

**NEVADA**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**For the Years Ended June 30, 2009 and 2008**

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

**TRUCKEE MEADOWS WATER AUTHORITY**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**JUNE 30, 2009 AND 2008**

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**INTRODUCTORY SECTION**

November 13, 2009

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, 2009. 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 that it has 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. TMWA also complies with requirements of granting agencies.

### **REPORTING ENTITY**

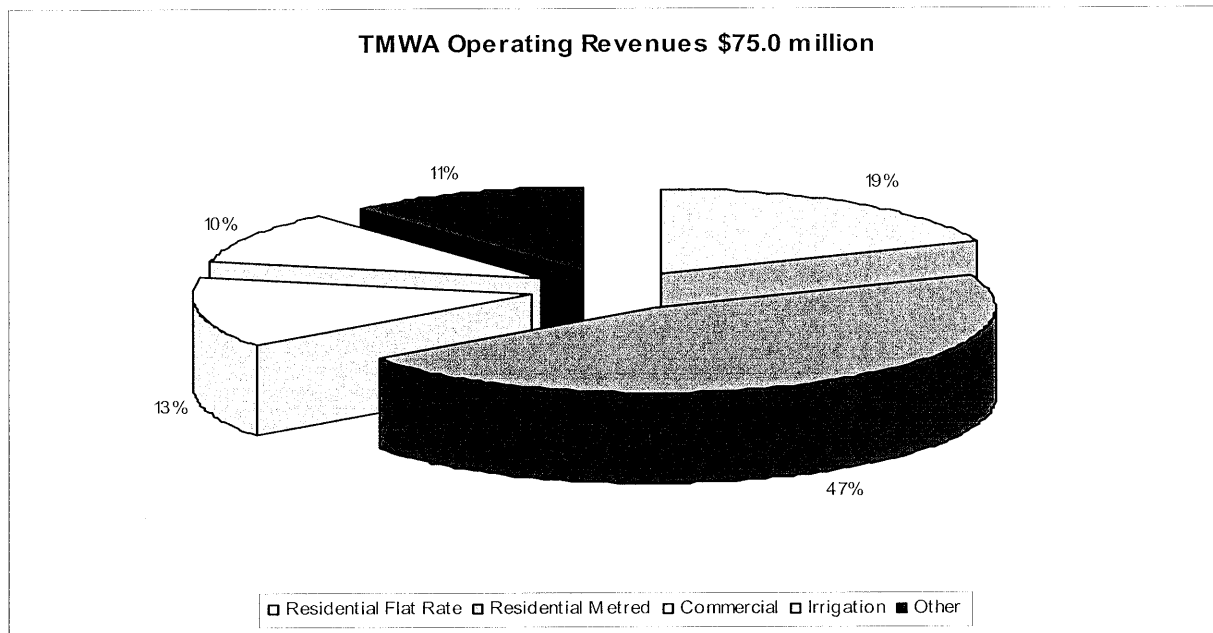
TMWA was formed as a Joint Powers Authority pursuant to chapter 277 of the Nevada Revised Statutes and is a political subdivision of the State of Nevada. TMWA is separate from its member agencies: City of Reno, City of Sparks and Washoe County. TMWA was formed in November 2000 for the purpose of acquiring 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 nearly 93,000 residential, commercial and irrigation services 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 Reno-Sparks, 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 a significant portion of its own water demands with WCDWR groundwater resources. There are seven 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, 2009 and June 30, 2008 are 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 2009:



The metering of the water system, which began under Sierra Pacific in 1995, presents an interesting practical and political situation for TMWA. On the practical side, it presents a valuable 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 11,800 customers who continue to pay the flat rate. There are less than 2,000 residential 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. In any event, 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 has 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 is the first installment of a two phase increase with the second comparable increase to be reviewed during fiscal year 2010 to determine its sufficiency.

The goal of TMWA, as adopted by the Board in August 2003, is to maintain a senior lien debt coverage ratio of 1.5x, which excludes developer facility charges and other fees associated with new development. This coverage is sufficient to meet minimum debt service coverage requirements, fund many of the rehabilitative capital projects on a pay-as-you-go basis and manage TMWA's senior lien bonding capacity to allow for potential future senior lien bond sales. 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 1.28x as of June 30, 2009. TMWA's senior lien debt coverage was impacted by reduced water sales and investment income.

### **ECONOMIC OUTLOOK AND WATER RESOURCES**

TMWA's service area has 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 year 2008 and 2009 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 has 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 2007 through 2009, the region has experienced a significant recession in the housing market. Currently there are a significant number of available homes for sale in the region which is expected to take a number of years to clear.

To meet the demands of regional growth, TMWA prepared a very detailed Water Resource Plan for the years 2005-2025 which is being updated in fiscal year 2010. That plan was adopted by the Board in March 2003 and was updated during fiscal year 2007 with no significant changes. 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. These forecasts rely upon the results of TMWA's Population and Employment Econometric Model for Washoe County.

To complement this resource planning effort, a comprehensive Water Facility Plan for the years 2005-2025 was developed which the TMWA Board adopted in December of 2004. The Facility Plan evaluates the infrastructure required to supply, treat and deliver resources to the customers over the life of the plan. The Facility Plan determines the Capital Improvement Plan needs. For fiscal year 2009, TMWA's Board approved a Capital Improvement Plan with a five year spending level of \$180.1 million. 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 in the process of updating its Capital Improvement Plan in light of the severe economic downturn and significant reductions in capital spending is expected in response to the current economic climate.

TMWA is a very active supporter and participant in the process of negotiating and implementing 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 90'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 25 MGD Glendale Treatment Plant which is currently being expanded.

TMWA spends approximately \$1 million per year on monitoring water quality by analyzing nearly 11,000 samples per year 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 current conservation programs are 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, 2009, TMWA estimates that less than 2,000 small unit residential and multi-unit metering facilities remain to be installed. The estimated cost to complete this endeavor is estimated to be about \$4.0-\$5.0 million due to the complexity of some conversions and the size of certain multi-tenant services.

The complete metering of the TMWA water system is expected to achieve at least a 10% reduction in water demands annually. 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 balance sheet.

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 require system rehabilitation.

### **Twice a Week Watering**

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 the conservation agreement commitments and has remained in place since. 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 facility capacities. Consequently, more efficient use of plant capacities can be realized, minimizing further investment in plant infrastructure.

### **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 water use indoors.

### **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.

## **Residential Water Efficiency Check**

TMWA responds to high bill complaints to assist customers with identifying the source of potential water leaks. Water leaks are often found to exist in the service line from the meter to the house, which is the responsibility of the homeowner. Sometimes homeowners are unaware of the amount of water loss that can occur from a leaking plumbing fixture inside the home. TMWA also furnishes water saving fixtures to interested homeowners. As flat rate customers have meters installed they become aware of their usage. For those who have greater than expected usage this program helps identify the reason for that usage.

## **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 fiscal year. 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 \$2.5 million or 3.3% under budget for fiscal year ended June 30, 2009. Total budgeted revenues were \$77.5 million as compared to \$75.0 million in actual revenue. Charges for water sales were \$2.9 million under budget, while hydroelectric revenues were nearly \$0.3 million over budget. Other operating sales were \$0.1 million over budget. TMWA water sales were impacted by very cool summer weather in the first quarter of the fiscal year, a very cool and moist June as well as persistent residential and commercial vacancies. TMWA's water sales are quiet variable as a result of high desert weather patterns.

Total operating expenses of \$62.7 million were approximately \$1.7 million under the augmented budget of \$64.4 million. Savings on cash operating expenses of \$2.0 million were offset by \$0.3 million in greater than planned depreciation expense. Operating expenses net of depreciation were \$2.0 million under budget primarily due to slightly lower spending on wages and salaries and related employee benefits. Spending on operating salaries and wages was \$1.0 million less than budget, while employee benefit spending was \$1.0 million less than budget. Lower operating wages and salaries were due to field personnel being assigned to capital projects during the winter season and holding vacant positions open as long as possible. Health care expenses did not increase during the fiscal year which helped reduce employee benefit costs. In addition TMWA funded its Voluntary Employee Benefit Association (VEBA) trust for post retirement medical benefits. This funding has reduced the Annual Required Contribution (ARC) by \$0.3 million annually. Spending on services and supplies was virtually on budget. TMWA augmented its budget for expected spending on emergency expenses related to earthquake damage to raw water conveyance structures, and pump and power feed failures to TMWA's surface water treatment plants. TMWA incurred one-time operating expenses related to the aforementioned conditions of \$1.3 million. Moving forward, TMWA has mandated a number of cost control initiatives to manage operating expenses in light of current economic conditions.

Total net nonoperating expenses, including investment income, were \$0.4 million less than budget. Investment income and unrealized gain in investments, after capitalization of interest expenses, as required by FASB 62 was \$1.9 million under budget. This was due to much lower than projected investment returns as a result of severe economic conditions. Interest expense and amortization of bond/note issuance expenses was \$2.3 million less than budget, due to significantly lower commercial paper interest rates in the second half of the fiscal year and higher capitalization of interest expense in accordance with FASB 34. Variations in capitalizing interest expense to construction projects will create minor variances between budgeted and actual interest expense. TMWA received grant support of \$0.6 million in fiscal year 2009 for the implementation of TROA and for the Well-head Protection Program.

Capital contributions were essentially on budget. Greater than planned developer and infrastructure contributions from others were \$3.3 million more than budget. The contributions offset less than planned collection of a variety of developer facility charges, other capital contributions, water meter retrofit contributions and will-serve contributions. Developer will-serve contributions was a net credit to developers as a result of refunds on cancelled projects being greater than the modest collection of will-serve contributions. Refunds to developers have abated and TMWA Rules of Service prohibit refunds on significant projects such as subdivisions or major commercial construction.

Total Capital Improvement Plan budget was \$52.7 million for fiscal year 2009. TMWA spent approximately \$44.0 million on construction projects and capital outlays which was \$8.7 million less than budget. The primary reason for this variance was the delay in the construction of the Mogul Bypass Siphon Project and deferral of a major water main project to expand capacity to Northeast Sparks which is not required due to current economic conditions.

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, 2009, TMWA has approximately \$61.8 million of financial resources to fund future capital projects. Going forward capital spending is expected to be significantly reduced and focus mainly on rehabilitation of the water system. TMWA has adequate water system capacity and water resources to support growth in the community.

TMWA continued funding of required cash reserves as prescribed by TMWA's bond covenants during fiscal year 2009. 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 \$7.1 million as of June 30, 2009. 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 two 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 been restored by NV Energy.

### **TMWA MILESTONES**

TMWA, now in its eighth year of operation, was successful in retaining its municipal credit rating of A+ by Standard and Poor's while achieving the non-municipal credit rating of AA. Originally rated A-/BBB, TMWA was upgraded in 2005 to "A" by Standard & Poor's and Fitch, and "A1" by Moody's. While preparing for the second refunding bond issue in early 2007, Standard & Poor's, citing TMWA's strong financial position and healthy cash reserves, upgraded their rating to "A+". As a result of the ratings upgrade and general market conditions, TMWA was able to issue \$218,975, 000 in refunding bonds, bringing the total of the original 2001-A (tax-exempt) bonds that have been refunded to \$354.6 million. The two refunding issues have resulted in annual interest savings of over \$1.1 million. TMWA is committed to its policy of maintaining a 1.45x to 1.50x senior lien coverage ratio as a matter of TMWA Board policy which excludes developer contributions. Although TMWA had a 1.49X senior lien coverage ratio (excluding developer contributions) as of June 30, 2008 this ratio deteriorated significantly as a result of the current economic climate. The TMWA Board approved an average 4.5% general water rate increase in May 2009 which was effective June 1, 2009. This was the first installment of a proposed two year approved increase. The second increase will be reviewed in fiscal year 2010 as to its sufficiency.

The 2007 Legislative Session featured a number of bills affecting water rights and resource issues, but none so far-reaching for TMWA as Senate Bill 487. The bill created, effective April 1, 2008, the Western Regional Water Commission consisting of a nine member Board which encompasses all of the local government stakeholders and all of the local water purveyors. The Western Regional Water Commission was created pursuant to a Joint Powers Authority Agreement. Duties of the Commission include oversight of the regional water resource planning, pursuing regional water management and conservation, and determining service territory boundaries for the water purveyors. The Commission must also evaluate consolidation of public water purveyors in the region by 2011. This evaluation has been accomplished and activities are occurring to evaluate the integration and eventual consolidation of the Washoe County Department of Water Resource water division into TMWA. The Commission does not have the authority to acquire or develop new water resources nor will they have any authority over the setting of water rates and developer facility charges.

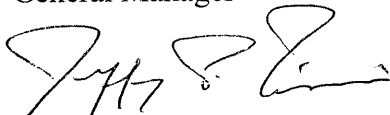
### **ACKNOWLEDGEMENTS**

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. Lori Williams, who was TMWA's General Manager, resigned her position on August 15, 2008 to pursue other opportunities. In her absence the TMWA Board of Directors named Mark Foree, P.E., who was formerly Director of Water Operations, Interim General Manager and ultimately named Mr. Foree General Manager in May 2009.

Respectfully submitted,



Mark Foree, P.E.  
General Manager



Jeffrey P. Tissier CPA  
Chief Financial Officer

**Truckee Meadows Water Authority  
List of Principal Officials  
June 30, 2009**

**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

Tom Young, City of Reno Appointee

Bob Larkin, Washoe County Commissioner

**Management**

Mark Foree, PE, General Manager

Scott Estes, PE, Director of Engineering

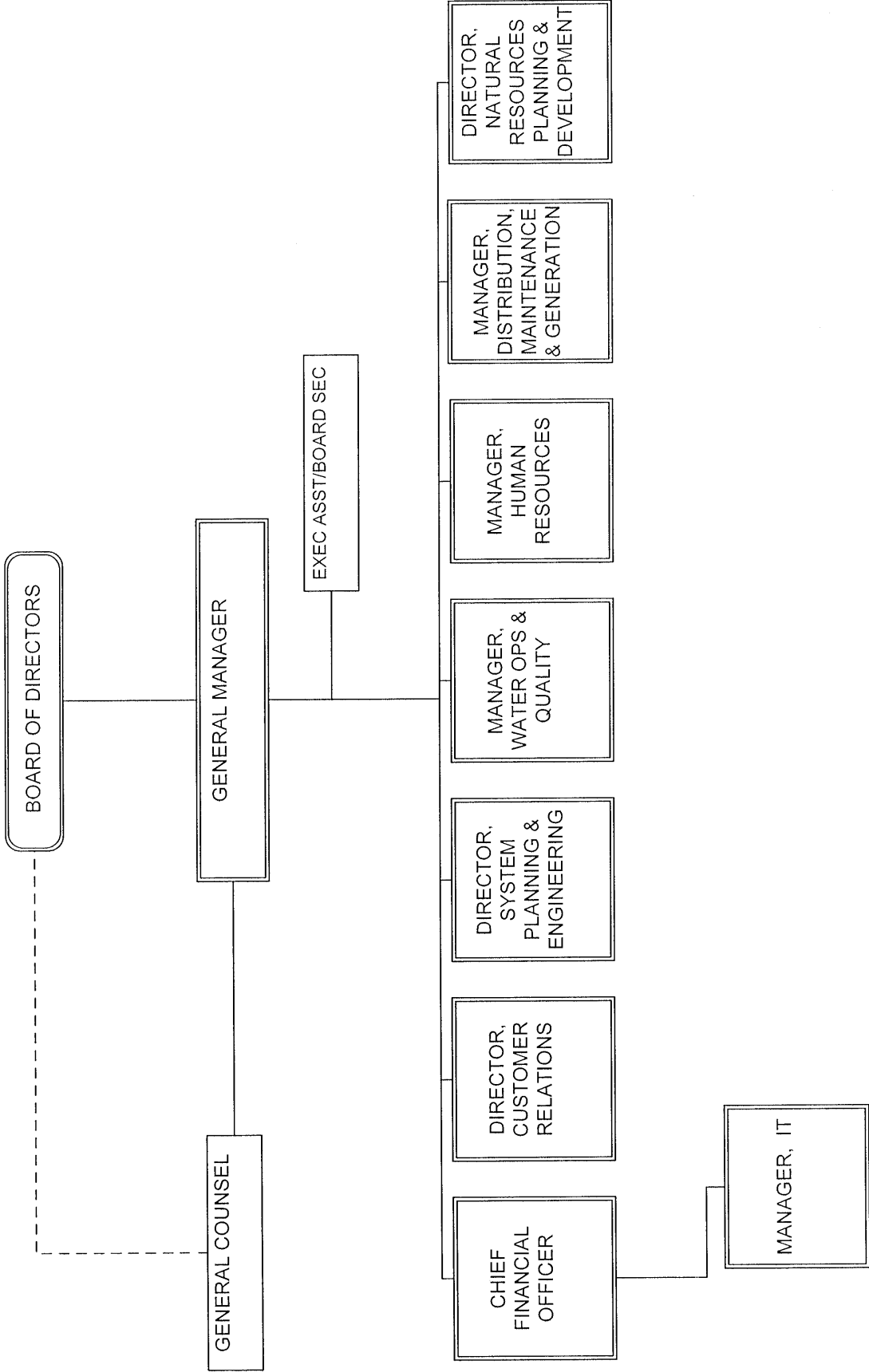
Sylvia Harrison, General Counsel

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, 2008

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.



A handwritten signature in black ink, appearing to read "M. L. R. +".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emmer".

Executive Director

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