

**FINANCIAL SECTION**



**KAFOURY, ARMSTRONG & CO.**  
A PROFESSIONAL CORPORATION  
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

To the Board of Directors of the  
Truckee Meadows Water Authority

We have audited the basic financial statements of Truckee Meadows Water Authority, a Joint Powers Authority (TMWA) as listed in the table of contents as of and for the years ended June 30, 2009 and 2008. These financial statements are the responsibility of TMWA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Truckee Meadows Water Authority at June 30, 2009 and 2008, the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 13, 2009 on our consideration of TMWA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 2A through 2L and the Schedule of Funding Progress on page 27, are not required parts of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The accompanying introductory section, the schedules of revenues, expenses and changes in net assets - budget and actual, the schedule of expenditures of federal awards (as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*), and statistical section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements of TMWA. The schedules of revenues, expenses and changes in net assets - budget and actual and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly presented in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Kafoury, Armstrong & Co.*

Reno, Nevada

November 13, 2009

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the TMWA's Comprehensive Annual Financial Report presents management's discussion and analysis of TMWA's financial performance during the fiscal years ended June 30, 2009, June 30, 2008, and June 30, 2007. This section should be read in conjunction with the transmittal letter at the front of this report and TMWA's financial statements following this section.

### FINANCIAL HIGHLIGHTS

	<u>TMWA's Net Assets</u>		
	<i>(in millions)</i>		
	<u>June 30, 2009</u>	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Unrestricted Current Assets	\$ 75.0	\$110.0	\$110.8
Restricted Current Assets	22.0	27.7	29.2
Long-Term Restricted and Other Assets	56.6	57.0	56.8
Capital Assets	<u>682.6</u>	<u>651.8</u>	<u>605.4</u>
<b>Total Assets</b>	<u>836.2</u>	<u>846.5</u>	<u>802.2</u>
Long-Term Debt Outstanding	452.3	460.3	468.0
Other Liabilities	<u>99.3</u>	<u>104.6</u>	<u>78.8</u>
<b>Total Liabilities</b>	<u>551.6</u>	<u>564.9</u>	<u>546.8</u>
Invested in Capital Assets, Net of Related Debt	204.5	169.1	143.2
Restricted	23.9	25.2	24.8
Unrestricted	<u>56.2</u>	<u>87.3</u>	<u>87.4</u>
<b>Total Net Assets</b>	<u>\$284.6</u>	<u>\$281.6</u>	<u>\$255.4</u>

In the fiscal year ended June 30, 2009, TMWA's total net assets increased by approximately \$3.0 million, the result of developer infrastructure dedications and an increase in capital assets primarily funded from unrestricted cash reserves. In fiscal year ended June 30, 2008, TMWA's total net assets increased by approximately \$26.2 million, primarily the result of developer infrastructure dedications and capital spending partially funded from proceeds of a commercial paper note issuance.

As reported on the Statements of Net Assets, at June 30, 2009, total Unrestricted Current Assets decreased by approximately \$35.0 million from June 30, 2008. The overall decrease was due to decreases in unrestricted cash of \$33.9 million, accounts receivable of \$0.2 million, and interest receivable of \$0.8 million. A decrease in due from other governments of \$0.1 million was offset by an increase in prepaid assets and due from others of \$0.1 million. The decrease in unrestricted cash was due to continuing investment in utility infrastructure. The decrease in accounts receivable was due to a very cool and moist June weather pattern. The decrease in interest receivable was due to significant reductions in investment rates of return as well as a significant decrease in outstanding investments.

As reported on the Statements of Net Assets, at June 30, 2008, total Unrestricted Current Assets decreased by approximately \$0.8 million from June 30, 2007. The overall decrease was due to a decrease of \$1.4 million in accounts receivable, and a decrease of \$0.1 million in prepaid assets. Offsetting these decreases were increases in unrestricted cash of \$0.1 million, and increase in due from other government of \$0.3 million and an increase in interest receivable of \$0.3 million. The decrease in accounts receivable was due to less delivered and unbilled water as well as less billed revenue at year end. This was due to cooler summer weather than experienced in the previous years. Prepaid assets decreased because of a lower payment than the previous year for upstream storage. Due from other governments increased by \$0.3 million and was due to a year end bill for a new grant award. Interest receivable increased because of longer accrual periods for most investments. Cash increased modestly because monies spent on capital projects were offset by issuance of \$25.0 million of tax-exempt commercial paper notes.

As reported on the Statements of Net Assets, at June 30, 2009, total Restricted Current Assets decreased by approximately \$5.7 million from June 30, 2008. This decrease was due to the purchase of two hydroelectric plants for \$4.0 million and a decrease of \$1.9 million in water meter retrofit restricted cash. Offsetting these decreases was an increase in current bond debt service of \$0.2 million as a result of an increase in principal payments on TMWA's senior lien debt.

As reported on the Statements of Net Assets, at June 30, 2008, total Restricted Current Assets decreased by approximately \$1.5 million from June 30, 2007. This decrease was primarily due to the purchase of a hydroelectric plant prior to fiscal year end for \$2.0 million, a decrease in water meter retrofit restricted cash of \$0.1 million, offset by an increase in current bond debt service of \$0.6 million. The increase in current bond debt service was due to a scheduled increase in interest expense on the 2007 Refunding Bonds.

At June 30, 2009, the Long-Term Restricted and Other Assets decreased by \$0.4 million from fiscal year 2008. An increase of \$0.1 million in the operations and maintenance reserve was offset by decreases of \$0.3 million in deferred charges and \$0.2 million in other assets. The increase in the operations and maintenance reserve was required as stipulated in TMWA's long term bond indentures. The decrease in other assets was due to reclassification of a one year portion of a ten year environmental insurance policy premium from long term to short term. The decrease in deferred charges is due to the amortization of deferred bond issuance expenses.

At June 30, 2008, total Long-Term Restricted and Other Assets increased by \$0.2 million from June 30, 2007. An increase of \$0.8 million in the operations and maintenance reserve was offset by a decrease in other assets of \$0.3 million and a decrease in deferred charges of \$0.3 million. The increase in the operations and maintenance reserve was required as stipulated in TMWA's long term bond indentures. The decrease in other assets was due to reclassification of a one year portion of a ten year environmental insurance policy premium from long term to short term. The decrease in deferred charges is due to the amortization of deferred bond issuance expenses.

Capital assets net of accumulated depreciation increased by \$30.8 million from June 30, 2008 to June 30, 2009. This increase included \$6.9 million in developer infrastructure contributions, \$1.8 million in contributions from others and approximately \$44.3 million in capital spending on construction projects and capital outlays. These increases in gross capital assets are offset by \$22.2 million in depreciation expense. Contributions from others consisted of a partial valuation of the Panther Valley Water Users Associations' (PVWUA) water utility assets. TMWA took over this water utility in the fourth quarter of fiscal year 2009. The remainder of the PVWUA assets will be valued in fiscal year 2010 once additional information is obtained.

Capital assets net of accumulated depreciation increased by \$46.4 million from June 30, 2007 to June 30, 2008. This significant increase included \$8.1 million in developer infrastructure contributions, approximately \$58.3 million in capital spending on construction projects, and \$0.9 million in water right acquisitions. The increase in gross capital assets is offset by \$20.8 million in depreciation expense.

At June 30, 2009, total current liabilities payable from unrestricted assets decreased from June 30, 2008 by \$5.5 million. The overall decrease was due to a decrease in accounts payable of \$0.9 million, a decrease in contracts and retention payable of \$0.7 million, a decrease in accrued liabilities of \$2.5 million, a decrease in due to other governments of \$0.9 million, a decrease in accrued interest payable of \$0.2 million and a decrease in customer deposits and amounts due developers for \$0.4 million. The decrease in accounts payable was due to bills being paid on June 30, 2009 resulting in less accrual of invoices. The decrease in contracts and retentions payable was due to a year over year reduction in construction activity. The decrease in accrued liabilities was due to TMWA funding its Voluntary Employees Benefits Association (VEBA) for post retirement medical benefits. TMWA had been accruing for this obligation since fiscal year 2002 in anticipation of the adoption of GASB 45. The decrease in due to other governments was primarily due to the payments to the City of Reno for a joint construction contract. The decrease in accrued interest payable was due to less accrued interest on TMWA's outstanding commercial paper, the result of significantly reduced interest rates. The reduction in customer deposits and amounts due developers was due to payment of refunds to certain developers for various fees because of cancelled development projects.

At June 30, 2008, total current liabilities payable from unrestricted assets increased from June 30, 2007 by approximately \$25.2 million and were mainly due to an increase the issuance of \$25.0 million in tax-exempt commercial paper (TECP) during fiscal year 2008. Other increases in current liabilities payable from unrestricted assets were \$1.0 million in contract payables, \$1.0 million in accrued liabilities, \$0.1 million increase in accrued interest payable and \$0.5 million in customer deposits and amounts due from developers. These increases were offset by reductions in accounts payable of \$2.4 million. The increase in TECP was to fund certain construction projects on an interim basis. The increase in accrued liabilities was primarily due to an accrual for the annual required contribution for post retirement health care and for an increase in compensated absences. The increase in accrued interest payable was due to accrued interest on outstanding TECP. Accounts payable decreased because a significant amount of invoices were paid before year end. Contracts and retention payable increased because of a number of large and lengthy construction projects were nearing completion. The

increase in customer deposits and amounts due developers was primarily a payment for oversizing infrastructure and increasing deposits on delinquent accounts.

At June 30, 2009 current liabilities payable from restricted assets increased by \$0.2 million from June 30, 2008. The net increase was due to an increase in senior lien bond principal of \$0.4 million offset by a decrease in interest payable on senior lien bonds of \$0.2 million. These changes are due to the natural changes reflected in the amortization schedules on the outstanding senior lien bonds. Long term debt, net of current portion decreased \$8.0 million as a result of reclassifying long term debt to short term debt. Amortization of bond discounts and premiums as well as refunding valuation allowances also affected this total reduction in long term debt. Non-current liabilities are made up of TMWA's long term debt, resulting from the purchase of the water assets from SPPCo, the outstanding long-term portion of the DWSRF loan, the long term portion of Series 2005A, \$40.0 million water revenue bonds to fund certain construction projects, the issuance of \$150.5 million in refunding bonds to refund \$146.0 million in Series 2001A bonds, and the issuance of \$218.9 million in 2007 Refunding bonds to refund \$212.3 million in Series 2001A bonds. Please refer to Note 6 of TMWA's Notes to the Financial Statements for additional information regarding these outstanding bonds.

At June 30, 2008 current liabilities payable from restricted assets increased by \$0.6 million from June 30, 2007, and is due to semi-annual interest due on TMWA senior lien indebtedness as well as the principal portion of the debt due in fiscal year 2008. The current portion of long term debt decreased by \$0.2 million while interest payable increase by \$0.8 million. These changes are due to prior years refundings that have changed the schedule of principal and interest payments. Long term debt, net of current portion decreased \$7.7 million as a result of reclassifying long term debt to short term debt. Amortization of bond discounts and premiums as well as refunding valuation allowances also affected this total reduction in long term debt.

#### TMWA's Changes in Net Assets

*(in millions)*

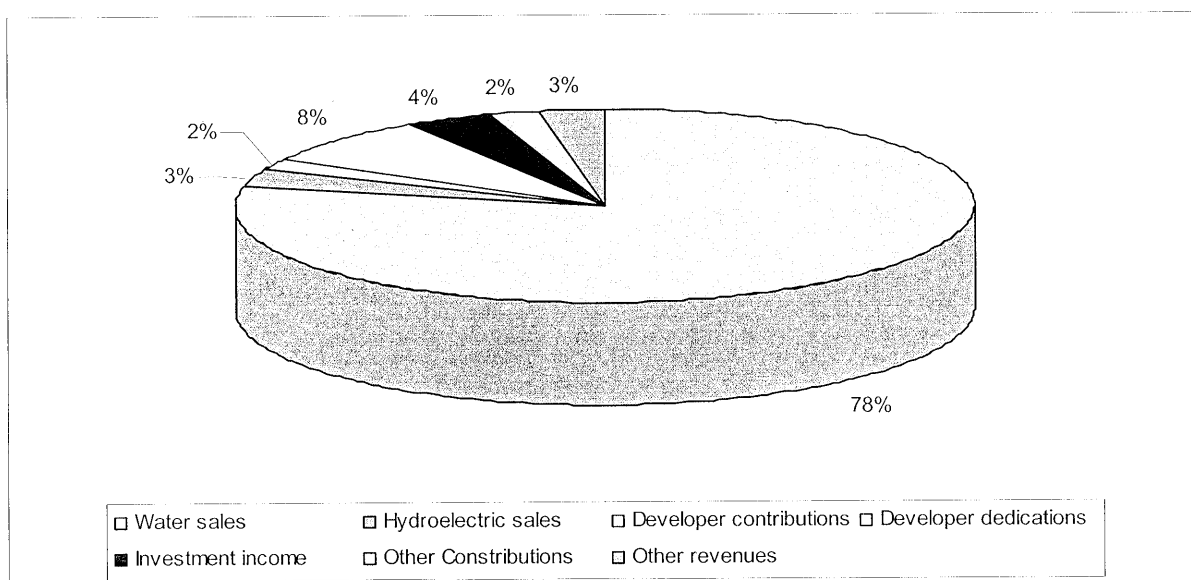
	<u>June 30, 2009</u>	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Operating Revenues	\$ 75.0	\$ 78.2	\$ 81.0
Operating Expenses	<u>62.7</u>	<u>60.6</u>	<u>55.6</u>
Operating Income	12.3	17.6	25.4
Nonoperating Revenues (Expenses) net	<u>( 19.8)</u>	<u>( 17.2)</u>	<u>( 15.6)</u>
Income (Loss) before Capital			
Contributions	(7.5)	0.4	9.8
Capital Contributions	<u>10.5</u>	<u>25.9</u>	<u>44.4</u>
Change in Net Assets	<u>\$ 3.0</u>	<u>\$ 26.3</u>	<u>\$ 54.2</u>

## TMWA's Revenues

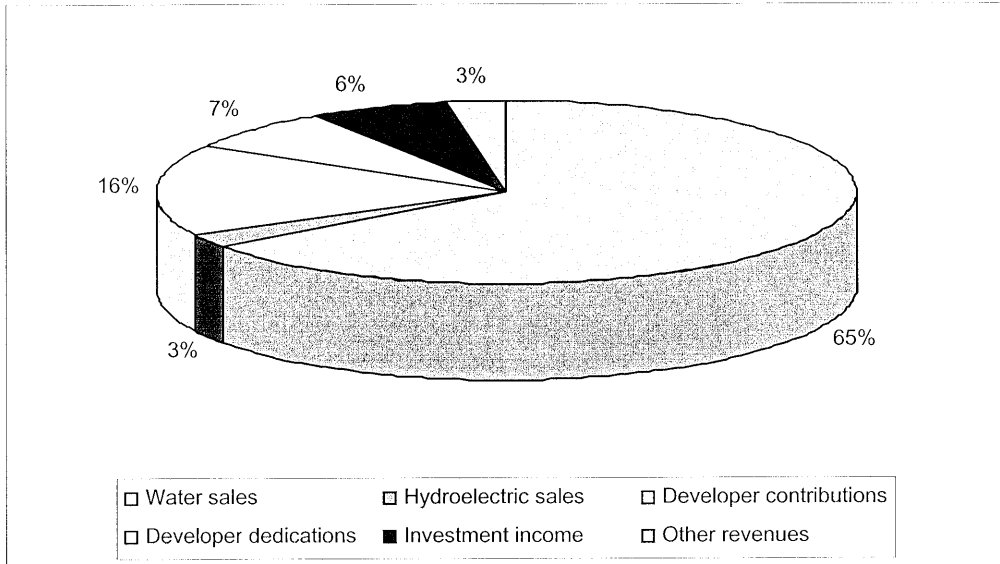
	June 30,2009	June 30,2008	June 30,2007
<b>Revenues (in millions):</b>			
Operating Revenues:			
Water Sales	\$ 70.2	\$ 72.7	\$ 74.3
Hydroelectric Sales	2.8	2.8	3.1
Other Operating Revenues	<u>2.0</u>	<u>2.7</u>	<u>3.6</u>
	<u>75.0</u>	<u>78.2</u>	<u>81.0</u>
Nonoperating Revenues:			
Investment Earnings	3.6	7.1	7.6
Other	<u>0.6</u>	<u>0.5</u>	<u>1.3</u>
	<u>4.2</u>	<u>7.6</u>	<u>8.9</u>
Capital Contributions	<u>10.5</u>	<u>25.9</u>	<u>44.4</u>
<b>Total Revenues</b>	<u><u>\$ 89.7</u></u>	<u><u>\$ 111.7</u></u>	<u><u>\$ 134.3</u></u>

The table above and the graphs that follow represent the makeup of TMWA's total revenues for fiscal years ended June 30, 2009, 2008 and 2007:

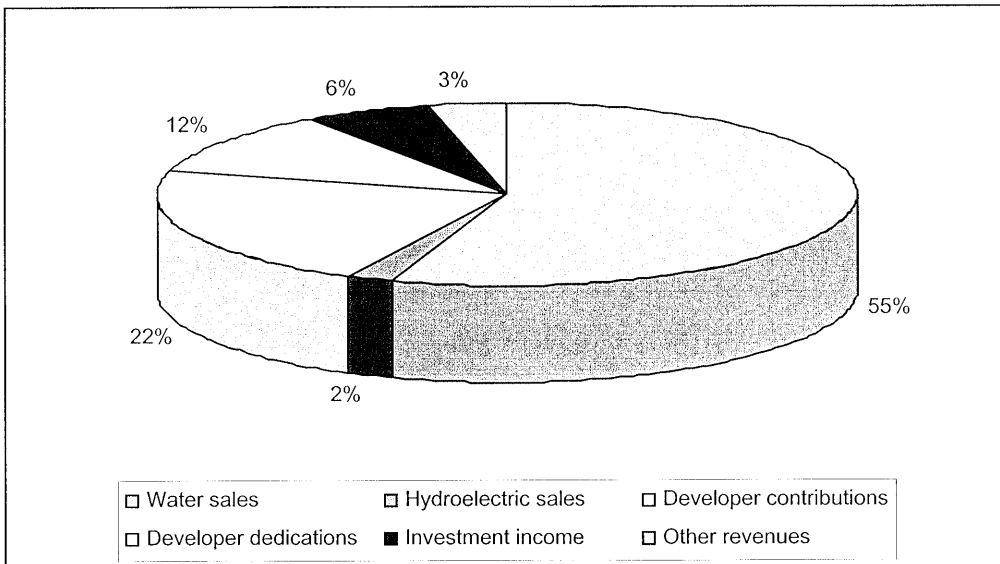
### Total Revenues for the Year Ended June 30, 2009



**Total Revenues for the Year Ended June 30, 2008**



**Total Revenues for the Year Ended June 30, 2007**



For fiscal year 2009, total operating revenues decreased \$3.2 million from fiscal year 2008. Water sales in fiscal year 2009 were \$2.5 million or 3.4% less than in fiscal year 2008 because of cooler summer weather in the first quarter of fiscal year 2009, a very cool and moist weather pattern in June of 2009 and because of persistent residential and commercial vacancies. Hydroelectric revenues were essentially the same in fiscal year 2009 as in fiscal year 2008. There was no particular reason for the decrease year over year. Other operating sales decreased \$0.7 million year over year and was due primarily to sharp reduction in inspection fees for inspecting new residential and commercial construction.

For fiscal year 2008, total operating revenues decreased \$2.8 million from fiscal year 2007. Water sales in fiscal year 2008 were \$1.6 million less than in fiscal year 2007 partially because of cooler spring and early summer weather patterns in comparison to the prior year and, a call to the public to reduce water demands because TMWA suffered significant damage to the raw water delivery system to the Chalk Bluff Water Treatment Plant (CBWTP) in front of increasing seasonal water demands in May 2008, and to a lesser extent a greater number of vacant residential premises. Hydroelectric revenues were \$0.3 million less in fiscal year 2008 than in fiscal year 2007. This was due primarily to less plant availabilities than in the previous fiscal year. Other operating sales were less than in the previous year due to less collection of inspection fees from new development and less non-potable water sales.

For fiscal year 2009, capital contributions decreased by \$15.4 million from fiscal year 2008. This significant decrease was across all developer collections and dedications. Water meter retrofit fees were \$1.0 million less, developer infrastructure contributions were \$1.2 million less, developer will serve commitments were \$3.0 million less, developer capital contributions were \$1.9 million less as well as developer facility charges which were \$2.6 million less. Contributions from other governments were \$7.4 million less due to the one-time payment in fiscal year 2008 for water system capacity. Offsetting the aforementioned decreases was contributions from others for \$1.8 million which reflects the partial dedication of water infrastructure of small water utility taken over by TMWA.

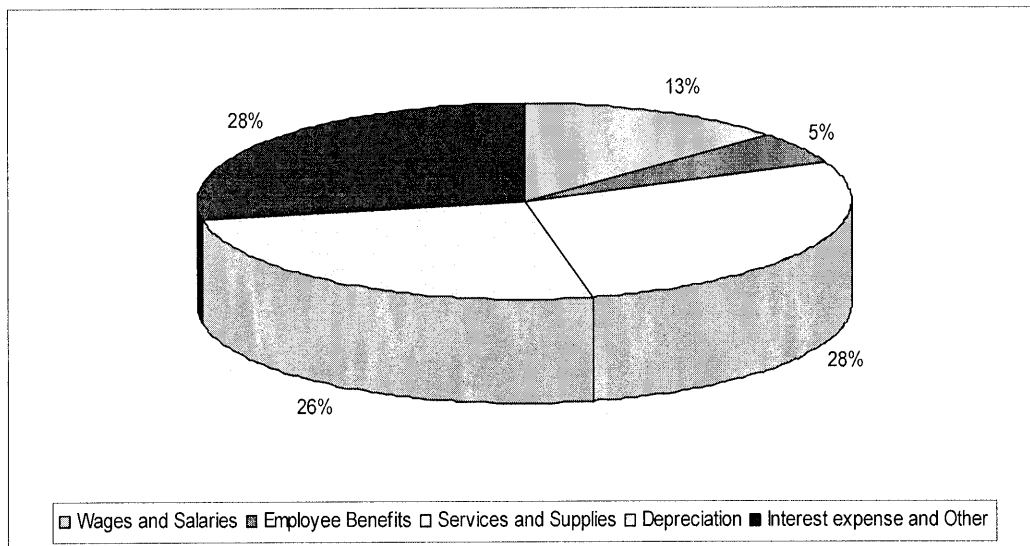
For fiscal year 2008, capital contributions decreased \$18.5 million from fiscal year 2007. The significant decrease can be attributed to lower sales of water service-will serve commitment to developers of \$10.7 million and less developer infrastructure dedications of \$7.4 million which was due to less infrastructure assets dedicated to TMWA. Greater contributions from other governments of \$5.8 million were offset by \$5.1 million decrease collections of various developer fees for new water system capacity. The water meter retrofit fund received a decrease of \$1.1 million less in cash contributions, than in fiscal year 2007. Of the total \$25.9 million in developer capital contributions, \$17.8 million was in cash. Continued weakness in residential construction extended in to fiscal year 2008 from fiscal year 2007.

## TMWA's Expenses

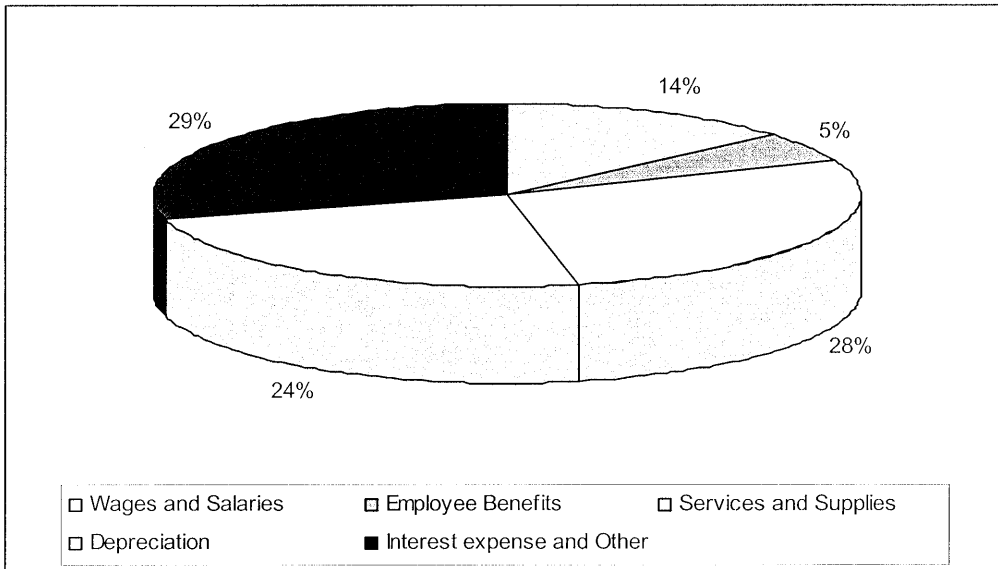
	June 30,2009	June 30,2008	June 30,2007
<b>Expenses (in millions):</b>			
Operating Expenses:			
Wages & Salaries	\$ 11.6	\$ 11.7	\$ 10.1
Employee Benefits	4.4	4.5	4.0
Services & Supplies	24.5	23.6	22.3
Depreciation	22.2	20.8	19.2
	<u>62.7</u>	<u>60.6</u>	<u>55.6</u>
Nonoperating Expenses:			
Interest Expense	23.4	24.1	23.9
Other Non-operating Expenses	0.6	0.7	0.6
	<u>24.0</u>	<u>24.8</u>	<u>24.5</u>
<b>Total Expenses</b>	<u>\$ 86.7</u>	<u>\$ 85.4</u>	<u>\$ 80.1</u>

The table above and the graphs that follow represent the makeup of total operating and non-operating expenses for the years ended June 30, 2009, 2008 and 2007:

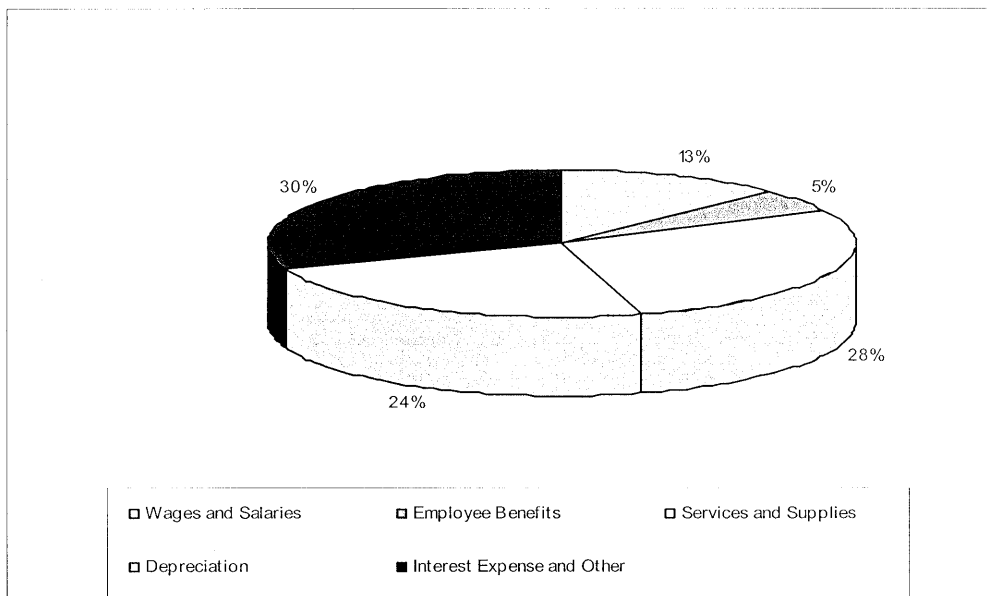
### Total Expenses for the Year Ended June 30, 2009



**Total Expenses for the Year Ended June 30, 2008**



**Total Expenses for the Year Ended June 30, 2007**



The \$2.1 million increase or 3.4% in TMWA's operating expenses from fiscal year 2008 to 2009 is due to an increase of \$1.3 million in depreciation expense and \$0.9 million increase in services and supplies expenses. Offsetting these increases were less than \$0.1 million in salaries and wages and slightly less than \$0.1 million reduction in employee benefits spending. The slight reduction in salaries and wages was due to not filling vacant positions and assigning personnel to certain construction projects when required. The reduction in spending on benefits was due primarily to the reduction in the Annual Required Contribution (ARC) for post retirement medical benefits. The reduction in the ARC was due to TMWA funding the Voluntary Employee Benefit Trust (VEBA) enabling TMWA to use a higher discount rate reflective of expected investment performance in the trust. Service and supplies expenses increased due to \$0.5 million in greater emergency spending on various projects which included the continued mitigation of earthquake damage to raw water conveyance structures to the Chalk Bluff Water Treatment Plant (CBWTP), the installation of temporary pumping facilities at the Glendale Water Treatment Plant due to failure of recently installed pumps by a manufacturer, and spending on redundant power generation at the CBWTP due to failure of both power feeds to the plant. Increased spending on treatment chemicals accounted for \$0.2 million in spending as well as additional legal fees related to defense costs on the TCID lawsuit. Depreciation expense was the largest increase to operating expenses and was due to the addition of over \$50 million in project to permanent fixed assets. Other non operating expenses decreased by \$0.7 million as because of less interest expense related to TMWA's tax-exempt commercial paper program.

The \$5.4 million increase or 6.7% in TMWA's operating expenses from fiscal year 2007 to 2008 is due to an increase of \$1.6 million in wages and salaries, employee benefits increasing by \$0.5 million, services and supplies expense increasing \$1.3 million, and a \$1.6 million increase in depreciation expense. The increase in operating wages and salaries was due to the addition of personnel, an increase in the accrual for compensated absences since personnel took less sick and vacation leave during the year, an increase in overtime, and a general wage increase of approximately 3.8%. Employee benefits increased by \$0.5 million and were primarily due to increase in contributions to PERS retirement system and increases to health care costs. Service and supplies expenses increased a modest \$1.3 million or 5.8 % year over year. This increase was primarily due to \$0.9 million in one-time emergency expenses as a result of earthquake damage to the raw water delivery system for CBWTP and other related emergency expenditures. TMWA had to construct temporary raw water delivery points to the CBWTP to meet increasing summer water demands. Increases in power and chemical expenses speak to the remainder of the increase in services and supplies expenses. Depreciation expense increased considerably by \$1.6 million or 9% because TMWA had completed a number of major construction projects in fiscal year 2008, while developer infrastructure contributions, although less than in previous years, was still significant. Non-operating expenses increased a total \$0.3 million or 1.2% because of increased interest expenses.

## **CAPITAL ASSETS**

At June 30, 2009, TMWA's total capital assets were \$811.9 million net of accumulated depreciation of \$129.3 million, for a net book value of \$682.6 million. Included in the total capital assets reported on the Statement of Net Assets was \$20.0 million in construction work in progress.

At June 30, 2008, TMWA's total capital assets were \$759.1 million net of accumulated depreciation of \$107.3 million, for a net book value of \$651.8 million. Included in the total capital assets reported on the Statements of Net Assets was \$20.8 million in construction work in progress.

At June 30, 2007, TMWA's total capital assets were \$694.1 million net of accumulated depreciation of \$88.7 million, for a net book value of \$605.4 million. Included in the total capital assets reported on the Statements of Net Assets was \$24.1 million in construction work in progress.

Detailed information about TMWA's capital assets can be found in Note 5 to TMWA's financial statements.

## **LONG-TERM DEBT**

At June 30, 2009, TMWA had \$529.9 million in total reported debt outstanding. This amount reflects \$544.7 million in total outstanding principal indebtedness, \$2.3 million net bond premium and \$17.1 million in valuation adjustments from prior refundings. Of the \$529.9 million in total reported debt outstanding \$77.5 million was due in one year and is classified as short term indebtedness. The total outstanding indebtedness was made up of five series of bonds one of which was the Series 2001-A bonds, issued for the acquisition of TMWA from Sierra Pacific Resources. The second indebtedness was a Series 2005 Drinking Water State Revolving Fund loan provided by the State of Nevada to fund the Arsenic Mitigation Project. In November 2005, TMWA sold \$40.0 million in water revenue bonds, the Series 2005-A Bonds, to fund construction projects over the next two to three years. In May 2006, TMWA issued \$150.7 million in refunding bonds to refinance \$146.0 million of outstanding maturities of the Series 2001-A bonds. In January 2007, TMWA issued \$219.0 million in refunding bonds to refinance \$212.3 million of outstanding maturities of the Series 2001-A bonds. TMWA inaugurated a Tax-Exempt Commercial Paper (TECP) program in August 2006. TMWA sold in two sales an aggregate of \$43.0 million in TECP notes in fiscal year 2007 and another \$25.0 million in fiscal year 2008. TMWA intends to re-market the commercial paper as maturities come due and all the TECP is classified as a short term indebtedness since the TECP notes mature equal to or less 270 days.

At June 30, 2008, TMWA had \$537.5 million in total reported debt outstanding. This amount reflects \$553.8 million in total outstanding principal indebtedness, \$2.7 million net bond premium and \$19.0 million valuation adjustments due to refundings. Of the \$537.5 million in total reported debt outstanding, \$77.1 million was due in one year and is classified as short term indebtedness.

At June 30, 2007 TMWA had \$ 520.3 million in total reported debt outstanding. This amount reflects \$538.1 million in total outstanding principal indebtedness \$3.0 million in net bond premium and \$20.8 million valuation adjustments due to refundings. Of the total \$520.3 million in reported debt outstanding, \$52.3 million was due in one year and is classified as short term indebtedness.

Detailed information about TMWA's indebtedness can be found in Note 6 to TMWA's financial statements.

### **CURRENTLY KNOWN FACTS**

TMWA's Board adopted increased retail/wholesale water rates by approximately 4.5%, on average, in May 2009. The new rates were effective June 1, 2009 to ensure TMWA can comply with bond covenants. From June 30, 2008 to June 30, 2009, TMWA's senior lien debt coverage ratios dropped significantly. TMWA management began presenting to citizens increased water rate proposals early in fiscal year 2009. TMWA management proposed a two year increase proposal, with the second increase to be reviewed during fiscal year 2010. At this time developer facility charges have not been modified but are under review.

TMWA acquired the assets and customer base of the Panther Valley Water Users Association (PVWUA) in the fourth quarter of fiscal year 2009. This acquisition resolves disputes over unpaid water deliveries from TMWA to PVWUA. TMWA acquired approximately 400 residential and some commercial services.

### **CONTACTING TMWA's FINANCIAL MANAGEMENT**

This financial report was prepared for the benefit of the customers, bond investors, and the Board of Directors of the Truckee Meadows Water Authority. The Comprehensive Annual Financial Report was prepared to provide interested parties with a general overview of the Truckee Meadows Water Authority's accountability for the financial resources it manages. For questions or additional information, please contact the Truckee Meadows Water Authority's Finance Department at P.O. Box 30013, Reno, Nevada 89509-3013.

**BASIC FINANCIAL STATEMENTS**

**TRUCKEE MEADOWS WATER AUTHORITY**  
**STATEMENTS OF NET ASSETS**  
**JUNE 30, 2009 AND 2008**

**ASSETS**

	<b>2009</b>	<b>2008</b>
<b>CURRENT ASSETS</b>		
Cash and investments	\$ 61,807,760	\$ 95,733,750
Accounts receivable, net	10,604,092	10,866,112
Due from others	334,011	327,837
Due from other governments	288,936	373,932
Interest receivable	1,064,850	1,842,821
Prepaid assets	886,559	815,216
	74,986,208	109,959,668
<b>RESTRICTED CURRENT ASSETS</b>		
Cash and investments:		
Water meter retrofit program	1,634,092	3,494,875
Current bond debt service	20,377,663	20,173,394
Hydro asset purchase	-	4,000,000
	22,011,755	27,668,269
Total Current Assets	96,997,963	137,627,937
<b>RESTRICTED NONCURRENT ASSETS</b>		
Cash and investments:		
Future bond debt service	32,668,105	32,668,105
Operations and maintenance	7,078,024	6,992,510
Renewal and replacement	10,000,000	10,000,000
Water rate stabilization	500,000	500,000
Hydro asset purchase	2,000,000	2,000,000
	52,246,129	52,160,615
<b>NONCURRENT ASSETS</b>		
Capital assets, net	123,009,217	122,742,855
Other assets	559,545,697	529,051,392
Deferred charges	174,488	348,977
	4,269,444	4,581,511
Total Noncurrent Assets	739,244,975	708,885,350
Total Assets	\$ 836,242,938	\$ 846,513,287
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES PAYABLE FROM UNRESTRICTED</b>		
<b>CURRENT ASSETS</b>		
Accounts payable	\$ 1,970,188	\$ 2,840,297
Contracts and retention payable	3,077,956	3,782,852
Accrued liabilities	2,877,712	5,347,221
Due to other governments	1,094,646	1,969,309
Accrued interest payable	110,826	297,915
Current portion of long term debt	68,203,902	68,197,511
Customer deposits and amounts due to developers	1,564,061	1,932,500
	78,899,291	84,367,605
<b>CURRENT LIABILITIES PAYABLE FROM RESTRICTED</b>		
<b>CURRENT ASSETS</b>		
Current portion of long term debt	9,335,000	8,920,000
Interest payable	11,042,663	11,253,394
	20,377,663	20,173,394
Total Current Liabilities	99,276,954	104,540,999
<b>NONCURRENT LIABILITIES</b>		
Long-term debt, net of current portion	452,311,772	460,333,506
Total Liabilities	551,588,726	564,874,505
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	204,520,599	169,052,803
Restricted for water meter retrofit program	1,634,092	3,494,875
Restricted for debt service	9,335,000	8,920,000
Restricted for operations and maintenance reserve	2,478,024	2,392,510
Restricted for renewal and replacement reserve	10,000,000	10,000,000
Restricted for water rate stabilization	500,000	500,000
Unrestricted	56,186,497	87,278,594
Total Net Assets	284,654,212	281,638,782
Total Liabilities and Net Assets	\$ 836,242,938	\$ 846,513,287

See accompanying notes.

**TRUCKEE MEADOWS WATER AUTHORITY  
STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
<b>OPERATING REVENUES</b>		
Charges for water sales	\$ 70,225,086	\$ 72,686,046
Hydroelectric sales	2,769,918	2,836,521
Other operating sales	<u>2,018,822</u>	<u>2,697,601</u>
Total Operating Revenues	<u>75,013,826</u>	<u>78,220,168</u>
<b>OPERATING EXPENSES</b>		
Salaries and wages	11,624,261	11,665,974
Employee benefits	4,429,266	4,528,891
Services and supplies	<u>24,460,779</u>	<u>23,579,404</u>
Total Operating Expenses before Depreciation	40,514,306	39,774,269
Depreciation	<u>22,153,951</u>	<u>20,817,485</u>
Total Operating Expenses	<u>62,668,257</u>	<u>60,591,754</u>
Operating Income	<u>12,345,569</u>	<u>17,628,414</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Grants	564,277	483,631
Investment earnings	3,635,126	6,841,981
Unrealized gain on investments	18,013	283,160
Gain (Loss) on disposal of assets	3,557	(91,170)
Amortization of bond/note issuance costs	(613,050)	(635,497)
Interest expense	<u>(23,481,043)</u>	<u>(24,106,569)</u>
Total Nonoperating Revenues (Expenses)	<u>(19,873,120)</u>	<u>(17,224,464)</u>
Income (Loss) before Capital Contributions	<u>(7,527,551)</u>	<u>403,950</u>
<b>CAPITAL CONTRIBUTIONS</b>		
Water meter retrofit program	359,297	1,408,879
Developer infrastructure contributions	6,905,953	8,092,373
Developer will-serve contributions (net of refunds)	(25,229)	2,978,057
Developer capital contributions-other	541,325	2,401,248
Developer facility charges (net of refunds)	773,955	3,412,118
Contributions from others	1,808,438	-
Contributions from other governments	<u>179,242</u>	<u>7,591,834</u>
Net Capital Contributions	<u>10,542,981</u>	<u>25,884,509</u>
Change in Net Assets	3,015,430	26,288,459
<b>NET ASSETS , BEGINNING OF YEAR</b>	<u>281,638,782</u>	<u>255,350,323</u>
<b>NET ASSETS , END OF YEAR</b>	<u>\$ 284,654,212</u>	<u>\$ 281,638,782</u>

**TRUCKEE MEADOWS WATER AUTHORITY  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

	<b>2009</b>	<b>2008</b>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 75,433,697	\$ 79,569,897
Cash paid to employees	(18,523,036)	(15,242,477)
Cash paid to suppliers	(26,102,405)	(25,716,408)
Net Cash Provided by Operating Activities	30,808,256	38,611,012
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Grants	537,707	310,623
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets	(44,313,305)	(57,793,197)
Interest paid on financing	(23,460,239)	(23,179,492)
Principal paid on financing	(9,117,511)	(9,286,321)
Proceeds from commercial paper note issuances	-	25,000,000
Proceeds from capital asset disposal	3,668	32,508
Contributions for water meter retrofit program	359,297	1,408,879
Contributions from developers-will-serve letters	(25,229)	2,978,057
Contributions from developers-other	120,426	2,375,528
Contributions from developers-facility charges	773,955	3,412,118
Contributions from other governments	179,242	7,591,834
Bond/Note issuance costs	(300,980)	(323,430)
Net Cash (Used) by Capital and Related Financing Activities	(75,780,676)	(47,783,516)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	5,204,085	8,275,056
Net Increase (Decrease) in Cash and Cash Equivalents	(39,230,628)	(586,825)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b> (including \$79,828,884 and \$80,559,584 in restricted accounts for the years ended June 30, 2009 and 2008, respectively)	175,562,634	176,149,459
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b> (including \$74,257,884 and \$79,828,884 in restricted accounts for the years ended June 30, 2009 and 2008, respectively)	\$ 136,332,006	\$ 175,562,634
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income	\$ 12,345,569	\$ 17,628,414
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	22,153,951	20,817,485
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable, net	262,020	1,356,343
Due from others	(6,174)	15,673
Due from other governments	111,566	(71,768)
Prepaid assets	103,146	288,658
Increase (decrease) in:		
Accounts payable	(870,109)	(2,440,958)
Accrued liabilities	(2,469,509)	952,388
Due to customers and developers	52,459	49,481
Due to other governments	(874,663)	15,296
Total Adjustments	18,462,687	20,982,598
Net Cash Provided by Operating Activities	\$ 30,808,256	\$ 38,611,012
<b>NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Developer infrastructure contributions	\$ 6,905,953	\$ 8,092,373
Capitalization of interest expense	1,098,543	1,359,401
Capitalization of interest revenue	772,975	1,444,530
Amortization of bond discounts and deferred charges	312,067	312,067
Amortization of refunding allowances to interest expense	1,921,792	1,803,775
Other infrastructure contributions	1,808,438	-

See accompanying notes.

**TRUCKEE MEADOWS WATER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Truckee Meadows Water Authority (TMWA) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental entities. A summary of the more significant accounting policies applied in the preparation of the accompanying basic financial statements follows.

Reporting Entity and Purpose:

TMWA is a joint powers authority formed in November 2000 under the Joint Powers Legislation of the State of Nevada, pursuant to a Cooperative Agreement among the City of Reno, Nevada, the City of Sparks, Nevada, and Washoe County, Nevada. TMWA was formed to purchase water assets (the Water System), undertake the water utility operations and to develop, manage and maintain supplies of water for the benefit of the Truckee Meadows communities. TMWA purchased the existing water system operated by NV Energy, formerly Sierra Pacific Power Company.

TMWA is governed by a seven member Board of Directors appointed by:

- Reno City Council (3 seats)
- Sparks City Council (2 seats)
- Washoe County (1 seat)
- At-Large (1 seat), appointed by above members

The cities and county representatives are not required to be elected officials. However, TMWA bylaws require that the at-large seat be an elected official within one of the three jurisdictions.

Basis of Accounting:

TMWA activities are accounted for as an enterprise fund (proprietary fund type). A fund is an accounting entity with a self-balancing set of accounts established to record the financial position and results of operations of the governmental entity. Activities of enterprise funds resemble activities of business enterprises; the purpose is to obtain and use economic resources to meet its operating objectives. The financial statements for TMWA are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recognized at the time they are earned and expenses are recognized when the related liabilities are incurred.

A proprietary fund distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from an exchange transaction such as providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Nonoperating revenues and nonoperating expenses result from nonexchange transactions or ancillary services.

**TRUCKEE MEADOWS WATER AUTHORITY**  
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TMWA applies all applicable Governmental Accounting Standards Board (GASB) pronouncements in accounting and reporting for proprietary activities, as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB's) of the Committee of Accounting Procedure, (unless those pronouncements conflict with or contradict GASB pronouncements) issued on or before November 30, 1989 in accounting and reporting for its operations.

Budgets and Budgetary Accounting:

TMWA adheres to the Local Government Budget and Finance Act (Act) incorporated within the Statutes of the State of Nevada. The Act and TMWA policy include the following major procedures to establish budgetary data:

- On or before April 15, the General Manager of TMWA submits to the Board of Directors a tentative budget for the fiscal year commencing the following July 1.
- Public hearings on the tentative budget are held on the third Thursday in May.
- Prior to June 1, at a public hearing, the Board of Directors indicates changes, if any, to be made to the tentative budget and adopts a final budget by the favorable vote of a majority of the members of the Board. The final budget must then be forwarded to the Nevada Department of Taxation for final approval.
- Any revisions that alter total appropriations must be approved in advance by the Board. Formal budgetary integration is employed as a management control device during the year.
- Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP). Appropriations lapse at year end.
- In accordance with State statute, actual expenses may not exceed the sum of operating and nonoperating expenses.

The budget reflected in the financial statements has been amended from the original amounts in accordance with State statute for the year ended June 30, 2009.

Cash and Investments:

Cash balances are, to the extent practical, invested as permitted by law. Monies that are not required for immediate obligations are invested.

Investments authorized by state statutes and TMWA's bond resolutions include, but are not limited to, guaranteed investment contracts, obligations of the U.S. Treasury, obligations of other U.S. Government agencies, negotiable and non-negotiable certificates

**TRUCKEE MEADOWS WATER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
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of deposit issued by commercial banks or insured savings and loan associations, bankers acceptances, repurchase agreements, "AAA" rated mutual funds that invest in securities of the Federal Government or agencies of the Federal Government, and the State of Nevada Local Government Investment Pool (LGIP), an external investment pool which is administered by the State Treasurer with oversight by the Board of Finance of the State of Nevada. Investments are reported at fair value, including the investment with LGIP in which the value is the same as the value of the pool shares.

Restricted cash and investments are monies that are restricted by legal or contractual requirements.

Cash Equivalents:

Cash equivalents include short-term highly liquid investments (3 months or less) that are both readily convertible to known amounts of cash, and so near their maturity that they present insignificant risk of changes of value. Based on the nature of the investment policies, all amounts are available on demand and are, therefore, classified as cash equivalents on the Statements of Cash Flows.

Accounts Receivable:

Accounts receivable is comprised of amounts due from TMWA's customers, net of an allowance for uncollectible accounts. Amounts due from TMWA customers are comprised of amounts billed and an estimate of amounts earned but unbilled for water deliveries prior to fiscal year end.

Restricted Assets:

Certain proceeds of TMWA's water revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the Statements of Net Assets because their use is limited by applicable bond covenants as follows:

- Current bond debt service - used to segregate resources accumulated for debt service payments over the next twelve months.
- Future bond debt service - used to report resources set aside to make up potential future deficiencies in the current bond debt service.
- Operations and maintenance - used to report resources set aside to subsidize potential deficiencies from TMWA's operation that could adversely affect debt service payments.
- Renewal and replacement - used to report resources set aside to subsidize potential deficiencies in cash flow for replacement of water facilities.
- Water rate stabilization - used to report resources set aside to stabilize customer rates if significant water revenue fluctuations occur.

**TRUCKEE MEADOWS WATER AUTHORITY  
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Certain assets of TMWA are classified as restricted assets on the Statements of Net Assets because they were derived from contributions from developers to fund the water meter retrofit program as mandated by Public Law 101-618.

A portion of the proceeds from the TMWA's water revenue bonds are classified as restricted assets on the Statement of Net Assets because their use is limited to the future purchase of Hydroelectric Assets, as stipulated in the Asset Purchase Agreement with NV Energy.

Prepaid Items:

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. Prepaid items have been classified as current and noncurrent.

Capital Assets:

All purchased property, plant and equipment is stated at cost. TMWA capitalizes all assets with a cost of at least \$5,000 and a useful life greater than one year. The cost of maintenance and repairs that do not increase productive capacity or materially extend the life of an asset are not capitalized. Interest cost incurred during the construction phase of the assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period. Developer contributed capital assets are recorded at estimated fair value at the date of contribution to TMWA.

Depreciation is computed using the straight-line method over the assets' estimated useful lives (in years) as follows:

Distribution mains	60-75	Canals/Ditches	15-50
Plant	15-50	Reservoirs	20-75
Services	15-60	Vehicles	5-10
Booster pump stations	15-50	Furniture and fixtures	10
Tanks	65-75	Computer hardware and software	3-5
Wells	15-50	Lab equipment	5
Pressure reducing valves	25	Corporate building	50
Hydroelectric facilities	60		

Compensated Absences:

Under contract, employees are permitted to accumulate earned but unused vacation and sick pay benefits. The liability for compensated absences is accrued as amounts are earned by employees to the extent it is likely TMWA will ultimately pay those benefits. The liability is included in accrued liabilities in the accompanying Statements of Net Assets.

**TRUCKEE MEADOWS WATER AUTHORITY**  
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Classification of Revenues:

Operating revenues consist of water sales, hydroelectric sales, miscellaneous fee income and various reimbursements of operating expenses. Nonoperating revenues consist essentially of income derived from investments. Developer facility charges, will serve contributions and other contributions reflect payments for water service. Developer infrastructure contributions are an estimation of the value of infrastructure built by developers and permanently dedicated to TMWA.

Reclassification:

Certain accounts in June 30, 2008 financial statements have been reclassified for comparative purposes to conform with the presentation in the June 30, 2009 financial statements.

**NOTE 2 – COMPLIANCE WITH NEVADA REVISED STATUTES AND THE NEVADA ADMINISTRATIVE CODE**

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

**NOTE 3 – ACCOUNTS RECEIVABLE, NET**

Accounts receivable, net consisted of the following:

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Billed amounts	\$ 4,814,606	\$ 4,806,055
Earned, but unbilled amounts	<u>6,147,010</u>	<u>6,418,857</u>
	10,961,616	11,224,912
Allowance for uncollectibles	<u>(357,524)</u>	<u>(358,800)</u>
Accounts receivable, net	<u>\$10,604,092</u>	<u>\$10,866,112</u>

**NOTE 4 – CASH AND INVESTMENTS**

Deposits:

In accordance with state statutes, TMWA's cash is deposited with insured banks. All money deposited by TMWA that is not within the limits of insurance must be secured by collateral. At June 30, 2009, the carrying amount of TMWA's deposits of \$8,304,298 was less than the respective bank balance of \$9,306,944 by \$1,002,646. At June 30, 2008, the carrying amount of TMWA's deposits (including a certificate of deposit) of

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\$16,912,805 was less than the respective bank balance of \$18,504,037 by \$1,591,232. The difference between the carrying amount and bank balance results from outstanding checks and deposits not yet reflected in the bank's records.

Investments:

As of June 30, 2009 TMWA had the following investments and maturities:

	<u>Fair Value</u>	<u>Less than 1 Year</u>	<u>1 - 3 Years</u>
INVESTMENTS:			
U.S. Agencies	\$ 50,652,144	\$ 38,454,172	\$ 12,197,972
US Treasury	3,432,674	3,432,674	-
Guaranteed Investment Contracts	34,356,465	34,356,465	-
LGIP	362,214	362,214	-
Money Market Mutual Funds	29,252,292	29,252,292	-
Corporate Notes (TLGP)	7,183,007	-	7,183,007
Commercial Paper	<u>2,522,550</u>	<u>-</u>	<u>2,522,550</u>
Total Investments	<u>\$127,761,346</u>	<u>\$105,857,817</u>	<u>\$21,903,529</u>

As of June 30, 2008 TMWA had the following investments and maturities:

	<u>Fair Value</u>	<u>Less than 1 Year</u>
INVESTMENTS:		
U.S. Agencies	\$ 79,238,367	\$ 79,238,367
Guaranteed Investment Contracts	34,355,718	34,355,718
LGIP	356,265	356,265
Money Market Mutual Funds	21,814,114	21,814,114
Commercial Paper	<u>22,885,365</u>	<u>22,885,365</u>
Total Investments	<u>\$158,649,829</u>	<u>\$158,649,829</u>

Nevada Revised Statutes (NRS 355.170) set forth acceptable investments for Nevada governments. On July 7, 2005 the TMWA Board adopted an investment policy which further limited its investment choices. Nevada Revised Statutes and TMWA's investment policy set portfolio component thresholds to further limit its exposure to certain risks as set forth below. TMWA's investment policy does not allow for investment in asset backed securities even though such investments are permitted under state law.

**TRUCKEE MEADOWS WATER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
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Interest Rate Risk:

Interest rate risk is the risk of possible reduction in the value of a security, especially a bond, resulting from a rise in interest rates. This risk can be mitigated by diversification of durations of fixed rate investments held in the investment portfolio. As a means of limiting TMWA's exposure to this risk, TMWA constantly monitors the bond futures market and ladders investments accordingly to maximize investment returns while balancing the investment maturities with spending requirements. State statute limits investment in obligations of an agency of the United States or a corporation sponsored by the United States government to those maturing within ten years from the date of purchase.

Credit Risk:

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations and is a function of the credit quality ratings of investments. TMWA follows state statute for reducing exposure to investment credit risk by investing in guaranteed investment contracts, U.S. Agency securities, "AAA" rated money market mutual funds that invest in securities issued by the U.S. Government or agencies of the U.S. Government, and the State of Nevada Local Government Pooled Investment Fund (LGIP). TMWA has a small debt reserve fund with LGIP, which is an unrated external investment pool and has an investment duration of 65 days. In addition, the guaranteed investment contracts in which TMWA invests are unrated. Investments in U.S. Agencies are rated "AAA" and investments in corporate commercial paper are rated "A-1+"/"P-1". Investments in corporate notes under the Temporary Liquidity Guarantee Program (TLGP) are rates "AAA".

Concentration of Credit Risk:

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Securities held by TMWA or by TMWA's custodians are diversified to eliminate risk of loss from over-concentration of assets in a specific maturity, a specific issuer, or a specific class of securities.

At June 30, 2009 and 2008, the following investments exceeded 5% of TMWA's total investments:

	June 30, 2009	
Bank of America Guaranteed Investment Contract	\$29,756,465	21.87%
Federal National Mortgage Association	\$20,656,537	15.18%
Federal Home Loan Bank	\$17,673,610	12.99%
Federal Home Loan Mortgage Corporation	\$12,321,998	9.06%

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	June 30, 2008	
Federal Home Loan Mortgage Corporation	\$51,561,344	32.50%
Bank of America Guaranteed Investment Contract	\$29,755,718	18.76%
Federal National Mortgage Association	\$21,136,222	13.32%
Corporate Commercial Paper	\$22,885,365	14.43%

**NOTE 5 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2009 follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital Assets not Being Depreciated:				
Construction in progress	\$ 20,764,606	\$ 12,119,168	\$ (12,852,806)	\$ 20,030,968
Land	9,863,596	1,000,000	-	10,863,596
Water rights	<u>92,114,653</u>	<u>-</u>	<u>-</u>	<u>92,114,653</u>
 Total Capital Assets not Being Depreciated	 <u>122,742,855</u>	 <u>13,119,168</u>	 <u>(12,852,806)</u>	 <u>123,009,217</u>
 Capital Assets Being Depreciated:				
Distribution mains	244,766,376	19,055,487	-	263,821,863
Plant	140,369,718	5,280,854	-	145,650,572
Services	100,492,423	4,040,291	-	104,532,714
Booster pump stations	26,020,967	9,094,514	-	35,115,481
Tanks	44,866,563	1,553,225	-	46,419,788
Wells	20,396,234	2,107,485	-	22,503,719
Pressure reducing valves	5,010,800	247,395	-	5,258,195
Canals/Ditches	15,295,488	5,005,489	-	20,300,977
Reservoirs	11,897,134	-	-	11,897,134
Vehicles	3,842,023	372,776	(27,183)	4,187,616
Furniture and fixtures	654,249	524	-	654,773
Computer hardware and software	6,343,544	185,436	(159,373)	6,369,607
Lab equipment	33,593	-	-	33,593
Hydroelectric facilities	7,693,072	5,704,891	-	13,397,963
Corporate building	<u>8,686,805</u>	<u>-</u>	<u>-</u>	<u>8,686,805</u>
 Total Capital Assets Being Depreciated	 <u>636,368,989</u>	 <u>52,648,367</u>	 <u>(186,556)</u>	 <u>688,830,800</u>
 Accumulated Depreciation:				
Distribution mains	(24,230,829)	(4,702,910)	-	(28,933,739)
Plant	(29,431,827)	(4,836,323)	-	(34,268,150)
Services	(24,167,634)	(5,686,042)	-	(29,853,676)
Booster pump stations	(5,321,256)	(1,124,762)	-	(6,446,018)
Tanks	(5,079,172)	(1,060,995)	-	(6,140,167)
Wells	(5,465,820)	(1,401,309)	-	(6,867,129)
Pressure reducing valves	<u>(1,483,907)</u>	<u>(325,156)</u>	<u>-</u>	<u>(1,809,063)</u>

**TRUCKEE MEADOWS WATER AUTHORITY**  
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	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Canals/Ditches	\$ (2,096,597)	\$ (444,807)	\$ -	\$ (2,541,404)
Reservoirs	(2,894,900)	(376,500)	-	(3,271,400)
Vehicles	(2,346,008)	(386,732)	27,072	(2,705,668)
Furniture and fixtures	(296,156)	(65,464)	-	(361,620)
Computer hardware and software	(3,869,945)	(1,317,483)	159,373	(5,028,055)
Lab equipment	(20,156)	(6,719)	-	(26,875)
Hydroelectric facilities	(226,926)	(243,382)	-	(470,308)
Corporate building	<u>(386,464)</u>	<u>(175,367)</u>	<u>-</u>	<u>(561,831)</u>
 Total Accumulated Depreciation	 <u>(107,317,597)</u>	 <u>(22,153,951)</u>	 <u>186,445</u>	 <u>(129,285,103)</u>
 Total Capital Assets being Depreciated, Net	 <u>529,051,392</u>	 <u>30,494,416</u>	 <u>(111)</u>	 <u>559,545,697</u>
 Total Capital Assets, Net	 <u>\$651,794,247</u>	 <u>\$43,613,584</u>	 <u>\$(12,852,917)</u>	 <u>\$682,554,914</u>

Capital asset activity for the year ended June 30, 2008 follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Capital Assets not Being Depreciated:				
Construction in progress	\$ 24,107,186	\$ 14,623,941	\$ (17,966,521)	\$ 20,764,606
Land	9,866,847	-	(3,251)	9,863,596
Water rights	<u>91,206,229</u>	<u>908,424</u>	<u>-</u>	<u>92,114,653</u>
 Total Capital Assets not Being Depreciated	 <u>125,180,262</u>	 <u>15,532,365</u>	 <u>(17,969,772)</u>	 <u>122,742,855</u>
 Capital Assets Being Depreciated:				
Distribution mains	207,934,166	36,832,210	-	244,766,376
Plant	131,459,889	8,909,829	-	140,369,718
Services	96,448,889	4,043,534	-	100,492,423
Booster pump stations	23,591,039	2,479,332	(49,404)	26,020,967
Tanks	35,709,834	9,371,279	(214,550)	44,866,563
Wells	18,021,495	2,374,739	-	20,396,234
Pressure reducing valves	4,243,054	842,361	(74,615)	5,010,800
Canals/Ditches	14,272,665	1,022,823	-	15,295,488
Reservoirs	11,897,134	-	-	11,897,134
Vehicles	3,484,295	397,187	(39,459)	3,842,023
Leasehold improvements	244,049	-	(244,049)	-
Furniture and fixtures	633,829	20,420	-	654,249
Computer hardware and software	8,314,715	150,191	(2,121,362)	6,343,544
Lab equipment	33,593	-	-	33,593
Hydroelectric facilities	4,114,515	3,587,413	(8,856)	7,693,072
Corporate building	<u>8,620,977</u>	<u>65,828</u>	<u>-</u>	<u>8,686,805</u>
 Total Capital Assets Being Depreciated	 <u>569,024,138</u>	 <u>70,097,146</u>	 <u>(2,752,295)</u>	 <u>636,368,989</u>

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	Beginning Balances	Increases	Decreases	Ending Balances
Accumulated Depreciation:				
Distribution mains	\$ (19,949,756)	\$ (4,281,073)	\$ -	\$(24,230,829)
Plant	(24,920,911)	(4,510,916)	-	(29,431,827)
Services	(18,735,046)	(5,432,588)	-	(24,167,634)
Booster pump stations	(4,099,953)	(1,221,303)	-	(5,321,256)
Tanks	(4,106,816)	(996,465)	24,109	(5,079,172)
Wells	(4,227,965)	(1,237,855)	-	(5,465,820)
Pressure reducing valves	(1,219,049)	(297,006)	32,148	(1,483,907)
Canals/Ditches	(1,663,026)	(433,571)	-	(2,096,597)
Reservoirs	(2,518,400)	(376,500)	-	(2,894,900)
Vehicles	(1,928,200)	(456,749)	38,941	(2,346,008)
Leasehold improvements	(244,049)	-	244,049	-
Furniture and fixtures	(231,752)	(64,404)	-	(296,156)
Computer hardware and software	(4,588,892)	(1,384,216)	2,103,163	(3,869,945)
Lab equipment	(13,437)	(6,719)	-	(20,156)
Hydroelectric facilities	(110,286)	(116,640)	-	(226,926)
Corporate building	(211,755)	(174,709)	-	(386,464)
 Total Accumulated Depreciation	 <u>(88,769,293)</u>	 <u>(20,990,714)</u>	 <u>2,442,410</u>	 <u>(107,317,597)</u>
 Total Capital Assets being Depreciated, Net	 <u>480,254,845</u>	 <u>49,106,432</u>	 <u>(309,885)</u>	 <u>529,051,392</u>
 Total Capital Assets, Net	 <u>\$605,435,107</u>	 <u>\$64,638,797</u>	 <u>\$(18,279,657)</u>	 <u>\$651,794,247</u>

**NOTE 6 – LONG-TERM DEBT**

The 2001A Bonds issued June 1, 2001 constitute special, limited obligations of TMWA. The principal of and interest on the Bonds are payable solely from and secured by an irrevocable pledge of the net revenues derived by TMWA from the operation of the Water System. The Bonds do not constitute a general obligation of TMWA, nor do these bonds constitute a general obligation of the City of Reno, the City of Sparks, Washoe County, or the State of Nevada.

On June 8, 2005 TMWA entered into a loan contract with the State of Nevada Drinking Water State Revolving Fund (DWSRF) to fund TMWA's Arsenic Mitigation Project. TMWA made draws on this contract as construction proceeded, totaling \$4,669,565. The loan constitutes a special limited obligation of TMWA and the principal and interest on the loan will be payable solely from and secured by an irrevocable pledge of the net revenues derived from the operation of the Water System. This loan has a term of 20 years. This loan is subordinate to the 2001A Bonds issued June 1, 2001, as well as future senior lien bonds.

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On November 15, 2005 TMWA issued \$40.0 million in Series 2005A water revenue bonds which constitute special limited obligations of TMWA. The principal and interest are payable solely from, and secured by an irrevocable pledge of the net revenues derived by TMWA from the operation of the Water System. The bonds do not constitute a general obligation of TMWA, and do not constitute a general obligation of the City of Reno, the City of Sparks, Washoe County, or the State of Nevada. The bonds have a term of 30 years. These senior lien bonds were sold on senior lien parity with the 2001A bonds.

On May 3, 2006 TMWA issued \$150,745,000 in Series 2006 Refunding Bonds which constitute special limited obligations of TMWA. These bonds were sold to refund \$145,970,000 in maturities of the Series 2001A Bonds. The proceeds of the refunding bond issue were used to purchase U.S. Government securities that were placed in an irrevocable trust for the purpose of generating financial resources for the future debt service payments of the refunded Series 2001A Bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from TMWA's Statements of Net Assets. The reacquisition price exceeded the net carrying amount of the old debt by \$5,901,299. The unamortized balance is being netted against the new outstanding debt and is being amortized as a component of interest expense over the remaining life of the newly issued debt, which has a shorter remaining life than the refunded debt. This advance refunding was undertaken to reduce total debt service payments over the next 27 years by \$10,016,065, and resulted in an economic gain of \$5,152,424. The total amount outstanding in the irrevocable trust for the defeased debt at June 30, 2009 and 2008 was \$148,187,485 and \$148,559,865 respectively.

On August 15, 2006 TMWA began an inaugural Tax-Exempt Commercial Paper (TECP) program that authorized the issuance of up to \$160.0 million in TECP notes. Of the total authorization, TMWA has issued \$68.0 million as of June 30, 2009 and June 30, 2008. The first draw was on August 16, 2006 for \$30.0 million, a second draw was on December 5, 2006 for \$13.0 million and third draw was made on February 15, 2008 for \$25.0 million for a total issuance of \$68.0 million which was outstanding as of June 30, 2009. The proceeds from the first two draws were used solely to purchase water rights for future sale of will serve commitments to developers. The third draw is to fund certain construction projects on an interim basis. The TECP program is facilitated by a direct pay letter of credit between TMWA and Lloyds TSB Bank PLC. The letter of credit expires on August 16, 2010. The average interest rate on the outstanding balance of TECP as of June 30, 2009 and June 30, 2008 was 0.42% and 1.52% respectively. As of June 30, 2009 the total TECP notes outstanding were comprised of 10 tranches ranging in size from \$1.0 million to \$17.5 million and ranging in maturities from 61 to 169 days. As of June 30, 2008 the total TECP notes outstanding were composed of 11 tranches ranging in size from \$1.5 million to \$11.0 million and ranging in maturities from 89 to 251 days.

On January 17, 2007 TMWA issued \$218,975,000 in Series 2007 Refunding Bonds which constitute special limited obligations of TMWA. These bonds were sold to

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refund \$212,275,000 in maturities of the Series 2001A Bonds. The proceeds of the refunding bond issue were used to purchase U.S. Government securities that were placed in an irrevocable trust for the purpose of generating financial resources for the future debt service payments of the refunded Series 2001A Bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from TMWA's Statements of Net Assets. The reacquisition price exceeded the net carrying amount of the old debt by \$15,284,819. The unamortized balance is being netted against the new outstanding debt and is being amortized as a component of interest expense over the remaining life of the old debt, which has a shorter remaining life in comparison to the remaining life of the refunding bonds. This advance refunding was undertaken to reduce total debt service payments over the next 24 years by \$18,192,500, and resulted in an economic gain of \$10,439,350. The total amount outstanding in the irrevocable trust for the defeased debt at June 30, 2009 and June 30, 2008 was \$216,741,886 and \$217,277,448, respectively.

TMWA's senior lien bonds are insured by various municipal insurance companies. Financial Security Assurance Inc. (FSA) is TMWA's primary insurer and insures the 2001A Bonds, and the majority of the 2006 and 2007 Refunding Bonds. MBIA Inc. insures TMWA's 2005 Bonds, and XL Capital Assurance insures one maturity each of the 2006 and 2007 Refunding Bonds. Beginning in late January, 2008, TMWA started to receive notices of certain rating agency downgrades of the ratings assigned to certain insurers of TMWA bonds. Subsequent to fiscal year end 2008, FSA was downgraded from "Aaa" to "Aa3" by Moody's. During fiscal year 2009, FSA was acquired by Assured Guaranty. Subsequently Assured Guaranty was downgraded from "Aaa" to "Aa2" by Moody's; downgraded from "AAA" to "AA" by Fitch, with S & P retaining the "AAA" rating. In April 2008, TMWA received notice that Fitch downgraded MBIA Inc. from "AAA" to "AA". During fiscal year 2009 MBIA has been further downgraded to B3 by Moody's and reduced to "BBB" by S & P with Fitch withdrawing its rating. XL Capital Assurance had its rating downgraded from "AAA" to "A" by Fitch Ratings. Subsequently, Moody's downgraded XL Capital Assurance from "Aaa" to "A3" prior to June 30, 2008, XL Capital Assurance was ultimately downgraded to "BBB". Moody's subsequently downgraded XL Capital, now known as Syncora Guarantee Inc., to "B2", and by late October 2008, Moody's rating slipped to "Ca1". Since October 2008 Syncora has been further downgraded from Ca1 to Ca by Moody's; has been placed on Regulatory Supervision by S & P and Syncora's rating withdrawn by Fitch Ratings. At no time was the underlying rating of TMWA's bonds affected; and in each case, TMWA filed the appropriate material event disclosures in accordance with SEC rule 15c2-12.

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The following schedules summarize the changes in long-term obligations as of June 30, 2009 and 2008.

June 30, 2009	Final Maturity Date	Authorized	Balance July 1, 2008	Additions	Deletions	Balance June 30, 2009	Due in 2009-2010
Supported by User Charges:							
2001 A Water Revenue (Tax Exempt) Bonds, 3.70%-5.5%	7/1/2034	\$ 448,810,000	\$ 73,600,000	\$ -	\$ 7,565,000	\$ 66,035,000	\$ 7,930,000
2005 Water Revenue DWSRF (Tax Exempt) Bonds 3.21%	7/1/2026	4,669,565	4,384,844	-	197,511	4,187,333	203,902
2005 A Water Revenue (Tax Exempt) Bonds 4.25%-5.00%	7/1/2036	40,000,000	39,330,000	-	695,000	38,635,000	715,000
2006 Water Revenue (Tax Exempt) Refunding Bonds 3.50%-4.875%	7/1/2034	150,745,000	150,745,000	-	300,000	150,445,000	310,000
2007 Water Revenue (Tax Exempt) Refunding Bonds 4.00%-5.00%	7/1/2030	218,975,000	217,745,000	-	360,000	217,385,000	380,000
Subtotal		863,199,565	485,804,844	-	9,117,511	476,687,333	9,538,902
Less: Unamortized net bond discount (premium)			(2,672,587)	-	(404,624)	(2,267,963)	
Less: Unamortized losses on refundings			19,026,414	-	1,921,792	17,104,622	
Total Debt Before Tax Exempt Commercial Paper			469,451,017	-	7,600,343	461,850,674	
TMWA Tax-Exempt Commercial Paper		160,000,000	68,000,000	-	-	68,000,000	68,000,000
Total Debt		<u>\$ 1,023,199,565</u>	<u>\$ 537,451,017</u>	<u>\$ -</u>	<u>\$ 7,600,343</u>	<u>\$ 529,850,674</u>	<u>\$ 77,538,902</u>

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June 30, 2008	Final Maturity Date	Authorized	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008	Due in 2008-2009
Supported by User Charges:							
2001 A Water Revenue (Tax Exempt) Bonds, 3.70%-5.5%	7/1/2034	\$ 448,810,000	\$ 80,795,000	\$ -	\$ 7,195,000	\$ 73,600,000	\$ 7,565,000
2005 Water Revenue DWSRF (Tax Exempt) Bonds 3.21%	7/1/2026	4,669,565	4,576,165	-	191,321	4,384,844	197,511
2005 A Water Revenue (Tax Exempt) Bonds 4.25%-5.00%	7/1/2036	40,000,000	40,000,000	-	670,000	39,330,000	695,000
2006 Water Revenue (Tax Exempt) Refunding Bonds 3.50%-4.875%	7/1/2034	150,745,000	150,745,000	-	-	150,745,000	300,000
2007 Water Revenue (Tax Exempt) Refunding Bonds 4.00%-5.00%	7/1/2030	218,975,000	218,975,000	-	1,230,000	217,745,000	360,000
Subtotal		863,199,565	495,091,165	-	9,286,321	485,804,844	9,117,511
Less: Unamortized net bond discount (premium)			(3,077,212)	-	(404,625)	(2,672,587)	
Less: Unamortized losses on refundings			20,830,189	-	1,803,775	19,026,414	
Total Debt Before Tax Exempt Commercial Paper			477,338,188	-	7,887,171	469,451,017	
TMWA Tax-Exempt Commercial Paper		160,000,000	43,000,000	25,000,000	-	68,000,000	68,000,000
Total Debt		<u>\$ 1,023,199,565</u>	<u>\$ 520,338,188</u>	<u>\$ 25,000,000</u>	<u>\$ 7,887,171</u>	<u>\$ 537,451,017</u>	<u>\$ 77,117,511</u>

Annual debt service requirements to maturity for TMWA's bonds and commercial paper are as follows:

<u>Debt to Maturity</u>	<u>Principal Payment</u>	<u>Interest Payment</u>	<u>Total Debt Service</u>
June 30:			
2010	\$ 77,538,902	\$ 21,972,895	\$ 99,511,797
2011	10,025,500	21,462,256	31,487,756
2012	10,542,311	20,923,781	31,466,092
2013	11,094,343	20,360,252	31,454,595
2014	11,661,602	19,763,983	31,425,585
2015-2019	68,000,392	89,028,958	157,029,350
2020-2024	85,030,527	71,962,800	156,993,327
2025-2029	103,678,756	51,624,236	155,302,992
2030-2034	131,725,000	25,083,944	156,808,944
2035-2037	<u>35,390,000</u>	<u>1,229,520</u>	<u>36,619,520</u>
Total	<u>\$ 544,687,333</u>	<u>\$ 343,412,625</u>	<u>\$ 888,099,958</u>

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Because commercial paper notes have a maturity of less than 270 days, they are presented as maturing in fiscal year 2010. It is the intent of TMWA that as TECP matures, the interest and principal will be remarketed into new commercial paper notes.

NOTE 7 – NET ASSETS

Restricted Net Assets:

TMWA records the following restrictions of net assets:

Restricted in accordance with bond covenants: TMWA's bond covenants require certain restrictions of TMWA's net assets for debt service, operations and maintenance, renewal and replacement, and water rate stabilization.

Restricted for water meter retrofit program: This restriction was created to segregate the portion of net assets derived from contributions made by developers to fund the water meter retrofit program as mandated by Public Law 101-618.

Board Designation:

The TMWA Board of Directors approved increasing the balance in the water rate stabilization account from \$500,000 to \$1,848,864, for an increase of \$1,348,864. This increase is not reflected as restricted net assets, but is considered a designated portion of unrestricted net assets.

NOTE 8 – CONTINGENT LIABILITIES

TMWA is a co-defendant with others, in lawsuits with the Pyramid Lake Paiute Tribe. It is anticipated these lawsuits will be dismissed upon finalization of a water settlement agreement stemming from Public Law 101-618, and the Truckee River Operating Agreement (TROA). TMWA anticipates further litigation following the execution of TROA related to its implementation.

On August 31, 2006, the Truckee-Carson Irrigation District (TCID) filed an action in California against NV Energy and TMWA seeking damages and enforcement of a 1943 agreement (the 1943 Operating Agreement) between TCID and TMWA (as successor to NV Energy). The 1943 Operating Agreement relates to the operation and maintenance of certain interests, including a water right established by storage in Donner Lake (the Deeded Donner Lake Water Right). TCID and TMWA own the Deeded Donner Lake Water Right as tenants-in-common, and the 1943 Operating Agreement includes provisions concerning use of water from that water right for domestic purposes, irrigation, and for hydroelectric generation. The action concerns whether the 1943 Operating Agreement is still controlling, whether prior operations not consistent with it constitute a breach of contract, and whether TCID has been damaged. TCID claims damages for prior losses of use of the Donner Lake Water Right that exceed \$50.0 million.

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TMWA has answered TCID's complaint and has filed a cross-complaint seeking partition of the Deeded Donner Lake Water Right and monetary relief from TCID for its failure to contribute to the expense of operation and maintenance of the Donner Lake Dam facilities. It is not possible at this time to predict the outcome of the litigation. However, TMWA will vigorously defend the matter and counsel for TMWA believes that TCID's allegations that damages are or exceed \$50 million are greatly exaggerated. The trial will commence on October 7, 2009.

**NOTE 9 – RISK MANAGEMENT**

TMWA 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. TMWA is responsible for group health insurance premiums payable to the City of Reno for coverage in the City's self-funded health insurance program. All other risks are covered by commercial insurance purchased from independent third parties. There have been no settlements in excess of insurance coverage for the past three years.

**NOTE 10 – PENSIONS AND OTHER EMPLOYEE BENEFITS**

Defined Benefit Plan:

Plan Description. TMWA contributes to the Public Employees Retirement System of the State of Nevada (PERS), a cost sharing, multiple-employer, defined benefit plan administered by the Public Employees Retirement System of the State of Nevada (PERS). PERS provides retirement, disability and death benefits, including annual cost of living adjustments, to plan members and their beneficiaries. Chapter 286 of the Nevada Revised Statutes establishes the benefit provisions provided to participants of PERS. These benefit provisions may only be amended through legislation. PERS issues a publicly available financial report that includes the financial statements and required supplementary information for PERS. That report may be obtained by writing to the Public Employees Retirement System of the State of Nevada, 693 West Nye Lane, Carson City, NV 89703-1599 or by calling (775) 687-4200.

Funding Policy. Plan members have the option of being funded under two alternative methods. Under the employer pay contribution plan, TMWA is required to contribute all amounts due under the plan. Under the employee-employer contribution plan, TMWA and the employee share equally in contribution of amounts due under the plan. The contribution requirements of plan members and TMWA are established by Chapter 286 of the Nevada Revised Statutes. The funding mechanism may only be amended through legislation. TMWA's contribution rates, based on employee members' covered payroll, and amount contributed, which equaled required contributions, are as follows:

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<u>Fiscal Year</u>	<u>Contribution Rate</u>		<u>Total Contribution</u>
	<u>Employer Pay Plan</u>	<u>Employee-Employer Plan</u>	
2008/2009	20.50%	10.50%	\$ 2,633,279
2007/2008	20.50%	10.50%	\$ 2,587,902
2006/2007	19.75%	10.50%	\$ 2,250,446

Deferred Compensation Plans:

All employees of TMWA are eligible to participate in a Section 457 Deferred Compensation Plan, monies of which are maintained in a trust, separate from the general assets of TMWA. In addition to the Section 457 Deferred Compensation Plan, non-union employees are eligible to participate in a Section 401(a) Money Purchase Retirement Plan, monies of which are maintained in a trust, separate from the general assets of TMWA.

Other Post-Employment Benefit Plan (OPEB):

TMWA adopted Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* during the fiscal year ended June 30, 2008. As such, TMWA recognizes the cost of postemployment benefits in the year when the employee services are received and reports the accumulated liability from prior years.

Plan Description. The Truckee Meadows Water Authority Post Retirement Medical Plan and Trust (Plan), a single-employer defined benefit OPEB plan was established to provide eligible TMWA employees with post employment health benefits, including medical, dental and vision benefits. Pursuant to Nevada State Administrative Regulations, adopted in September 2008, the Plan will be governed by not less than three but not more than five trustees. Four trustees were appointed by the TMWA Board of Directors as of June 30, 2009, two from non-represented employees and two from represented employees.

Eligibility. There are three employee classifications eligible for benefits: a pre-January 1, 1998 collective bargaining unit group, a post-December 31, 1997 collective bargaining unit group, and a group for management, professional, and administrative (MPAT) personnel regardless of date of hire. Eligibility requirements, benefit levels, employee contributions, and employer contributions are amended through TMWA's collective bargaining agreements for its represented employees and by the TMWA Board of Directors with respect to MPAT employees.

Employees must have at least ten years of service to be eligible for benefits and must be at least 55 years of age. The pre-January 1, 1998 group is represented employees who will receive a benefit as a percentage of the total health premium, dependent upon years of service and age of retirement, ranging from 40% subsidy with ten years of service to 85%

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with 20 years of service. Employees with 20 or more years of service electing Medicare Risk Contract would pay nothing towards health premiums. For this group dependents are also covered. The post-December 31, 1997 group is represented employees who will receive a total of \$1,250 times years of service towards health care premiums. This amount does not grow with interest and once exhausted a retiree may convert to COBRA, but only for the 18 month continuation period. For MPAT employees, the annual employer subsidy is \$235 times years of service, up to 30 years prorated for each month of retirement while under the age of 65. On or after the age of 65, the subsidy is \$105 times years of service prorated for each month of retirement while age 65 and older. If an MPAT employee retires before age 62 the subsidy is reduced by 5% for each full year retirement precedes 62. There is no extra subsidy for spousal or dependent coverage except continuation benefits provided for under COBRA. Retirees are responsible for the remaining portion of premiums.

The number of active participants and retirees as of July 1, 2007, the effective date of the OPEB valuation was 167 and four, respectively.

Funding Policy, Annual OPEB Cost and Net OPEB Obligation. Currently, the funding policy for retiree health benefits is on a pay-as-you-go basis. For the year ended June 30, 2009 and 2008, TMWA paid \$45,295 each year on behalf of retirees. On May 25, 2007, TMWA was notified by the Internal Revenue Service that tax-exempt status was granted for a 501(c)9 Voluntary Employee Benefit Association (VEBA) that TMWA established as an irrevocable trust for funding of the post employment health benefits. During fiscal year 2009 TMWA transferred \$2.7 million to the VEBA and the post retirement medical trust of NV Energy transferred over \$1.4 million to the TMWA VEBA. In accordance with State regulations, the trustees entered into an investment contract in fiscal year 2009 with the State of Nevada Retirement Benefit Insurance Fund to invest and manage the plan assets.

TMWA's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, were as follows:

Fiscal Year Ended June 30,	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009	\$ 518,064	\$ 518,064	100%	\$ -
2008	\$ 518,064	\$ 2,679,871	517%	\$ -

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TMWA has had actuarial valuations prepared prior to the adoption of GASB 45 under the guidance of the FASB standards, resulting in accrual of a net OPEB obligation of approximately \$2.1 million as of June 30, 2007. Given this, the net OPEB obligation as of June 30, 2009 and 2008 was calculated as follows:

	2009	2008
Annual Required Contribution (ARC):		
Normal cost	\$ 304,045	\$ 304,045
Amortization of Unfunded Actuarial Accrued Liability (UAAL)	214,019	214,019
Annual Required Contribution (ARC)	\$ 518,064	\$ 518,064
Determination of Net OPEB Obligation		
Annual Required Contribution (ARC)	\$ 518,064	\$ 518,064
Annual OPEB Cost	\$ 518,064	\$ 518,064
Retiree Benefit Payments Paid	(45,295)	(45,295)
Contributions Made to Trust	(472,769)	(2,634,576)
Increase (decrease) in Net OPEB Obligation	-	(2,161,807)
Net OPEB Obligation, Beginning of Year	-	2,161,807
Net OPEB Obligation, End of Year	\$ -	\$ -

Funded Status and Funding Progress. The funded status of the plan as of the most recent actuarial valuation (July 1, 2007) was as follows:

Actuarial Accrued Liability (AAL) (a)	\$ 7,112,341
Actuarial Value of Plan Assets (b)	1,462,762
Unfunded Actuarial Accrued Liability (UAAL) (a) - (b)	\$ 5,649,579
Funded Ratio (Actuarial Value of Plan Assets/AAL) (b) / (a)	20.57%
Covered Payroll (c)	\$ 12,325,564
UAAL as a Percentage of Covered Payroll [(a) - (b)] / (c)	45.84%

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Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, provides current year information and will provide multi-year trend information, when available, that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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

Actuarial valuation date	July 1, 2007
Actuarial cost method	Projected unit credit
Amortization method	Level dollar, closed
Remaining amortization period	30 years
Investment rate of return	4.25%
Projected salary increases	3.80%
Healthcare inflation rate	6.00%

**NOTE 11 – COMMITMENTS**

At June 30, 2009, TMWA was committed under the Asset Purchase Agreement to expend \$8.0 million for the purchase of Hydroelectric Assets. NV Energy and TMWA have agreed to pro-rate this sum equally among the four run-of-river hydroelectric plants so the plants could be purchased individually. As of June 30, 2009 TMWA had completed the purchase of three of the four run-of-river hydroelectric plants for \$6.0 million or \$2.0 million dollars each. One hydro plant was purchased in fiscal year 2008 and the other two hydro plants were purchased in fiscal year 2009. The purchase of the fourth and last hydro plant is at an unspecified future date.

TMWA has committed \$1.4 million to further enhancement of the Truckee River as mitigation for operation of the Farad hydroelectric plant which has yet to be transferred.

**TRUCKEE MEADOWS WATER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

TMWA has committed 1.5% of its combined operating expense budget and total annual debt service in fiscal year 2009 as a contribution to the Truckee River Fund of the Community Foundation of Western Nevada for the purposes of water shed protection and enhancements to the Truckee River that will benefit the water customers of TMWA.

In February 2009 TMWA awarded an \$8.1 million contract to construct the Mogul bypass Pipeline Project. As of June 30, 2009 TMWA has paid \$1.3 million on this contract with the remaining \$6.8 million to be spent in fiscal year 2010. The estimated completion date of this construction project is expected to be in March or April of 2010. Subsequent change orders have increased the total construction commitment to \$8.4 million with the unspent portion of \$7.1 million as of June 30, 2009.

**NOTE 12 – SUBSEQUENT EVENTS**

On August 14, 2009 TMWA entered into a \$3.0 million loan contract with the State of Nevada Drinking Water State Revolving Fund (DWSRF) to partially fund TMWA's Mogul Bypass Siphon/Pipeline Project. This project qualified for the American Recovery and Reinvestment Act (ARRA) funding portion of the DWSRF because of power demand reductions as a result of increasing raw water gravity flow to the Chalk Bluff Water Treatment Plant from 55 million gallons a day (MGD) to a planned 95 MGD. The 0% interest loan constitutes a special limited obligation of TMWA and the principal and on the loan will be payable solely from and secured by an irrevocable pledge of the net revenues derived from the operation of the Water System. This loan has a term of 20 years. This loan is subordinate to the 2001A Bonds, 2005A Bonds, 2006 Refunding Bonds, and the 2007 Refunding Bonds, as well as future senior lien bonds.