

TOPAZ RANCH ESTATES
GENERAL IMPROVEMENT DISTRICT

FINANCIAL STATEMENTS

FOR THE YEAR THEN ENDED
JUNE 30, 2016



TOPAZ RANCH ESTATES GENERAL IMPROVEMENT DISTRICT
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 FOR THE YEAR ENDED JUNE 30, 2016

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Topaz Ranch Estates General Improvement District
Wellington, Nevada

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activity, the business-type activity, each major fund, and the aggregate remaining fund information of the Topaz Ranch Estates General Improvement District as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinions, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activity, the business-type activity, each major fund, and the aggregate remaining fund information of the Topaz Ranch Estates General Improvement District, as of June 30, 2016, and

the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

As described in Note 1, the District implemented the financial reporting model, required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. However, Topaz Ranch Estates General Improvement District has not presented Management’s Discussion and Analysis for the year ended June 30, 2016. Although not a required part of the basic financial statements, the Management’s Discussion and Analysis is supplementary information that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Topaz Ranch Estates General Improvement District’s basic financial statements. The combining and individual fund financial statements and schedules for June 30, 2016 and 2015 listed in the table of contents as supplemental information, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements and schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2016, on our consideration of the Topaz Ranch Estates General Improvement 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 Topaz Ranch Estates General Improvement District’s internal control over financial reporting and compliance.

VT Williams & Associates, LLP

November 22, 2016



TOPAZ RANCH ESTATES GENERAL IMPROVEMENT DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2016

| | Governmental Activities | Business-Type Activities | Total Primary Government |
|---|----------------------------|-----------------------------|-----------------------------|
| ASSETS: | | | |
| Cash and cash equivalents | \$ 367,552 | \$ 756,414 | \$ 1,123,966 |
| Accounts receivable: | | | |
| User fees, net | - | 77,860 | 77,860 |
| Taxes | 19,223 | - | 19,223 |
| Prepaid expenses and other assets | 4,721 | 9,161 | 13,882 |
| Internal balances, net | 1,786 | (1,786) | - |
| Restricted/reserved cash | - | 527,358 | 527,358 |
| Capital assets: | | | |
| Land | 6,096 | 42,814 | 48,910 |
| Construction in progress | - | 331,224 | 331,224 |
| Depreciable buildings, property, equipment and infrastructure, net of accumulated depreciation | <u>50,140</u> | <u>3,645,674</u> | <u>3,695,814</u> |
| Total assets | <u>449,518</u> | <u>5,388,719</u> | <u>5,838,237</u> |
| LIABILITIES: | | | |
| Accounts payable and accrued liabilities | 1,881 | 50,772 | 52,653 |
| Customer deposits | - | 15,287 | 15,287 |
| Employee compensation liabilities | 2,043 | 8,333 | 10,376 |
| Noncurrent liabilities: | | | |
| Notes payable-current portion | 35,866 | 16,435 | 52,301 |
| Notes payable-due in more than one year | <u>-</u> | <u>948,433</u> | <u>948,433</u> |
| Total liabilities | <u>39,790</u> | <u>1,039,260</u> | <u>1,079,050</u> |
| NET POSITION: | | | |
| Net investment in capital assets | 20,370 | 3,054,844 | 3,075,214 |
| Restricted for special purposes | - | 527,358 | 527,358 |
| Unrestricted | <u>389,358</u> | <u>767,257</u> | <u>1,156,615</u> |
| Total net position | <u>\$ 409,728</u> | <u>\$ 4,349,459</u> | <u>\$ 4,759,187</u> |

The accompanying notes are an integral part of this financial statement.

TOPAZ RANCH ESTATES GENERAL IMPROVEMENT DISTRICT

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2016

| Functions/Programs | Expenses | Program Revenues | | Net (Expense) Revenue and Changes in Net Position | | |
|------------------------------------|------------|----------------------|------------------------------------|---|-------------------------|--------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activities |
| Primary government: | | | | | | |
| Governmental activities: | | | | | | |
| Public works | \$ 192,263 | \$ - | \$ - | \$ - | \$ - | \$ - |
| Total governmental activities | 192,263 | - | - | (192,263) | - | (192,263) |
| Business-type activities: | | | | | | |
| Water | 512,208 | 507,025 | - | - | (5,183) | (5,183) |
| Total business-type activities | 512,208 | 507,025 | - | - | (5,183) | (5,183) |
| Total primary government | \$ 704,471 | \$ 507,025 | \$ - | \$ - | \$ (192,263) | \$ (197,446) |
| General Revenues: | | | | | | |
| Ad valorem taxes | | | | \$ 164,718 | \$ - | \$ 164,718 |
| Consolidated taxes | | | | 67,133 | - | 67,133 |
| Interest earnings | | | | 600 | 2,141 | 2,741 |
| Miscellaneous | | | | 5,969 | 7,359 | 13,328 |
| Loss on disposal of capital assets | | | | - | (13,990) | (13,990) |
| Total general revenues | | | | 238,420 | (4,490) | 233,930 |
| Changes in net position | | | | 46,157 | (9,673) | 36,484 |
| Contributions in excess of cost | | | | - | - | - |
| Net position - beginning of year | | | | 363,571 | 4,359,132 | 4,722,703 |
| Net position-end of year | | | | <u>\$ 409,728</u> | <u>\$ 4,349,459</u> | <u>\$ 4,759,187</u> |

The accompanying notes are an integral part of this financial statement.

TOPAZ RANCH ESTATES GENERAL IMPROVEMENT DISTRICT

**BALANCE SHEET
GOVERNMENTAL FUND - GENERAL FUND**

JUNE 30, 2016

ASSETS:

| | |
|------------------------------------|-------------------|
| Cash | \$ 367,552 |
| Taxes receivable | 19,223 |
| Prepaid insurance and other assets | 4,721 |
| Due from Enterprise Fund | 1,786 |
| TOTAL ASSETS | <u>\$ 393,282</u> |

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE

LIABILITIES:

| | |
|-----------------------------------|--------------|
| Accounts payable | \$ 1,749 |
| Employee compensation liabilities | 2,043 |
| Other liabilities | 132 |
| TOTAL LIABILITIES | <u>3,924</u> |

DEFERRED INFLOWS OF RESOURCES

| | |
|-------------------------------------|--------------|
| Deferred revenue - property taxes | <u>5,754</u> |
| TOTAL DEFERRED INFLOWS OF RESOURCES | <u>5,754</u> |

FUND BALANCE:

| | |
|--------------------|----------------|
| Nonspendable | 4,412 |
| Assigned | 276,501 |
| Unassigned | 102,691 |
| TOTAL FUND BALANCE | <u>383,604</u> |

| | |
|---|-------------------|
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE | <u>\$ 393,282</u> |
|---|-------------------|

The accompanying notes are an integral part of this financial statement.

TOPAZ RANCH ESTATES GENERAL IMPROVEMENT DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE TO THE
GOVERNMENT-WIDE STATEMENT OF NET POSITION OF GOVERNMENTAL ACTIVITIES**

JUNE 30, 2016

| | |
|---|------------------------------|
| Total Fund Balance - Total Governmental Fund | \$ 383,604 |
| Amounts reported for Governmental Activities in the Statement of Net Position are different because: | |
| Capital assets, net of accumulated depreciation, used in Governmental Activities are not current financial resources and therefore are not reported in the Governmental Fund Balance Sheet. | 56,236 |
| Some property tax will not be collected for several months after the District's fiscal year, they are not considered "available" revenues in the Governmental Funds Balance Sheet. | 5,754 |
| Long-term notes payable are not due and payable in the current period and therefore are not reported in the Governmental Fund Balance Sheet. | <u>(35,866)</u> |
| Net Position of Governmental Activities | <u>\$ 409,728</u> |

The accompanying notes are an integral part of this financial statement.

TOPAZ RANCH ESTATES GENERAL IMPROVEMENT DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUND TYPE
GENERAL FUND**

YEAR ENDED JUNE 30, 2016

REVENUES:

| | | |
|----------------------|----|----------------|
| Ad valorem tax | \$ | 163,903 |
| Consolidated tax | | 67,133 |
| Interest earned | | 600 |
| Miscellaneous income | | <u>5,969</u> |
| TOTAL REVENUES | | <u>237,605</u> |

EXPENDITURES:

| | | |
|-----------------------------|--|----------------|
| Public works | | |
| Current operations: | | |
| Salaries and wages | | 50,309 |
| Employment benefits | | 22,422 |
| Services and supplies | | 72,057 |
| Debt service: | | |
| Principal | | 34,334 |
| Interest and fiscal charges | | <u>2,288</u> |
| TOTAL EXPENDITURES | | <u>181,410</u> |

EXCESS OF REVENUES OVER EXPENDITURES 56,195

NET CHANGES IN FUND BALANCE 56,195

FUND BALANCE, BEGINNING OF YEAR 327,409

FUND BALANCE, END OF YEAR \$ 383,604

The accompanying notes are an integral part of this financial statement.

TOPAZ RANCH ESTATES GENERAL IMPROVEMENT DISTRICT

RECONCILIATION OF THE GOVERNMENT FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE GOVERNMENT- WIDE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2016

| | |
|---|-------------------------|
| Net Changes In Fund Balance - Total Governmental Fund | \$ 56,195 |
| Amounts reported for Governmental Activities in the Statement of Activities are different because: | |
| Some property tax will not be collected for several months after the District's fiscal year ended June 30, 2016, and as such, they are not considered "available" revenues in the Governmental Funds. | 5,754 |
| Some property tax was not collected for several months after the District's fiscal year ended June 30, 2015, and as such, they were not considered "available" revenues in the Governmental Funds. These revenues were collected during the District's fiscal year ended June 30, 2016. | (4,939) |
| Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities and Changes in Net Position, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in the Governmental Fund. | (45,187) |
| The issuance of long-term notes payable provides current financial resources to the Governmental Fund, while the repayment of the principal of long-term notes payable consumes the current financial resources of the Governmental Fund. Neither type of transaction, however, has any effect on the changes in net assets. This amount is the effect of this difference in the treatment of general fund notes payable. | <u>34,334</u> |
| Changes In Net Position of Governmental Activities | <u>\$ 46,157</u> |

The accompanying notes are an integral part of this financial statement.

TOPAZ RANCH ESTATES GENERAL IMPROVEMENT DISTRICT

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND**

YEAR ENDED JUNE 30, 2016

| | Original Budget | Final Budget | 2016 Actual | Variance Favorable (Unfavorable) |
|---|--------------------|-------------------|-------------------|--|
| REVENUES: | | | | |
| Ad valorem tax | \$ 158,052 | \$ 158,052 | \$ 163,903 | \$ 5,851 |
| Consolidated tax | 66,477 | 66,477 | 67,133 | 656 |
| Interest earned | 500 | 500 | 600 | 100 |
| Miscellaneous income | <u>1,700</u> | <u>1,700</u> | <u>5,969</u> | <u>4,269</u> |
| TOTAL REVENUES | <u>226,729</u> | <u>226,729</u> | <u>237,605</u> | <u>10,876</u> |
| EXPENDITURES: | | | | |
| General government: | | | | |
| Public works | | | | |
| Current operations: | | | | |
| Salary and wages | 70,600 | 70,600 | 50,309 | 20,291 |
| Employment benefits | 21,705 | 31,305 | 22,422 | 8,883 |
| Services and supplies | 104,347 | 94,847 | 72,057 | 22,790 |
| Capital outlay | 3,500 | 3,400 | - | 3,400 |
| Debt service: | | | | |
| Principal | 34,334 | 34,334 | 34,334 | - |
| Interest | <u>2,532</u> | <u>2,532</u> | <u>2,288</u> | <u>244</u> |
| TOTAL EXPENDITURES | <u>237,018</u> | <u>237,018</u> | <u>181,410</u> | <u>55,608</u> |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | <u>(10,289)</u> | <u>(10,289)</u> | <u>56,195</u> | <u>66,484</u> |
| NET CHANGES IN FUND BALANCE | (10,289) | (10,289) | 56,195 | 66,484 |
| FUND BALANCE, BEGINNING OF YEAR | <u>297,740</u> | <u>297,740</u> | <u>327,409</u> | <u>29,669</u> |
| FUND BALANCE, END OF YEAR | <u>\$ 287,451</u> | <u>\$ 287,451</u> | <u>\$ 383,604</u> | <u>\$ 96,153</u> |

The accompanying notes are an integral part of this financial statement.

TOPAZ RANCH ESTATES GENERAL IMPROVEMENT DISTRICT

STATEMENT OF NET POSITION PROPRIETARY FUND - WATER ENTERPRISE FUND

JUNE 30, 2016

ASSETS

CURRENT ASSETS:

| | |
|---|----------------|
| Cash and cash equivalents | \$ 756,414 |
| Accounts receivable, net of allowance of \$13,076 | 77,860 |
| Prepaid expenses | <u>9,161</u> |
| TOTAL CURRENT ASSETS | <u>843,435</u> |

CAPITAL ASSETS:

| | |
|--------------------------------|--------------------|
| Property, plant and equipment | 5,320,979 |
| Less: accumulated depreciation | <u>(1,301,267)</u> |
| NET CAPITAL ASSETS | <u>4,019,712</u> |

OTHER ASSETS:

| | |
|--------------------------|----------------|
| Restricted/reserved cash | <u>527,358</u> |
| TOTAL OTHER ASSETS | <u>527,358</u> |

| | |
|--------------|------------------|
| TOTAL ASSETS | <u>5,390,505</u> |
|--------------|------------------|

LIABILITIES

CURRENT LIABILITIES:

| | |
|-----------------------------------|---------------|
| Accounts payable | 50,460 |
| Due to General Fund | 1,786 |
| Accrued interest | 312 |
| Employee compensation liabilities | 8,333 |
| Customer deposits | 15,287 |
| Notes payable - current portion | <u>16,435</u> |
| TOTAL CURRENT LIABILITIES | <u>92,613</u> |

NONCURRENT LIABILITIES:

| | |
|---|----------------|
| Notes payable - due in more than one year | <u>948,433</u> |
|---|----------------|

| | |
|-------------------|------------------|
| TOTAL LIABILITIES | <u>1,041,046</u> |
|-------------------|------------------|

NET POSITION:

| | |
|---|---------------------|
| Net investment in capital assets | 3,054,844 |
| Restricted for asset replacement and debt service | 527,358 |
| Unrestricted | <u>767,257</u> |
| TOTAL NET POSITION | <u>\$ 4,349,459</u> |

The accompanying notes are an integral part of this financial statement.

TOPAZ RANCH ESTATES GENERAL IMPROVEMENT DISTRICT

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUND - WATER ENTERPRISE FUND**

YEAR ENDED JUNE 30, 2016

| | |
|---|---------------------|
| OPERATING REVENUES: | |
| Charges for water service | \$ 507,025 |
| Miscellaneous income | <u>7,359</u> |
| TOTAL OPERATING REVENUES | <u>514,384</u> |
| OPERATING EXPENSES: | |
| Salaries, wages, benefits | 194,232 |
| Services and supplies | 138,000 |
| Depreciation | <u>113,367</u> |
| TOTAL OPERATING EXPENSES | <u>445,599</u> |
| INCOME FROM OPERATIONS | <u>68,785</u> |
| NON-OPERATING REVENUES (EXPENSES): | |
| Interest expense incurred | (44,018) |
| Debt issuance costs | (22,591) |
| Interest earned | 2,141 |
| Loss on disposal of capital assets | <u>(13,990)</u> |
| TOTAL NON-OPERATING REVENUES (EXPENSES) | <u>(78,458)</u> |
| LOSS BEFORE CONTRIBUTIONS | <u>(9,673)</u> |
| CONTRIBUTIONS IN EXCESS OF COST | - |
| CHANGES IN NET POSITION | <u>(9,673)</u> |
| TOTAL NET POSITION - beginning of year | <u>4,359,132</u> |
| TOTAL NET POSITION - end of year | <u>\$ 4,349,459</u> |

The accompanying notes are an integral part of this financial statement.

TOPAZ RANCH ESTATES GENERAL IMPROVEMENT DISTRICT

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND - WATER ENTERPRISE FUND**

YEAR ENDED JUNE 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES:

| | |
|---|------------------|
| Cash received from customers | \$ 505,592 |
| Cash payments to suppliers for goods and services | (117,230) |
| Cash payments to employees for wages and benefits | <u>(197,906)</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>190,456</u> |

CASH FLOWS FROM CAPITAL AND RELATED
FINANCING ACTIVITIES:

| | |
|---|------------------|
| Acquisition of capital assets | (1,693) |
| Acquisition of waterline project related capital assets | (331,224) |
| Payments on notes payable | (411,657) |
| Proceeds from debt issuance | 407,227 |
| Cash paid for interest | (45,156) |
| Increase in restricted/reserved cash | <u>88,337</u> |
| NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES | <u>(294,166)</u> |

CASH FLOWS FROM INVESTING ACTIVITIES:

| | |
|---|--------------|
| Interest on investments | <u>2,141</u> |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | <u>2,141</u> |

NET DECREASE IN CASH AND CASH EQUIVALENTS (101,569)

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 857,983

CASH AND CASH EQUIVALENTS, END OF YEAR \$ 756,414

The accompanying notes are an integral part of this financial statement.

TOPAZ RANCH ESTATES GENERAL IMPROVEMENT DISTRICT

**STATEMENT OF CASH FLOWS (cont'd)
PROPRIETARY FUND - WATER ENTERPRISE FUND**

YEAR ENDED JUNE 30, 2016

RECONCILIATION OF OPERATING INCOME TO NET CASH
PROVIDED BY OPERATING ACTIVITIES

| | |
|---|-------------------|
| Income from operations | <u>\$ 68,785</u> |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Depreciation | 113,367 |
| Increase in accounts receivable | (8,429) |
| Increase in prepaid expenses and other assets | (963) |
| Decrease in due to other fund | (563) |
| Increase in accounts payable- trade | 21,733 |
| Decrease in employee compensation liabilities | (3,675) |
| Decrease in customer deposits | <u>201</u> |
| Net cash provided by operating activities | <u>\$ 190,456</u> |

The accompanying notes are an integral part of this financial statement.

TOPAZ RANCH ESTATES GENERAL IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Topaz Ranch Estates General Improvement District (the “District”) is governed by an elected Board of Trustees and provides water service, street maintenance and snow removal. Water services accounted for in the Water Enterprise Fund commenced on December 16, 1997. The District is located in Wellington, Nevada and operates under provisions of the Nevada Revised Statutes (NRS) Chapter 318.

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP), as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for governmental accounting and financial reporting principles. The District’s financial statements are prepared in accordance with GAAP, including implementation of GASB Statement (GASB) No. 34. The more significant of the District’s accounting policies are described below.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. GASB No. 34 required a Management Discussion and Analysis (MD&A) section to be included in the financial statements, providing an analysis of the District’s overall financial position and results of operations. Management has elected to omit the MD&A section for the year ended June 30, 2016; information which is necessary to supplement although not required to be part of the basic financial statements.

Financial Reporting Entity – The financial statements of the District consist only of the governmental and business-type activities of the District. The District is not financially accountable for or to any other governmental entity since no other entities are considered to be controlled by or dependent on the District. Control or dependence is determined on the basis of budget adoption, taxing authority, funding, and selection of the respective governing board.

Basic Financial Statements-Government-Wide Statements – The District’s basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District’s major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The District’s public works and general administrative services are classified as governmental activities. The District’s water service is classified as a business-type activity.

In the government-wide Statement of Net Position, both the governmental and business-type activities columns are presented on a consolidated basis by column, and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District’s net position is reported in three parts—net investment in capital assets; restricted net assets; and unrestricted net assets.

TOPAZ RANCH ESTATES GENERAL IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

The government-wide Statement of Activities reports both the gross and net cost of the District's function (public works) and business-type activity. The public works function is also supported by general government revenues (property, consolidated (principally sales and use) taxes, and interest earnings). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, and capital grants. Program revenues must be directly associated with the function (public works) or a business-type activity. Capital grants include capital-specific grants, if applicable.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net position resulting from the current year's activities.

Basic Financial Statements-Fund Financial Statements – The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, fund balance or net position, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The following fund types are used by the District:

1. Governmental Fund:

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental fund of the District:

- a. The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Proprietary Fund:

The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The following is a description of the proprietary fund of the District:

TOPAZ RANCH ESTATES GENERAL IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

- a. The Enterprise Fund is required to be used to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or (c) establishes fees and charges based on a pricing policy designed to recover similar costs.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. GASB No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The General Fund and Water Enterprise Fund are both major funds of the District.

Basis of Accounting – Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

1. Accrual:

Both governmental and business-type activities in the government-wide financial statements and the proprietary fund financial statements are presented on the accrual basis of accounting.

Revenues are recognized when earned and expenses are recognized when incurred. These financial statements use the economic resources measurement focus.

2. Modified Accrual:

The governmental funds financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. “Available” means collectible within the current period or within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due. General Fund capital asset acquisitions are reported as expenditures in governmental funds. Proceeds from sale of capital assets and operating transfers are reported as other financing sources.

TOPAZ RANCH ESTATES GENERAL IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Assets, Liabilities and Net Position

Cash and Cash Equivalents – The District has defined cash and cash equivalents to include cash on hand, demand deposits, and cash invested in the State of Nevada investment pools.

The District implemented GASB No. 72, Fair Value Measurement and Application during the current fiscal year. GASB No. 72 requires additional disclosure relating to fair value measurements, the level of fair value hierarchy, and valuation techniques on certain assets and liabilities. GASB No. 72 applies to the State of Nevada Local Government Investment Pool ("LGIP") account, therefore required disclosures can be found in Note 2 to the financial statements

Prepaid items – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Capital Asset – Capital assets purchased or acquired with an original cost of \$1,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

| | |
|----------------------------|------------|
| Improvements | 7-20 years |
| Water distribution systems | 7-65 years |
| Trucks and Equipment | 3-10 years |

GASB No. 34 requires the District to report and depreciate new infrastructure assets effective with the beginning of fiscal year 2004. Infrastructure assets include roads, bridges, underground pipe (other than related to utilities), traffic signals, etc. These infrastructure assets are the largest asset class of the District. Neither their historical cost nor related depreciation has historically been reported in the financial statements. The retroactive reporting of infrastructure is not required for the District. The District elected to implement the general provisions of GASB No. 34 beginning in the fiscal year 2004, and did not implement the retroactive infrastructure provisions.

In June 2007, the Governmental Accounting Standards Board ("GASB") issued GASB No. 51, *Accounting and Financial Reporting for Intangible Assets* ("GASB No. 51"), which provides guidance regarding how to identify, account for and report intangible assets. GASB No. 51 requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. GASB No. 51 requires that an intangible asset be recognized in the statement of net assets only if it is

TOPAZ RANCH ESTATES GENERAL IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

considered identifiable. GASB No. 51 is effective for periods beginning after June 15, 2009, however, the District chose to early implement this standard during the year ended June 30, 2009, and did not implement the retroactive reporting provisions. The District acquired all water rights prior to implementation of GASB No. 51 and as such, there is a zero carrying value associated with these assets.

Revenues – Substantially all governmental fund revenues are recognized under modified accrual principles.

Property taxes are levied on July 1 of each year, and are due in four equal installments in August, October, January, and March. Taxes are considered delinquent if not paid within ten days of the due dates. The District does not directly collect any taxes. All taxes are collected by the County or State and remitted to the District. Property tax revenues are recognized when they become measurable and available. Available includes current and prior year's property taxes collected by the District within sixty days after year-end, whether or not the proceeds were collected by the County prior to year-end. Other taxes are recognized when in the hands of the County or State, and therefore generally received within sixty days after year-end.

Provision for Uncollectible Taxes – The District recognizes in deferred revenue the delinquent taxes not received in the next two tax settlements after year end. Deferred revenue at June 30, 2016, is \$5,754.

Allowance for Uncollectible Accounts – The District estimates the allowance for uncollectible water customer accounts receivable based on the historical collection data that is available and on evaluation of the collectability of the outstanding accounts receivable.

Interfund Activity – Interfund activity is reported as reimbursements or transfers, which are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation.

Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

Expenditures - Expenditures are recognized when the related governmental fund liability is incurred.

TOPAZ RANCH ESTATES GENERAL IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Employee Compensation Liabilities – The District accrues a liability for employee compensation liabilities which meet all of the following criteria:

1. The District's obligation relating to employee's rights to receive compensation for future absences is attributable to services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of the compensation is probable.
4. The amount can be reasonably estimated.

Vested or accumulated vacation and sick leave of the District is recorded as an expense and liability as the benefits accrue to employees.

Vacation and sick leave may be accumulated by employees up to certain maximums, and is payable upon retirement or termination. The District charges all accrued vacation and sick pay to the proprietary fund. Total sick and vacation pay accrued amounted to \$90 at June 30, 2016, and is included within the employee compensation liabilities line item of \$8,333.

There is no retirement plan provided to the employees of the District.

Loan Costs - The District adopted Statement of Governmental Accounting Standards (GASB Statement) No. 65, Items Previously Reported as Assets and Liabilities, for the year ended June 30, 2014. GASB No. 65 provides that debt issuance costs should be recognized as an expense in the period incurred.

Deferred outflows/inflows of resources – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The government does not have any items that qualify for reporting in this category for the year ended June 30, 2016.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category.

TOPAZ RANCH ESTATES GENERAL IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Accordingly, the item, deferred revenue, is reported only in the governmental funds balance sheet. The governmental funds report deferred revenue from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

Budgets and Budgetary Accounting - The District submits an annual budget to the Nevada Department of Taxation pursuant to the Local Government Budget Act set forth in chapter 354 of the Nevada Revised Statutes. These statutes have provisions for preparation, filing, notice, public hearing, and adoption in connection with the budgetary process for Nevada governments.

Budgets for all funds, are adopted on a basis consistent with generally accepted accounting principles (GAAP). The proprietary fund also budgets using the Total Sources and Use of economic resources. All annual appropriations lapse at fiscal year-end. Budgets are required by law for all governmental fund types and proprietary fund types.

Excess Of Expenditures Over Budget – Expenditures may not legally exceed budgeted appropriations at the fund or function level; for proprietary funds, expenditures include operating and non-operating expenses only, however, an exception is provided in the statutes for debt service payments.

Budget augmentations, amendments, and transfers of appropriations may be authorized by the Board of Trustees during the year. During the current fiscal year, there was a budget augmentation in the Water Fund and transfers of spending authority within the General and Water Fund fiscal budgets. Both the augmentation and transfers of spending authority were properly authorized by the Board of Trustees during the year.

Net Position - In the proprietary fund and the government-wide financial statements, net position is presented in one of three components: net investment in capital assets, restricted and unrestricted. The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by outstanding balances on notes that are attributable to the acquisition, construction or improvement of those assets. The restricted component of net position consists of restricted assets reduced by liabilities related to those assets. The unrestricted component of net position is the net amount of assets and liabilities not included in the determination of net investment of capital assets or the restricted component.

TOPAZ RANCH ESTATES GENERAL IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

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.

NOTE 2 – CASH AND CASH EQUIVALENTS

The detail of cash and cash equivalents is as follows:

| | <u>Carrying Value</u> |
|------------------------------------|-----------------------|
| Cash on Hand | \$ 300 |
| Cash in Bank - City National Bank | <u>1,104,997</u> |
| Total Cash | 1,105,297 |
| State of Nevada Investment Pools | <u>546,027</u> |
| Total | 1,651,324 |
| Less: Restricted Cash (see Note 3) | <u>(527,358)</u> |
| Total Cash and Cash Equivalents | <u>\$ 1,123,966</u> |

The cash in bank balances are covered by federal depository insurance coverage up to \$250,000 per depositor and per insured bank. There are cash deposits of \$870,094 in excess of the \$250,000 federal insurance limit at June 30, 2016. The full amount of this excess is collateralized as part of the State of Nevada collateral pool as of June 30, 2016.

Concentration of credit risk - The cash in the Government Investment Pool is invested in an interest-bearing State of Nevada Local Government Investment Pool (the “State Pool”), into which deposits from other Nevada governmental units are combined. Copies of the State Pool separate financial statements can be obtained on the Nevada State Treasurer website. The State Pool is an unrated external investment pool. The carrying value of the cash deposited and investment income in the State Pool approximated its fair value at June 30, 2016. The State Pool is required by state statutes to hold securities, which collateralize deposits made to it. The average weighted maturity and rate risk of the State Pool was 142 days as of June 30, 2016.

TOPAZ RANCH ESTATES GENERAL IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 2 – CASH AND CASH EQUIVALENTS – (CONTINUED)

Fair Value Measurements – State of Nevada Local Government Investment Pool

Although treated as cash equivalents for the District's financial statements, as a stand-alone activity, the State of Nevada Local Government Investment Pool is subject to the fair value accounting under GASB No. 72 - *Fair Value Measurement and Application*. The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Fair value and level inputs were obtained from the State Securities custodian, Bank of New York Mellon.

The District has the following recurring fair value measurements relating to their investment in the State of Nevada Local Government Investment Pool as of June 30, 2016:

| | <u>Governmental Activities General Fund</u> | <u>Business-Type Activities Water Fund</u> | <u>Total Primary Government</u> |
|---------|---|--|-------------------------------------|
| Level 1 | \$ 42,346 | \$ 106,392 | \$ 148,738 |
| Level 2 | 113,108 | 284,181 | \$ 397,289 |
| | <u>155,454</u> | <u>390,573</u> | <u>\$ 546,027</u> |

NOTE 3 – RESTRICTED/RESERVED CASH

Restricted and/or reserved cash within the proprietary fund, invested in four separate State Pool accounts and one City National Bank account, consists of the following as of June 30, 2016:

| | |
|---|-------------------|
| Restricted cash for capital replacement (AB-198) | \$ 190,625 |
| Restricted debt service reserve (USDA) | 45,705 |
| Restricted cash from water rights sales for USDA loan repayment | 3,198 |
| Short lived asset reserve (not restricted) for USDA loan | 151,045 |
| Water project account reserve | <u>136,785</u> |
| Total Restricted/Reserved Cash | <u>\$ 527,358</u> |

TOPAZ RANCH ESTATES GENERAL IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 3 – RESTRICTED CASH– (CONTINUED)

The District’s proprietary fund is required to set aside monies each year equal to the depreciation on assets acquired using AB-198 grant funds. The restricted cash can only be used for existing capital replacement projects on existing capital assets purchased using AB-198 grant funds. As of June 30, 2016, the activity in the reserve account is as follows:

| | | |
|--|----------------|-------------------------|
| Prior year accumulated depreciation | | \$ 470,930 |
| Current year required reserve funding | | <u>24,480</u> |
| Total depreciation reserve | | 495,410 |
| Reserves spent for repairs to water system | | |
| Prior years expenditures | \$ 71,570 | |
| Current year expenditures | <u>266,000</u> | <u>337,570</u> |
| Required reserves at year end | | 157,840 |
| Restricted cash at June 30, 2016 | | <u>190,625</u> |
| Amount over funded | | <u><u>\$ 32,785</u></u> |

The District’s proprietary fund is required to set aside monies each year equal to 1/10 of its annual USDA loan payments (see Note 6). The restricted cash can only be used with prior approval from the USDA. As of June 30, 2016, the required amount of restricted cash for loan repayment was \$21,563. As of June 30, 2016, the restricted cash for loan repayment totaled \$45,705.

The District’s proprietary fund began selling water rights during the year ended June 30, 2008. The proceeds from these sales are to be kept in a separate bank account until such time when enough money is held to pay off the remaining USDA loans (see Note 5). The cash received during the year ended June 30, 2009 was used to pay off the first USDA loan. \$181,666 was applied towards the loan principal, reducing the outstanding balance to zero, during the year ended June 30, 2009. After the loan payoff and addition of interest income through June 30, 2016, \$3,198 of water rights proceeds remained in the account. There were no water rights sales during the year ended June 30, 2016 and a total of 873.455 acre feet of water rights were available annually by the District as of June 30, 2016. Of the total water rights, 58.20 acre feet have previously been approved for sale by the District as of June 30, 2016.

The District’s proprietary fund is required to set aside monies each year equal to \$684 per month. This amount was revised from the previous requirement of \$2,849 per month and made effective by the USDA on April 15, 2015. These are not restricted funds, they are intended to be used by the District for the replacement of short lived assets as repairs or replacements are needed. As of June 30, 2016, the balance in the short lived assets account reserve totaled \$151,045.

TOPAZ RANCH ESTATES GENERAL IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 3 – RESTRICTED CASH– (CONTINUED)

The District's proprietary fund is required by the USDA to set aside monies to fund the District's portion of water project costs (see Note 5) in connection with the USDA RD Loan and Grant approved June 9, 2015. The District is required to use these funds for approved water project costs. As of June 30, 2016, \$136,795 remained in this account, all of which is expected to be expended within the fiscal year ending June 30, 2017.

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year-ended June 30, 2016, was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|--------------------|----------------|-------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 6,096 | \$ - | \$ - | \$ 6,096 |
| Total capital assets not being depreciated | <u>6,096</u> | <u>-</u> | <u>-</u> | <u>6,096</u> |
| Depreciable capital assets: | | | | |
| Buildings and improvements | 1,123 | - | (885) | 238 |
| Land improvements | 688,627 | - | - | 688,627 |
| Trucks and equipment | <u>83,398</u> | <u>-</u> | <u>(6,504)</u> | <u>76,894</u> |
| Total depreciable capital assets at historical cost | <u>773,148</u> | <u>-</u> | <u>(7,389)</u> | <u>765,759</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (1,107) | (16) | 885 | (238) |
| Land improvements | (621,580) | (36,960) | - | (658,540) |
| Trucks and equipments | <u>(55,134)</u> | <u>(8,211)</u> | <u>6,504</u> | <u>(56,841)</u> |
| Total accumulated depreciation | <u>(677,821)</u> | <u>(45,187)</u> | <u>7,389</u> | <u>(715,619)</u> |
| Depreciable capital assets, net | <u>95,327</u> | <u>(45,187)</u> | <u>-</u> | <u>50,140</u> |
| Governmental activities net investment in capital assets | <u>\$ 101,423</u> | <u>\$ (45,187)</u> | <u>\$ -</u> | <u>\$ 56,236</u> |

TOPAZ RANCH ESTATES GENERAL IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 4 – CAPITAL ASSETS - (CONTINUED)

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|-------------------|--------------------|---------------------|
| Business-type activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 42,814 | \$ - | \$ - | \$ 42,814 |
| Construction in progress | - | 331,224 | - | 331,224 |
| Total capital assets not being depreciated | <u>42,814</u> | <u>331,224</u> | <u>-</u> | <u>374,038</u> |
| Depreciable capital assets: | | | | |
| Distribution system | 4,939,204 | 1,693 | (94,376) | 4,846,521 |
| Equipment | 59,735 | - | (12,518) | 47,217 |
| Office equipment | 20,606 | - | (14,979) | 5,627 |
| Land improvements | <u>47,576</u> | <u>-</u> | <u>-</u> | <u>47,576</u> |
| Total depreciable capital assets at historical | <u>5,067,121</u> | <u>1,693</u> | <u>(121,873)</u> | <u>4,946,941</u> |
| Less accumulated depreciation for: | | | | |
| Distribution system | (1,199,186) | (108,563) | 81,524 | (1,226,225) |
| Equipment | (47,561) | (3,440) | 12,513 | (38,488) |
| Office equipment | (19,206) | (168) | 13,846 | (5,528) |
| Land improvements | <u>(29,829)</u> | <u>(1,197)</u> | <u>-</u> | <u>(31,026)</u> |
| Total accumulated depreciation | <u>(1,295,782)</u> | <u>(113,368)</u> | <u>107,883</u> | <u>(1,301,267)</u> |
| Depreciable capital assets, net | <u>3,771,339</u> | <u>(111,675)</u> | <u>(13,990)</u> | <u>3,645,674</u> |
| Business-type activities net investment in capital assets | <u>\$ 3,814,153</u> | <u>\$ 219,549</u> | <u>\$ (13,990)</u> | <u>\$ 4,019,712</u> |

The \$331,224 capitalized in construction in progress pertains to qualified expenses incurred by the District during the year-ended June 30, 2016 for phase I of their water system improvement project (see Note 5) in connection with the USDA RD Loan and Grant approved June 9, 2015. The expenses are made up entirely of planning costs as of June 30, 2016.

TOPAZ RANCH ESTATES GENERAL IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 5 – LONG-TERM DEBT

| | <u>July 1, 2015</u> | <u>Additions</u> | <u>Payments</u> | <u>June 30, 2016</u> |
|---|---------------------|-------------------|---------------------|----------------------|
| <i>Governmental Activities:</i> | | | | |
| Due in quarterly installments of \$9,216 including interest between 3.89% and 4.43% through 2017 | \$ 70,200 | \$ - | \$ (34,334) | \$ 35,866 |
| Total General Long-Term Debt | <u>\$ 70,200</u> | <u>\$ -</u> | <u>\$ (34,334)</u> | <u>\$ 35,866</u> |
| <i>Business-type Activities:</i> | | | | |
| Due in monthly installments of \$ 2,258, including interest at 4.75 % per annum through 2040 | \$ 391,558 | \$ - | \$ (391,558) | - |
| Due in monthly installments of \$ 2,567, including interest at 4.00 % per annum through 2050 | 577,740 | - | (8,438) | 569,302 |
| Due in bi-annually installments of \$ 12,390, including interest at 2.08 % per annum through 2036 | - | 407,227 | (11,661) | 395,566 |
| Total Enterprise Fund Long-Term Debt | <u>\$ 969,298</u> | <u>\$ 407,227</u> | <u>\$ (411,657)</u> | <u>\$ 964,868</u> |

On June 26, 2007, the District received approval from the Nevada Department of Taxation for issuance of medium-term bonds in the amount of \$300,000. The term of the bonds is ten years and the interest rate is variable, from 3.89% to 4.43% throughout the life of the bonds. The interest rate for the period ended June 30, 2016, was 4.37%. The interest rate is increased annually between 0.04% and 0.13% throughout the term of the bonds on September 1 of each year. Proceeds from the bonds were used to finance all or a portion of the cost of acquiring, improving, constructing and equipping street projects. Zion’s First National Bank will be used as the paying agent on the series 2007 non-callable bonds. Principal and interest is due in quarterly installments, beginning September 1, 2007. This loan is accounted for in the General Fund and as of June 30, 2016 had a balance of \$35,866.

The District executed two United States Department of Agriculture-Rural Development (“USDA”) loans of \$484,500 and \$199,000 during the year-ended June 30, 2000 to refinance Interim Debt obtained in 1999 to finance the construction of a water storage tank and booster station. The District paid the \$199,000 loan in full during the year ended June 30, 2009. The District paid the \$484,000 loan in full

TOPAZ RANCH ESTATES GENERAL IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 5 – LONG-TERM DEBT – (CONTINUED)

during the year ended June 30, 2016 upon issuance of the Water Refunding Bond (see below).

On May 31, 2006, the United States Department of Agriculture, Rural Development (the "USDA RD") approved a \$614,000 loan to be applied to the construction of a well and distribution and transmission lines. The loan was subject to various conditions, including the award of AB-198 grant funds of \$1,471,452 from the State of Nevada. On March 26, 2007, AB-198 approved the aforementioned grant. The \$614,000 funds from the USDA RD loan were received on March 24, 2010. The loan is accounted for in the Water Enterprise Fund. The loan has a stated rate of interest of 4% per annum and is payable monthly over a forty-year period.

On May 31, 2016, a loan contract in the amount of \$407,227 was made between the State of Nevada acting by and through the Department of Conservation and Natural Resources, Division of Environmental Protection (the "Division") and the District to provide funds for refinancing of bonds issued. Loan funds shall be repaid in accordance with bond resolution adopted by the District on May 11, 2016 authorizing issuance of the District's General Obligation (limited tax) Water Refunding Bond (additionally secured by pledged revenues) Series 2016 (the "Water Refunding Bond"). The Water Refunding Bond was obtained to refinance the outstanding portion of the \$484,000 USDA obligation noted above. The outstanding loan is accounted for in the Water Enterprise Fund. The District has pledged future water revenue to repay the loan. The loan has an annual percentage interest rate of 2.08%. Principal and interest payments are payable semiannually on January 1 and July 1.

On June 9, 2015, the United States Department of Agriculture, Rural Development (the "USDA RD") approved a \$3,812,000 loan and a \$2,699,625 grant to be applied to finance water system improvements for its water service. The loan and grant are subject to various conditions, including requiring the District to fund the initial \$500,875 of project costs. Once the District reaches this funding requirement, they are required to utilize the USDA RD loan prior to receiving any USDA RD grant funds. Neither the funds from the USDA RD loan or grant were received during the year ended June 30, 2016. Please see Note 9 regarding the subsequent closing date of the USDA RD loan. The District has incurred \$389,594 of qualified expenditures of the total \$500,875 owner funds as of June 30, 2016. Of this amount, \$331,224 is included in the construction in progress for the Water Enterprises Fund as of June 30, 2016 and the remaining \$58,370 of USDA qualified expenditures were expensed in prior years when the costs were not yet attached to this specific project.

In relation to the USDA RD grant approval, the Board of Trustees approved a \$4 increase to the customer monthly water service charges. This increase will take effect in August, 2016.

TOPAZ RANCH ESTATES GENERAL IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 5 – LONG-TERM DEBT – (CONTINUED)

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of June 30, 2016, are as follows:

| <u>Year Ending June 30</u> | <u>Governmental Activities</u> | | <u>Business-type Activities</u> | |
|----------------------------|--------------------------------|-----------------|---------------------------------|-------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> |
| 2017 | \$ 35,866 | \$ 999 | \$ 16,435 | \$ 26,759 |
| 2018 | - | - | 25,304 | 30,281 |
| 2019 | - | - | 26,001 | 29,584 |
| 2020 | - | - | 26,720 | 28,865 |
| 2021 | - | - | 27,461 | 28,124 |
| 2022 and after | - | - | 842,947 | 413,163 |
| Total | <u>\$ 35,866</u> | <u>\$ 999</u> | <u>\$ 964,868</u> | <u>\$ 556,776</u> |

At June 30, 2016, principal and interest to maturity, to be paid from pledged future revenues totaled \$1,521,644.

NOTE 6– FUND BALANCE

In the fund financial statements, fund balance is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

Non-spendable fund balance includes amounts that cannot be spent because either 1) it is not in a spendable form, such as inventory or prepaid items or 2) legally or contractually required to be maintained intact. Restricted fund balance is externally (outside the District) enforceable limitations imposed by creditors, grantors, contributors, laws and regulations. Committed fund balance includes amounts that can be used only for the specific purposes determined by formal action of the District’s highest level of decision making authority, namely the Board. Board approval is required to commit resources or to rescind the commitment. Assigned fund balance represents amounts intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The Board, through annual budget approval, has authorized management to assign fund balance. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment. Unassigned fund balance

TOPAZ RANCH ESTATES GENERAL IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 6– FUND BALANCE – (CONTINUED)

represents the residual net resources in excess of the other classifications. The General Fund is the only fund that can report a positive unassigned fund balance and any governmental fund can report a negative unassigned fund balance. Management has made the assignments in order to assure operating conditions have been met in the coming fiscal year in the event normal operating conditions are not achieved.

When both restricted and unrestricted resources are available for specific expenditures, it is the District’s policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, following by assigned fund balance. Unassigned fund balance is applied last.

As of June 30, 2016 the fund balance is as follows:

| | Non- spendable | Assigned | Unassigned | Total |
|--------------------------------------|-------------------|-------------------|-------------------|-------------------|
| General Fund | | | | |
| Prepaid amounts | \$ 4,412 | \$ - | \$ - | \$ 4,412 |
| Salaries & wages | - | 89,270 | - | 89,270 |
| Employee benefits | - | 32,019 | - | 32,019 |
| Services & supplies | - | 85,647 | - | 85,647 |
| Debt principal and interest payments | - | 36,865 | - | 36,865 |
| Capital projects | - | 32,700 | - | 32,700 |
| Unassigned (residual) | - | - | 102,691 | 102,691 |
| TOTALS | <u>\$ 4,412</u> | <u>\$ 276,501</u> | <u>\$ 102,691</u> | <u>\$ 383,604</u> |

As of June 30, 2016 the District has \$276,501 of assigned fund balance. The Board of Trustees is authorized to assign amounts to a specific purpose through review and approval of fiscal year budgets prepared by the Treasurer.

The District considers restricted or unrestricted amounts to have been spent when expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. In addition, the District considers committed, assigned, or unassigned amounts to have been spent when expenditure is incurred for purposes for which both restricted and unrestricted fund balance classifications could be used.

Assignments reflect the intention of management. Except where noted, they are not legally bound nor represent a restriction.

TOPAZ RANCH ESTATES GENERAL IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 7 – OPERATING LEASES

The District has entered into a non-cancelable operating lease for a Xerox office copier with De Lage Landen Financial Services, Inc. This lease requires monthly payments of \$117.42 for a term of 60 months. The first lease payment was made in September, 2014.

Future minimum lease payments for non-cancelable operating leases with initial or remaining terms of one year or more at June 30, 2016 are as follows:

| | | |
|-------|----|---------------------|
| 2017 | \$ | 1,409 |
| 2018 | | 1,409 |
| 2019 | | 1,409 |
| 2020 | | <u>235</u> |
| Total | \$ | <u><u>4,462</u></u> |

Total lease expense for the year ended June 30, 2016 amounted to \$1,676.

NOTE 8 - RISK OF LOSS AND 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. During the fiscal year ended June 30, 2016, the District carried commercial insurance for the above risks, including workers' compensation and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage.

NOTE 9 – SUBSEQUENT EVENTS

Subsequent events have been evaluated by management through the audit report date, which is the date the financial statements were available to be issued. As detailed in Note 5, on June 9, 2015 the District received approval from the USDA RD for a \$3,812,000 loan and \$2,699,625 grant to be applied to finance water system improvements for its water service. The \$3,812,000 loan closed on October 5, 2016 at an interest rate of 1.875% with a 40 year term. The first payment will be interest only and is due October 5, 2017. Subsequent payments of \$11,513 will be due monthly beginning November 5, 2017.

No significant events, with the above exception, have occurred from the period of the balance sheet, June 30, 2016, through the report date.

SUPPLEMENTAL INFORMATION



TOPAZ RANCH ESTATES GENERAL IMPROVEMENT DISTRICT

**GENERAL FUND
COMPARATIVE BALANCE SHEETS**

JUNE 30, 2016 AND 2015

| | <u>2016</u> | <u>2015</u> |
|--|-------------------|-------------------|
| ASSETS: | | |
| Cash | \$ 367,552 | \$ 309,633 |
| Taxes receivable | 19,223 | 22,988 |
| Prepaid insurance and other assets | 4,721 | 4,816 |
| Due from Enterprise Fund | <u>1,786</u> | <u>2,349</u> |
| TOTAL ASSETS | <u>\$ 393,282</u> | <u>\$ 339,786</u> |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE | | |
| LIABILITIES: | | |
| Accounts payable | \$ 1,749 | \$ 2,689 |
| Employee compensation liabilities | 2,043 | 4,373 |
| Other liabilities | <u>132</u> | <u>376</u> |
| TOTAL LIABILITIES | <u>3,924</u> | <u>7,438</u> |
| DEFERRED INFLOWS OF RESOURCES | | |
| Deferred revenue - property taxes | <u>5,754</u> | <u>4,939</u> |
| TOTAL DEFERRED INFLOWS OF RESOURCES | <u>5,754</u> | <u>4,939</u> |
| FUND BALANCE: | | |
| Nonspendable | 4,412 | 4,555 |
| Assigned | 276,501 | 237,018 |
| Unassigned (residual) | <u>102,691</u> | <u>85,836</u> |
| TOTAL FUND BALANCE | <u>383,604</u> | <u>327,409</u> |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE | | |
| | <u>\$ 393,282</u> | <u>\$ 339,786</u> |

See Independent Auditors' Report

TOPAZ RANCH ESTATES GENERAL IMPROVEMENT DISTRICT

**GENERAL FUND
COMPARATIVE SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

**YEAR ENDED JUNE 30, 2016
(With Comparative Actual Amounts for the Year Ended June 30, 2015)**

| | Original Budget | Final Budget | 2016 Actual | Variance Favorable (Unfavorable) | 2015 Actual |
|--|--------------------|-------------------|-------------------|--|-------------------|
| REVENUES | | | | | |
| Ad valorem tax | \$ 158,052 | \$ 158,052 | \$ 163,903 | \$ 5,851 | \$ 149,972 |
| Consolidated tax | 66,477 | 66,477 | 67,133 | 656 | 65,661 |
| Interest earned | 500 | 500 | 600 | 100 | 206 |
| Miscellaneous income | <u>1,700</u> | <u>1,700</u> | <u>5,969</u> | <u>4,269</u> | <u>908</u> |
| TOTAL REVENUES | <u>226,729</u> | <u>226,729</u> | <u>237,605</u> | <u>10,876</u> | <u>216,747</u> |
| EXPENDITURES | | | | | |
| General government: | | | | | |
| Public works | | | | | |
| Current operations: | | | | | |
| Salaries and wages | 70,600 | 70,600 | 50,309 | 20,291 | 41,148 |
| Employee benefits | 21,705 | 31,305 | 22,422 | 8,883 | 21,471 |
| Services and supplies | 104,347 | 94,847 | 72,057 | 22,790 | 62,379 |
| Capital outlay | 3,500 | 3,400 | - | 3,400 | - |
| Debt service: | | | | | |
| Principal | 34,334 | 34,334 | 34,334 | - | 32,884 |
| Interest | <u>2,532</u> | <u>2,532</u> | <u>2,288</u> | <u>244</u> | <u>3,982</u> |
| TOTAL EXPENDITURES | <u>237,018</u> | <u>237,018</u> | <u>181,410</u> | <u>55,608</u> | <u>161,864</u> |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | (10,289) | (10,289) | 56,195 | 66,484 | 54,883 |
| NET CHANGES IN FUND BALANCE | (10,289) | (10,289) | 56,195 | 66,484 | 54,883 |
| FUND BALANCE, BEGINNING OF YEAR | <u>297,740</u> | <u>297,740</u> | <u>327,409</u> | <u>29,669</u> | <u>272,526</u> |
| FUND BALANCE, END OF YEAR | <u>\$ 287,451</u> | <u>\$ 287,451</u> | <u>\$ 383,604</u> | <u>\$ 96,153</u> | <u>\$ 327,409</u> |

**TOPAZ RANCH ESTATES GENERAL IMPROVEMENT DISTRICT
dba, TOPAZ RANCH ESTATES WATER COMPANY**

**WATER ENTERPRISE FUND
COMPARATIVE STATEMENTS OF NET POSITION**

JUNE 30, 2016 AND 2015

| | <u>2016</u> | <u>2015</u> |
|--|---------------------|---------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 756,414 | \$ 857,983 |
| Accounts receivable, net of allowance of \$13,076 and \$37,364 | 77,860 | 69,431 |
| Prepaid expenses & other assets | 9,161 | 8,197 |
| TOTAL CURRENT ASSETS | <u>843,435</u> | <u>935,611</u> |
| CAPITAL ASSETS | | |
| Property, plant and equipment | 5,320,979 | 5,109,935 |
| Less: accumulated depreciation | <u>(1,301,267)</u> | <u>(1,295,782)</u> |
| NET CAPITAL ASSETS | <u>4,019,712</u> | <u>3,814,153</u> |
| OTHER ASSETS: | | |
| Restricted/reserved cash | <u>527,358</u> | 615,695 |
| TOTAL OTHER ASSETS | <u>527,358</u> | <u>615,695</u> |
| TOTAL ASSETS | <u>5,390,505</u> | <u>5,365,459</u> |
| LIABILITIES | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | 50,460 | 6,136 |
| Due to General Fund | 1,786 | 2,349 |
| Accrued interest | 312 | 1,450 |
| Employee compensation liabilities | 8,333 | 12,008 |
| Customer deposits | 15,287 | 15,086 |
| Notes payable - current portion | <u>16,435</u> | <u>16,499</u> |
| TOTAL CURRENT LIABILITIES | <u>92,613</u> | <u>53,528</u> |
| NONCURRENT LIABILITIES: | | |
| Notes payable - due in more than one year | <u>948,433</u> | <u>952,799</u> |
| TOTAL LIABILITIES | <u>1,041,046</u> | <u>1,006,327</u> |
| NET POSITION: | | |
| Net investment in capital assets | 3,054,844 | 2,844,855 |
| Restricted for special purpose | 527,358 | 615,695 |
| Unrestricted | <u>767,257</u> | <u>898,582</u> |
| TOTAL NET POSITION | <u>\$ 4,349,459</u> | <u>\$ 4,359,132</u> |

See Independent Auditors' Report

TOPAZ RANCH ESTATES GENERAL IMPROVEMENT DISTRICT
dba, TOPAZ RANCH ESTATES WATER COMPANY

WATER ENTERPRISE FUND
COMPARATIVE SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2016
(With Comparative Actual Amounts for the Year Ended June 30, 2015)

| | Original Budget | Final Budget | 2016 Actual | Variance Favorable (Unfavorable) | 2015 Actual |
|--|--------------------|-------------------|---------------------|--|---------------------|
| OPERATING REVENUES: | | | | | |
| Charges for water service | \$ 552,000 | \$ 552,000 | \$ 507,025 | \$ (44,975) | \$ 507,768 |
| Miscellaneous income | 2,700 | 2,700 | 7,359 | 4,659 | 21,567 |
| Connection fees | 2,670 | 2,670 | - | (2,670) | 1,031 |
| TOTAL OPERATING REVENUES | 557,370 | 557,370 | 514,384 | (42,986) | 530,366 |
| OPERATING EXPENSES: | | | | | |
| Salaries and wages | 140,000 | 153,297 | 150,221 | 3,076 | 141,239 |
| Employee benefits | 56,758 | 54,758 | 44,011 | 10,747 | 33,925 |
| Services and supplies | 212,564 | 201,267 | 138,000 | 63,267 | 204,396 |
| Depreciation | 110,976 | 110,976 | 113,367 | (2,391) | 113,119 |
| TOTAL OPERATING EXPENSES | 520,298 | 520,298 | 445,599 | 74,699 | 492,679 |
| INCOME (LOSS) FROM OPERATIONS | 37,072 | 37,072 | 68,785 | 31,713 | 37,687 |
| NON-OPERATING REVENUES (EXPENSES): | | | | | |
| Interest expense incurred | (41,398) | (41,398) | (44,018) | (2,620) | (42,090) |
| Debt issuance costs | - | - | (22,591) | (22,591) | - |
| Interest earned | 500 | 500 | 2,141 | 1,641 | 820 |
| Loss on disposal of capital assets | - | - | (13,990) | (13,990) | 110 |
| TOTAL OTHER NON-OPERATING REVENUES (EXPENSES) | (40,898) | (40,898) | (78,458) | (37,560) | (41,160) |
| LOSS BEFORE CONTRIBUTIONS | (3,826) | (3,826) | (9,673) | (5,847) | (3,473) |
| CONTRIBUTIONS IN EXCESS OF COST | - | - | - | - | 1,729 |
| CHANGES IN NET POSITION | \$ (3,826) | \$ (3,826) | (9,673) | \$ (5,847) | (1,744) |
| TOTAL NET POSITION - beginning of year | | | 4,359,132 | | 4,360,876 |
| TOTAL NET POSITION - end of year | | | \$ 4,349,459 | | \$ 4,359,132 |

See Independent Auditors' Report

TOPAZ RANCH ESTATES GENERAL IMPROVEMENT DISTRICT
dba, TOPAZ RANCH ESTATES WATER COMPANY

WATER ENTERPRISE FUND
COMPARATIVE SCHEDULE OF CASH FLOWS - BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2016

(With Comparative Actual Amounts For The Year Ended June 30, 2015)

| | Original Budget | Final Budget | 2016 Actual | Variance Favorable (Unfavorable) | 2015 Actual |
|--|--------------------|-------------------|-------------------|--|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | | |
| Cash received from customers | \$ 552,000 | \$ 552,000 | \$ 505,592 | \$ (46,408) | \$ 537,403 |
| Cash payments to suppliers for goods and services | (210,064) | (198,767) | (117,230) | 81,537 | (210,771) |
| Cash payments to employees for wages and benefits | (196,758) | (208,055) | (197,906) | 10,149 | (175,056) |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | <u>145,178</u> | <u>145,178</u> | <u>190,456</u> | <u>45,278</u> | <u>151,576</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | | | | |
| Contributed capital connection fees | - | - | - | - | 1,729 |
| Acquisition of capital assets | (2,500) | (2,500) | (1,693) | 807 | (36,777) |
| Acquisition of water project related capital assets | - | (266,000) | (331,224) | (65,224) | - |
| Payments on notes payable | (16,499) | (16,499) | (411,657) | (395,158) | (15,807) |
| Proceeds from debt issuance | - | - | 407,227 | 407,227 | - |
| Cash paid for interest | (41,398) | (41,398) | (45,156) | (3,758) | (42,090) |
| Proceeds from sale of capital assets | - | - | - | - | 110 |
| Decreases (increase) in restricted/reserved cash | - | - | 88,337 | 88,337 | (1,987) |
| NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES | <u>(60,397)</u> | <u>(326,397)</u> | <u>(294,166)</u> | <u>32,231</u> | <u>(94,822)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES : | | | | | |
| Interest on investments | <u>500</u> | <u>500</u> | <u>2,141</u> | <u>1,641</u> | <u>820</u> |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | <u>500</u> | <u>500</u> | <u>2,141</u> | <u>1,641</u> | <u>820</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 85,281 | (180,719) | (101,569) | 79,150 | 57,574 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>785,081</u> | <u>785,081</u> | <u>857,983</u> | <u>72,902</u> | <u>800,409</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 870,362</u> | <u>\$ 604,362</u> | <u>\$ 756,414</u> | <u>\$ 152,052</u> | <u>\$ 857,983</u> |

See Independent Auditors' Report

Independent Auditors' Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Based On an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.

To the Board of Trustees
Topaz Ranch Estates General Improvement District
Wellington, NV

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Topaz Ranch Estates General Improvement District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Topaz Ranch Estates General Improvement District's basic financial statements and have issued our report thereon dated November 22, 2016.

Internal Control Over Financial Reporting

Management of Topaz Ranch Estates General Improvement District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Topaz Ranch Estates General Improvement District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Topaz Ranch Estates General Improvement District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Topaz Ranch Estates General Improvement District's internal control over financial reporting.

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

- 16-1. Inadequate design of internal control over the preparation of the financial statements being audited.
- 16-2. Identification by VT Williams & Associates, LLP of a material misstatement in the financial statements which was not originally identified by the District's internal control.

Our consideration of the 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 the internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we identified the significant deficiency noted in item 16-2 above to be a material weakness. Other material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Topaz Ranch Estates General Improvement 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 did not disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The District's response to the internal control matters noted above is described in the accompanying Auditors' Report on Internal Control and Recommendations. We did not audit the District's response and, accordingly, express no opinion on it.

The above matters were reported to management of the District in a separate letter dated November 22, 2016.

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.

This report is intended solely for the information and use of the District's Management, Board of Trustees, Douglas County Management, State of Nevada Department of Taxation, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

VT Williams & Associates, LLP

November 22, 2016



TOPAZ RANCH ESTATES GENERAL IMPROVEMENT DISTRICT
SUMMARY OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015

Finding 15-1. Inadequate design of internal control over the preparation of the financial statements being audited.

Finding 15-2. Identification by VT Williams & Associates, LLP, of a material misstatement in the financial statements which was not originally identified by the District's internal control.

Condition:

The District does not have accounting staff with sufficient training to prepare or oversee the preparation of its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

Recommendation:

There are two main ways the District can correct these control deficiencies:

- The District could hire an additional staff member, preferably a certified public accountant, with sufficient training to prepare the financial statements in accordance with GAAP. This individual could undertake the preparation of the annual financial statements and also be responsible for maintaining the districts books on the accrual basis of accounting or converting the cash based books to accrual accounting at year end before the start of the audit.
- The District could utilize the services of an accounting firm different from its auditing firm that would prepare the annual financial statements for the district and also convert the cash based books to accrual accounting at year end before the start of the audit.

Current status / management's response:

Due to the size of the District's office staff and limited budget the District does not feel that it would be cost effective to implement all of the recommendations at this time and will continue to rely on the outside auditors to ensure compliance with GAAP. Implementation of many of the recommended internal control procedures has occurred, although due to the size of the District, not all recommendations were deemed to be feasible.

This report is intended solely for the information and use of the District's Management, Board of Trustees, Douglas County management, and the State of Nevada Department of Taxation and Board for Financing Water Projects, and is not intended to be and should not be used by anyone other than these specified parties.

AUDITOR'S COMMENTS

To the Board of Trustees
Topaz Ranch Estates General Improvement District
Wellington, NV

In connection with our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Topaz Ranch Estates General Improvement District (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, nothing came to our attention that caused us to believe that the District failed to comply with the specific requirements of Nevada Revised Statutes cited below. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the requirements of Nevada Revised Statutes cited below, insofar as they relate to accounting matters.

Current Year Statute Compliance

The District conformed to all significant statutory constraints on its financial administration during the year.

Progress on Prior Year Statute Compliance

The District reported no instances of noncompliance with significant constraints on its financial administration during the year ended June 30, 2015.

Prior Year Recommendations

In the prior year we identified significant deficiency over the financial reporting process for the inadequate design of internal control over the preparation of the financial statements being audited that has been included in item 15-1 and for material misstatement in the financial statements which was not originally identified by the District's internal control that was identified as 15-2 on the accompanying summary of prior year audit findings.

Current Year Recommendations

We identified significant deficiency over the financial reporting process for the inadequate design of internal control over the preparation of the financial statements being audited that has been included as item 16-1 and for material misstatement in the financial statements which was not originally identified by the District's internal control that had been identified as 16-2 on the accompanying *Report on Internal Control over Financial Reporting and on Compliance of Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards* (page 36-37).



November 22, 2016