



SOUTHERN NEVADA WATER AUTHORITY®

Comprehensive Annual Financial Report

**For the Fiscal Years Ended
June 30, 2016 and 2015**

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- Certificate of Excellence in Financial Reporting

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October 27, 2016

To the Board of Directors,
Member Agencies,
and Citizens of southern Nevada

FORMAL TRANSMITTAL OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)

We are pleased to present the Southern Nevada Water Authority's (SNWA) CAFR for the fiscal year ended June 30, 2016. This letter of transmittal is designed to complement the Management's Discussion and Analysis (MD&A), and should be read in conjunction with it. The SNWA's MD&A can be found immediately following the report of the independent auditors.

This report was prepared by SNWA staff in accordance with current accounting and financial reporting principles promulgated by the Governmental Accounting Standards Board (GASB). The presentation of data is designed to conform to guidelines recommended by the Government Finance Officers Association of the United States and Canada (GFOA). SNWA management is solely responsible for the accuracy of the data presented and the completeness and fairness of presentation, including all disclosures. We believe the data to be accurate in all material respects and reported in a manner designed to fairly set forth the financial position and results of the SNWA's financial activities and operations.

We believe the SNWA's internal controls over financial reporting adequately safeguard the SNWA's assets and provide reasonable assurance of proper recording of financial transactions and the preparation of financial statements and accompanying information. In developing and evaluating the SNWA's accounting and financial reporting system, consideration is given to the adequacy of such internal controls. These controls are designed to provide reasonable assurance regarding safeguarding assets against loss from unauthorized use or disposition and also to prevent fraudulent financial reporting. The controls enhance the reliability of financial records for preparing financial statements and maintaining accountability of the SNWA assets. Reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived from that control, and the evaluation of costs and benefits requires estimates and judgments by management. The SNWA is committed to continually improve and strengthen its internal control procedures.

Nevada Revised Statute 354.624 and bond covenants require an annual audit of the SNWA's basic financial statements. This year the audit was performed by the independent public accounting firm of Piercy Bowler Taylor & Kern, Certified Public Accountants and Business Advisors. Their report on the basic financial statements, which contains an unmodified opinion, is included in the financial section.

The independent audit of the basic financial statements of the SNWA is part of a broader, federally-mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The regulatory provisions governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the basic financial statements, but also on the governmental entity's internal controls and compliance with legal requirements involving administration of federal awards. This report is available in a separate Single Audit Compliance Report.

PROFILE OF THE SNWA

Basic Information – The SNWA is a political subdivision of the State of Nevada (State), created in 1991 by a cooperative agreement among SNWA’s member agencies. The SNWA was created to address southern Nevada’s unique water needs on a regional basis, and is charged with acquiring and managing current and future resources for southern Nevada, constructing and managing regional water facilities, and promoting water conservation. The SNWA is governed by a seven-member Board of Directors (Board) comprised of one director from each of its seven member agencies. Because its operations are autonomous from its member agencies and the State, the SNWA’s financial statements are not included in the financial statements of any other entity. The Las Vegas Valley Water District (LVVWD) serves under contract as the operating agent for the SNWA.

Accounting System – The SNWA’s accounting system is structured on the basis of fund accounting. In governmental accounting, a fund is a self-contained accounting entity with its own set of assets, liabilities, revenues, expenditures or expenses, and fund balance. The SNWA uses a single enterprise fund to present its financial operations. The enterprise fund is used to account for the SNWA’s operations using full accrual accounting in a manner similar to a private business enterprise. It is the intent of the SNWA to establish water rates and other charges at levels sufficient to provide for payment of general operations and maintenance expenses, as well as capital improvements and debt service. Under full accrual accounting, revenues are recognized when earned and expenses (including depreciation) as incurred.

Budgetary Controls – As required by Nevada statutes, the Board approves the SNWA’s budget annually following a public hearing. A copy of the approved budget is then submitted to the Nevada Department of Taxation. Budgetary controls are established at the levels of total estimated operating and non-operating expenses. The budget effectively controls expenditures at various levels. Department directors and division managers are accountable for their budget variances.

FACTORS AFFECTING FINANCIAL CONDITION

Local Economy – The economic environment for Las Vegas and Clark County has improved steadily over the past several years. According to the U.S. Bureau of Economic Analysis, the Las Vegas metropolitan area’s gross domestic product rose over 6.5% per year since 2013. According to the State, unemployment in Clark County was 6.4% at the end of June 2016, which is a significant improvement over the 13.4% at the end of June 2011, and 13.8% at the end of June 2010. Although higher than the June 2016 national U.S. unemployment rate of 4.9%, Clark County’s unemployment rate continues to move in the right direction.

According to the U.S. Bureau of Census, Clark County’s population increased from 1,428,689 in 2000 to 1,951,269 in 2010, which is an increase of 36.6%. In 2015, Clark County’s population was 2,118,353, according to the Nevada State Demographer.

The Las Vegas Convention and Visitors’ Authority reported that from calendar year 2014 to 2015 visitor count in Clark County rose by 2.9% to 42.3 million, citywide hotel/motel occupancy rose 1.0% to 87.7%, convention attendance rose by 13.4% to 5.9 million, and gaming revenue in Clark County rose by 0.7% to \$9.6 billion.

According to the Nevada Department of Taxation, taxable sales in Clark County in June 2016 were \$3.6 billion, which is a year-over-year increase of 10.1%.

The housing market in Clark County continues to improve. In June 2016, the home inventory was 13,149, which is a decrease of 4.3% year-over-year. The median price for a new home was \$327,622, which is an 8.5% increase year-over-year. The existing median home price was \$205,000, which is a 5.1% increase year-over-year. New and existing home sales were up year-over-year 24.6% and 12.5%, respectively.

Long-Term Financial Planning – The SNWA’s mission is to manage the region’s water resources and develop solutions that will ensure adequate future water supplies for its members. To accomplish this, comprehensive capital plans are developed in conjunction with financial plans that show practical methods of paying future capital expenditures and debt service obligations.

Capital projects for the SNWA are proposed in response to identified needs for improvements to the facilities that provide for treatment and delivery of community water supplies to the members of the SNWA. These improvements include 1) new facilities to expand or enhance capabilities; 2) new water resources to expand or extend available water supplies; and 3) the repair, upgrade or replacement of existing facilities that no longer function as required.

The Engineering Department issues capital plans as needed, which the Board reviews and approves. The capital plans identify projects and initiatives for new facilities, acquisition of water and energy resources, and all other capital related activities. They also identify estimated costs and schedules for all approved projects and initiatives. The Finance Department models these costs to project the size and timing of future bond issuances as well as probable revenue enhancements that might be needed to pay for the future costs.

As of June 30, 2016, the SNWA has \$3.9 billion in outstanding debt (see Notes 14 and 16 for a discussion of outstanding SNWA debt). The SNWA is required to set rates and charges at levels sufficient to cover all operating costs and debt service when combined with accumulated funds. All applicable bond covenants have been met or exceeded.

The SNWA has four options to sell debt:

- LVVWD issues debt on behalf of the SNWA;
- Borrow through the State Bond Bank, in which the SNWA issues a bond to the State and the State in turn issues State General Obligation bonds (pursuant to 1997 Nevada legislation);
- Borrow through the Clark County Bond Bank, in which the SNWA issues a bond to the County and the County in turn issues County General Obligation bonds (pursuant to 1999 Nevada legislation); or
- Issue debt in its own name, recognizing that the SNWA does not have the power to levy property taxes and issue general obligation bonds, which would likely result in higher interest rates.

The credit ratings as of June 30, 2016, are listed below.

	Moody's	Standard & Poor's
LVVWD	Aa1	AA
State of Nevada Bond Bank	Aa2	AA
Clark County Bond Bank	Aa1	AA
LVVWD Commercial Paper	P-1	A-1+

Relevant Financial Policies – Budgets are developed to maintain balance between revenues and expenditures. Budgets are the financial road maps that assist engineering, operational and administrative departments in performing their daily duties in a financially prudent manner and support the Finance Department in providing finance plans that can generate sufficient revenues to pay for projected expenditures.

The SNWA regards its cash reserves as a critical component of its fiscal health and one of the most important metrics supporting an above average bond rating. Cash reserves are monitored regularly and revenue shortfalls are managed through a combination of methods. Departments are required to practice careful management of financial resources. User fees and charges are adjusted to maintain required revenue bond coverage and sufficient working capital. Financial reserves are used sparingly. When used, the reserves are compared to long range projections of reserve levels, and modifications to revenue and expense streams are made as needed.

Cash reserves and unspent bond proceeds are invested whenever practical in obligations of the U.S. government, obligations of government-sponsored agencies, certificates of deposit, money market accounts, and commercial paper in accordance with the investment policy. Investments are purchased through recognized and regulated brokers dealing in government securities. All investments are held by a third party custodian in the SNWA's name or are insured or collateralized with securities held by a third party in the SNWA's name.

In January 2016, the Board approved a reserve policy to provide guidance for maintaining adequate cash and investment reserves. Maintaining adequate reserves is an important tool in mitigating the risks of significant and unexpected decreases in sources of funds and/or increases in the uses of funds. Maintaining adequate reserves helps to ensure stable services and fees and allows the SNWA to better respond to unforeseen negative changes in the local economy while providing a continuous and reliable water supply to purveyor members. In addition, prudent reserves along with a formal reserve policy are a key factor rating agencies consider in their evaluation of creditworthiness.

Major Initiatives – The Colorado River system has experienced below average runoff for much of the last decade. As a result, the total volume of water stored in Lake Mead has been reduced to approximately 36% of capacity as of June 2016.

Existing pumping stations associated with Intake No. 1 and Intake No. 2 are currently drawing water from Intake No. 3 for customer delivery; however, Intake No. 1 becomes inoperable at elevation 1,050 feet and Intake No. 2 does the same at elevation 1,000 feet.

Because current and forecasted conditions project a high probability of lake levels continuing to decline potentially to 1,000 feet or lower within the next decade a new Low Lake Level Pumping Station (L3PS) is currently being constructed. Once complete and connected to Intake No. 3, the L3PS will have a capability of drawing water from as low as 875 feet above sea level.

The L3PS remains an important priority for protecting southern Nevada's primary water supply and represents the majority of the SNWA's capital commitments for the next fiscal year.

The SNWA remains focused on its responsibility to ensure the acquisition, treatment, and delivery of a reliable and quality water supply to the region. To this end, major activities in the next fiscal year will include:

- Operation and maintenance of facilities to treat and deliver water.
- Continuation of conservation education and incentive programs to maximize available water supplies.
- Continuation of work with federal, state, and local agencies to develop and operate joint facilities that provide regional solutions to water quality, supply, and environmental issues on the Colorado River.
- Design and construction of the L3PS to ensure access to Lake Mead water at the lowest elevations accessible by Intake No. 3.
- Securing all necessary permitting for the Groundwater Development Project in northeast Nevada.
- Maintenance efforts on the existing water infrastructure system.

SEC REQUIREMENT

On November 10, 1994, the Securities and Exchange Commission (SEC) amended the Securities Exchange Act of 1934, Rule 15c2-12, regarding continuing disclosure by issuers of municipal securities for the benefit of holders of such securities. The amendments require, among other things, that certain annual financial information be provided to various information repositories for bond issues sold on or after July 3, 1995. The annual financial information must include an update of the same financial statements, except for forecasts, that were included in the final official statement issued at the time of the bond sale. The required annual financial information for the SNWA is presented in the Continuing Disclosures Section of this report. The SNWA sends copies of its CAFR to appropriate information repositories, including the Electronic Municipal Market Access (EMMA) website, the Municipal Securities Rulemaking Board's central repository.

AWARDS AND ACKNOWLEDGMENTS

CAFR – The GFOA awarded a Certificate of Achievement for Excellence in Financial Reporting to the SNWA for its CAFR for the fiscal year ended June 30, 2015. This was the twentieth consecutive year that the SNWA has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Budget – In addition, the SNWA also received the GFOA's Distinguished Budget Presentation Award for its annual budget document for the fiscal year beginning July 1, 2015. In order to qualify for this award, a government must publish a budget document that meets program criteria as a policy document, operations guide, financial plan, and communications device.

Construction – The SNWA's Intake No. 3 shaft and tunnel project was named the 2015 Global Tunneling Project of the Year (over \$500M) by the British magazine *New Civil Engineer*. Judges selected the project over six other international finalists, recognizing its unique design, execution, innovation, cost-effectiveness, teamwork, and collaboration. In addition, that same project was among six finalists for the 2016 Outstanding Civil Engineering Achievement (OCEA) Award. This prestigious award from the American Society of Civil Engineers honors the project that best illustrates superior civil engineering skills and represents a significant contribution to civil engineering progress and society.

Conservation – The SNWA's "Nothing Sexier than Saving Water" and "Head in the Grass" advertising campaigns earned seven ADDY Awards from the local club of the American Advertising Federation.

Fleet – The SNWA's fleet was ranked the second best green fleet in North America in 2015 by the Government Green Fleet Awards for best green initiatives, alternative-fuel and recycling programs, and fuel-reduction strategies.

Other Acknowledgements - We express our appreciation to all members of the SNWA's administrative staff and the independent certified public accounting firm of Piercy Bowler Taylor & Kern. Additionally, we recognize the SNWA's accounting staff for their efforts in preparing this report, especially Richard Snelding, SNWA Controller; Cheryl Styck, Senior Accountant; Osvaldo Hernandez, Senior Accountant; and Shera Miyashiro, Accountant. We also thank the members of the Board for their continued support in the planning and implementation of the financial affairs of the SNWA.

Sincerely,



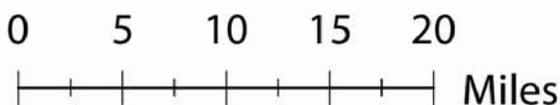
John J. Entsminger

General Manager

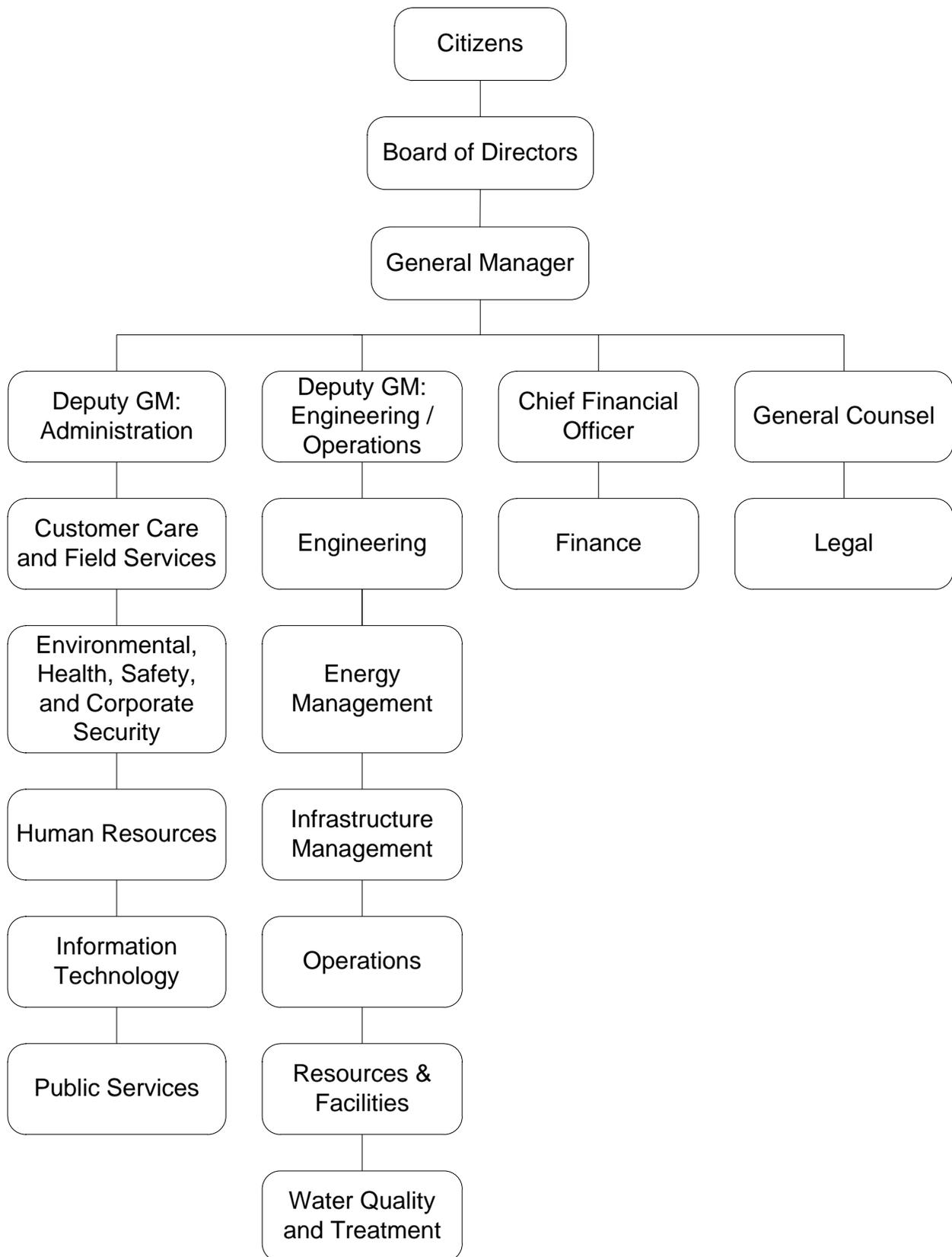


Gina L. Neilson

Chief Financial Officer



Southern Nevada Water Authority
Organizational Chart
As of June 30, 2016





Board of Directors



Mary Beth Scow, Chair
Las Vegas Valley Water District



Sam Bateman, Vice Chair
City of Henderson



Bob Coffin
City of Las Vegas



Marilyn Kirkpatrick
Clark County
Water Reclamation
District



Duncan McCoy
City of Boulder City



Steve Sisolak
Big Bend Water District



Anita Wood
City of North Las Vegas

Executive Management



John J. Entsminger
General Manager



Julie A. Wilcox
Deputy General Manager
Administration



David L. Johnson
Deputy General Manager
Engineering/Operations



Gina L. Neilson
Chief Financial
Officer



Gregory J. Walch
General Counsel



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

Southern Nevada Water Authority

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2015

Executive Director/CEO