



**NEVADA**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**For the Years Ended June 30, 2011 and 2010**

**PREPARED BY: Jeffrey P. Tissier, CPA**  
**Chief Financial Officer**



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## **INTRODUCTORY SECTION**

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November 28, 2011

To the Board of Directors, Our Customers, and Bondholders:

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) for the Truckee Meadows Water Authority (TMWA) for the Fiscal Year ended June 30, 2011. The purpose of the report is to provide the Board of Directors, our customers, and bondholders as well as other interested parties with reliable financial information about TMWA. TMWA's Finance Department has prepared the CAFR in accordance with Generally Accepted Accounting Principles (GAAP).

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control established for this purpose. Because the cost of internal control should not exceed benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The CAFR consists of four sections:

**Introduction Section-** This section is comprised of the letter of transmittal which contains information relative to TMWA's background, a listing of TMWA's principal officers, organizational chart and other relevant information to assist the reader in understanding TMWA's operations, financial condition, and accomplishments.

**Financial Section-** This section consists of TMWA's basic financial statements, supplementary financial information and independent auditor's report on the basic financial statements. In addition, this section includes Management's Discussion and Analysis (MD&A), which provides a narrative overview and explanation of the results reflected in the basic financial statements. The financial statements presented in this section were prepared in accordance with GAAP. TMWA's financial activities are reported as an enterprise fund (proprietary fund type).

**Statistical Section-** This section is comprised of selected financial, operational and demographic information generally presented on an annual basis since TMWA began water utility operations on June 11, 2001.

Compliance Section- This section consists of information regarding TMWA's compliance with state statutes, in particular conformance with the Local Government Finance Act as well as compliance with requirements of federal granting agencies.

## **REPORTING ENTITY**

TMWA was formed as a Joint Powers Authority pursuant to chapter 277 of the Nevada Revised Statutes and is a political subdivision of the State of Nevada. TMWA is separate from its member agencies: City of Reno, City of Sparks and Washoe County. TMWA was formed in November 2000 for the purpose of acquiring the water division of Sierra Pacific Power Co. (SPPCo), a subsidiary of Sierra Pacific Resources ("SRP"), with the goal of retaining local control over the water resources of the area. TMWA took over the water system on June 11, 2001. There are no component units associated with this financial reporting entity.

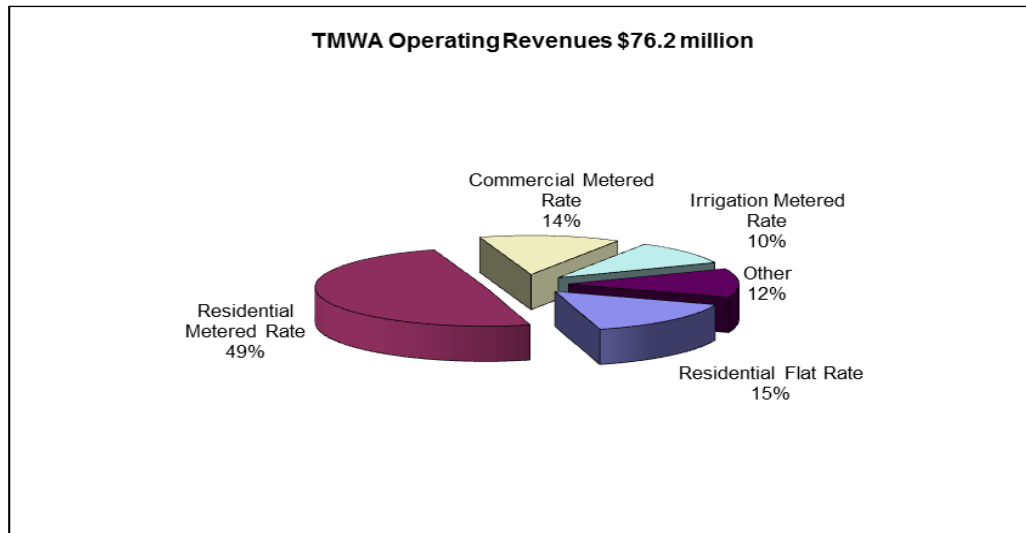
TMWA has no financial interdependence with its member agencies. TMWA has broad powers to finance, construct and operate the water system, for the diversion, treatment, distribution, and sale of treated water to retail and wholesale customers. TMWA has full authority to set water rates for services subject to the approval of the TMWA Board of Directors, without approval by other entities. TMWA is a tax-exempt entity for purposes of federal taxes and State of Nevada property, sales and use taxes, as well as other state taxes. TMWA pays property taxes in Nevada and Sierra Counties of California for the privilege of storing water in private and federal reservoirs. TMWA has no taxing authority.

TMWA provides treated water to two wholesale customers and has approximately 93,000 residential, commercial, irrigation and fire service connections in the Reno-Sparks metropolitan area. TMWA operates in a prescribed retail service area as described in the agreement between SPPCo and Washoe County dated June 25, 1996, as amended. The retail service territory can be modified from time to time pursuant to such agreement. The two wholesale customers are the Sun Valley General Improvement District (SVGID) and the Washoe County Department of Water Resources (WCDWR). SVGID, located north of the Reno-Sparks main metropolitan area, is wholly dependent upon TMWA water deliveries since this district has no source of water supply. The WCDWR purchases water from TMWA, however, WCDWR can provide for a significant portion of its own water demands with WCDWR groundwater resources. There are three separate contracts associated with these wholesale customers.

Nevada Revised Statutes require that an independent certified public accounting firm selected by the Board of Directors audit TMWA's financial statements on an annual basis. The independent auditor's report for the fiscal years ended June 30, 2011 and June 30, 2010 is presented in the Financial Section of this report. TMWA complies with the Local Government Budget and Finance Act as embodied in Chapter 354 of the Nevada Revised Statutes.



The following graph depicts the proportion of operating revenues by class for fiscal year 2011:



The metering of the water system, which began under Sierra Pacific in 1995, presents a practical solution for TMWA operationally. This practical solution presents the opportunity to collect accurate data on water usage by customer class. This allows TMWA to make more accurate cost of service analyses, to make water rates more equitable across customer classes, and to better anticipate future water resource and water facility requirements. There are still approximately 8,100 customers who continue to pay the flat rate. There are less than 700 water services that remain to have a meter installed, and these represent problematic services with multiple customers on a single service line. TMWA is mindful of the revenue impact from the conversion to metered billing in its financial planning, and also accounts for the changing water demands in its water facility and resource planning efforts. Regardless, system-wide equity in customer rates can only be achieved when all customers are charged based on the water they use.

TMWA honored its commitment to the community that water rates would not be increased during its first two years of operation. In June, 2003, TMWA's Board of Directors adopted facility charges, to collect funds from new developments to pay for the construction of storage, supply and treatment facilities for new and/or expanded service. In September 2003, TMWA's Board of Directors adopted adjusted customer rates designed to increase water sales revenues by \$10 to \$11 million annually, with the rate increase becoming effective on October 1, 2003. In early 2005, the TMWA Board of Directors took under consideration another general water rate increase. The result of that public hearing was board approval of a water rate increase that averaged approximately 3.4% to take effect on March 1, 2005. From that time TMWA had not implemented any retail/wholesale water rate revisions until May of 2009 when a general water rate increase of approximately 4.5% on average was approved by the TMWA Board of Directors and implemented on June 1, 2009. This second installment of the proposed increases was implemented in June 2010.

The goal of TMWA, as adopted by the Board in August 2003, is to maintain a senior lien debt coverage ratio of 1.5 times recurring revenues less operating expenses divided by annual debt

service. This calculation excludes developer facility charges and other fees associated with new development. This coverage target is sufficient to meet minimum debt service coverage requirements, fund reconstruction of the water system on primarily a pay-as-you-go basis and manage TMWA's senior lien bonding capacity to allow for potential future senior lien bond sales if necessary. These measures were deemed necessary to maintain system infrastructure in a prudent manner and insure that TMWA's bondholders are adequately protected. There are no other restrictions, commitments, or other limitations that would restrict the unrestricted cash assets for use in meeting TMWA's obligations. TMWA's senior lien coverage (excluding developer fees and charges) was approximately 1.45x as of June 30, 2011 an improvement over the prior year. TMWA's senior lien debt coverage has been impacted by reduced water sales and a significant reduction in investment income. Countering the reduction in water sales and investment income was a continued significant reduction operating expenses.

## **ECONOMIC OUTLOOK AND WATER RESOURCES**

TMWA's service area had experienced steady growth since TMWA's inception in 2001, with overall population gains in Washoe County of nearly 18 percent. After five years of sustained 9 to 10 percent annual growth in county-wide taxable sales, those taxable sales have dipped significantly in fiscal years 2009 through 2011 when compared to the prior years. The Reno-Sparks metropolitan area enjoys a moderate climate, offers a wide variety of year-round recreational opportunities, and has a favorable tax structure. It is also centrally located in the Pacific region affording efficient distribution of goods throughout the western United States. Northern Nevada's favorable business tax environment nurtured steady growth in the entire region and nearby communities in manufacturing, distribution, warehousing and industrial businesses. A surge in residential housing construction through fiscal year 2006 fueled significant new retail development, including several nationally known retailers, however in fiscal years 2008 through 2011, the region has experienced a very difficult recession. TMWA expects the economic conditions to persist for the foreseeable future and will position the water utility accordingly.

To meet water demands in the future, TMWA prepared a very detailed Water Resource Plan (WRP) for the years 2010-2030 during fiscal year 2010. That plan was originally adopted by the Board in March 2003 and previously updated during fiscal year 2007. This extensive plan document addresses current water resources, future water resources, and water rights availability as well as defined drought standards. The focal point of the Water Resource Plan is the population and water demand forecasts for the TMWA service territory.

To complement this resource planning effort, a comprehensive Water Facility Plan (WFP) for the years 2010-2030 was developed. The original WFP was adopted by the TMWA Board in December of 2004. The WFP evaluates the infrastructure required to supply, treat and deliver water to customers over the life of the plan and determines the Capital Improvement Plan needs to serve growth based upon population forecasts in the WRP. For fiscal year 2011, TMWA's Board approved a Capital Improvement Plan with a five year spending level of \$74.9 million which focuses spending primarily on water system reconstruction. Spending on the acquisition of water rights has been suspended because TMWA has a sufficient inventory of water rights to issue will-serve commitments for the foreseeable future.

TMWA is a very active supporter and participant in the process of negotiating and implementing the Truckee River Operating Agreement (TROA), as are the TMWA member agencies including the cities of Reno, Sparks, and Washoe County. TMWA is a primary signatory to the TROA along with the Pyramid Lake Paiute Tribe, the States of Nevada and California, and the Federal Government. TROA is intended to provide TMWA customers with certainty regarding the operation of the Truckee River system and additional drought supplies for existing as well as new customers. These lengthy and complex negotiations, which include interstate allocations of Truckee River water rights, were concluded when TROA was signed by the aforementioned parties on September 6, 2008 at a signing ceremony in Reno. It is expected to take several years to implement TROA. TMWA is now progressing with the implementation phase of TROA.

## **WATER QUALITY**

TMWA's highest priority is the protection of public health through modern water treatment techniques and water quality monitoring efforts. TMWA's primary source of water is the Truckee River, which sources at Lake Tahoe and other tributaries to the Truckee River, travels into Nevada through the Reno-Sparks Metropolitan area with the terminus of the river at Pyramid Lake, a distance of approximately 120-miles. The river's water quality is excellent; however additional steps are taken to purify the water to meet safe drinking water standards that were set forth by the United States Department of Environmental Protection in the early 1990's. TMWA owns and operates the 84 million gallons per day (MGD) Chalk Bluff Water Treatment Plant (expanded from 69 MGD in 2005) and the 37.5 MGD Glendale Water Treatment Plant which was expanded from 25 in capacity through a series of improvements.

TMWA spends approximately \$1 million annually monitoring water quality by analyzing nearly 11,000 samples at over 150 locations throughout the TMWA water system. TMWA strictly complies with current drinking water standards, including the recently revised arsenic standards as promulgated by the United States Environmental Protection Agency, and administered by the Nevada Department of Environmental Protection, Bureau of Safe Drinking Water.

## **WATER CONSERVATION**

Water conservation is a high priority at TMWA. Prudent use of the area's water resources extends this vital resource to periods of dry weather patterns and reduces or defers further investments in new plant and preserves system capacities. The purpose of water conservation at TMWA is to promote wise use of water through a number of initiatives. TMWA's conservation programs were designed to achieve 10% annual water savings as part of the conservation goal agreed to in the 1996 Water Conservation Agreement between TMWA's predecessor SPPCo, the Pyramid Lake Paiute Tribe, and the United States. The backbone of water conservation in the Truckee Meadows is the Water Meter Retrofit Program.

### **The Water Meter Retrofit Program**

In 1995, the conversion of TMWA's 44,651 flat rate services to metered services began. As of June 30, 2011, TMWA estimates that less than 700 small unit residential and multi-unit metering

facilities remain to be installed. Developers, through a charge of \$1,830 for every acre-foot of new water demand, provide funding for this project. These funds are considered restricted cash assets as represented on TMWA's statement of net assets. Complete metering of TMWA's system will also allow for determination of system losses and focus financial resources to areas of the service territory that may require system rehabilitation.

### **Assigned Day Watering**

Previously on two days a week assigned day watering schedule, TMWA implemented a three days a week watering schedule during the summer of 2010. This new program was well received by the community and is expected to reduce peak day demand on the water system. TMWA's predecessor, SPPCo, initiated this voluntary program in the late 1980's in an effort to avoid investment in new facilities brought on by growing demands. During the 1987 to 1994 period, twice a week watering became mandatory as part of conservation agreement commitments and remained in place until the summer of 2010. The greatest benefit of this is to more evenly distribute the peak demands for water during a summer week, which translates to less peaking demand on facilities.

### **Landscape Efficiency Program**

This program promotes the use of attractive drought tolerant plants for the high desert climate experienced in Western Nevada. The program includes help with landscape augmentation that is available to institutional irrigation customers as well as certain commercial customers participating in an irrigation program based on data supplied by evaporation-transpiration sensing equipment. This equipment controls the amount of irrigation based upon moisture levels in turf areas. Also during periods of wet weather patterns, irrigation is deferred until such time as turf moisture levels indicate irrigation must be applied.

### **Water Audit Program**

This program assists TMWA customers in the evaluation of both indoor and outdoor water use. TMWA water conservation consultants visit residents and businesses to measure the amount of water applied to lawns and landscape. After evaluation of information, recommendations are made to the customer on how to minimize consumption while preserving their landscape. This program also looks for leaks within the home and promotes efficient indoor water use.

### **Classroom Education**

TMWA participates in a number of community events that promote conservation and responsible water use education. TMWA works with various schools by presenting information about the area's water resources, how these resources are used, and the benefits of water conservation. TMWA has prepared and distributed teaching materials to local schools.

## **FINANCIAL INFORMATION**

### **Internal Controls**

TMWA employs various internal controls for the safeguarding of assets against losses from unauthorized use or disposition. TMWA's management is responsible for establishing and maintaining a system of internal controls designed to meet these objectives. Another purpose of internal controls is to ensure that accounting data are compiled to allow for the preparation of financial statements in accordance with generally accepted accounting principles. The internal control structure is designed to provide reasonable assurance that these objectives are met. When establishing or reviewing internal controls, management weighs the cost to implement such controls over the benefits derived from implementing such controls. TMWA management is constantly looking for opportunities to improve or redesign internal controls. A key component of TMWA's internal controls is its budgetary controls.

### **Budgetary Controls**

TMWA is legally required to prepare, present to the TMWA Board and adopt an annual budget in conformance with Chapter 354 of the Nevada Revised Statutes. These statutes comprise the Administration of Local Government Finance Act, which stipulates that the Board be presented with a tentative budget by April 15 of each year, with formal adoption of the budget after a public hearing on the third Thursday of May of each year. The adopted budget is then filed with the Nevada Department of Taxation.

TMWA is also required to prepare a Capital Improvement Plan for review and formal acceptance by the TMWA Board. This plan is a comprehensive compilation of all capital projects and capital outlays expected during the ensuing five fiscal year period. TMWA's Board is kept informed of TMWA's financial performance throughout the fiscal year at scheduled Board meetings. The General Manager, as the chief administrative officer, is authorized to approve all expenses that are within the approved budget. This authority is conferred upon the General Manager by virtue of the TMWA Cooperative Agreement between the City of Reno, City of Sparks, and the County of Washoe. This arrangement allows for the efficient operation of TMWA.

## **BUDGET ANALYSIS AND VARIANCES**

Actual total operating water revenues were \$1.6 million or 2.0% under budget for fiscal year ended June 30, 2011. Total budgeted revenues were \$77.8 million as compared to \$76.2 million in actual revenue. Charges for water sales were \$1.9 million under budget, while hydroelectric revenues were nearly \$0.6 million over budget. Other operating sales were \$0.3 million under budget. TMWA water sales were impacted by decreasing demands as a result of the cooler weather patterns than historically experienced and persistent residential and commercial vacancies. The incremental water sales expected to be derived from the 4.5% general water rate increase adopted June 2010 was nearly eliminated by these aforementioned conditions.

Total operating expenses of \$55.5 million were approximately \$4.1 million under a budget of

\$59.6 million. Less than planned cash operating expenses of \$3.6 million were augmented by \$0.5 million in less than planned depreciation expense. Operating expenses net of depreciation were \$3.6 million under budget primarily due to slightly lower spending on wages and salaries, employee benefits, and services and supplies. Spending on operating salaries and wages was \$0.9 million less than budget, while employee benefit spending was \$0.8 million less than budget. Lower operating wages and salaries were primarily due to reduction in staffing and not filling vacant positions. Health care expenses did not increase during the fiscal year which helped reduce employee benefit costs as well as vacant positions. Services and supplies expenses were \$2.0 million under budget primarily due to a significant reduction in electric power expenses, completion of reclamation of the Highland Canal around the Mogul residential area and reduced legal expenses associated with the TCID lawsuit. Power expenses have been reduced significantly due to the full year benefit of providing raw water to the Chalk Bluff Water Treatment Plant by gravity flow rather than using the Orr Ditch Pump Station and better utilization of time of use pumping electric rate schedules.

Total net nonoperating expenses, including investment income, were \$0.4 million less than budget. Investment income and decrease in fair value of investments, after capitalization of investment income, as required by FASB 62 was \$0.1 million under budget. This was due to much lower than expected investment returns. Interest expense and amortization of bond/note issuance expenses was \$0.1 million greater than budget, due to less capitalization of interest expense in accordance with FASB 34. Variations in capitalizing interest expense to construction projects creates minor variances between budgeted and actual interest expense.

Capital contributions were \$0.3 million less than budget and these contributions are significantly less than historical levels. A large part of the capital contributions was from dedication of developer funded infrastructure improvements which was the reason for the negative variance. Cash contributions were \$0.4 million greater than budget but still very anemic in comparison to historical levels.

The total augmented capital spending budget was \$21.8 million for fiscal year 2011. TMWA spent approximately \$20.2 million on construction projects and capital outlays which was \$1.6 million less than budget. Construction pricing has been very favorable in addition to less than expected treatment plant improvements.

As reflected in the Statement of Cash Flows, TMWA funded the operating budget and debt service requirements from operating revenues, and capital projects primarily from unrestricted cash reserves and investment income. As of June 30, 2011, TMWA has approximately \$48.5 million of financial resources to fund future operations and capital projects. TMWA only spent \$0.6 million in cash reserves in fiscal year 2011. Looking forward capital spending is expected to be significantly reduced and will focus mainly on rehabilitation of the water system. TMWA has adequate water system capacity and water resources to support growth in the community for the foreseeable future.

TMWA continued funding of required cash reserves as prescribed by TMWA's bond covenants during fiscal year 2011. TMWA's renewal and replacement reserve is fully funded at \$10 million. The operations and maintenance reserve fund, which TMWA is required to maintain at

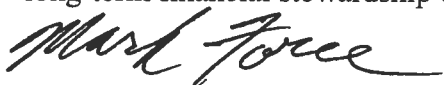
a balance equal to one-sixth of TMWA's revised final operating budget, contained \$6.1 million as of June 30, 2011. TMWA still retains a \$1.8 million water rate stabilization reserve of which \$0.5 million is restricted and \$1.3 million is a reservation of unrestricted net assets. Finally, TMWA remains in possession of \$2.0 million of the Series 2001A bond proceeds for the purchase of the one remaining run-of-river hydroelectric generating facility. Three of the facilities were purchased in the past three years, one during fiscal year 2008 and two in fiscal year 2009. The fourth and final facility, located in Farad, California that was heavily damaged by the 1997 flood, has not yet been restored by NV Energy.

### **TMWA MILESTONES**

TMWA, now in its tenth year of operation, was successful in retaining its credit ratings by the three primary rating agencies (Standard and Poors, Moody's and Fitch).

### **ACKNOWLEDGEMENTS**

The timely preparation of this report could not be done without the assistance of TMWA finance personnel, and the management and employees of TMWA. We would like to thank the Board of Directors, TMWA customers, and the development community, for their commitment to the long-term financial stewardship of TMWA.



Mark Foree, P.E.  
General Manager



Jeffrey P. Tissier CPA  
Chief Financial Officer

**Truckee Meadows Water Authority  
List of Principal Officials  
June 30, 2011**

**TMWA Board of Directors**

Mike Carrigan, City of Sparks Councilman, Chairman of the Board

David Aiazzi, City of Reno Councilman, Vice Chairman of the Board

Bob Cashell, City of Reno Mayor

Geno Martini, City of Sparks Mayor

Mike Cate, City of Reno Appointee

John Breternitz, Washoe County Commissioner

Bob Larkin, Washoe County Commissioner

**Management**

Mark Foree, PE, General Manager

Scott Estes, PE, Director of Engineering

Sylvia Harrison, General Counsel

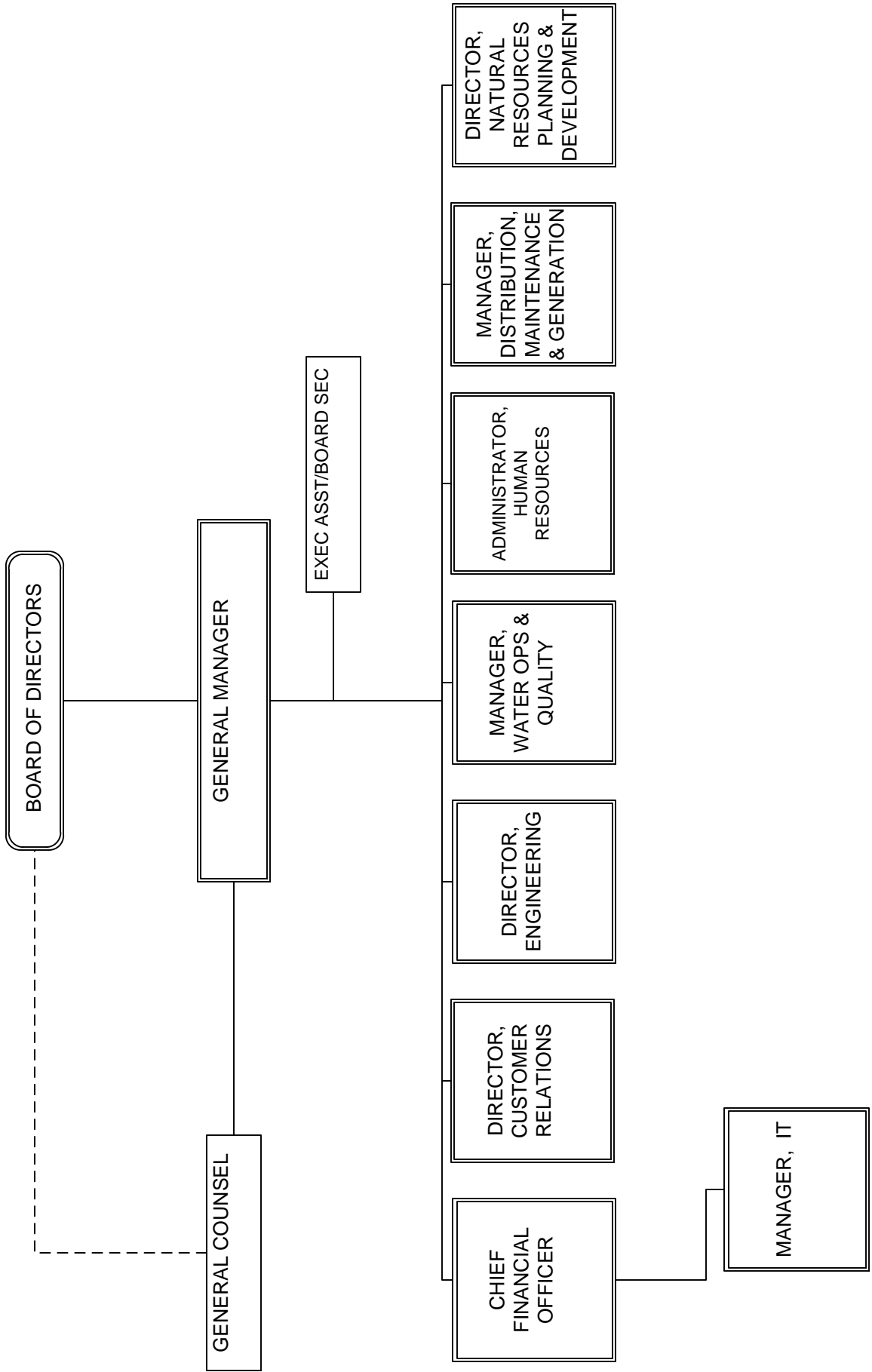
John Erwin, Director of Natural Resources Planning and Development

Kim Mazeres, Director of Customer Relations

Jeffrey Tissier, CPA, Chief Financial Officer



# Organization Chart



# Certificate of Achievement for Excellence in Financial Reporting

Presented to

Truckee Meadows Water  
Authority, Nevada

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director