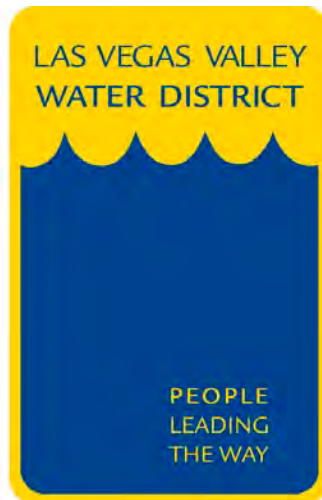


Las Vegas Valley Water District

Operating & Capital Budget
Fiscal Year Ending June 30, 2011



COMMUNITY SERVICE ENVIRONMENT

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DGM: Administration

Cary M. Casey
Director of Finance

Note of Appreciation

We would like to express our appreciation to the District's Financial Services staff, and staff members of other departments for their special work in the preparation of the 2010/2011 Budget Plan and this budget document.

The **VISION** of the Las Vegas Valley Water District is

“People Leading the Way”

The **VALUES** of the Las Vegas Valley Water District are

- ◆ **Respect for People**
- ◆ **Integrity**
- ◆ **Service**
- ◆ **Excellence**

The **MISSION** of the Las Vegas Valley Water District is to

Partner to Provide Reliable, Quality Water, Ensuring the Sustainability of Our Desert Community and Serve Our Customers Responsibly.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) presented an award of Distinguished Presentation to the Las Vegas Valley Water District for its annual budget for the fiscal year beginning July 1, 2009.

In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan and as a communication device.

The award is valid for a period of one year only. We believe our current budget continues to conform to program requirements, and we are submitting it to the GFOA to determine its eligibility for another award.



GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished
Budget Presentation
Award*

PRESENTED TO

**Las Vegas Valley Water District
Nevada**

For the Fiscal Year Beginning

July 1, 2009

President

Executive Director

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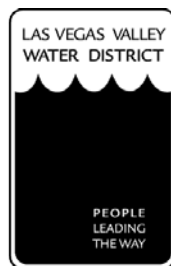
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SECTION 1

INTRODUCTION AND BACKGROUND



LAS VEGAS VALLEY WATER DISTRICT

FISCAL YEAR 2010/2011

OPERATING AND CAPITAL BUDGET

INTRODUCTION AND BACKGROUND

General Manager's 2011 Budget Message

Since commencing operations in 1954, the Las Vegas Valley Water District has worked diligently to provide a safe and reliable water supply for its customers. Among its many responsibilities, the District constructs, operates and maintains local water infrastructure, and manages customer care functions. During this ongoing economic downturn, the District has experienced reduced revenues derived from water rates, connection fees and other sources. In response, the District worked quickly to reduce and defer operational expenditures, while still maintaining its high service standards. Poor economic conditions are expected to persist and the District will continue to operate under a restricted budget for fiscal year 2010/2011.

As projected, account growth and water sales were significantly impacted by economic conditions in fiscal year 2009/2010. In 2009, the District received only 280 new service connections, down 99 percent from 2005 highs. In addition, this limited growth was offset by a nearly equal loss of existing accounts—resulting in no net account growth. Conservation programs, foreclosures and other factors also impacted water sales, which were projected to fall nearly 4 percent between fiscal year 2008/2009 and 2009/2010. As a result, actual revenues fell 14 percent below budget in fiscal year 2008/2009 and remain essentially flat in fiscal year 2009/2010.

In response to these circumstances, the District reduced and deferred more than \$447 million in planned expenses during fiscal years 2008 and 2009, including: \$15.7 million in operating expenses, \$30.8 million in operating capital expenses and \$401 million in capital projects (leaving only \$144 million in essential capital projects moving forward). Deferrals implemented in favor of short-term cost saving measures may result in higher costs over the long-term. These deferrals cannot be sustained indefinitely without long-term risk to the local water system. As economic conditions improve or as system conditions warrant, additional funds will be needed to catch up on deferred projects, maintenance activities or equipment/facility replacement.

By focusing first on budget reductions, the District was able to delay financial impacts to its customers. However, due to the continuing economic downturn, and prolonged reductions in account growth and water sales, a modest increase to the District's service charges was necessary to stabilize water revenues to continue to provide essential water service to the community.

On December 1, 2009, a two-phase increase to the District service charges was approved. The first increase to the service charge of \$2.00 monthly per 5/8-inch meter-size equivalency went into effect on January 1, 2010. (The remainder of the domestic, backflow, and fireline charges for meters larger than 5/8-inch increased proportionately.) The second increase becomes effective on January 1, 2011. The additional revenues will reduce the use of operating reserves while helping to ensure the District's financial viability. Operating reserves also support a strong bond rating and reduce the cost of borrowing.

Increases to the Regional Commodity Charge at the rate of \$0.10 per thousand gallons used were also approved on December 1, 2009. The initial increase took effect on January 1, 2010 and the next increase becomes effective January 1, 2011. These charges pass directly to the Southern Nevada Water Authority.

Looking ahead, Southern Nevada is projected to lag behind other regions in economic recovery. The District anticipates little growth in accounts and no change in water sales through the coming fiscal year. As a result, the fiscal year 2010/2011 budget reflects continued budget cuts, deferrals and includes no new positions.

Regrettably, these extensive budget cuts included nearly 200 contract and staff positions that were reduced or left unfilled. As a result, the District worked diligently to do more with fewer resources. For example, although the downturn resulted in lighter demands for some areas of the organization, others—such as customer care services—increased dramatically. Lobby traffic, which doubled in 2008, increased another 30 percent in 2009. Phone call volume increased 11 percent in 2008 and another 15 percent in 2009, while the average time required for each call increased 25 percent. To meet these and other demands, resources were evaluated and reassigned within the organization to assure that all District service obligations were met. For example, manpower is being moved from departments with decreased work demands (Engineering Services, Development Services, Inspections) to deal with our increasing customer-service based demands. These efforts will ensure that customer care and service obligations are maintained despite financial constraints.

Throughout the coming year, the District will continue to monitor and make appropriate adjustments to ensure the organization's financial integrity is maintained while meeting its obligation to the community to provide essential water services.

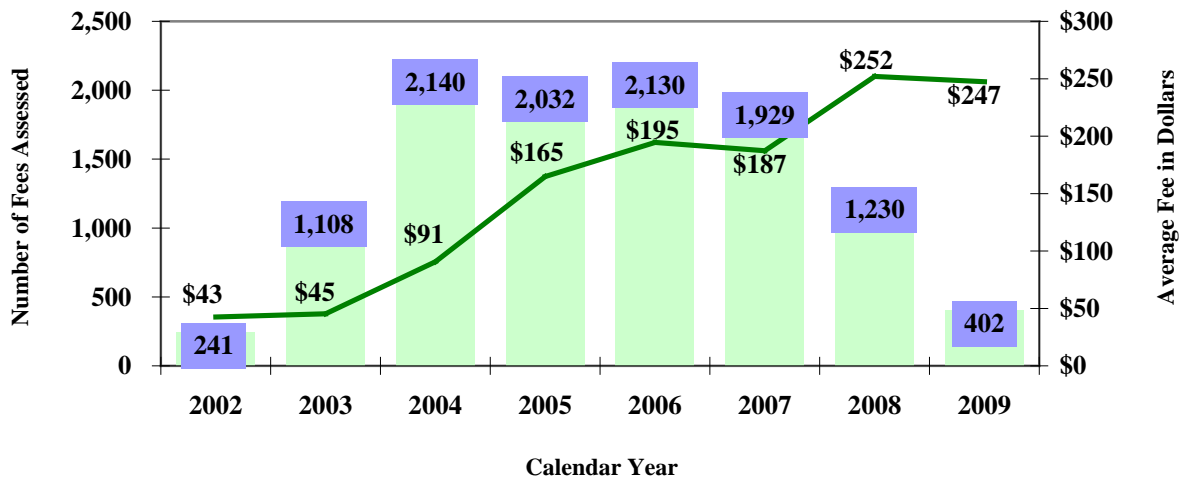
WATER WASTE AND CONSERVATION

Distribution System Leak Detection. The District continues to have one of the lowest system water loss rates in the nation. However, leak detection remains a priority to ensure overall system efficiency and protect District resources. In 2004, the District implemented the Permalog leak detection program at a cost of \$2.1 million. This progressive initiative helps to locate leaks before they surface, and reports any potential water leaks. Work crews are dispatched to investigate and remedy the situation, thus reducing unaccounted system water loss. The Permalog System currently consists of more than 8,600 units and monitors more than 4,600 miles of water distribution pipeline. Figure 32, located in Section 3, page 3-73, details the number of leaks detected by the system annually. Over the last six years, almost 1,500 leaks were detected, saving an estimated 200 acre-feet of water per year.

Water Waste Enforcement. The District continues to work to reduce water waste to ensure efficient use of limited water resources. The primary objectives of the District's water waste enforcement program are to educate customers and reduce water waste. When water waste is observed, the District notifies the customer of the violation. If corrective action is not taken, the customer incurs a fee. Additional occurrences of water waste result in increased fees. This approach raises customer awareness while correcting water waste conditions.

From January 2002 through December 2009, 184,859 water waste investigations were conducted. This resulted in 11,212 fee assessments, totaling nearly \$1.8 million. The chart below shows the total number of fees assessed and average fee amount for each of the past eight years. Effective May 2008, the Board doubled water waste fees. For fiscal year 2010/2011, the District will continue to work with the Southern Nevada Water Authority (SNWA) and its member agencies to reduce water waste in Southern Nevada.

**LAS VEGAS VALLEY WATER DISTRICT
2002 - 2009 Water Waste Enforcement Fees**

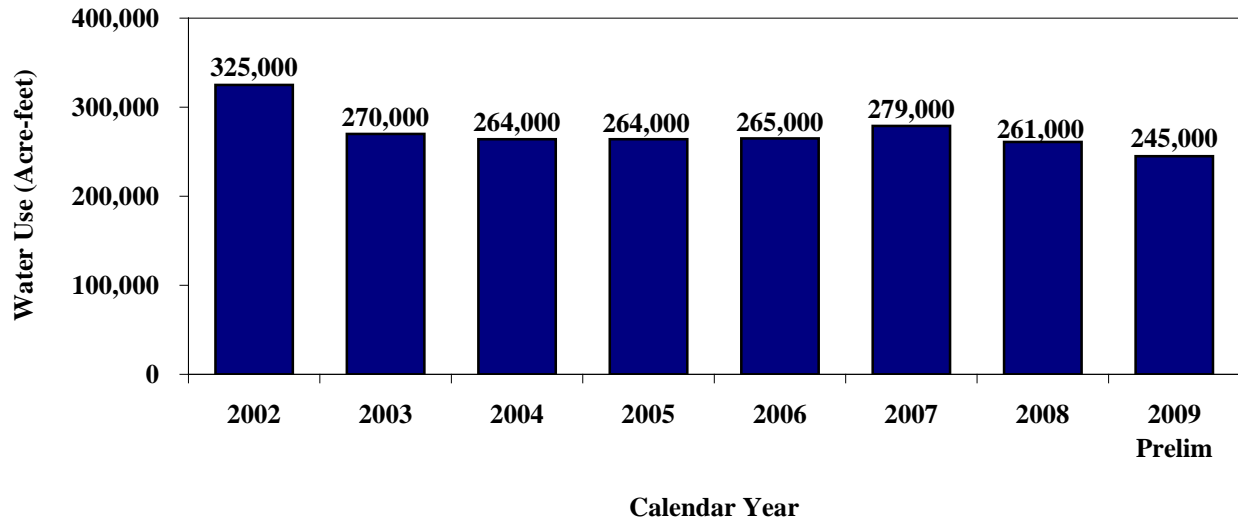


Water Conservation

Regional Conservation. During the 2009 water year, below average hydrologic conditions were observed in the Colorado River Basin, which received 88 percent of normal inflows. These conditions continued to stress reservoir levels. As a result, levels at Lake Mead are expected to continue to decline over the next several years as Lake Powell recovers. The levels of both lakes will be managed in accordance with the interim surplus guidelines approved in 2007.

Due to the success of regional water conservation efforts, Nevada’s 2009 Colorado River consumptive water use remained below 300,000 acre-feet, as illustrated in the following Chart. This allowed Southern Nevada to store slightly more than 4,000 acre-feet of water in the Las Vegas Valley Groundwater Basin by in-lieu recharge and interstate storage of Nevada’s unused Colorado River water. Since program inception in 1987, Southern Nevada has banked about 350,000 acre-feet in the Southern Nevada Groundwater Bank for future use and/or purchase by the Las Vegas Valley Groundwater Management Program (LVVGMP). Any portion acquired by LVVGMP stays in the ground and is not available for future use.

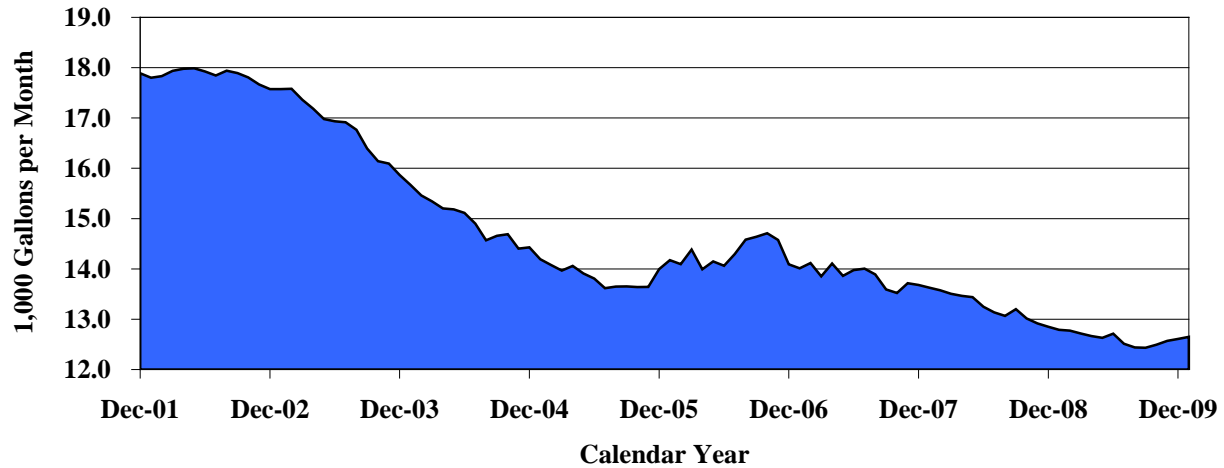
**NEVADA'S COLORADO RIVER WATER
2002 - 2009 Net Consumptive Use Without Recharge**



Given the years of success of Southern Nevada’s conservation efforts, it is estimated that Nevada’s Colorado River consumptive use for calendar year 2010 will remain below 300,000 acre-feet even if population were to slightly increase, as some have projected. Any remaining unused Colorado River water is planned to be stored by the Southern Nevada Water Authority for future use.

LAS VEGAS VALLEY WATER DISTRICT - Over the last eight years, average monthly water use for residential single-family services declined by 30 percent, from approximately 17,900 gallons per month in 2001 to 12,600 gallons per month in 2009. The chart below represents average monthly consumption data for residential single-family services.

**LAS VEGAS VALLEY WATER DISTRICT
2002 - 2009 Rolling 12-Month Average Monthly
Single Family Residential Usage**



SPRINGS PRESERVE

The Springs Preserve (Preserve) was opened in mid-2007 as a world class cultural, historical and educational institution designed to protect the sensitive biological and archeological resources found on-site, promote sustainable desert living, and commemorate the dynamic history of the Las Vegas Valley. Since opening, the Preserve has welcomed in excess of a half-million visitors. Ongoing efforts to continue successful diverse community offerings and offer new multi-cultural events are intended to expand revenue streams, increase visitor attendance, and enhance the visitor's experience.

The following are some Springs Preserve highlights of the past year.

- In 2009, the Preserve welcomed more than 202,000 visitors. General admission prices were lowered in early 2009 from \$14.95 to \$9.95 for adult Nevada residents and from \$6.95 to \$4.95 for children five and older. This pricing change resulted in increased attendance, with no impact to revenues.
- The Preserve membership program was renovated in October 2009, featuring attractive pricing, added benefits and membership levels. More than 2,300 memberships were sold in the three months following the launch of the renovated membership program.
- Over 33,000 students participated in free field trips and 500+ Clark County School District teachers attended workshops to develop Preserve-based lesson plans for their classrooms.
- In September 2009 the WaterReuse Association honored the Preserve with its WaterReuse Public Education Program of the Year award.
- More than 1,000 adult education classes were offered during the year, including 84 specific to landscape and water conservation and 74 geared towards sustainable living technologies and techniques.
- A three-year events calendar was developed with over 20 special events per year. In addition, more than 120 weddings and other private social events were held at the Preserve in 2009.
- As part of a continual process to ensure the sustainable operation of the Preserve, a number of organizational changes were implemented in December 2009 resulting in certain workforce reductions. In addition, some administrative and support services were consolidated, such as marketing, special events, information technology, and facilities maintenance.

The Springs Preserve fiscal year 2011 budget projects no increase in District contribution to operations compared to prior fiscal year budget. Due to actions described above, the fiscal year 2010/11 budgeted expenditures are nearly \$550,000 less than current fiscal year budget. In addition, we continue to examine ways to improve profitability, including increasing corporate sponsorships, grant opportunities, expanding community events and refining various vendor contracts and agreements.

SOURCES OF FUNDS

Water Revenue. We project a \$17.6 million (5.5%) step up in revenue. \$14.1 million is expected to generate from the service charge increases in January 2010 and January 2011. Recharge revenues will provide \$3.5 million.

Facilities Connection Charges and Application & Inspection Fees. Facilities Connection Charges and Application & Inspection Fees are derived from new service applications, which are projected to be very low in fiscal year 2011. The District processed applications for only 280 new services in calendar year 2009. Figure 4, located in Section 2, page 2 – 7, shows the 1999 – 2011 historical and projected applications for new services.

Springs Preserve. Springs Preserve revenues are budgeted at \$2.4 million in fiscal year 2011, down \$0.5 million from the prior year. The \$2.4 million revenue budget in fiscal year 2011 is considered realistic based on limited operational experience at the Springs Preserve.

SNWA Charges. SNWA charges are projected to be up \$6.8 million (29.1%), due to a \$0.10 per thousand gallons increase in the Regional Commodity Charge in January 2010, and another \$0.10 per thousand gallons increase in January 2011. The SNWA charges, which include commodity, reliability, and connection charges, pass directly to the Southern Nevada Water Authority. The following table presents total sources of funds anticipated for the 2010/2011 budget.

LAS VEGAS VALLEY WATER DISTRICT
FY 2010 - 2011 Operating Budget
Sources of Funds
(Millions of Dollars)

	<u>2009/2010</u>	<u>2010/2011</u>	<u>Change</u>	
			<u>\$</u>	<u>%</u>
Water Revenues	\$ 319.3	\$ 336.9	\$ 17.6	5.5%
Fees and Charges				
Facilities Connection Charge	0.9	0.9	(0.1)	-6.0%
Application & Inspection Fees	0.2	0.2	(0.0)	-17.1%
Springs Preserve	3.0	2.4	(0.5)	-18.0%
Total Fees and Charges	<u>4.1</u>	<u>3.5</u>	<u>(0.6)</u>	-15.3%
Interest Income	<u>1.0</u>	<u>0.3</u>	<u>(0.8)</u>	-75.0%
Subtotal District	<u>324.4</u>	<u>340.6</u>	<u>16.2</u>	5.0%
SNWA Charges	23.5	30.3	6.8	29.1%
Total Sources of Funds	<u>\$ 347.9</u>	<u>\$ 371.0</u>	<u>\$ 23.1</u>	6.6%

Totals may be off slightly due to rounding.

USES OF FUNDS

Total Operating Expenses. No new positions have been budgeted and the 45 vacant approved positions will not be filled. Total payroll and related costs are forecast to be \$3.5 million (3.2%) higher in fiscal year 2011 than in fiscal year 2010. However, staffing reductions in 2010 resulted in a 2.54% decrease from the fiscal year 2009 payroll budget. The 2011 fiscal year's payroll budget reflects a modest .58% increase over two years.

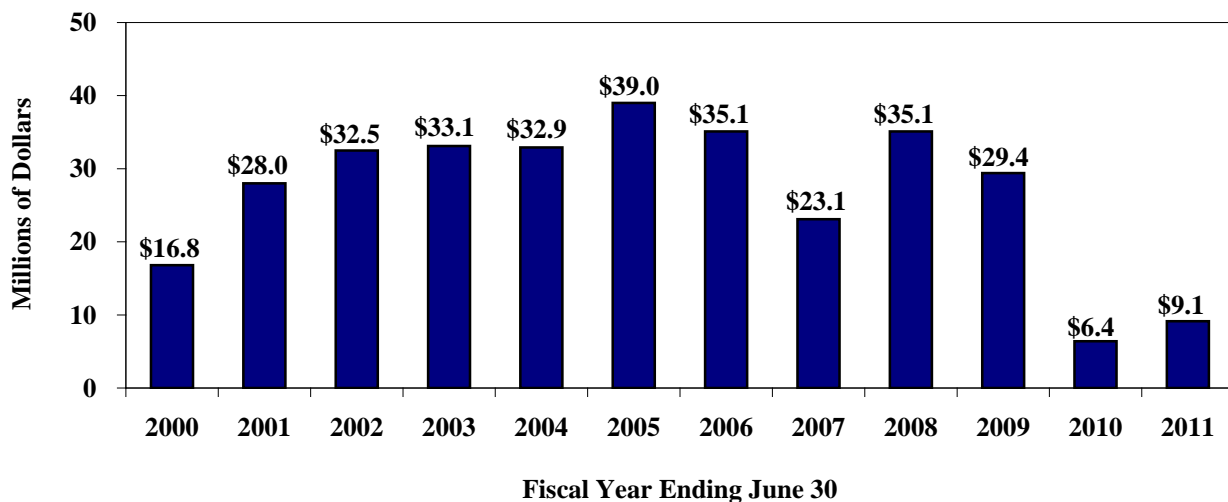
The Wholesale Delivery Charge for water purchased from SNWA will increase from \$270/acre-foot to \$283/acre-foot (4.8%); however, because of current economic conditions, total water consumption is projected to decline 1.5% and water costs will increase only 3.0%. Water costs also include \$2.8 million in Wholesale Delivery Charges for water that will be recharged in the valley.

Energy costs will decline around 15% due to lower water deliveries, SNWA-supplied power at a lower rate, and tactical operational efficiencies.

Despite moving \$3 million in meter costs from operating capital to operating expense, all other operating costs net are essentially flat to the prior year.

Operating Capital Expenses. The 2009/2010 Operating Capital Budget of \$6.4 million was significantly lower than any year in the past decade. For 2010/2011, Operating capital expenditures total \$9.1 million, an increase of approximately \$2.8 million (43%) compared to the historically-low 2010 budget. The \$2.8 million increase includes: \$3.2 million for scheduled maintenance and a phased program for conversion of the instrumentation, control and telemetry equipment for major pumping, reservoir and distribution infrastructure; \$1.4 million in software upgrades; \$1.2 million for 18 new vehicles to replace those which are increasingly more costly to maintain; and from a variety of lower-cost capital projects. The following chart presents operating capital budgets for the past 12 years.

**LAS VEGAS VALLEY WATER DISTRICT
FY 2000 - 2011 Operating Capital Budgets
(Millions of Dollars)**



Bond Payments. Bond payments in fiscal year 2011 will be \$4.3 million (6%) less than fiscal year 2010. The reduction in the interest rate on \$150 million variable rate bonds went from 5% to 2% and new bond issues will not require bond payment during the 2011 fiscal year.

SNWA Charges. SNWA charges, which are simply passed through to the SNWA, were previously discussed in the Sources of Funds section. The table below presents the 2010/2011 total uses of funds.

**LAS VEGAS VALLEY WATER DISTRICT
FY 2010 - 2011 Operating Budget
Uses of Funds
(Millions of Dollars)**

	<u>2009/2010</u>	<u>2010/2011</u>	<u>Change</u>	
			<u>\$</u>	<u>%</u>
Total Operating Expenses	\$ 254.6	\$ 260.4	\$ 5.8	2.3%
Operating Capital Expenses	6.4	9.1	2.8	43.6%
Bond Payments	<u>71.6</u>	<u>67.3</u>	<u>(4.3)</u>	-6.0%
Subtotal District	<u>332.5</u>	<u>336.8</u>	<u>4.3</u>	1.3%
SNWA Charges	23.5	30.3	6.8	29.1%
Total Uses of Funds	<u>\$ 356.0</u>	<u>\$ 367.1</u>	<u>\$ 11.1</u>	3.1%

Totals may be off slightly due to rounding.

The following table presents the combined total sources and uses of funds, and the projected budget surplus or (deficit).

LAS VEGAS VALLEY WATER DISTRICT
FY 2010 - 2011 Operating Budget
Sources and Uses of Funds Summary
(Millions of Dollars)

	<u>2009/2010</u>	<u>2010/2011</u>	<u>Change</u>	
			<u>\$</u>	<u>%</u>
Sources of Funds				
Water Revenues	\$ <u>319.3</u>	\$ <u>336.9</u>	\$ <u>17.6</u>	5.5%
Fees and Charges				
Facilities Connection Charge	0.9	0.9	(0.1)	-6.0%
Application & Inspection Fees	0.2	0.2	(0.0)	-17.1%
Springs Preserve	<u>3.0</u>	<u>2.4</u>	<u>(0.5)</u>	-18.0%
Total Fees and Charges	<u>4.1</u>	<u>3.5</u>	<u>(0.6)</u>	-15.3%
Interest Income	<u>1.0</u>	<u>0.3</u>	<u>(0.8)</u>	-75.0%
Subtotal District	324.4	340.6	16.2	5.0%
SNWA Charges	<u>23.5</u>	<u>30.3</u>	<u>6.8</u>	29.1%
Total Sources of Funds	\$ <u>347.9</u>	\$ <u>371.0</u>	\$ <u>23.1</u>	6.6%
Uses of Funds				
Total Operating Expenses	\$ 254.6	\$ 260.4	\$ 5.8	2.3%
Operating Capital Expenses	6.4	9.1	2.8	43.6%
Bond Payments	<u>71.6</u>	<u>67.3</u>	<u>(4.3)</u>	-6.0%
Subtotal District	332.5	336.8	4.3	1.3%
SNWA Charges	<u>23.5</u>	<u>30.3</u>	<u>6.8</u>	29.1%
Total Uses of Funds	<u>356.0</u>	<u>367.1</u>	<u>11.1</u>	3.1%
Surplus/(Deficit)	\$ <u>(8.1)</u>	\$ <u>3.9</u>	\$ <u>12.0</u>	

Totals may be off slightly due to rounding.

The following table illustrates the projected ending operating reserves. Maintaining a healthy operating reserve is paramount in these economic times to ensure the District's financial viability and maintain its strong bond rating to reduce the cost of current and future borrowing.

LAS VEGAS VALLEY WATER DISTRICT
FY 2010 - 2011 Operating Budget
Projected Operating Reserves
(Millions of Dollars)

Projected Beginning Operating Reserves	\$ 90.0
Sources of Funds	<u>371.0</u>
Total Funds Available	461.0
Uses of Funds	<u>(367.1)</u>
Projected Ending Operating Reserves	<u><u>\$ 93.9</u></u>

Totals may be off slightly due to rounding.

Las Vegas Valley Water District Background

District Purposes and Powers

The District was created under a special act of the legislature of the State of Nevada in 1947 for the purpose of obtaining and distributing water primarily in the Las Vegas Valley, including Blue Diamond, Jean and Searchlight, Nevada. The District also manages, under contract with Clark County, the Kyle Canyon, Searchlight, Coyote Springs and Big Bend Water Districts. Figure 1 shows the areas served by the District in relation to Clark County, Nevada.

The District has been granted certain powers to achieve its purpose. The District has been granted the right of eminent domain, the right to cause taxes to be levied, the right to create assessment districts, the responsibility to operate and maintain the Southern Nevada Water Authority's regional treatment and transmission system and the right to incur indebtedness.

The District is governed by a seven member Board of Directors, all of whom are elected Clark County Commissioners. This Board of Directors of the District has the sole power to set rates and charges for water, and charges cannot be put into effect until after a public hearing. The Las Vegas Valley Water District Act and applicable Bond Covenants provide that rates and charges should be sufficient to provide for operation and maintenance costs, general expenses of the District and principal and interest payments on outstanding debt. Although the Board of Directors may levy a tax on all taxable property within the District, a tax never has been levied. The day-to-day operations of the District are overseen by the General Manager, appointed by the Board of Directors, and three Deputy General Managers.

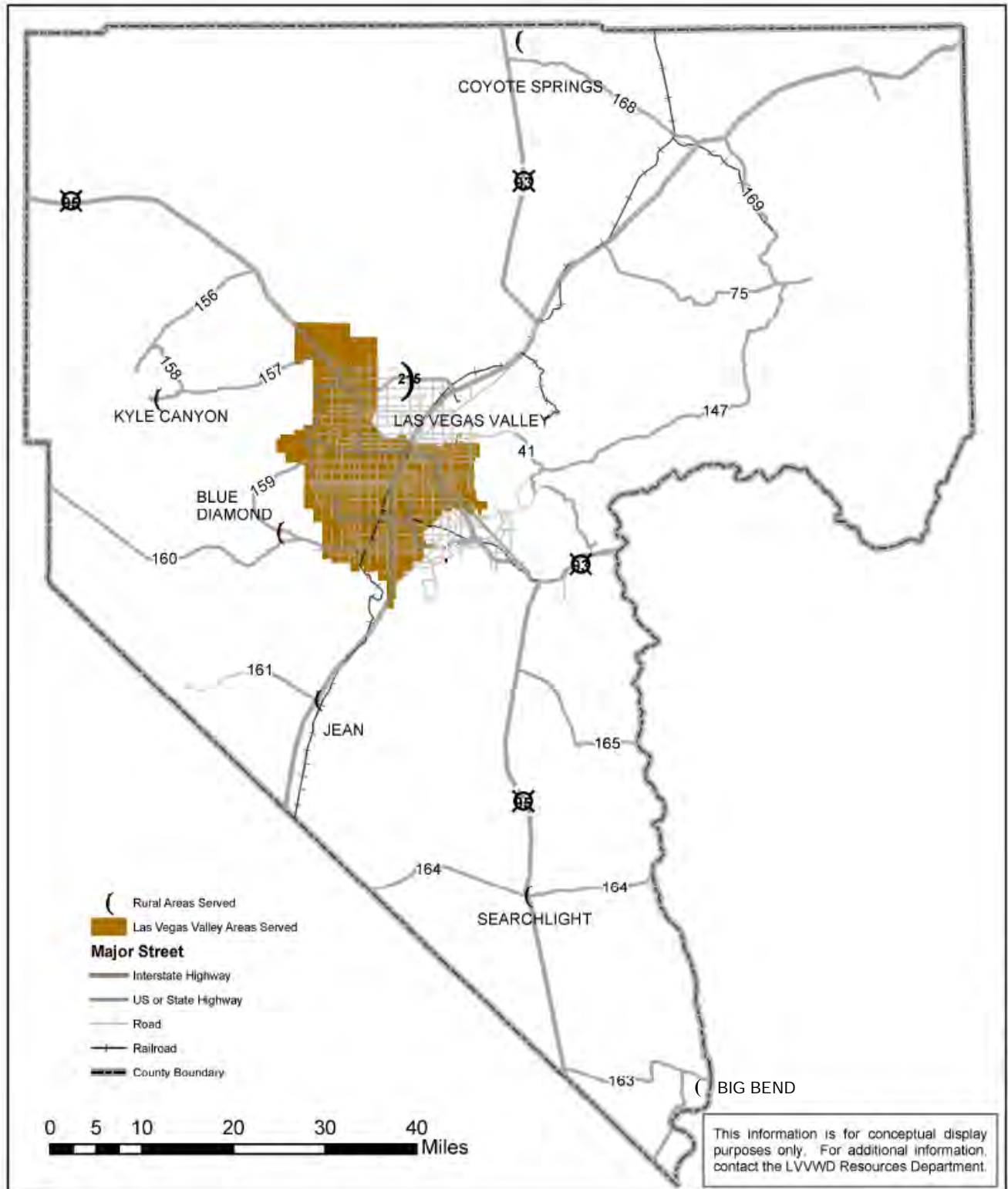
Intergovernmental Relationships

The District plays a vital role in the management of water resources in Southern Nevada. To fulfill this role, the District must work effectively and cooperate with state and federal governments, numerous local jurisdictions and other local water purveyors. These relationships play a vital role in shaping not only the demands on the District, but also the 2010/2011 Budget Plan. The following describes these intergovernmental relationships.

Las Vegas Valley Water District. (LVVWD or "The District") The District serves potable water to customers in the City of Las Vegas and the unincorporated urban areas of Clark County, Nevada. As the largest water purveyor, the District has taken a leadership role in conservation and regional water issues. The District provides the operating staff for SNWA. The General Manager of the Las Vegas Valley Water District serves as the General Manager of the SNWA.

Southern Nevada Water Authority (SNWA). In 1991, the cities of Boulder City, Henderson, Las Vegas and North Las Vegas; the Big Bend Water District, the Clark County Water Reclamation District and the Las Vegas Valley Water District formed the SNWA to develop additional water and to address water issues on a regional basis. The Board of Directors of the SNWA consists of one member selected from each of the member agencies.

Figure 1
Las Vegas Valley Water District
AREAS CURRENTLY SERVED



Southern Nevada Water System (SNWS). The SNWS is the regional system consisting of water treatment plants, pumping and distribution facilities that supply water to the water purveyors in Southern Nevada. Prior to 1996, the SNWS was owned by the Colorado River Commission and operated by the Las Vegas Valley Water District. In accordance with legislation passed by the Nevada State Legislature during its 1995 session, the SNWS was transferred to the SNWA in January 1996. The Las Vegas Valley Water District will continue to operate the SNWS

Major Water Purveyors. The major water purveyors and the percentages of Colorado River water distributed in the Las Vegas area for the fiscal year ended June 30, 2007, are as follows: Boulder City (2.6%), Henderson (15.0%), and North Las Vegas (11.9%), the Las Vegas Valley Water District (70.1%) and others (0.9%).

Wastewater Treatment Agencies. The wastewater treatment agencies are as follows: Boulder City, City of Henderson, City of Las Vegas, and the Clark County Water Reclamation District.

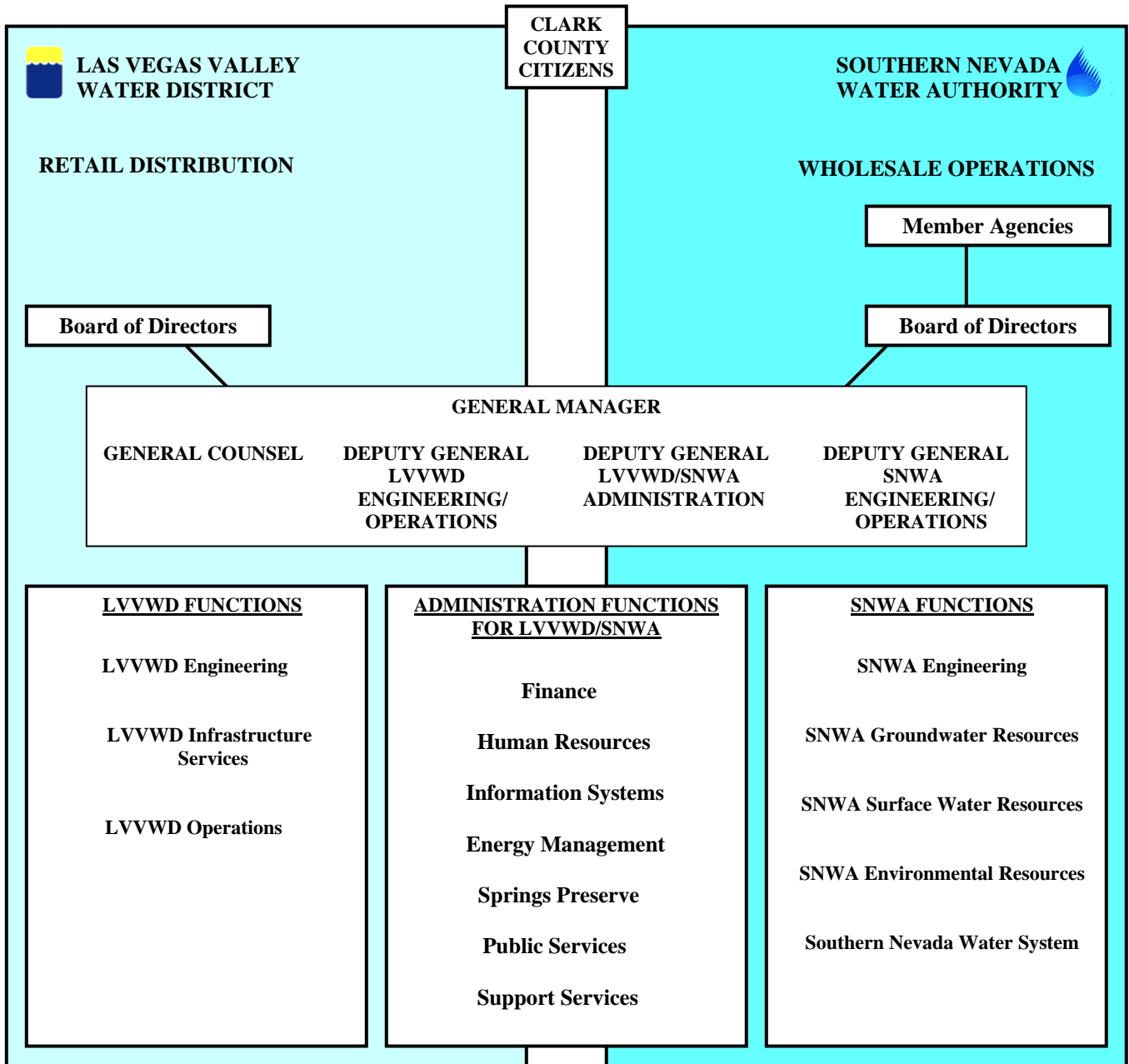
Colorado River Commission (CRC). The CRC is a Nevada State agency created in the mid-1930's to acquire and protect Nevada's right to water and power resources from the Colorado River. Colorado River water is apportioned among the seven Colorado River basin states and Mexico. The seven-member CRC consists of four members appointed by the Governor (including the Chairperson) and three SNWA Board members.

U.S. Bureau of Reclamation (BOR). The U.S. Bureau of Reclamation, Department of the Interior, is responsible for managing the Colorado River for the benefit of the users with rights to Colorado River water. Any changes to the laws governing the Colorado River that would benefit Nevada will require the cooperation and approval of the federal government and all seven of the basin states.

Organizational Structure

The District's organizational structure has evolved to meet the demands of major water facility expansions, conservation, customer service initiatives, and special projects.

Figure 2
Las Vegas Valley Water District
ORGANIZATIONAL CHART



Financial Structure and Controls

The District's financial reporting structure is fund based. A fund is defined as a separate, self-balancing set of accounts used to account for resources that are segregated for specific purposes in accordance with special regulations, restrictions, and/or limitations. The District maintains two funds, a proprietary enterprise fund and a fiduciary pension trust fund. Both funds utilize full-accrual accounting.

Proprietary Fund Type - Enterprise Fund. The Enterprise Fund is used to account for District's operations in a manner similar to private business enterprises. The intent of the District is to establish water user rates sufficient to provide for payment of general operations and maintenance expenses, capital improvements and annual debt service. Revenues are recognized when they are earned, and expenses (including depreciation) are recognized when they are incurred using the full accrual basis of accounting.

Fiduciary Fund Type - Pension Trust Fund. The Pension Trust Fund is used to report the assets and liabilities of the District's defined pension benefit plan and the additions and deductions during the fiscal reporting period. The resources of the Pension Trust Fund are held in trust for the members and beneficiaries of the plan.

Capital and Debt Service Accounting. Capital and debt service finances are accounted for separately within the overall structure of the Enterprise Fund. Bond issuance resolutions require that bond proceeds balances be maintained in restricted acquisition and construction accounts until they are expended. Assets that are restricted for specific purposes (e.g. additions to plant or repayment of bonds) and liabilities payable from such assets are accounted for separately until disposition. Earnings on these assets also are considered restricted. Fund equity is restricted for assets, less related liabilities, that are restricted by law or other externally imposed restrictions, such as bond covenants.

Internal Controls. In developing and evaluating the District's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use or disposition; and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and the evaluation of costs and benefits requires estimates and judgments by management. All internal control evaluations occur within the above framework. The District's internal accounting controls safeguard assets and provide reasonable assurance of proper recording of financial transactions. On an ongoing basis, the District evaluates its internal controls and implements changes to respond to changes in District operations.

Debt Administration. It is the general intent of the District that rates and charges are adequate to provide for all costs, and that reliance on taxes is to be avoided. Ad valorem taxes have never been needed to support the District's operations or debt service. As of June 30, 2009, the District had \$1,676.03 billion in outstanding general obligation debt, of which, \$789.30 million is secured by the pledged revenue of the SNWA, a joint venture between the District and other local governmental and municipal entities. Of the \$789.30 million, \$389.30 million is general obligation bonds and \$400 million is general obligation commercial notes. All applicable bond covenants such as ratios of net income to debt service, sinking funds and insurance coverage have been met or exceeded.

The District does not have a statutory debt limit. In May of 2010, Standard and Poor's Corporation rated the District's general obligation bond issues "AA+", while Moody's Investor Service, Inc. upgraded outstanding District general obligation bonds from a "Aa2" rating to a global rating of "Aa1". District bonds are guaranteed under an insurance policy and advanced refund bonds are rated "Aaa" by Moody's and "AAA" by Standard and Poor's. The general obligation commercial paper notes are rated A-1 by Moody's and p-1 by Standard and Poor's.

Cash Management. During the year, available operating funds are invested in obligations of the United States agencies and in commercial paper with credit ratings of A-1, P-1 or its equivalent, or better. Investments are purchased through recognized and regulated brokers dealing in government securities. Investments are made with the objective of obtaining a market rate of return appropriate in relation to the prevailing budgetary and economic environment. Investments of the District are independently reviewed by an external auditor, and are reported in the District's annual financial report. All investments are held by a bank's trust department in the District's name.

Risk Management. The District employs a multifaceted approach to risk management, which includes the transfer, elimination, avoidance, reduction and/or assumption of risk of loss. The District also purchases all risk insurance (including terrorism insurance) from the commercial insurance market on real and personal property, including earthquake and flood, with common policy restrictions, covering direct physical loss of or damage to buildings, fixtures, equipment, boilers, machinery and supplies. The blanket limit of liability under the property insurance program is \$500 million per location with a deductible of \$1,000,000 per claim for locations valued over \$25,000,000 and \$100,000 for locations valued under \$25,000,000. The program also includes earthquake coverage (\$50,000,000 limit) and flood coverage (\$25,000,000 limit), each having a \$500,000 deductible. The District self-insures the first \$1,000,000 for its automobile and general liability exposure and purchases \$30,000,000 of excess liability insurance. The District also purchases employee fidelity insurance in the amount of \$1,000,000, with a \$25,000 deductible per claim. The District self-insures its workers' compensation exposure up to \$500,000 per claim and purchases excess workers' compensation insurance, which provides statutory limits over the self-insured limit. In contracts, the District obtains indemnification and hold-harmless agreements, and requires that contractors name the District as an additional insured under the indemnitor's insurance coverage of usually \$1 million or \$3 million for commercial, general and automobile liability insurance.

Budget Controls and Process

Budget Controls. By state statutes, the District's budget is approved annually, following a public hearing, by the Board of Directors. The District annually prepares a budget on a modified cash basis. The District also prepares and submits a budget to the Nevada State Department of Taxation in accordance to law based on a full accrual basis. Budgetary controls are established at the levels of total estimated operating and non-operating expenses. A utility or other enterprise is a self-supporting operation of a commercial nature, and the demand for service largely determines the appropriate level of revenues and expenditures. Depending upon the timing and level of the demand for services, expenditures will vary.

Budgetary controls are established at various levels to have effective control over the necessary expenditure. These levels always include departments and divisions and, in some instances,

sections. Most disbursements are made through the issuance of purchase orders. The Support Services Department administers purchases of new furniture, vehicles, and communication equipment. Computer equipment purchases are administered under the authority of the Director of the Information Technology Department. Upon request, Financial Services prepares and distributes monthly and quarterly budget variance reports to departments and divisions, and division managers can electronically access their budget performance using the Oracle Financial System. Division managers are accountable for over/under expenditures. District staffing is controlled by the Human Resources Department.

Budget Process. The District's budget process starts in November of each year, and proceeds with a series of meetings involving department heads. Financial analysis is done to project the revenues under the projected water rate structure. The revenue projections are based on the estimated water the District is planning to deliver in the coming year. The budget reflects the strategies and goals adopted by the District.

District budget staff disseminates current and historical information to managers to assist them in preparation of future budgets within budgeting guidelines. The budget process consists of three major phases. The first phase includes preparing new requests for capital and staff positions for the new fiscal year. The second phase consists of preparing department-operating budgets, including payroll. Payroll is estimated based on current approved positions and factors based on historical adjustments throughout the year. The third phase involves department directors, managers and supervisors meeting with the District's executive management to justify expenditure requests. After all the departments' budgets have been reviewed and approved by the General Manager's Office, the budget is consolidated for the entire District, and an initial proposed budget document is submitted to the Nevada State Department of Taxation by April 15. The state then reviews the proposed budget and issues a notice of compliance or noncompliance with the statutory laws of the State of Nevada.

The District, in late April or early May, conducts a working session with the Board of Directors to review the proposed budget in detail. On the third Monday in May, the District's Board of Directors conducts a public hearing to allow the public an opportunity to discuss the proposed budget, and after discussion and/or amendment the proposed budget receives final approval from the Board. The approved final budget document is filed with the State of Nevada. Once approved and filed, copies of their budgets are provided to departments. The approved budget is implemented on July 1, the first day of the new fiscal year.

Budget Augmentation. Nevada State law (NRS 354.493) defines budget augmentation as a procedure for increasing appropriations of a fund with the express intent of employing unbudgeted resources to carry out the purpose for the increased appropriations. To augment the budget, the Board must adopt a resolution providing for an augmentation at a regular meeting of the Board by majority vote of all members. Budget augmentation becomes effective when an executed copy of the resolution for augmentation is delivered to the State Department of Taxation.

Budget Schedule for the 2010/2011 Fiscal Year.

Dec. 3 Budget instructions and calendar are sent to department directors and managers to assist them in the preparation of capital, payroll and operating expense budgets.

- Dec. 3-14 Financial Services staff meets with Department directors to discuss and coordinate budget process and budget schedule.
- Dec. 10 Financial Services transmits operating expense histories for the prior two years and current year budget to departments to assist them in the preparation of their budgets.
- Dec. 14 Human Resources distributes' position control lists to departments to verify existing permanent positions. Any discrepancies in department position control lists must be resolved with Human Resources no later than January 14, 2010.**
- Dec. 14 Human Resources distributes list of existing intern, temporary, and summer hire positions to Departments for their review. Departments wishing to renew or eliminate any existing intern, temporary, and/or summer hire positions must notify Human Resources of any such changes no later than January 14, 2010. This information will then be forwarded to Finance for inclusion in the payroll budget.
- Dec. 14-
Jan. 7 Departments meet with Human Resources to determine appropriate position classifications, salary/pay rates, and levels of temporary positions.
- Jan. 4 Financial Services distributes SNWA payroll charges survey to LVVWD departments incurring payroll expense on behalf of the SNWA.
- Jan. 4 Financial Services staff meets with department directors and managers to assist them in 21 preparing their operating expense budgets.
- Jan. 14 Departments submit to Human Resources any changes to position control lists which were distributed in December. (Exhibit 4)**
- Jan. 14 Departments submit to Human Resources final requests for interns, temporary, and summer hire positions.**
- Jan. 25 Departments submit to Financial Services 2010/2011 operating capital requests.
- Jan. 25 Final department operating expense budgets are submitted to Financial Services. (Exhibit 5)**
- Jan. 25 Departments submit to Financial Services estimated 2010/2011 SNWA payroll charges and requests for capitalized labor, overtime, stand-by time, etc.
- Jan. 28 Financial Services distributes major data processing and equipment requests to Information Technology and Support Services for review/ coordination.
- Jan. 28 Human Resources forwards list of existing intern, temporary, and summer hire position renewals to Finance for budgeting.**
- Feb. 1 Financial Services sends budget narrative instructions to departments.

- Feb. 11 Information Technology and Support Services forwards final 2010/2011 department capital and data processing requests and changes/comments to Financial Services.
- Feb. 18 Draft copies of capital and operating budgets are sent to department directors for their review and approval.
- Feb. 22 Financial Services staff begins to assist departments in preparing data for GM meeting presentations.
- Mar. 1 Departments submit their budget narratives and performance measures to Financial Services. Financial Services begins to draft budget document.**
- Mar. 1-4 Financial Services staff conducts budget overview briefing for Executive Managers.**
- Mar. 11 General Managers conduct budget meetings with departments to review Departments' proposed budgets.**
- Mar. 22- Apr. 1 General Managers conduct their final review and make final budget decisions with department directors.**
- Apr. 15 Proposed budget is filed with the State Department of Taxation and the Board of Directors.
- Apr. 15- May 6 Budget workshop is conducted for LVVWD, SNWA, Big Bend, and Coyote Springs Boards of Directors**
- May 3 Financial Services completes proposed budget documents for the Boards.**
- May 3 Financial Services publishes notice of public hearings on proposed budgets in local newspapers.**
- May 17 Board of Directors conducts a public hearings on the proposed budgets and review budgets for possible adoption for LVVWD, Big Bend, and Coyote Springs.
- May 20 Board of Directors conducts a public hearings on the proposed budgets and review budgets for possible adoption for SNWA.
- May 31 Financial Services sends adopted budgets to the Nevada State Department of Taxation.**
- Jun. 1 Adopted budgets are sent to department directors and managers.
- Jun. 30 Financial Services completes final approved budget documents.
- Jul. 1 Financial Services publishes annual summary fiscal report in local newspapers for LVVWD, SNWA, Big Bend, and Coyote Springs.
- Aug. 12 Finance submits proof of publication of fiscal report to Department of Taxation.

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