues	<u>52,306,638</u>	<u>54,630,911</u>	<u>(2,324,273)</u>
Operating Expenses			
Water	30,157,585	25,708,903	4,448,682
Electric	7,347,723	6,628,710	719,013
Recreation	1,558,081	1,727,175	(169,094)
Total Operating Expenses	<u>39,063,389</u>	<u>34,064,788</u>	<u>4,998,601</u>
Non-Operating Expenses			
Interest Expense	1,320,756	1,463,127	(142,371)
Total Non-Operating Expenses	<u>1,320,756</u>	<u>1,463,127</u>	<u>(142,371)</u>
Total Expenses	<u>40,384,145</u>	<u>35,527,915</u>	<u>4,856,230</u>
Income (Loss) Before Capital Contributions	<u>11,922,493</u>	<u>19,102,996</u>	<u>(7,180,503)</u>
Capital Contributions			
Facility Capacity Charges	854,499	714,427	140,072
Other Capital Contributions	18,776	369,150	(350,374)
Total Capital Contributions	<u>873,275</u>	<u>1,083,577</u>	<u>(210,302)</u>
Change in Net Position	<u>12,795,768</u>	<u>20,186,573</u>	<u>(7,390,805)</u>
Net Position - Beginning of Year	<u>395,380,449</u>	<u>375,193,876</u>	<u>20,186,573</u>
Net Position - End of Year	<u>\$ 408,176,217</u>	<u>\$ 395,380,449</u>	<u>\$ 12,795,768</u>

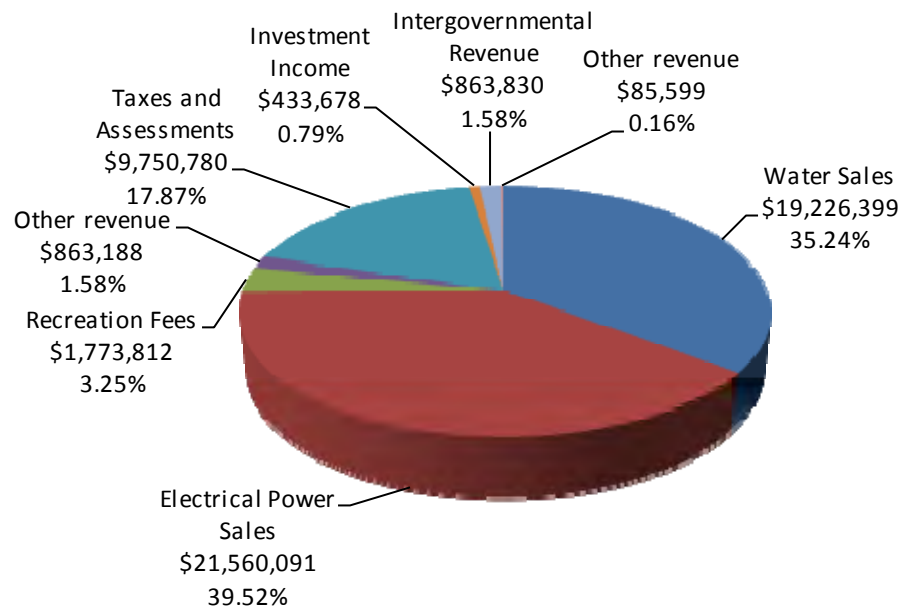
The District's total net position increased by \$12.8 million in 2014 as compared with \$20.1 during the year ended December 31, 2013. The 2014 amount is \$7.3 million less than 2013's increase of \$20.1 due to increased operating expenses and losses on the disposal of capital assets. The District saw a relatively modest decrease of \$0.3 million in water sales and a small increase in taxes and assessments of \$0.4 million. Total operating expenses increased in 2014 due to increased facility maintenance and project costs primarily related to the replacement of deteriorating pipelines, and salary increases of 5% effective January 1, 2014 and another 2% effective July 1, 2014. In addition, the District continued work on maintenance projects that had been deferred from prior years. The loss on disposal of assets of \$2.2 million is primarily due to the cost of the replacement of the tanks at the Banner Taylor Reservoir, which were not yet fully depreciated, with concrete tanks. The District incurred a 2014 OPEB cost of \$2.2 million and paid \$3 million, including \$1 million for current year retiree health insurance premiums and \$2 million for pre-funding of the plan. No pre-funding contributions were made in 2013.

The revenues for 2014 and 2013 are reflected graphically as follows:

2014 Revenues \$52,306,638



2013 Revenues \$54,557,377



Capital Assets. The District’s investment in capital assets as of December 31, 2014 was \$363,651,613 as compared to \$362,181,360 (net of accumulated depreciation). This investment in capital assets includes land, utility plants in service, recreation facilities, machinery and equipment and construction in progress. The net increase in the District’s investment in capital assets for 2014 and 2013 were \$ 2.1 and \$9.5 million, respectively, primarily due to new construction projects.

Major capital asset categories include the following:

Major Capital Improvements

	2014	2013 Restated
Nondepreciable capital assets	\$ 119,236,254	\$ 119,464,462
Depreciable capital assets	389,798,084	381,163,386
Less: Accumulated depreciation	<u>(145,382,725)</u>	<u>(138,446,488)</u>
Net Depreciable Capital Assets	<u>244,415,359</u>	<u>242,716,898</u>
Net Capital Assets	<u><u>\$ 363,651,613</u></u>	<u><u>\$ 362,181,360</u></u>

The increase in the cost of depreciable assets from \$381 million to \$390 million is due to primarily to the completion of Banner Taylor Reservoir cover and the Cunningham Siphon replacement during 2014. Additional information on the District's capital assets can be found on pages 26 to 27 of the notes to the basic financial statements.

Long-Term Debt. At the end of the current fiscal year, the District had total long-term debt outstanding of \$35,474,672 comprised of revenue and improvement bonds, certificates of participation, state loans and notes payable for which the District is liable.

Outstanding Debt Issues

	2014	2013
Revenue Bonds	\$ -	\$ -
2002 Certificates of Participation	-	-
2005 Certificates of Participation	1,935,000	2,960,000
2011 Certificates of Participation	24,350,000	25,405,000
2008 Improvement Bonds	584,500	602,700
State of California Loans	8,756,023	9,008,290
Notes Payable	50,000	100,000
Total Outstanding Debt Issues	<u><u>\$ 35,675,523</u></u>	<u><u>\$ 38,075,990</u></u>

Changes during the year consisted of scheduled principal pay-downs. No new debt was incurred during the year. Additional information on the Nevada Irrigation District's long-term debt can be found in the Note Section on pages 28-30 of this report.

Economic Factors and Next Year's Rates

The District increased its water rates effective January 9, 2014 by average of six percent (6%) for both raw water and for treated water customers. Overall treated water sales increased slightly in 2014 due to a rate increase as well as an increase in customers. The District has an approved five-year rate increase strategy through 2018 and will be required to prepare a new Proposition 218 rate increase notice for any proposed rate increase subsequent to 2018.

The District continues to make an investment in its relicensing efforts with the Federal Energy Regulatory Commission (FERC). These licenses, expired on April 30, 2013, allow the District to operate its Yuba-Bear hydroelectric facilities located primarily on the South Yuba and Bear rivers located in Nevada and Placer counties. The District is currently operating on annual licenses from FERC until full license is issued by the commission. The District has expended approximately \$15.4 million through December 31, 2014.

The above factors were considered in preparing the District's budget for the 2014 fiscal year. The District is not required to adopt a budget in accordance with California law.

Requests for Information

This financial report is designed to provide a general overview of the Nevada Irrigation District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information, contact the District's Assistant General Manager at 1036 West Main Street, Grass Valley, California, 95945.

NEVADA IRRIGATION DISTRICT

BALANCE SHEETS

December 31, 2014

	<u>Water</u>	<u>Electric</u>	<u>Total</u>
ASSETS AND DEFERRED OUTFLOWS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 11,843,752	\$ 25,256,479	\$ 37,100,231
Receivables:			
Accounts receivable, net	2,000,922		2,000,922
Interest receivable	77,861	11,444	89,305
Assessments receivable	5,815,906		5,815,906
Other receivables	478,079	1,881,335	2,359,414
Due from Electric Fund	83,978		83,978
Inventory	1,145,709		1,145,709
Prepaid expenses and other current assets	392,066	132,246	524,312
Deposits	81,430		81,430
Total current assets	<u>21,919,703</u>	<u>27,281,504</u>	<u>49,201,207</u>
NONCURRENT ASSETS			
Restricted and other noncurrent assets:			
Restricted cash and cash equivalents	10,297,571		10,297,571
Investments	23,108,727		23,108,727
Loans receivable	4,278,974		4,278,974
Other postemployment benefit asset		1,312,000	1,312,000
Total restricted and other noncurrent assets	<u>37,685,272</u>	<u>1,312,000</u>	<u>38,997,272</u>
Capital Assets:			
Non depreciable	72,260,400	46,975,854	119,236,254
Depreciable, net	211,499,981	32,915,378	244,415,359
Total capital assets, net	<u>283,760,381</u>	<u>79,891,232</u>	<u>363,651,613</u>
Total noncurrent assets	<u>321,445,653</u>	<u>81,203,232</u>	<u>402,648,885</u>
TOTAL ASSETS	<u>343,365,356</u>	<u>108,484,736</u>	<u>451,850,092</u>
DEFERRED OUTFLOWS			
Deferred meter installation costs	562,253		562,253
Deferred amount on refunding	332,912		332,912
TOTAL DEFERRED OUTFLOWS	<u>895,165</u>		<u>895,165</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>\$ 344,260,521</u>	<u>\$ 108,484,736</u>	<u>\$ 452,745,257</u>

NEVADA IRRIGATION DISTRICT

BALANCE SHEETS (CONTINUED)

December 31, 2014

	<u>Water</u>	<u>Electric</u>	<u>Total</u>
LIABILITIES AND NET POSITION			
CURRENT LIABILITIES			
Accounts payable	\$ 1,766,197	\$ 303,688	\$ 2,069,885
Accrued payroll and benefits payable	867,549	93,050	960,599
Deposits	338,683		338,683
Due to Water Fund		83,978	83,978
Retainages payable	197,057	6,723	203,780
Unearned revenue	706,497		706,497
Accrued interest payable	444,487		444,487
Accrued compensated absences, due within one year	741,100	66,749	807,849
Long-term debt, due within one year	3,552,144		3,552,144
Total current liabilities	<u>8,613,714</u>	<u>554,188</u>	<u>9,167,902</u>
NONCURRENT LIABILITIES			
Other postemployment benefit liability	610,000		610,000
Accrued compensated absences, due after one year	1,504,272	200,246	1,704,518
Long-term debt, due after one year	33,160,154		33,160,154
Total noncurrent liabilities	<u>35,274,426</u>	<u>200,246</u>	<u>35,474,672</u>
TOTAL LIABILITIES	<u>43,888,140</u>	<u>754,434</u>	<u>44,642,574</u>
NET POSITION			
Net investment in capital assets	247,048,083	79,891,232	326,939,315
Restricted for capacity expansion	6,770,673		6,770,673
Restricted for debt service	1,968,863		1,968,863
Restricted for improvement districts	1,369,700		1,369,700
Unrestricted	43,215,062	27,839,070	71,054,132
TOTAL NET POSITION	<u>300,372,381</u>	<u>107,730,302</u>	<u>408,102,683</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 344,260,521</u>	<u>\$ 108,484,736</u>	<u>\$ 452,745,257</u>

The notes to the basic financial statements are an integral part of this statement.

NEVADA IRRIGATION DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Year Ended December 31, 2014

	<u>Water</u>	<u>Electric</u>	<u>Total</u>
OPERATING REVENUES			
Water sales	\$ 18,879,014		\$ 18,879,014
Electric power sales		\$ 21,547,522	21,547,522
Standby charges	199,031		199,031
Reimbursements	47,371	19,574	66,945
New connections and installations	172,943		172,943
Recreation fees	1,814,050		1,814,050
Other revenue	557,990	100	558,090
Total operating revenues	<u>21,670,399</u>	<u>21,567,196</u>	<u>43,237,595</u>
OPERATING EXPENSES			
Departments	9,744,111		9,744,111
Canals	5,829,638		5,829,638
Treatment plant	3,115,325		3,115,325
Treated water systems	3,362,782		3,362,782
Other facilities	423,410		423,410
Routine maintenance		1,406,185	1,406,185
Non-routine maintenance		39,158	39,158
Operating costs		756,216	756,216
Depreciation and amortization	7,673,478	1,736,818	9,410,296
Recreation	1,558,081		1,558,081
Administration	8,841	3,409,346	3,418,187
Total operating expenses	<u>31,715,666</u>	<u>7,347,723</u>	<u>39,063,389</u>
NET (LOSS) INCOME FROM OPERATIONS	<u>(10,045,267)</u>	<u>14,219,473</u>	<u>4,174,206</u>
NONOPERATING REVENUES (EXPENSES)			
Taxes and assessments	10,108,508		10,108,508
Investment income	633,073	40,463	673,536
Rents and leases	73,439	95	73,534
Loss on sale/disposition of capital assets	(2,006,463)	(192,540)	(2,199,003)
Intergovernmental revenue	412,468		412,468
Interest expense	(1,320,756)		(1,320,756)
Total nonoperating revenues (expenses)	<u>7,900,269</u>	<u>(151,982)</u>	<u>7,748,287</u>
NET INCOME BEFORE CAPITAL CONTRIBUTIONS	<u>(2,144,998)</u>	<u>14,067,491</u>	<u>11,922,493</u>

NEVADA IRRIGATION DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (CONTINUED)

For the Year Ended December 31, 2014

	<u>Water</u>	<u>Electric</u>	<u>Total</u>
TRANSFERS AND CAPITAL CONTRIBUTIONS			
Facility capacity charges	\$ 854,499		\$ 854,499
Other capital contributions	18,776		18,776
Transfers in (out)	<u>245</u>	<u>\$ (245)</u>	
Total capital contributions	<u>873,520</u>	<u>(245)</u>	<u>873,275</u>
CHANGE IN NET POSITION	(1,271,478)	14,067,246	12,795,768
NET POSITION, BEGINNING OF YEAR	<u>301,643,859</u>	<u>93,663,056</u>	<u>395,306,915</u>
NET POSITION, END OF YEAR	<u>\$ 300,372,381</u>	<u>\$ 107,730,302</u>	<u>\$ 408,102,683</u>

The notes to the basic financial statements are an integral part of this statement.

NEVADA IRRIGATION DISTRICT

STATEMENTS OF CASH FLOWS

For the Year Ended December 31, 2014

	<u>Water</u>	<u>Electric</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 21,598,349	\$ 21,997,533	\$ 43,595,882
Payments to suppliers	(7,636,483)	(2,814,762)	(10,451,245)
Payments to employees	(16,500,470)	(3,409,086)	(19,909,556)
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	<u>(2,538,604)</u>	<u>15,773,685</u>	<u>13,235,081</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Assessments received	9,757,325		9,757,325
Rents and leases	73,439	95	73,534
Amounts received/(paid) from other funds	135,501	(135,501)	
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>9,966,265</u>	<u>(135,406)</u>	<u>9,830,859</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(12,661,376)	(962,937)	(13,624,313)
Interest payments on long-term debt	(1,251,043)		(1,251,043)
Principal payments on long-term debt	(2,400,467)		(2,400,467)
Facility capacity charges received	854,499		854,499
Proceeds from sale of capital assets	38,087		38,087
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(15,420,300)</u>	<u>(962,937)</u>	<u>(16,383,237)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment income received	517,795	35,557	553,352
Investment purchases	(7,750,000)		(7,750,000)
Investment sales/maturities	5,140,700		5,140,700
Payments received on notes receivable	283,738		283,738
NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES	<u>(1,807,767)</u>	<u>35,557</u>	<u>(1,772,210)</u>
(DECREASE) INCREASE IN CASH AND INVESTMENTS			
Cash and cash equivalents at beginning of year	31,941,729	14,710,899	42,487,309
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 22,141,323</u>	<u>\$ 25,256,479</u>	<u>\$ 47,397,802</u>

(Continued)

NEVADA IRRIGATION DISTRICT

STATEMENTS OF CASH FLOWS (CONTINUED)

For the Years Ended December 31, 2014

	<u>Water</u>	<u>Electric</u>	<u>Total</u>
RECONCILIATION OF CASH AND INVESTMENTS			
TO THE BALANCE SHEETS			
Cash and cash equivalents	\$ 11,843,752	\$ 25,256,479	\$ 37,100,231
Restricted cash and cash equivalents	<u>10,297,571</u>		<u>10,297,571</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 22,141,323</u>	<u>\$ 25,256,479</u>	<u>\$ 47,397,802</u>
RECONCILIATION OF NET (LOSS) INCOME FROM OPERATIONS			
TO NET CASH PROVIDED (USED) BY			
OPERATING ACTIVITIES:			
Net (loss) income from operations	\$ (10,045,267)	\$ 14,219,473	\$ 4,174,206
Adjustments to reconcile net loss from operations to net cash provided (used) by operating activities:			
Depreciation and amortization	7,673,478	1,736,818	9,410,296
Amortization of bond premiums	(81,485)		(81,485)
Changes in operating assets and liabilities:			
Accounts receivable, net	(281,627)		(281,627)
Other receivables	4,147	430,337	434,484
Inventory	46,863		46,863
Deferred meter installation costs	(14,049)		(14,049)
Prepaid expenses and other current assets	(288,377)	(24,147)	(312,524)
Deposits	151,773		151,773
Other postemployment benefits asset		(755,000)	(755,000)
Accounts payable	187,482	124,237	311,719
Accrued payroll and benefits payable	53,816	(6,131)	47,685
Deposits payable	40,348		40,348
Unearned revenue	67,706		67,706
Other postemployment benefit liability	14,000		14,000
Accrued compensated absences	(67,412)	48,098	(19,314)
NET CASH (USED) PROVIDED BY			
OPERATING ACTIVITIES	<u>\$ (2,538,604)</u>	<u>\$ 15,773,685</u>	<u>\$ 13,235,081</u>
NONCASH INVESTING, CAPITAL AND			
FINANCING ACTIVITIES			
Change in fair value of investments	\$ 115,383	\$ -	\$ 115,383
Donated infrastructure	\$ 18,776		\$ 18,776
Trade-in allowances received	\$ 38,000		\$ 38,000

The notes to the basic financial statements are an integral part of this statement.

NEVADA IRRIGATION DISTRICT
NOTES TO THE AUDITED FINANCIAL STATEMENTS

December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Nevada Irrigation District (the District) was incorporated on August 15, 1921. The District is a nonprofit water agency operated by and for the people who own land within its 287,000-acre boundaries. The District, a state agency, is governed by a five-member board of directors elected by District voters. The board is the District's policy-making body and policy is carried out by approximately 178 full- and part-time employees. The District supplies water for domestic, municipal, industrial and agricultural uses, produces electricity and provides public recreation at district reservoirs to customers in Nevada, Placer and Yuba counties. Electric power is produced at various hydroelectric facilities and is sold to Pacific Gas and Electric Utility Company (PG&E) under contract.

A. Basis of Presentation

The basic financial statements of the District have been prepared in conformity with generally accepted accounting principles as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The District is accounted for as an enterprise fund and applies all applicable GASB pronouncements in its accounting and reporting. In addition, the District follows Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The more significant of the District's accounting policies are described below.

The accounts of the District are organized and operated as two enterprise funds. The operation of a fund is accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows, liabilities, deferred inflows, net position, revenues and expenses.

Enterprise funds are 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 (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

B. Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Non-exchange transactions, in which the District gives or receives value without directly receiving or giving equal value in exchange, include taxes, grants, entitlements, and donations. On the accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The District may fund programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net position may be available to finance program expenditures. The District's policy is to first apply restricted grant resources to such programs, followed by unrestricted resources if necessary. Restricted amounts are considered to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available.

NEVADA IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Operating revenues and expenses consists of those revenues and expenses that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or ancillary activities.

C. Measurement Focus

Enterprise funds are accounted for on a flow of economic resources measurement focus, which means that all assets, deferred outflows, liabilities, and deferred inflows associated with the activity are included on the balance sheets. Enterprise fund type operating statements present increases (revenues) and decreases (expenses) in total net position.

D. Cash and Cash Equivalents

For purposes of the statement of cash flows the District defines cash and cash equivalents to include all cash and temporary investments with original maturities of three months or less from the date of acquisition, including restricted assets, and all pooled deposits.

E. Restricted Assets

Certain capital expansion fees as well as certain resources set aside for debt repayment and reserves, are classified as restricted cash and investments because their use is legally restricted. Restricted cash and investments are not available for general operational expenses.

F. Investments

Investments are stated at fair value. Included in investment income (loss) is the net change in the fair value of investments, which consists of the realized gains or losses and the unrealized appreciation (depreciation) of those investments. Measurement of the fair value of investments is based upon quoted market prices.

G. Receivables

Accounts receivable arise from billings to customers for water usage and certain improvements made to customers' property and billings to PG&E for electric power sales. The District determined that as of December 31, 2014, an allowance for doubtful accounts was not needed, as all amounts are considered collectible. The District also has loans receivable related to connection fees that are paid over a period of time.

H. Inventory

Inventories of materials and supplies are stated on an average cost basis. Physical inventories are taken on a cycle basis each month throughout the year.

I. Internal Balances

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "due to/from other funds" (i.e., the current portion of interfund loans). Any residual balances outstanding between the business-type activities are reported in the fund financial statements as "internal balances."

NEVADA IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Prepaid Expenses

Prepaid expenses are for payments made by the District in the current year to provide services occurring in the subsequent fiscal year.

K. Deposits

The District collects money from new *outside district* and *inside district* commercial customers to insure payment of utility bills.

L. Capital Assets

Capital assets are stated at historical cost if purchased or constructed. The District capitalizes all assets with a historical cost of at least \$5,000 for machinery and equipment and \$100,000 for projects. The cost of additions to utility plant and major replacements of property are capitalized. Capitalized costs include material, direct labor, transportation and such indirect items as engineering, supervision, employee fringe benefits and interest on net borrowed funds related to plant under construction, if material. Contributed property is recorded at estimated fair market value at the date of donation. Repairs, maintenance and minor replacements of capital assets are expensed.

Capital assets are depreciated using the straight line method, which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The District's water rights and FERC license are intangible assets. The District has assigned the useful lives listed below to capital assets and intangible assets:

Description	Estimated Life
Facilities and Improvements	30 – 50 years
Buildings and Structures	40 – 100 years
Equipment and Furniture	5 – 10 years
FERC License	40 years

M. Budgets and Budgetary Accounting

The District adopts an annual budget in December each year. The budget is subject to supplemental appropriations throughout its term in order to provide flexibility to meet changing needs and conditions. The department heads can provide transfers within their own departmental operations budget. Budget transfers between two departments require the approval of the respective department heads. The General Manager may approve the transfer of appropriations from one department to another. All other transfers must be approved by the Board of Directors. The Board may approve additional appropriations throughout that year as well.

NEVADA IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Tax Assessments

Nevada and Placer counties assess, bill, collect and apportion all property taxes for the District and remit "Teeter Plan" collections periodically. Taxes are assessed for each July 1 to June 30 fiscal year, payable in two equal installments due by December 10 and April 10, each year. Taxes collected by the counties prior to January 1 and apportioned during January have been accrued by the District at year-end, as applicable.

O. Bond Discounts, Issuance Costs and Deferred Amounts on Refunding

Bond discounts, premiums, and deferred amounts on refunding are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond discounts and premiums. Deferred amounts on refunding are reported as deferred outflows on the balance sheet. Issuance costs are expensed when paid.

P. Compensated Absences

The liability for employee accrued vacation, sick leave and compensatory time off is computed annually at year-end, and the change in the liability is charged to expense in the Water and Electric Utility Funds for that year. Based on the memorandum of understanding, employees earn eight hours of sick leave per month. Upon retirement, voluntary termination, or death, the District pays one-half of the number of days earned. Employees can earn up to 122 sick leave days.

Employees accumulate vacation at varying rates depending on longevity. They are entitled to carry forward a maximum of two years accrued vacation depending on their individual annual accrual rate.

Based on the memorandum of understanding, at the sole discretion of the District, employees may convert annually, overtime hours equivalent to 120 hours of compensatory time off (CTO). CTO accrual balances per employee may not exceed 60 hours.

Q. Use of Estimates

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

NEVADA IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

R. New Pronouncements

In June 2012, the GASB approved Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement requires governments providing defined benefit pension plans to recognize their long-term obligation for pension benefits as a liability on the statement of net position and to more comprehensively and comparably measure the annual costs of pension benefits. This Statement also requires revised and new note disclosures and required supplementary information (RSI) to be reported by employers. The implementation of this Statement will result in the District accruing a pension plan liability and will result in significant new footnote and required supplementary information disclosures and is effective for the District's December 31, 2015 financial statements.

In November 2013, the GASB approved Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* – an amendment of GASB Statement No. 68. GASB Statement No. 68 requires a state or local government employer to recognize a net pension liability measured as of measurement date no earlier than the end of its prior fiscal year. This Statement requires that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions made subsequent to the measurement date of the beginning net pension liability. This Statement is required to be implemented simultaneously with Statement No. 68.

In February 2015, the GASB approved Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements and will require additional disclosures about assets and liabilities measured at fair value. This Statement is effective for periods beginning after June 15, 2015.

In June 2015, the GASB issued Statement No. 75, “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)”, replaces the requirements of GASB Statement No. 45 and requires governments that are responsible only for OPEB liabilities related to their own employees and that provide OPEB through a defined benefit OPEB plan administered through a trust that meets specified criteria to report a net OPEB liability, which is the difference between the total OPEB liability and assets accumulated in the trust and restricted to making benefit payments, on the face of the financial statements. Governments that participate in a cost-sharing OPEB plan that is administered through a trust that meets the specified criteria will report a liability equal to their proportionate share of the collective OPEB liability for all entities participating in the cost-sharing plan. Governments that do not provide OPEB through a trust that meets specified criteria will report the total OPEB liability related to their employees. This Statement also requires governments to present more extensive note disclosures and required supplementary information about their OPEB liabilities. This Statement is effective beginning the year ended December 31, 2018.

The District will fully analyze the impact of these new Statements prior to the effective dates listed above.

NEVADA IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

December 31, 2014

NOTE 2 - CASH AND INVESTMENTS

The District's cash and investments consisted of the following at December 31, 2014:

Water Fund:	
Cash and cash equivalents	\$ 11,843,752
Restricted cash and cash equivalents	10,297,571
Investments	<u>23,108,727</u>
Total	<u>45,250,050</u>
Electric Fund:	
Cash and cash equivalents	<u>25,256,479</u>
Total	<u>25,256,479</u>
Total Cash and Investments	<u><u>\$ 70,506,529</u></u>

Cash and investments were classified under GASB Statement No. 40 as follows at December 31, 2014:

Cash on hand	\$ 4,900
Deposits with financial institutions	<u>4,246,573</u>
Total Cash	<u>4,251,473</u>
Investment in Local Agency Investment Fund (LAIF)	31,109,885
Money Market Mutual Funds	12,036,444
Negotiable certificates of deposit	2,506,657
U.S. Agency securities	17,060,710
U.S. Treasury strips	1,994,840
International Bank strip	962,020
Rodeo Flat Assessment District bonds	<u>584,500</u>
Total Investments	<u>66,255,056</u>
Total Cash and Investments	<u><u>\$ 70,506,529</u></u>

Investments Authorized by the California Government Code and the District's Investment Policy: The District's Investment Policy and the California Government Code allow the District to invest in the following, provided the credit ratings of the issuers are acceptable to the District and approved percentages and maturities are not exceeded. The table below also identifies certain provisions of the California Government Code, or the District's Investment Policy where the District's Investment Policy is more restrictive. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of the debt agreement and not the provisions of the California Government Code or the District's Investment Policy.

NEVADA IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

December 31, 2014

NOTE 2 - CASH AND INVESTMENTS (Continued)

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	5 years	N/A	None	None
U.S. Agency Securities	5 years	N/A	None	None
Bankers' Acceptances	180 days	N/A	40%	30%
Commercial Paper	270 days	A	20%	10%
Negotiable Certificates of Deposit	1 year	A	25%	25%
Medium Term Corporate Notes	5 years	A	20%	None
Money Market Mutual Funds	N/A	AAA	20%	None
California Local Agency Investment Fund (LAIF)	N/A	N/A	N/A	None
Municipal Bonds	5 years	A	20%	None
Time Deposits	5 years	A	None	25%

Investments Authorized by Debt Agreements: Investment of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy. The debt agreements contain certain provisions that address interest risk, credit risk and concentration of credit risk. The permitted investments, maximum percentage of the portfolio and maximum investment in one issuer specified in debt agreements are identical to the table above with the exception of debt agreements not allowing investments in repurchase agreements. In addition, the debt agreements require obligations of the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, and money market mutual funds to be rated AAA by the applicable national statistical rating agency.

Interest Rate Risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District generally manages its interest rate risk by holding investments to maturity.

Information about the sensitivity of the fair values of the District's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity or earliest call date as of December 31, 2014:

Investment Type	Total	Remaining Maturity			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
Local Agency Investment Fund	\$ 31,109,885	\$ 31,109,885			
Money Market Mutual Funds	10,067,580	10,067,580			
Certificates of Deposit	2,506,657	494,887	\$ 1,269,888	\$ 741,882	
U.S. Agency Securities	17,060,710	1,002,250	4,123,900	11,934,560	
U.S. Treasury Strips	1,994,840	1,994,840			
International Bank strip	962,020			962,020	
Municipal Bonds	584,500				\$ 584,500
Held by bond trustee:					
Money Market Mutual Funds	1,968,864	1,968,864			
Total	\$ 66,255,056	\$ 46,638,306	\$ 5,393,788	\$ 13,638,462	\$ 584,500

NEVADA IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

December 31, 2014

NOTE 2 - CASH AND INVESTMENTS (Continued)

Credit Risk: Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of December 31, 2014 for each investment type.

	Amount	Exempt from Disclosure	Ratings as of fiscal year-end		
			AAA	AA	Not rated
Local Agency Investment Fund	\$ 31,109,885				\$ 31,109,885
Money Market Mutual Funds	10,067,580		\$ 10,067,580		
Certificates of Deposit	2,506,657				2,506,657
U.S. Agency Securities	17,060,710			\$ 17,060,710	
U.S. Treasury Strips	1,994,840	\$ 1,994,840			
International bank strip	962,020		962,020		
Municipal Bonds	584,500				584,500
Held by bond trustee:					
Money Market Mutual Funds	1,968,864		1,968,864		
Total	\$ 66,255,056	\$ 1,994,840	\$ 12,998,464	\$ 17,060,710	\$ 34,201,042

Concentration of Credit Risk: The investment policy of the District limited the amount that can be invested in any one issuer to the amount stipulated by the California Government Code. As of December 31, 2014, the District invested in the following investments which each represent more than 5% of its total investment in any one issuer (other than U.S. Treasury obligations, mutual funds and external investment pools):

Issuer	Investment Type	Amount
Federal Home Loan Bank	U.S. Agency Security	\$ 7,032,940
Federal National Mortgage Association	U.S. Agency Security	6,026,830

Concentration of Credit Risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the government unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

NEVADA IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

December 31, 2014

NOTE 2 - CASH AND INVESTMENTS (Continued)

At December 31, 2014, the carrying amount of the District's deposits in financial institutions was \$4,245,818. Of the balance in financial institutions, \$711,747 was covered by federal depository insurance and \$3,534,071 was collateralized by securities pledged by the financial institution.

As of December 31, 2014, following investment types were held by the same broker-dealer (counterparty) that was used by the District to buy the securities:

<u>Investment Type</u>	<u>Reported Amount</u>
Negotiable certificates of deposit	\$ 2,506,657
U.S. Agency Securities	17,060,710
U.S. Treasury strips	1,994,840
International Bank strip	962,020

Investment in LAIF: LAIF is stated at fair value. LAIF is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The total fair value amount invested by all public agencies in LAIF is \$60,299,518,059 and is managed by the State Treasurer. Of that amount, 98.68 percent is invested in non-derivative financial products and 1.32 percent in derivative financial products and structured financial instruments. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute.

The fair value of the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. The weighted average maturity of investments held by LAIF was 200 days at December 31, 2014.

NEVADA IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

December 31, 2014

NOTE 3 – CAPITAL ASSETS

A. Capital assets activity

The activity in the capital assets for the year ended December 31, 2014 are summarized below:

	Balance at January 1, 2014 (Restated)	Additions	Deletions	Transfers	Balance at December 31, 2014
<u>Water Fund</u>					
Capital Assets not Being Depreciated:					
Land, easements and improvements	\$ 46,161,599				\$ 46,161,599
Construction in Progress	26,835,306	\$ 11,287,702		\$ (12,024,207)	26,098,801
Total Capital Assets not Being Depreciated	<u>72,996,905</u>	<u>11,287,702</u>		<u>(12,024,207)</u>	<u>72,260,400</u>
Capital Assets Being Depreciated:					
Water Plant in Service	272,747,628		\$(3,493,380)	11,908,201	281,162,449
Recreation structures and improvements	13,181,026				13,181,026
Bear River Water Rights	681,644				681,644
Machinery and equipment	11,812,078	900,132	(779,215)	116,006	12,049,001
Total Capital Assets Being Depreciated	<u>298,422,376</u>	<u>900,132</u>	<u>(4,272,595)</u>	<u>12,024,207</u>	<u>307,074,120</u>
Less Accumulated Depreciation and Amortization for:					
Water Plant in Service	(76,025,203)	(6,565,725)	1,645,802		(80,945,126)
Recreation structures and improvements	(6,569,400)	(261,775)	7,742		(6,823,433)
Bear River Water Rights	(681,644)				(681,644)
Machinery and equipment	(6,814,459)	(845,978)	536,501		(7,123,936)
Total Accumulated Depreciation	<u>(90,090,706)</u>	<u>(7,673,478)</u>	<u>2,190,045</u>		<u>(95,574,139)</u>
Total Capital Assets Being Depreciated, Net	<u>208,331,670</u>	<u>(6,773,346)</u>	<u>(2,082,550)</u>	<u>12,024,207</u>	<u>211,499,981</u>
Total Capital Assets, Net - Water Fund	<u>\$ 281,328,575</u>	<u>\$ 4,514,356</u>	<u>\$ (2,082,550)</u>	<u>\$ -</u>	<u>\$ 283,760,381</u>

NEVADA IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

December 31, 2014

NOTE 3 – CAPITAL ASSETS (Continued)

	Balance at January 1, 2014 (Restated)	Additions	Deletions	Transfers	Balance at December 31, 2014
<u>Electric Fund</u>					
Capital Assets not Being Depreciated:					
Land	\$ 44,813,061				\$ 44,813,061
Construction in Progress	1,654,496	\$ 720,521		\$ (212,224)	2,162,793
Total Capital Assets not Being Depreciated	<u>46,467,557</u>	<u>720,521</u>		<u>(212,224)</u>	<u>46,975,854</u>
Capital Assets Being Depreciated:					
Electric Plant in Service	78,328,565				78,328,565
Power rights	1,568,942				1,568,942
Machinery and equipment	2,843,503	247,286	\$ (476,556)	212,224	2,826,457
Total Capital Assets Being Depreciated	<u>82,741,010</u>	<u>247,286</u>	<u>(476,556)</u>	<u>212,224</u>	<u>82,723,964</u>
Less Accumulated Depreciation and Amortization for:					
Electric Plant in Service	(45,715,522)	(1,422,431)			(47,137,953)
Power rights	(1,568,942)				(1,568,942)
Machinery and equipment	(1,071,318)	(314,387)	284,014		(1,101,691)
Total Accumulated Depreciation	<u>(48,355,782)</u>	<u>(1,736,818)</u>	<u>284,014</u>		<u>(49,808,586)</u>
Total Capital Assets Being Depreciated, Net	<u>34,385,228</u>	<u>(1,489,532)</u>	<u>(192,542)</u>	<u>212,224</u>	<u>32,915,378</u>
Total Capital Assets, Net - Electric Fund	<u>\$ 80,852,785</u>	<u>\$ (769,011)</u>	<u>\$ (192,542)</u>	<u>\$ -</u>	<u>\$ 79,891,232</u>

The January 1, 2014 restatements relate to assets that were reclassified from machinery and equipment to Water Plant or Electric Plant and also the removal of a fully depreciated power plant that was removed from service in 2012. These restatements did not affect the net book value of capital assets.

B. Depreciation Allocation

Depreciation expense is charged to the water and electric funds based on their usage of related assets. The amounts allocated were as follows:

Water	\$ 7,673,478
Electric	<u>1,736,818</u>
Total Depreciation Expense	<u>\$ 9,410,296</u>

NEVADA IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

December 31, 2014

NOTE 4 – LONG-TERM LIABILITIES

The District’s debt issues and transactions are summarized below and discussed in detail thereafter.

	Balance at January 1, 2014	Incurred	Retired	Balance at December 31, 2014	Due within One Year
Refunding Revenue Bonds:					
Series 2011A	\$ 25,405,000		\$ (1,055,000)	\$ 24,350,000	\$ 1,095,000
Certificates of Participation:					
Series 2002A					
Series 2005A	2,960,000		(1,025,000)	1,935,000	1,935,000
Rodeo Flat Improvement Bonds	602,700		(18,200)	584,500	19,100
State of California loan -					
Cement Hill	8,902,493		(199,406)	8,703,087	414,792
Other State of California loans	105,797		(52,861)	52,936	38,252
Long Ravine Campground Note	100,000		(50,000)	50,000	50,000
Total	<u>38,075,990</u>		<u>(2,400,467)</u>	<u>35,675,523</u>	<u>3,552,144</u>
Unamortized premiums	1,118,260		(81,485)	1,036,775	
Total Debt and Loans	<u>39,194,250</u>		<u>(2,481,952)</u>	<u>36,712,298</u>	
Compensated absences	2,531,681		(19,314)	2,512,367	807,849
	41,725,931		(2,501,266)	39,224,665	<u>\$ 4,359,993</u>
Less: Due Within One Year	<u>(3,670,844)</u>			<u>(4,359,993)</u>	
Total	<u>\$ 38,055,087</u>	<u>\$ -</u>	<u>\$ (2,501,266)</u>	<u>\$ 34,864,672</u>	

The District’s long-term debt consisted of the following at December 31, 2014:

	<u>Balance Due</u>
<u>Revenue Bond</u>	
In December 2011, the Nevada Irrigation District Joint Powers Authority sold \$25,970,000 of Series 2011A Revenue Bonds, with interest rates ranging from 2% to 5%. The proceeds were used to advance refund a portion of the 2002 Certificate of Participation, finance a portion of the Lower Cascade Canal/Banner Cascade pipeline project, and pay the costs of the 2011A bond issuance. Principal payments ranging from \$1,055,000 to \$1,470,000 are due on March 1 through 2036. Interest payments ranging from \$14,438 to \$513,110 are due on March 1 and September 1 through March 1, 2036.	\$ 24,350,000

NEVADA IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

December 31, 2014

NOTE 4 – LONG-TERM LIABILITIES (Continued)

	<u>Balance Due</u>
<u>Certificate of Participation</u>	
In July 2005, the District sold \$8,725,000 of Certificates of Participation (COP), with interest rates ranging from 3% to 4%. The proceeds were used to advance refund the 1997 COP relating to the Cascade Bench Flume Project. Principal payments ranging from \$1,025,000 to \$1,935,000 are due January 1 through 2015. Interest payments ranging from \$33,863 to \$51,800 are due January 1 and July 1 through 2015.	\$ 1,935,000
<u>Improvement Bonds</u>	
In September 2008, the Rodeo Flat Assessment District sold \$681,628 of limited obligation improvement bonds to the District. The proceeds will be used to finance certain water system improvements in the Rodeo Flat Area. Principal payments will be made annually each September starting in 2009 ranging from \$14,328 to \$46,100 and will mature in 2033. Interest is paid semi-annually in March and September, at a rate of 5.00%.	584,500
<u>State of California Loans</u>	
In October 2007, the District signed a \$9,768,858 agreement with the State of California Department of Public Health to finance construction of the Cement Hill pump zone extension to meet the California safe drinking water standards. Interest is at 2.2836%. Principal payments ranging from \$190,056 to \$305,590 and interest payments ranging from \$2,145 to \$111,541 are due semi-annually on January 1 and July 1 through 2033.	8,703,087
Various Improvement District construction loans from the Safe Drinking Water Bond Law of 1986, State of California's Department of Water Resources. Interest rates are 3.1% to 3.4% and the notes mature from April 2014 through April 2015.	52,936
<u>Notes Payable</u>	
In April 2012, the District entered into an agreement to purchase the assets of the Long Ravine Campground from the concessionaire for \$517,690. The agreement called for one payment at the time of transfer of \$367,690 and three annual installments of \$50,000 in 2013, 2014 and 2015.	<u>50,000</u>
Totals	<u><u>\$ 35,675,523</u></u>

NEVADA IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

December 31, 2014

NOTE 4 – LONG-TERM LIABILITIES (Continued)

Annual debt service requirements are shown below for the above debt issues:

For the Year Ended December 31	Revenue Bonds		Certificates of Participation		Improvement Bonds and State Loans	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 1,095,000	\$ 983,219	\$ 1,935,000	\$ 33,863	\$ 472,144	\$ 226,774
2016	1,140,000	944,219			459,209	215,253
2017	1,165,000	909,644			455,272	204,274
2018	1,210,000	867,969			466,243	193,247
2019	1,265,000	812,144			477,643	181,942
2020-2024	5,805,000	3,124,319			2,568,012	729,665
2025-2029	4,540,000	2,193,325			2,897,943	399,844
2030-2034	5,550,000	1,179,328			1,544,057	66,574
2035-2038	2,580,000	114,188				
Total	<u>\$ 24,350,000</u>	<u>\$ 11,128,355</u>	<u>\$ 1,935,000</u>	<u>\$ 33,863</u>	<u>\$ 9,340,523</u>	<u>\$ 2,217,573</u>

For the Year Ended December 31	Notes Payable		Totals	
	Principal	Interest	Principal	Interest
2015	\$ 50,000		\$ 3,552,144	\$ 1,243,856
2016			1,599,209	1,159,472
2017			1,620,272	1,113,918
2018			1,676,243	1,061,216
2019			1,742,643	994,086
2020-2024			8,373,012	3,853,984
2025-2029			7,437,943	2,593,169
2030-2034			7,094,057	1,245,902
2035-2038			2,580,000	114,188
Total	<u>\$ 50,000</u>	<u>\$ -</u>	<u>\$ 35,675,523</u>	<u>\$ 13,379,791</u>

Pledged Revenues: The District has pledged future water system revenues, net of specified operating expenses, to repay its Certificates of Participation in the original amounts of \$8,725,000, and to repay its Revenue Bond in the original amount of \$25,970,000. Proceeds of the Certificates and Bonds were used to refund certain debt issuances as described above and to fund improvements to the District's water systems. The Certificates and Bonds are payable solely from water system revenues and are payable through 2015 and 2036, respectively. Annual principal and interest payments on the Certificates and Bonds are expected to require approximately 125% of net revenues. Total principal and interest remaining to be paid on the Certificates and Bonds were \$1,968,863 and \$35,478,355, respectively, at December 31, 2014. Cash basis principal and interest paid on the Certificates and Bonds were \$3,191,882, and total water system net revenues calculated in accordance with the covenants were \$5,059,962 for the Certificate of Participation and \$21,182,271 for the Revenue Bond.

NEVADA IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

December 31, 2014

NOTE 5 – NET POSITION

Net Position is the excess of all the District’s assets and deferred outflows over all its liabilities, and deferred inflows. Net Position is divided into three categories as follows:

Investment in Capital Assets describes the portion of net position which is represented by the current net book value of the District’s capital assets, less the outstanding balance of any debt issued to finance these assets.

Restricted describes the portion of net position which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the District cannot unilaterally alter. These principally include facility capacity fees received for use on capital projects, fees charged for the provision of future water resources and debt service reserve funds.

Unrestricted describes the portion of net position which is not restricted as to use.

Designations of unrestricted net position may be imposed by the Board of Directors to reflect future spending plans or concerns about the availability of future resources. Designations may be modified, amended or removed by Board action. They are reported as part of the District’s unrestricted net position.

The District’s unrestricted net position consists of the following at December 31, 2014:

	Water	Electric
DESIGNATED:		
Comprehensive insurance reserve	\$ 7,518,750	
Water rate stabilization reserve	2,005,000	
Operating reserve		\$ 5,909,737
Operating, repair/replacement & rate stabilization reserve	8,645,443	
Raw water system expansion reserve	2,005,000	
Watershed stewardship reserve	2,145,749	
Capital improvement reserve	5,012,500	
Hydroelectric relicensing	259,962	
TOTAL DESIGNATED	27,592,404	5,909,737
UNDESIGNATED:		
Working Capital	15,708,264	21,929,333
Recreation	(85,606)	
TOTAL UNDESIGNATED	15,622,658	21,929,333
TOTAL UNRESTRICTED NET POSITION	\$ 43,215,062	\$ 27,839,070

NEVADA IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

December 31, 2014

NOTE 6 – EMPLOYEE RETIREMENT PLAN

Plan Description: The District provides retirement benefits through the California Public Employee’s Retirement System (CalPERS), an agent multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and their beneficiaries. CalPERS acts as a common investment and administrative agent for participating entities within the State of California. Benefit provisions and all other requirements are established by state statute and District resolution. The District uses a 2.7% at 55 retirement formula for employees hired prior to May 1, 2010 and 2.0% at 55 retirement formula for all new hires after that date. Copies of CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 Q Street, Sacramento, CA 95814.

Funding Policy: Participants are required to contribute 8% or 7% (depending upon retirement formula) of their annual covered salary, and contributed \$854,865 for the year ended December 31, 2014. The District agreed to contribute a percentage of certain employee’s required contributions on their behalf, as specified in the related labor agreements. The District is required to contribute at an actuarially determined rate, which was 22.7% and 26.499% of annual covered payroll for the periods January 1, 2014 to June 30, 2014 and July 1, 2014 to December 31, 2014, respectively.

Annual Pension Cost: For the year ended December 31, 2014, the District’s annual pension cost of \$2,676,564, for CalPERS was equal to the District’s required and actual contributions. Three year trend information for CalPERS is as follows:

Year Ending December 31,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2012	\$ 2,038,901	100%	\$ -
2013	2,227,319	100%	-
2014	2,676,564	100%	-

The required contributions during the year ended December 31, 2014 were determined as part of the June 30, 2012 and 2011 actuarial valuations using the entry age normal actuarial cost method. The actuarial assumptions included a 7.50% investment rate of return (net of administrative expenses), projected annual salary increases of 3.30% to 14.20%, cost of living increases of 3.0%, and an inflation component of 2.75%. Amortization method is level percent of payroll on a closed basis. The actuarial value of CalPERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a fifteen-year period. Unfunded losses are amortized over a rolling 30-year period, which results in an amortization of approximately 6% of unamortized gains and losses each year.

NEVADA IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

December 31, 2014

NOTE 6 – EMPLOYEE RETIREMENT PLAN (Continued)

Funded Status and Funding Progress: The funded status of the Plan as of June 30, 2013, the Plan’s most recent actuarial valuation date, was as follows:

Actuarial Accrued Liability (AAL)	\$ 102,575,329
Actuarial Value of Plan Assets	<u>68,418,010</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 34,157,319</u>
Funded Ratio (Actuarial Value of Plan Assets/AAL)	66.70%
Covered Payroll (Active Plan Participants)	\$ 10,084,783
UAAL as a Percentage of Covered Payroll	338.70%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

NOTE 7 – OTHER POSTEMPLOYMENT BENEFITS PLAN

Plan Description: The District’s other postemployment benefits (OPEB) healthcare plan (the Plan) provides medical benefits to employees that directly retire from the District and their eligible dependents, subject to a monthly limitation pursuant to Government Code Section 22892, as amended by AB 2544. Eligibility rules include retirement from the District at age 50 or later with five years of service. The District’s Board of Directors has the authority to establish and amend benefit provisions. The District participates in the California Employers Retirees Benefit Trust (CERBT), an irrevocable trust established to fund OPEB. CERBT is administrated by CalPERS, and is managed by an appointed board not under the control of the District’s Board of Directors. This Trust is not considered a component unit by the District and has been excluded from these financial statements. Separately issued financial statements for CERBT may be obtained from CalPERS at P.O. Box 942709, Sacramento, CA 94229-2709.

Funding Policy: The contribution requirements of plan members and the District are established and may be amended by the Board of Directors. The benefits are fully funded by the District. The required contribution is based on projected pay-as-you-go financing requirements. For the year ended December 31, 2014, the District contributed approximately \$2,973,000 to the Plan, which represents current premiums and \$1,955,463 of pre-funding. Plan members did not make any contributions to the Plan.

Annual OPEB Cost and Net OPEB Obligation: The District’s annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District’s annual OPEB cost for 2014, the amount actually contributed to the Plan, and changes in the District’s net OPEB obligation.

NEVADA IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

December 31, 2014

NOTE 7 – OTHER POSTEMPLOYMENT BENEFITS PLAN (Continued)

Annual Required Contribution (ARC)	\$ 2,209,000
Interest on Net OPEB Obligation	(66,000)
Adjustment to Annual Required Contribution	<u>89,000</u>
Annual OPEB Cost (Expense)	2,232,000
Contributions Made	<u>2,973,000</u>
Decrease in OPEB Asset	(741,000)
Net OPEB Liability - Beginning of Year	<u>39,000</u>
 Net OPEB (Asset) - End of Year	 <u><u>\$ (702,000)</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan and the net OPEB obligation for the three most recent fiscal years are as follows:

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Liability (Asset)
December 31, 2012	\$ 2,164,000	145.50%	\$ (932,000)
December 31, 2013	2,162,000	55.09%	39,000
December 31, 2014	2,232,000	133.20%	(702,000)

Funded Status and Funding Progress: The funded status of the Plan as of June 30 2012, the Plan's most recent actuarial valuation date, was as follows:

Actuarial Accrued Liability (AAL)	\$ 22,346,000
Actuarial Value of Plan Assets	<u>5,338,000</u>
 Unfunded Actuarial Accrued Liability (UAAL)	 <u>\$ 17,008,000</u>
Funded Ratio (Actuarial Value of Plan Assets/AAL)	23.89%
Covered Payroll (Active Plan Participants)	\$ 9,666,000
UAAL as a Percentage of Covered Payroll	175.96%

Actuarial valuations of an ongoing plan involve estimates of the value of expected benefit payments and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the type of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

NEVADA IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

December 31, 2014

NOTE 7 – OTHER POSTEMPLOYMENT BENEFITS PLAN (Continued)

In the June 30, 2012 actuarial valuation, the entry age normal cost method was used. The actuarial valuation used the rates of mortality, disability and other withdrawals used by CalPERS in the valuation of the District’s pension plan. The actuarial assumptions included a 7.25% investment rate of return, a 3.0% rate of inflation, an 8.0% healthcare premium increase in 2015 trending down to 5.0% in 2021, and a 3.25% increase in payroll. The UAAL is being amortized as a level percent of pay over a closed 18 year period. The remaining amortization period at December 31, 2014 was 13 years.

NOTE 8 - INSURANCE

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the District participates in the Special District Risk Management Authority (SDRMA) Property and Liability Insurance Program for risk of loss. The program provides general liability, property, commercial auto, boiler and machinery, employment practices, employee dishonesty coverage, employment benefits liability, public official errors and omissions and public official personal liability insurance coverage.

SDRMA is composed of California public entities and is organized under a joint powers agreement pursuant to California Government Code Section 6500 et seq. The purpose of SDRMA is to arrange and administer programs for the pooling of self-insured losses, to purchase excess insurance or reinsurance, and to arrange for group-purchased insurance and administrative services.

The District paid no material uninsured losses during the last three fiscal years and had no significant reductions in coverage during the year. Liabilities of the District are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. The District considers claims incurred and reported, as well as claims incurred but not reported, to be immaterial and has not accrued an estimate of such claims payable.

The District’s maximum coverage as of December 31, 2014 consisted of \$10 million for general liability, public officials and employees’ errors, employment practices liability and auto liability, \$500,000 of personal liability coverage for Board members, \$400,000 for employee dishonesty and \$750,000 for uninsured motorists. In addition, the District has property coverage of \$1 billion and boiler and machinery coverage of \$100 million. The District also has workers compensation insurance up to the statutory limit and \$5 million for employers’ liability coverage. Deductibles range from \$1,000 to \$500,000.

NOTE 9 – INTERFUND TRANSACTIONS

Interfund balances for operations as of December 31, 2014 were as follows:

	Due from other funds	Due to other funds
Water Utility Fund	\$ 83,978	
Electric Utility Fund		\$ 83,978
	\$ 83,978	\$ 83,978

NEVADA IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

December 31, 2014

NOTE 9 – INTERFUND TRANSACTIONS (Continued)

Interfund transfers for operations as of December 31, 2014 were as follows:

	<u>Transfers in</u>	<u>Transfers out</u>
Water Utility Fund	\$ 245	
Electric Utility Fund		\$ 245
	<u>\$ 245</u>	<u>\$ 245</u>

NOTE 10 - COMMITMENTS AND CONTINGENT LIABILITIES

Capital Project Commitments: The District had the following significant capital project commitments outstanding as of December 31, 2014:

Siphon Lane Pump Station Project	\$ 2,261,488
Bowman Outlet Repair/Upgrade	1,326,280
Mercury recovery pilot plant	358,445
Regional water treatment and supply project	348,165
Caroline Lane/Winter Moon Way Project	<u>126,127</u>
Total	<u>\$ 4,420,505</u>

Litigation: The District is a defendant in a number of lawsuits, which have arisen, in the normal course of business including challenges over certain rates and changes. The ultimate outcome of these matters is not presently determinable. In the opinion of the District, these actions when finally adjudicated will not have a material adverse effect on the financial position of the District.

Lease Commitment: The District leases a mercury recovery pilot plant under an operating lease expiring in approximately June 2015. Lease payments are currently being made from the collateral deposit made from the value of gold the District provided. The lease contains options to terminate in July 2014 and July 2015, when the collateral is estimated to be depleted. Rent expense for the year ended December 31, 2014 totaled \$151,800. If the District chooses to purchase the equipment after the collateral is depleted, at which time the District would owe \$290,816, 36 monthly payments of principal plus interest at prime plus 1% would be required. As of December 31, 2014, future minimum lease payments under the operating lease are \$67,629.

NOTE 11 – ECONOMIC DEPENDENCY

During 2014, the District received 99.7% of its total Electric Fund revenue from PG&E for power generated from the District’s power plants.

NEVADA IRRIGATION DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

December 31, 2014

NOTE 12 – AGREEMENT WITH PACIFIC GAS AND ELECTRIC COMPANY

The District has entered into a twenty-year power purchase agreement with PG&E beginning July 1, 2013. The District bills PG&E monthly based on energy generation and PG&E bills the District for any CAISO charges. If the contract is terminated early, a termination payment will be calculated according to the terms of the contract.

NOTE 13 – RELICENSING

The District has been preparing for the relicensing of its Yuba Bear Power Project as required by the Federal Energy Regulatory Commission (FERC). The FERC license on this project expired April 30, 2013. In connection with the relicensing, the District has incurred expenses, entered into service contracts, and established cash reserves to pay for anticipated costs. Costs incurred for the relicensing are being capitalized, and will be amortized over the life of the new license once it has been issued by FERC. Total cost capitalized as of December 31, 2014 amounted to \$15,419,373. Until the relicensing process is completed, operations continue under the current FERC license conditions.

REQUIRED SUPPLEMENTARY INFORMATION

NEVADA IRRIGATION DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION

December 31, 2014

SCHEDULE OF FUNDING PROGRESS OF THE
 EMPLOYEE RETIREMENT PLAN (UNAUDITED)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (b/a)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
June 30, 2011	\$ 73,151,810	\$ 94,462,942	\$ 21,311,132	77.44%	\$ 10,283,213	207.24%
June 30, 2012	75,004,541	98,365,938	23,361,397	76.25%	9,667,622	241.64%
June 30, 2013	68,418,010	102,575,329	34,157,319	66.70%	10,084,783	338.70%

SCHEDULE OF FUNDING PROGRESS OF THE
 OTHER POSTEMPLOYMENT BENEFITS PLAN (UNAUDITED)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (b/a)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
June 30, 2008	\$ -	\$ 16,774,000	\$ 16,774,000	0.00%	\$ 9,428,000	177.92%
June 30, 2011	3,668,000	22,691,000	19,023,000	16.16%	9,734,000	195.43%
June 30, 2012	5,338,000	22,346,000	17,008,000	23.89%	9,666,000	175.96%

COMPLIANCE REPORT

INDEPENDENT AUDITOR'S 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 Directors
Nevada Irrigation District
Grass Valley, California

We have audited, 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, the financial statements of the Water and Electric Funds of the Nevada Irrigation District (the District) as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated July 13, 2015.

Internal Control Over Financial Reporting

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

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 material weaknesses or significant deficiencies. However, as discussed in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in Findings 2013-01 and 2014-1 to 2014-5 in the accompanying schedule of findings to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Findings 2014-6 to 2014-9 in the accompany schedule of findings to be significant deficiencies.

To the Board of Directors
Nevada Irrigation District

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*.

Response to Findings

The District's response to the findings identified in our audit is described in the accompanying schedule of findings. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Richardson & Company, LLP

July 13, 2015

NEVADA IRRIGATION DISTRICT
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2014

MATERIAL WEAKNESSES IN INTERNAL CONTROL

No new material weaknesses identified in 2014.

SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROLS

No new significant deficiencies identified in 2014.

NEVADA IRRIGATION DISTRICT
SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2014

MATERIAL WEAKNESSES IDENTIFIED IN PRIOR YEARS

Finding 2013-01 – Accounting for Capital Assets Transactions

Condition: Generally accepted accounting principles require that all financial transactions of the District be recorded and reflected in the accounting records. It was noted in our procedures that certain significant transactions related to the District's capture and recording of the capital assets was not performed on a regular and consistent basis during the year. The capital assets are accounted for only as part of the year end audit preparation. Further, the District's accounting software for capital assets has inefficiencies and requires extensive reconciliation between the various reports generated and the database.

The capital assets require additional accounting for transactions that are outside of the routine cash disbursements activity. Expenditures are properly reflected in the accounting system of the District when the costs are incurred. However, generally accepted accounting principles require application of additional accounting theory to effect the proper capitalization and depreciation of the District's capital assets. Since this accounting is only done at year end, extensive staff time was required to reconcile the respective general ledger accounts to the reports generated by the capital assets software.

Information input into the District's fixed asset module should be complete and accurate. During the 2014 audit, we noted several discrepancies between asset useful lives and acquisition dates recorded in the District's fixed asset module and the consultant report used to establish the supporting documentation. Also, there were instances where changes to assets' useful lives and asset cost corrections were not input properly in the fixed asset module, which affects the net book value of the capital assets recorded in the general ledger. These discrepancies appear to be due to input errors and resulted in differences between the net book value of several assets recorded in the general ledger and our calculations based on the consultant report.

Recommendations: The District should record the transactions of the capital assets on a regular and periodic manner to insure completeness of the accounting records. In this manner, the task is less onerous and more efficient for the year end closing. Also, if done throughout the year, recollection of the underlying transactions is more current and fresh in the minds of the District's staff.

The District should also perform a secondary review of any changes made within the fixed asset module and scan the fixed asset detail listing for reasonableness on a periodic basis. This will assist in identifying potential input errors.

Staff recognizes the need to change current procedures with respect to accounting for capital assets in order to improve efficiencies at year end. In addition, staff recognized the need to improve and automate the reports generated by the capital assets software which was completed during the 2014 fiscal year. It is the intention of the accounting staff going forward to account for capital assets on a quarterly basis and to reconcile those assets to the various capital asset reports on a quarterly basis as well.

Status: The District had difficulties reconciling the amounts in the capital assets software to the amounts in the general ledger as of December 31, 2014 and 2013 and this reconciliation was not completed until June 2015 and September 2014, respectively, which delayed completion of the audit for both years. Because of difficulties with the capital asset software and reconciliation of system totals to the general ledger, the District has attempted to download and update its listing in Excel for the audit. However, as indicated above, discrepancies were noted that affects the net book value of the capital assets. These discrepancies are included on the summary of unadjusted differences. The capital asset system will

NEVADA IRRIGATION DISTRICT
SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2014

eventually need to be corrected to match the Excel listing, and to correct for the discrepancies in the acquisition date and the asset cost of certain assets.

District's response: The District recognizes the need to improve reconciliation of capital asset transaction in a timely manner. District staff will analyze the current accounting processes and software and evaluate needed changes to improve reconciliations of capital asset transactions.

Finding 2014-1: Year-End Closing Procedures

Condition: This year's audit was delayed because of difficulties in reconciling capital assets and delays in producing closing entries, trial balances, schedules, reconciliations, account analyzes, and other financial reports needed by management and the auditors, which resulted in numerous adjustments. The large number of adjustments identified during the audit indicate that the District does not have the internal controls in place to prevent or detect misstatements on a timely basis.

We believe that the year-end closing process could proceed more quickly and smoothly by developing a logical order for closing procedures and assigning responsibility for completing the procedures to specific personnel. The required closing procedures should be documented in a checklist that indicates who will perform each procedure and when completion of each procedure is due and is accomplished. The District needs to ensure that all balance sheet accounts are reviewed and reconciled to supporting schedules and are reviewed and approved prior to the beginning of fieldwork. Areas where accounts and transactions were not adequately reconciled and evaluated for proper recording prior to the start of the audit fieldwork and areas that require improvement included the following:

- Procedures to identify and record capital asset additions, including construction in progress, in the subsidiary system on a timely basis, and to track capital asset disposals. Reconciliation of the subsidiary ledger to the general ledger needs to be performed on a periodic basis.
- Procedures for ensuring all other balances (not specifically detailed above) on the general ledger can be supported by an analysis or document.
- Procedures for properly reflecting accounts payable under construction contracts and related retentions payable.
- Maintaining documentation supporting all unearned revenue balances and periodic reconciliations of these accounts, including analysis of unearned exchange revenue received from property owners to determine if these amounts are earned by incurring qualifying expenditures/expenses.
- Procedures for accounting for long-term debt and related accounts need to be refined to include: recording of debt service cash reserves and recording of the current portion on all debt instruments.
- Determination of the current portion of compensated absences and recording these amounts in the respective funds general ledgers.
- Recording of the Other Postemployment Benefits (OPEB) activity in the general ledger according to the latest actuarial study available.
- Establishing proper accounting procedures and tracking of water connection fees received and expended in accordance with the California Water Code.

NEVADA IRRIGATION DISTRICT
SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2014

- Reconciliation of all accounts and loans receivable balances to the subsidiary receivable system or other supporting documentation. Auditor inquiry prompted District evaluation of the propriety of recorded balances, which resulted in adjustments
- Procedures to ensure transactions among the District's funds (Water, Electric and Recreation), including due to and from other funds and transfers in and out are in balance.
- Procedures for determining proper accrual of various revenue sources such as grant and other revenue.
- For net position balances in the financial statements, a process needs to be developed to ensure segregation of net position balances between restricted and unrestricted components for presentation in the financial statements.
- Procedure for segregating restricted and unrestricted cash balances in the general ledger.
- Procedures to identify closing journal entries recorded both before and after presentation of the trial balance to the auditor for audit. During the audit process, a number of client journal entries presented to the auditor for posting had already been recorded and included in the initial trial balance provided. This process resulted in double postings of activity and auditor follow-up to reconcile. All closing entries should be recorded before the trial balance is provided for the audit.

Recommendation: We recommend that the District streamline accounting processes to create timely, accurate financial reporting. Monthly procedures should be in place to prepare reconciliations of all balance sheet accounts, and post required journal entries monthly as needed, thereby decreasing the time required to prepare for the start of the audit. The review function should include monitoring compliance with District policy and generally accepted accounting principles. Procedures should be in place to prepare the required reconciliations at year-end and post entries needed to close the books prior to the start of the audit.

Status: While there was some many of the items noted above were corrected as part of the audit, there were still a large number of adjustments made after the start of the audit indicating that the District still needs to improve its procedures over the closing of the books.

District's response: The District does have a listing of monthly, quarterly, semi-annual and annual accounting procedures that are assigned to specific staff members. In addition, we have a checklist for year-end procedures that are assigned to specific staff members. Due to staff turn-over in 2013 and 2014, as well as some legacy procedures that are not very efficient, staff got substantially behind in 2014 which has now carried over to 2015 while new staff is getting up-to-speed. Staff will evaluate current processes for improvement and seek to improve and training for new staff members. This way, we should be much better prepared for the start of the audit for fiscal year 2015.

Finding 2014-2: Financial Reporting

Condition: It appears that regular financial information, especially monthly budget to actual comparisons, are not being provided to the Board of Directors. In addition, the Government Code calls for quarterly reports on the District's financial holdings, a statement of compliance with the policy and a statement concerning the District's ability to meet its cash flow needs in the ensuing six months. In our review of the financial documentation submitted to the Board of Directors and our review of the Director's packets, we noted that the District has not complied with these aspects of California Government Code Section 53646.

NEVADA IRRIGATION DISTRICT
SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2014

Recommendation: The District needs to establish a financial reporting system that includes the reporting of financial information to the Board of Directors on a monthly basis. While at a minimum, we recommend budget to actual comparisons be provided most irrigation/water districts also provide regular balance sheets as well. The District needs to ensure that it complies with the California Government Code with regard to its investment reporting.

Status: This District did not provide the recommended financial information to the Board during 2014.

District's response: In 2014, staff began presenting monthly budget to actual reports to the Administrative Practices Committee and quarterly budget to actual reports to the Board of Directors. Finance department staff has provided the senior managers with this information on a monthly basis for the last several years.

Finding 2014-3: Budget to actual comparison reports

Condition: Currently, a budget to actual comparison of operating activity is not generated from the general ledger system. Use of a manually prepared budget to actual report creates an opportunity for errors to be made both intentional and unintentional.

Recommendation: We recommend that the existing budgeting module available in the Pentamation system be used by the District to produce budget to actual reports for managerial use. This will ensure timely reporting to management and the Board.

Status: The District continues to prepare the budget to actual comparisons outside of the accounting system.

District's response: In 2014, Staff began utilizing the budget module in Pentamation in the test environment for both the Hydroelectric and Recreation Divisions. We have entered budget data for the Water Division and are still testing that. While we were not able to utilize the budget module for the preparation of the fiscal year 2015 budget, staff anticipates migrating from the test environment into the live environment during 2016 and utilizing the budget module from that point forward.

Finding 2014-4: Physical inventory procedures

Condition: Currently the District performs nine cycle counts of inventory items annually. These cycle counts are organized such that all inventory items on hand are counted at least once during the year. However, there is not a year-end physical inventory count. Additionally, the inventory program is a real time system so that prior month balances cannot be reproduced systemically.

Recommendation: We recommend that a year-end priced inventory report is generated at or near December 31 which would then be used to adjust the December 31 general ledger balance, if necessary. This report generation and reconciliation process should be incorporated into the District's year-end closing procedures. We also recommend the District perform a year-end physical inventory count as part of its closing procedures. This will assist in verifying the accuracy of inventory amounts on-hand at year-end.

Status: The District was able to produce a listing at December 31, 2014 that was within about \$3,000 of the balance in the general ledger. However, we still recommend that a year-end inventory count be performed.

NEVADA IRRIGATION DISTRICT
SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2014

District's Response: Information Technology staff developed a report in June 2014 that lists each inventory item by category that can easily be tied back to the general ledger as soon as this situation was brought to our attention. We have incorporated this into our annual closing procedures, and prior to closing period 12 and opening period 13, the inventory report will be run and reconciled to the general ledger.

Finding 2014-5: Recreation Division Cash Handling

Condition: The District operates four campgrounds in the Grass Valley/Colfax area with the majority of activity between Memorial Day and Labor Day. Currently the District employs a bookkeeper who works out of a mobile home on the Scotts Flat campground property. The bookkeeper is responsible for processing, recording and depositing all cash collected at the four campgrounds, which does not provide for an adequate segregation of duties. During our visit to the Scotts Flat campground in 2014, we noted the following weaknesses in internal controls:

- Bank deposits and general ledger recording of campground sales activity are delinquent. The deposit and recording of the recreation cash receipts were approximately 10 days behind when we visited the Scotts Flat facility in July 2014. This situation results in excess cash on hand at the Scott Flat campground facility awaiting reconciliation and deposit, which increases the chances for theft and loss. This delay in depositing the cash collected has continued in 2014.
- Shift ending (Z tape) totals run at the end of a shift from the cash registers are not used to compare to the shift worker's reported cash and credit card receipts. The bookkeeper force balances each shift, resulting in no cash variances being reported.
- Void or over-ring transactions done at the point of sale locations are not approved by a supervisor as they occur.
- All four campground cash and change funds are recorded in two general ledger accounts. Accounts 30-10207 (Scott's Flat) and 30-10209 (Orchard Springs) are currently used. Separate general ledger accounts should be used/created for each location's cash and change funds for improved monitoring.
- Standardized shift paperwork needs to be created to provide the responsible employee an area of the form to record the cash and checks collected, credit card receipt totals and to attach the "Z" tapes from the cash register. This paperwork needs to be signed by the employee who worked the shift, providing evidence that the cash, checks and credit card receipt totals are correct.
- Daily summaries listing each point of sale location within the campground need to be created to provide evidence that each location's daily deposit is complete.
- The Recreation department bookkeeper operates without any supervision over her cash handling activities.

These weaknesses described above not only create fraud or misstatement risk for the District but a reputational risk to the District, since District cash receipts are being handled in a fairly remote location by an employee who has little or no supervision. Additionally, this District employee is transporting cash to the Bank through remote or sparsely populated areas, which increases the risk of theft.

NEVADA IRRIGATION DISTRICT
SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2014

Recommendation: We recommend that this cash reconciliation and deposit activity be moved to the District's main office. Since the majority of this activity is seasonal in nature, this transfer of responsibility might be more cost effective for the District and improve the timeliness of the deposit of campground deposits.

Status: The conditions noted above still existed during 2014.

District's response: Finance department staff and Recreation department staff are working together to resolve this issue. Options that are being considered range from acquiring software and point of sale equipment, increased staffing during the busy season, along with moving the reconciliation and deposit activity to the main office in Grass Valley for reconciling and preparing the deposits.

It should be noted that following the audit of 2013, recreation staff began depositing to the bank in a more-timely manner to get the cash into the bank and prepared the reconciliations after the fact. While this is not the ideal way to operate, it was a short term solution to get through the remainder of the recreation season. Also, in November 2014 the District installed a new internet connection that enables recreation staff to be connected to the District's network, which in turn provides direct access to Pentamation.

SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL IDENTIFIED IN PRIOR YEARS

Finding 2014-6: Compliance with Debt Covenants

Condition: Currently, the District does not perform debt covenant calculations on a regular basis. During the audit, the Debt Service Coverage Calculation performed by the client was not calculated in accordance with the Official Statements for the District's outstanding debt. We assisted the District in preparing a worksheet to perform the calculation in accordance with the recognized Debt covenants.

Recommendation: We recommend that the District closely monitor compliance with its debt covenants.

Status: These debt covenant calculations were not performed during 2014.

District's response: In 2014, debt service coverage calculations were performed by staff, but not formally reported to the board. In the Spring 2015, debt service coverage calculations were presented to the board concurrent with discussions on potential future debt. Staff will incorporate debt service calculations with future quarterly reports to the Board of Directors.

Finding 2014-7: Accounts payable trial balance

Condition: The District's accounts payable system apparently cannot generate an open payable trial balance. The District's December 31, 2013 accounts payable balance was the accumulation of the first four check runs processed in January 2014 plus an accrual entry developed in February and March 2014 for any invoices where the service or material was rendered or received in 2013.

Recommendation: We recommend that the District's accounting staff work with the software vendor or their internal IT department to produce this report at least quarterly. In order for the system to produce the proper reports, invoices would need to be entered into the payables system as they are received.

Status: An accounts payable report was not produced from the system during 2014.

NEVADA IRRIGATION DISTRICT
SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2014

District's response: Invoices are in fact entered into the payables system as soon as they are received, however, since our current practice is to pay them as soon as they are received we use the Friday following the date of receipt as the due date. Currently, cash requirements are calculated manually and compared to weekly AP before checks are run. There is a report within Pentamation titled "Cash Requirements" that has never been set-up. The accounting staff and, if necessary, IT staff will set up the cash requirements report and change the process for entering payables to include the actual due date in order to utilize the report.

Finding 2014-8: District anti-fraud and whistleblower policies

Condition: Currently, the District does not have either an anti-fraud policy or a whistleblower policy.

Recommendation: The District should adopt an Anti-Retaliation/Whistle Blower Policy, including fraud reporting procedures, and include it in the Personnel Manual. These procedures should include a discussion of what types of activities constitute fraud or contracting improprieties, how an employee should report such suspected fraud or contracting improprieties and to whom or where an employee should report such activities, including reporting procedures if an employee's supervisor or a member of senior management is suspected of these activities.

Status: The District had not yet put an Anti-Retaliation/Whistle Blower Policy in place.

District's response: In March 2015, the District adopted Policy No. 2120 - Whistleblower and Anti-Fraud in conformance with the Special Districts Risk Management Authority (SDRMA) format. The policy has been posted on the District's website in the form of a policy manual.

Finding 2014-9: Strategic Plan Update

Condition: The District's most current Strategic Plan is for 2010-11.

Recommendation: We recommend that the District update this Plan document to the current year. The update of this document provides strategic direction for District activities.

Status: The Strategic Plan was not updated during 2014.

District's response: Upon the arrival of the General Manager in February 2013 the Board of Directors and the management team began the process of updating the Strategic Plan. As a result of that process it was determined that the water rate structure needed to be updated and the Capital Improvement Plan needed to be revised. In addition, the entire dynamic of the operation of the hydroelectric Division changed in July 2013. The District is actively working on updating the Strategic Plan, and expects to complete the process in the near future.