

**INTRODUCTORY SECTION**



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November 23, 2010

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, 2010. 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, as well as compliance with requirements of federal granting agencies.

## **REPORTING ENTITY**

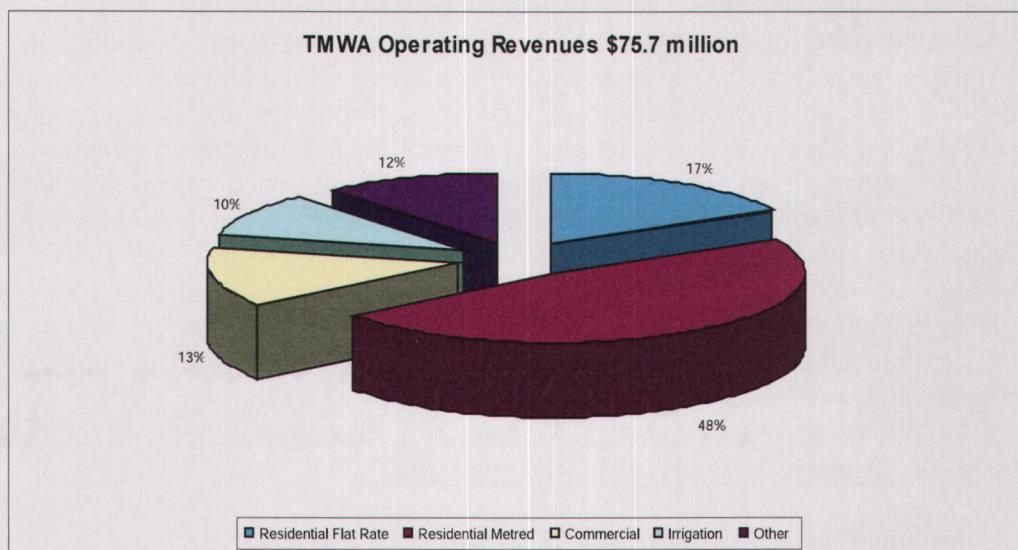
TMWA was formed as a Joint Powers Authority pursuant to chapter 277 of the Nevada Revised Statutes and is a political subdivision of the State of Nevada. TMWA is separate from its member agencies: City of Reno, City of Sparks and Washoe County. TMWA was formed in November 2000 for the purpose of acquiring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

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

TMWA provides treated water to two wholesale customers and has approximately 93,000 residential, commercial, irrigation and fire service connections in the Reno-Sparks metropolitan area. TMWA operates in a prescribed retail service area as described in the agreement between SPPCo and Washoe County dated June 25, 1996, as amended. The retail service territory can be modified from time to time pursuant to such agreement. The two wholesale customers are the Sun Valley General Improvement District (SVGID) and the Washoe County Department of Water Resources (WCDWR). SVGID, located north of 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 for a significant portion of its own water demands with WCDWR groundwater resources. There are three separate contracts associated with these wholesale customers.

Nevada Revised Statutes require that an independent certified public accounting firm selected by the Board of Directors audit TMWA’s financial statements on an annual basis. The independent auditor’s report for the fiscal years ended June 30, 2010 and June 30, 2009 is presented in the Financial Section of this report. TMWA complies with the Local Government Budget and Finance Act as embodied in Chapter 354 of the Nevada Revised Statutes.

The following graph depicts the proportion of operating revenues by class for fiscal year 2010:



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 9,300 customers who continue to pay the flat rate. There are less than 700 water services that remain to have a meter installed, and these represent problematic services with multiple customers on a single service line. TMWA is mindful of the revenue impact from the conversion to metered billing in its financial planning, and also accounts for the changing water demands in its water facility and resource planning efforts. Regardless, system-wide equity in customer rates can only be achieved when all customers are charged based on the water they use.

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

The goal of TMWA, as adopted by the Board in August 2003, is to maintain a senior lien debt coverage ratio of 1.5x, 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 1.35x as of June 30, 2010 an improvement over the prior year. TMWA's senior lien debt coverage has been impacted by reduced water sales and a significant reduction in investment income. Countering the reduction in water sales and investment income was a significant reduction in operating expenses. The aforementioned calculation of senior lien debt coverage excludes developer fees.

### **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 2009 and 2010 when compared to the prior years. The Reno-Sparks metropolitan area enjoys a moderate climate, offers a wide variety of year-round recreational opportunities, and has a favorable tax structure. It is also centrally located in the Pacific region affording efficient distribution of goods throughout the western United States. Northern Nevada's favorable business tax environment nurtured steady growth in the entire region and nearby communities in manufacturing, distribution, warehousing and industrial businesses. A surge in residential housing construction through fiscal year 2006 fueled significant new retail development, including several nationally known retailers, however in fiscal years 2008 through 2010, the region has experienced a very difficult recession. TMWA expects the economic conditions to persist for the foreseeable future and will position the water utility accordingly.

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

To complement this resource planning effort, a comprehensive Water Facility Plan (WFP) for the years 2010-2030 is being developed. The original WFP was adopted by the TMWA Board in December of 2004. The WFP evaluates the infrastructure required to supply, treat and deliver water to customers over the life of the plan and determines the Capital Improvement Plan needs to serve growth based upon population forecasts in the WRP. For fiscal year 2010, TMWA's Board approved a Capital Improvement Plan with a five year spending level of \$99.1 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 are expected in response to the current economic climate.

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

### **WATER QUALITY**

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

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

### **WATER CONSERVATION**

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

## **The Water Meter Retrofit Program**

In 1995, the conversion of TMWA's 44,651 flat rate services to metered services began. As of June 30, 2010, TMWA estimates that less than 700 small unit residential and multi-unit metering facilities remain to be installed. Developers, through a charge of \$1,830 for every acre-foot of new water demand, provide funding for this project. These funds are considered restricted cash assets as presented 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.

## **Assigned Day Watering**

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

## **Landscape Efficiency Program**

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

## **Water Audit Program**

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

## **Classroom Education**

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

## **FINANCIAL INFORMATION**

### **Internal Controls**

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

### **Budgetary Controls**

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

TMWA is also required to prepare a Capital Improvement Plan for review and formal acceptance by the TMWA Board. This plan is a comprehensive compilation of all capital projects and capital outlays expected during the ensuing 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 \$0.6 million or 1.0% under budget for fiscal year ended June 30, 2010. Total budgeted revenues were \$76.3 million as compared to \$75.7 million in actual revenue. Charges for water sales were \$0.7 million under budget, while hydroelectric revenues were nearly \$0.2 million over budget. Other operating sales were \$0.1 million under budget. TMWA water sales were impacted by decreasing demands as a result of the poor economic climate and persistent residential and commercial vacancies. The incremental water sales expected to be derived from the 4.5% general water rate increase adopted June 2009 was nearly eliminated by decreasing water demands.

Total operating expenses of \$58.4 million were approximately \$3.1 million under a budget of \$61.5 million. Savings on operating expenses of \$3.6 million were offset by \$0.5 million in

greater than planned depreciation expense. Operating expenses before depreciation were \$3.6 million under budget primarily due to slightly lower spending on wages and salaries and related employee benefits. Spending on operating salaries and wages was \$0.9 million less than budget, while employee benefit spending was \$0.8 million less than budget. Lower operating wages and salaries were primarily due to reduction in staffing. Health care expenses did not increase during the fiscal year which helped reduce employee benefit costs. Services and supplies expenses were \$1.9 million under budget primarily due to capitalization of expenses related to TROA and a significant reduction in power expenses. 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 \$1.5 million less than budget. Investment income and unrealized gain in investments, after capitalization of interest expenses, as required by FASB 62 was \$1.3 million under budget. This was due to much lower than expected investment returns. Interest expense and amortization of bond/note issuance expenses was \$1.7 million less than budget, due to significantly lower commercial paper interest rates than expected 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 \$0.9 million in fiscal year 2010 primarily for the implementation of TROA.

Capital contributions were \$4.2 million more than budget although these contributions are significantly less than historical levels. The majority of the capital contributions were from dedication of developer funded infrastructure improvements. Cash contributions were greater than budget but still very anemic in comparison to historical levels.

The total augmented capital spending budget was \$30.4 million for fiscal year 2010. TMWA spent approximately \$25.4 million on construction projects and capital outlays which was \$4.8 million less than budget. The primary reason for this variance was the delay in the construction of the Sparks 36" Feeder Main and a much better than expected bidding environment.

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, 2010, TMWA has approximately \$49.1 million of financial resources to fund future operations and capital projects. Going forward capital spending is expected to be significantly reduced and will focus mainly on rehabilitation of the water system. TMWA has adequate water system capacity and water resources to support growth in the community for the foreseeable future.

TMWA continued funding of required cash reserves as prescribed by TMWA's bond covenants during fiscal year 2010. TMWA's renewal and replacement reserve is fully funded at \$10 million. The operations and maintenance reserve fund, which TMWA is required to maintain at a balance equal to one-sixth of TMWA's revised final operating budget, contained \$ 6.7 million as of June 30, 2010. 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 yet been restored by NV Energy.

### TMWA MILESTONES

TMWA, now in its ninth year of operation, was successful in retaining its credit rating by the three primary rating agencies (Standard and Poors, Moody's and Fitch). This was a critical milestone in achieving a successful refunding (refinancing) of certain 2001 A bond maturities. Although small in comparison with past refundings these savings were very significant. TMWA also obtained a \$2.3 million no interest American Recovery and Reinvestment Act (ARRA) loan to partially fund the Mogul Bypass Raw Water Siphon Project and also obtained a \$8.5 million Drinking Water State Revolving Fund loan to construct the new Glendale Raw Water Diversion Project which is essential to achieve full capture of TMWA's drought reserves when released from upstream reservoirs.

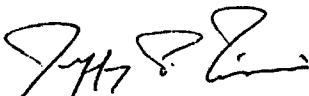
The 2007 Legislative Session featured a number of bills affecting water rights and resource issues, but none so far-reaching for TMWA as Senate Bill 487. The bill created, effective April 1, 2008, the Western Regional Water Commission consisting of a nine member Board which encompasses all of the local 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.



Mark Foree, P.E.  
General Manager



Jeffrey Tissier, CPA  
Chief Financial Officer

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**Truckee Meadows Water Authority  
List of Principal Officials  
June 30, 2010**

**TMWA Board of Directors**

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

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

Bob Cashell, City of Reno Mayor

Geno Martini, City of Sparks Mayor

Mike Cate, City of Reno Appointee

John Breternitz, Washoe County Commissioner

Bob Larkin, Washoe County Commissioner

**Management**

Mark Foree, PE, General Manager

Scott Estes, PE, Director of Engineering

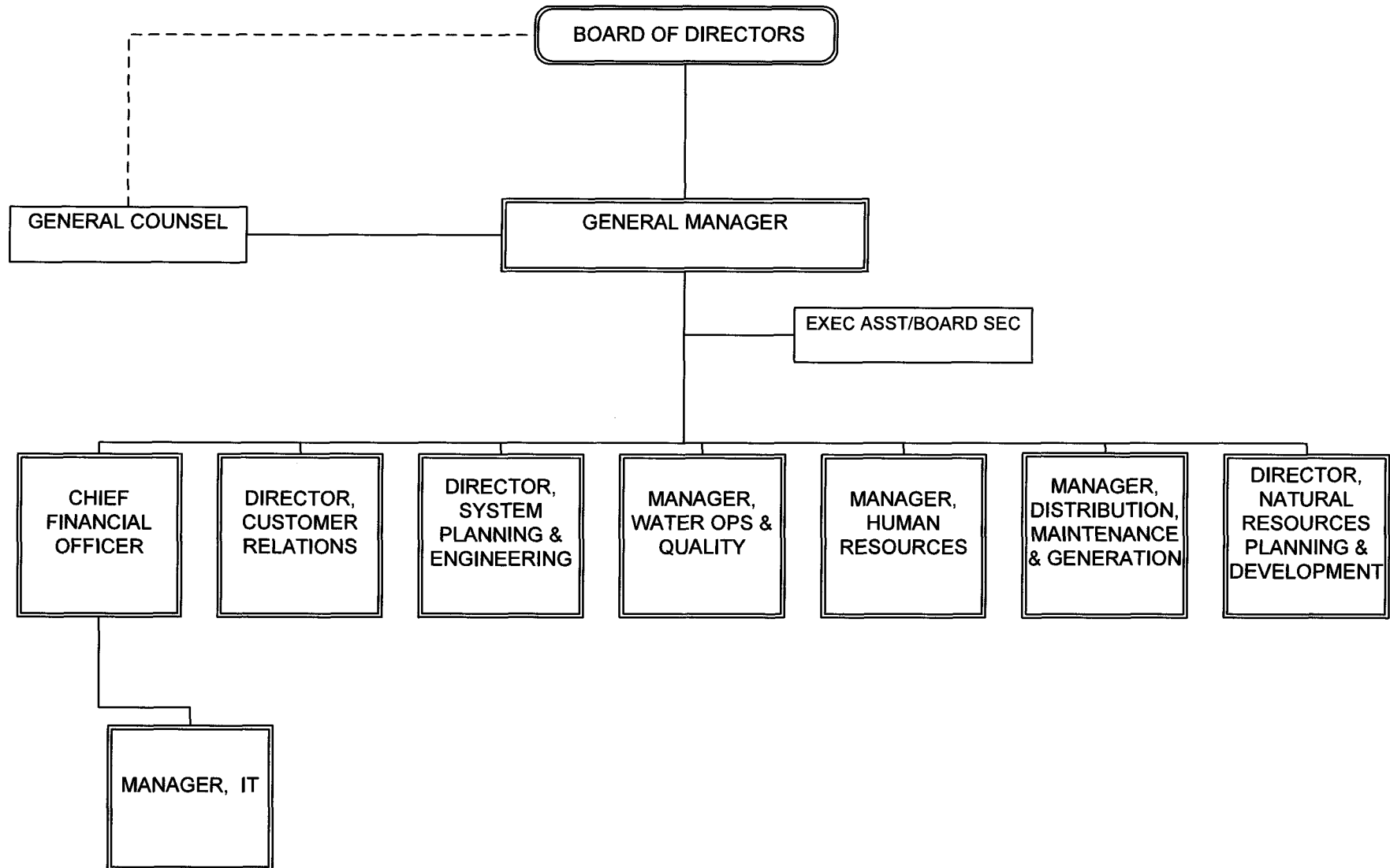
Sylvia Harrison, General Counsel

John Erwin, Director of Natural Resources Planning and Development

Kim Mazeris, Director of Customer Relations

Jeffrey Tissier, CPA, Chief Financial Officer

# Organization Chart



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# 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, 2009

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 stylized handwritten signature in black ink, appearing to be "J.R. Emer".

President

A handwritten signature in black ink, appearing to be "Jeffrey R. Emer".

Executive Director

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**FINANCIAL SECTION**



## 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, 2010 and 2009. 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 respective financial position of the Truckee Meadows Water Authority at June 30, 2010 and 2009, and 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 our report dated November 23, 2010 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, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 3A through 3L and the Schedule of Funding Progress on page 31, 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 audits were 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 stated 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 23, 2010

## 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, 2010, June 30, 2009, and June 30, 2008. 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. The financial presentation for fiscal year 2010 reflects the adoption of GASB 51, *Accounting and Financial Reporting for Intangible Assets*. Fiscal year 2009 financial results have been restated because of the adoption of GASB 51 which has reduced operating expenses by \$452,000 and increased capital spending by a comparable amount.

### FINANCIAL HIGHLIGHTS

	<u>TMWA's Net Assets</u>		
	<i>(in millions)</i>		
	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Unrestricted Current Assets	\$ 63.3	\$ 75.0	\$ 110.0
Restricted Current Assets	21.5	22.0	27.7
Long-Term Restricted and Other Assets	56.9	56.7	57.0
Capital Assets, net	<u>689.7</u>	<u>683.0</u>	<u>651.8</u>
<b>Total Assets</b>	<u>831.4</u>	<u>836.7</u>	<u>846.5</u>
Long-Term Debt Outstanding	445.8	452.3	460.3
Other Liabilities	<u>97.6</u>	<u>99.3</u>	<u>104.6</u>
<b>Total Liabilities</b>	<u>543.4</u>	<u>551.6</u>	<u>564.9</u>
Invested in Capital Assets, Net of Related Debt	220.5	205.0	169.1
Restricted	23.5	23.9	25.2
Unrestricted	<u>44.0</u>	<u>56.2</u>	<u>87.3</u>
<b>Total Net Assets</b>	<u>\$288.0</u>	<u>\$285.1</u>	<u>\$ 281.6</u>

In the fiscal year ended June 30, 2010 total net assets increased by approximately \$2.9 million, the result of developer infrastructure contributions and an increase in capital assets primarily funded from unrestricted cash reserves. In the fiscal year ended June 30, 2009, TMWA's total net assets increased by approximately \$3.5 million, also the result of developer infrastructure dedications and an increase in capital assets primarily funded from unrestricted cash reserves.

As reported on the Statements of Net Assets, at June 30, 2010, total Unrestricted Current Assets decreased by approximately \$11.7 million from June 30, 2009. The overall decrease was due to decreases in unrestricted cash of \$12.8 million, and interest receivable of \$0.1 million. These decreases were offset by increases in accounts receivable of \$0.4 million and due from other governments of \$0.8 million. The decrease in unrestricted cash was due to continuing investment in utility infrastructure although at a slower pace than in the previous fiscal year. The decrease in interest receivable was due to reductions in investment rates of

return as well as a significant decrease in outstanding investments. The increase in accounts receivable was due to greater water sales in June when compared with the comparable period in the previous fiscal year. The increase in due from other governments was primarily the grant reimbursement for Truckee River Operating Agreement (TROA) implementation.

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 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, 2010, total Restricted Current Assets decreased by approximately \$0.5 million from June 30, 2009. This overall decrease was due to a decrease of \$0.5 million in water meter retrofit restricted cash.

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.

At June 30, 2010, Non-Current Restricted and Other Assets increased by \$0.2 million from fiscal year 2009. An increase of \$1.0 million in future bond debt service was offset by decreases of \$0.4 million in the operations and maintenance reserve fund, \$0.2 million in deferred charges and \$0.2 million in other assets. The decrease in the operations and maintenance reserve is because of a reduction in budgetary expenses of which one sixth is reserved 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, 2009, the Non-Current 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.

Capital assets net of accumulated depreciation increased by a net \$6.7 million from June 30, 2009 to June 30, 2010. This increase included \$4.1 million in developer infrastructure contributions, \$0.7 million in contributions from others and approximately \$23.9 million in capital spending on construction projects and capital outlays. These increases in gross capital assets are offset by \$22.0 million in depreciation expense. Contributions from others consisted of a final 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.

Capital assets net of accumulated depreciation increased by \$31.2 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 \$44.7 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 were valued in fiscal year 2010.

At June 30, 2010, total current liabilities payable from unrestricted assets decreased from June 30, 2009 by \$1.6 million. The overall decrease was due to a decrease in accounts payable of \$0.2 million, a decrease in contracts and retention payable of \$1.5 million, a decrease in accrued liabilities of \$0.2 million, an increase in due to other governments of \$0.1 million, and a combined decrease in accrued interest payable and customer deposits and amounts due developers of \$0.1 million and an increase in current portion of long term debt of \$0.1 million. The decrease in accounts payable was attributed to less operating expenses year over year. The decrease in contracts and retentions payable was due to a year over year significant 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 funded the Annual Required Contribution (ARC) for this obligation from fiscal year 2009 during fiscal year 2010. The increase in due to other governments was due to increases in Right of Way Toll fees and Western Regional Water Commission fees. 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 was related to customer deposits applied to delinquent accounts. The increase in the current portion of long term debt is due to new principal payments on the 2009 Drinking Water Sate Revolving Fund loan.

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 to developers of \$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, 2010 current liabilities payable from restricted assets decreased by less than \$0.1 million from June 30, 2009. The net decrease was due to an increase in senior lien bond principal of \$0.5 million offset by a decrease in interest payable on senior lien bonds of \$0.5 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 a net \$6.5 million as a result of reclassifying long term debt to short term debt by \$9.8 million. This decrease was offset by an increase in outstanding DWSRF loans of \$2.5 million and recording of bond issue premium of \$3.6 million as a result of the issuance of the 2010 Refunding Bonds. The 2010 refunding activity also reduced long term debt by \$1.3 million with the corresponding valuation allowance reducing reported long term debt by \$1.7 million. Amortization of bond discounts and premiums as well as amortization of refunding valuation allowances also affected this total change 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 2005 DWSRF loan, the long term portion of \$40.0 million Series 2005A water revenue bonds to fund certain construction projects, the issuance of \$150.7 million in Series 2006 Refunding bonds to refund \$146.0 million in Series 2001A bonds, and the issuance of \$219.0 million Series 2007 Refunding Bonds in bonds to refund \$212.3 million in Series 2001A bonds. During fiscal year 2010 TMWA issued Series 2010 Refunding Bonds in the amount of \$28.2 million to refund \$29.5 million of outstanding 2001A Bonds. TMWA also signed two loan contracts with the State of Nevada DWSRF during fiscal year 2010. Please refer to Note 6 of TMWA's Notes to the Financial Statements for additional information regarding changes to these outstanding bonds.

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. Please refer to Note 6 of TMWA's Notes to the Financial Statements for additional information regarding these outstanding bonds.

**TMWA's Changes in Net Assets**

*(in millions)*

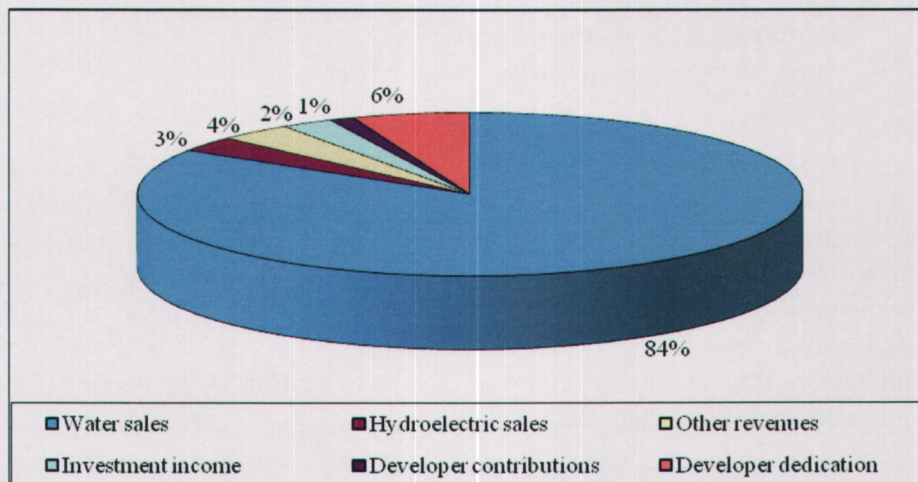
	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Operating Revenues	\$ 75.7	\$ 75.0	\$ 78.2
Operating Expenses	<u>58.4</u>	<u>62.2</u>	<u>60.6</u>
Operating Income	17.3	12.8	17.6
Nonoperating Revenues (Expenses) net	<u>(20.3)</u>	<u>(19.9)</u>	<u>(17.2)</u>
Income (Loss) before Capital Contributions	(3.0)	(7.1)	0.4
Capital Contributions	<u>5.9</u>	<u>10.6</u>	<u>25.9</u>
Change in Net Assets	<u>\$ 2.9</u>	<u>\$ 3.5</u>	<u>\$ 26.3</u>

**TMWA's Revenues**

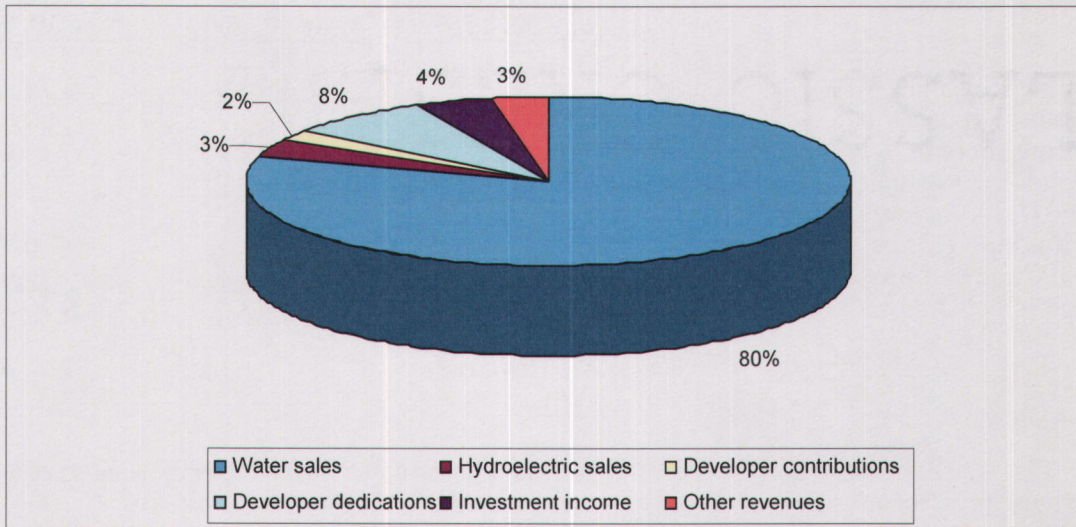
	June 30,2010	June 30,2009	June 30,2008
<b>Revenues (in millions):</b>			
Operating Revenues:			
Water Sales	\$ 71.2	\$ 70.2	\$ 72.7
Hydroelectric Sales	2.6	2.8	2.8
Other Operating Revenues	<u>1.9</u>	<u>2.0</u>	<u>2.7</u>
	<u>75.7</u>	<u>75.0</u>	<u>78.2</u>
Nonoperating Revenues:			
Investment Earnings	2.1	3.6	7.1
Other	<u>1.2</u>	<u>0.6</u>	<u>0.5</u>
	<u>3.3</u>	<u>4.2</u>	<u>7.6</u>
Capital Contributions	<u>5.9</u>	<u>10.6</u>	<u>25.9</u>
<b>Total Revenues</b>	<u>\$ 84.9</u>	<u>\$ 89.8</u>	<u>\$ 111.7</u>

The table above and the graphs that follow represent the makeup of TMWA's total revenues for fiscal years ended June 30, 2010, 2009 and 2008:

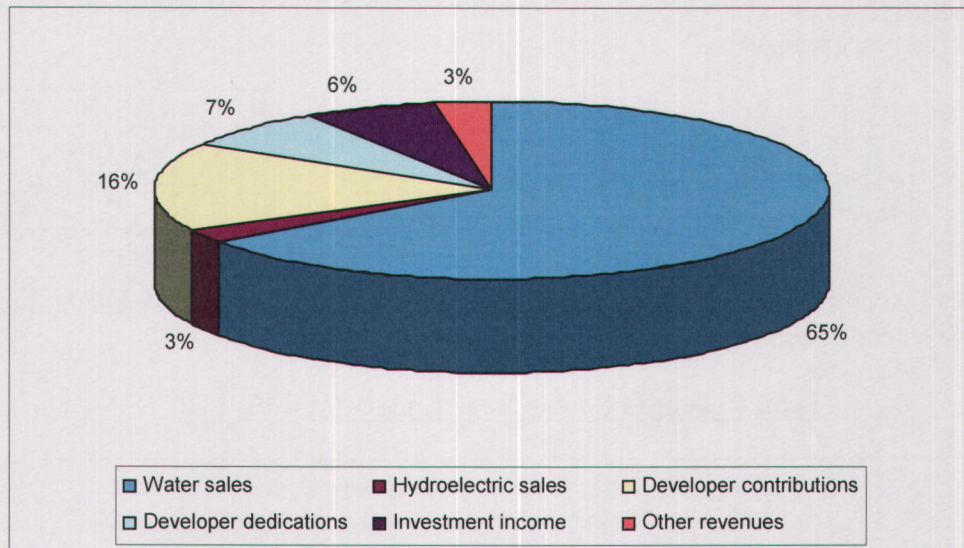
**Total Revenues for the Year Ended June 30, 2010**



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



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



For fiscal year 2010, total operating revenues increased \$0.7 million from fiscal year 2009. Water sales in fiscal year 2010 were \$1.0 million or 1.4% more than in fiscal year 2009 because of a warmer June in 2010 than the cooler and moist weather pattern in June of 2009. To some degree, the 4.5% general rate increase that went into effect in June 2009 added some water sales revenue. Hydroelectric revenues were \$0.2 million less in fiscal year 2010 than in fiscal year 2009 due to lower river flows. Other operating sales decreased \$0.1 million year over year and was due to continued deterioration in collection of inspection fees on new residential and commercial construction.

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. 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 2010, capital contributions decreased in total by \$4.7 million from fiscal year 2009. This significant decrease was across all developer collections and dedications with the exception of developer will-serve contributions which was \$0.2 million greater year over year. Water meter retrofit fees were \$0.1 million less, developer infrastructure contributions were \$2.8 million less, developer capital contributions were \$0.4 million less and developer facility charges which were \$0.3 million less. Contributions from other governments were \$0.2 million less due to the small one-time payment in fiscal year 2009 for water system capacity. Contributions from others were \$1.1 million less and reflect the final valuation for Panther Valley Water Users Association assets, a small water utility taken over by TMWA.

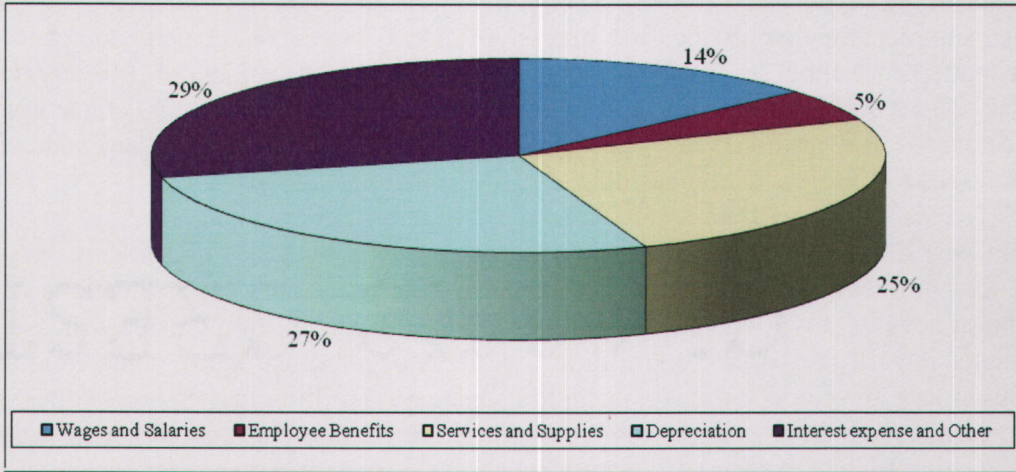
For fiscal year 2009, capital contributions decreased by \$15.3 million from fiscal year 2008. This significant decrease was across all developer collections and dedications. Water meter retrofit fees were \$1.0 million less, developer infrastructure contributions were \$1.2 million less, developer will 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 a small water utility taken over by TMWA.

#### TMWA's Expenses

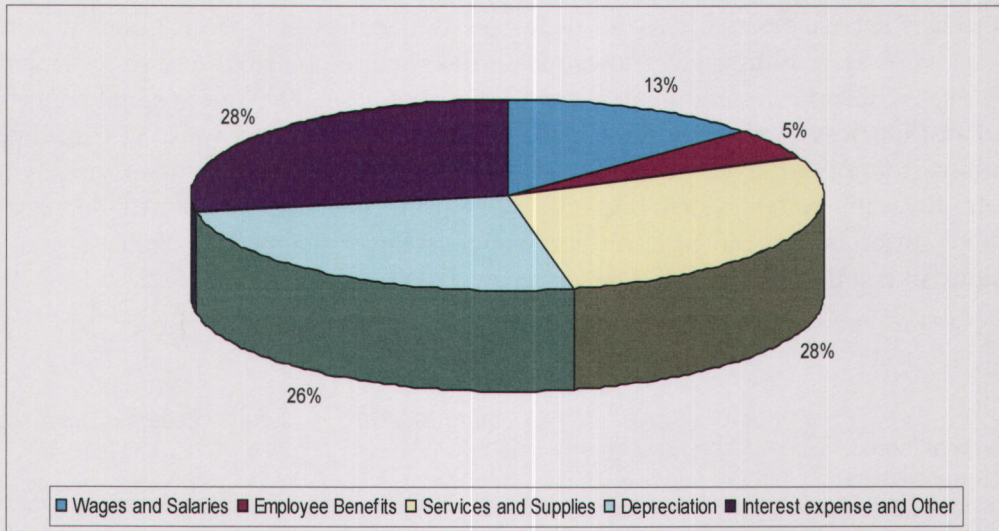
	June 30,2010	June 30,2009	June 30,2008
<b>Expenses (in millions):</b>			
Operating Expenses:			
Wages & Salaries	\$ 11.2	\$ 11.6	\$ 11.7
Employee Benefits	4.4	4.4	4.5
Services & Supplies	20.8	24.0	23.6
Depreciation	22.0	22.2	20.8
	<u>58.4</u>	<u>62.2</u>	<u>60.6</u>
Nonoperating Expenses:			
Interest Expense	22.3	23.5	24.1
Other Non-operating Expenses	1.3	0.6	0.7
	<u>23.6</u>	<u>24.1</u>	<u>24.8</u>
<b>Total Expenses</b>	<u>\$ 82.0</u>	<u>\$ 86.3</u>	<u>\$ 85.4</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, 2010, 2009 and 2008.

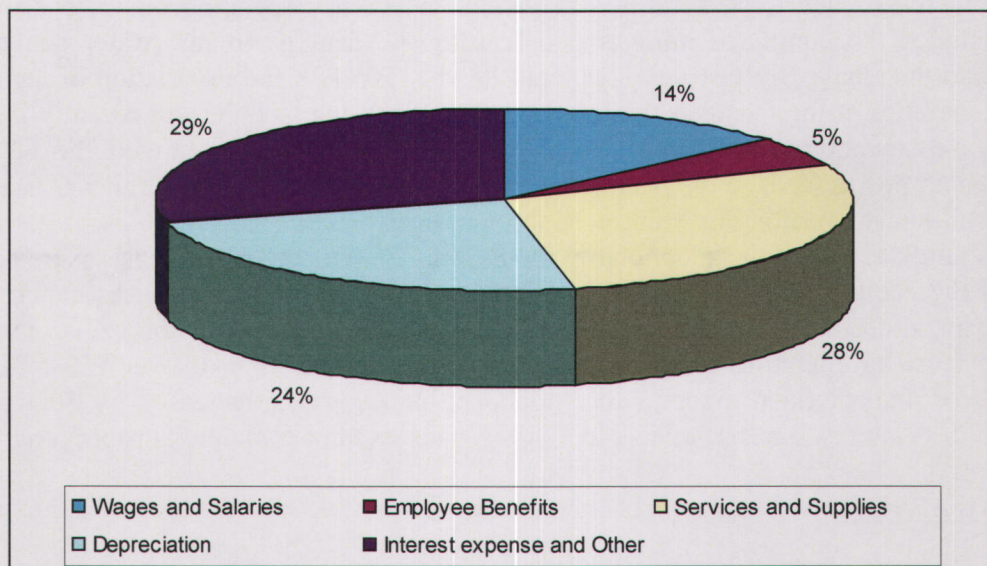
**Total Expenses for the Year Ended June 30, 2010**



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



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



The \$3.8 million or 6.2% decrease in TMWA's operating expenses from fiscal year 2009 to 2010 is due to a decrease of \$0.4 million in salaries and wages, and a \$3.2 million decrease in services and supplies expenses, as well as a \$0.2 million decrease in depreciation expense due to significant reduction in construction activity. The slight reduction in salaries and wages was due to not filling vacant positions. The spending reduction on benefits due to vacant positions offset the slightly higher contributions to the Public Employees Retirement System (PERS). Service and supplies expenses decreased significantly year over year because of \$0.9 million less emergency spending from earthquake damage to the Highland Canal system, \$0.6 million less in power expenses due to lower water demands, and \$0.7 million less spending on contract services. No one particular expense accounts for the remainder of spending reductions. TMWA is looking at reducing spending across all expense categories in response to lower than expected revenues, a result of a challenging economic environment. Depreciation expense was essentially the same as last year because additions to fixed assets have been significantly reduced. Other nonoperating expenses decreased by \$0.5 million. Although TMWA experienced a \$1.2 million reduction in interest expense this was offset by \$0.7 million in expenses related to the integration/merger work being conducted on the merger of Washoe County's water division into TMWA. Interest expenses were lower because there was less interest expense related to TMWA's tax-exempt commercial paper program.

The \$1.6 million increase or 2.6% in TMWA's operating expenses from fiscal year 2008 to 2009 is due to an increase of \$1.4 million in depreciation expense and \$0.4 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. Because of the adoption of GASB 51 in 2010, operating expenses were restated to reflect the capitalization of approximately \$0.5 million in various services expenses for 2009 to expand upstream drought storage in federal reservoirs. 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 nonoperating expenses decreased by \$0.7 million because of less interest expense related to TMWA's tax-exempt commercial paper program.

### **CAPITAL ASSETS**

At June 30, 2010, TMWA's total capital assets were \$838.5 million before accumulated depreciation of \$148.8 million, for a net book value of \$689.7 million. Included in the total capital assets reported on the Statement of Net Assets was \$9.2 million in construction work in progress. TMWA is significantly reducing spending on construction activity due to current economic conditions.

At June 30, 2009, TMWA's total capital assets were \$812.3 million before accumulated depreciation of \$129.3 million, for a net book value of \$683.0 million. Included in the total capital assets reported on the Statement of Net Assets was \$20.5 million in construction work in progress. The capital assets at June 30, 2009 are restated due to the adoption of GASB 51.

At June 30, 2008, TMWA's total capital assets were \$759.1 million before 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.

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

### **LONG-TERM DEBT**

At June 30, 2010, TMWA had \$524.0 million in total reported debt outstanding. This amount reflects \$536.4 million in total outstanding principal indebtedness, \$4.4 million net bond premium and \$16.8 million in valuation adjustments from refunding activities. Of the \$524.0 million in total reported debt outstanding \$78.1 million was due in one year and is classified as short term indebtedness. The total outstanding indebtedness was made up of eight series of bonds and loans one of which was the Series 2001A bonds, issued for the acquisition of TMWA from Sierra Pacific Resources. The second indebtedness was a Series 2005 Drinking Water State Revolving Fund (DWSRF) 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 2005A 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 2001A bonds. In January 2007, TMWA issued \$219.0 million in refunding bonds to refinance \$212.3 million of outstanding maturities of the Series 2001A bonds. During fiscal year 2010 TMWA obtained another DWSRF loan funded by American Recovery and Reinvestment Act stimulus funding from the federal government. The final loan amount was \$2.3 million. TMWA also issued \$28.2 million of 2010 Refunding Bonds to refinance \$29.5 million of certain Series 2001A maturities. Also in fiscal year 2010 TMWA entered into another DWSRF loan arrangement for \$8.5 million. TMWA has only drawn \$0.2 million on this authorization as of June 30, 2010. 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 than 270 days.

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.

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.

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 4.4%, on average, in June 2010 in addition to the approximately 4.5% increase, on average, in May 2009. The new rates were effective June 1, 2010 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 although since then this ratio has recovered.

TMWA has established various developer facility charges that were adopted in June of 2003. These charges were designed to pay for the construction of new water infrastructure capacity relating to new and/or expanded water service. The original facility charges were established at \$1,667 per gallon per minute (GPM) for treatment and supply capacity and \$1,095 per GPM for storage capacity. The TMWA Board raised these fees and charges in November 2006. The supply and treatment facility fee was increased to \$3,236 per GPM and the storage treatment fee to \$1,240 per GPM in November 2006. The facility fees were increased due to

substantially increased costs of construction. The TMWA Board raised these fees in March 2008 as a result of changes in construction costs. The supply and treatment fee was increased to \$3,734 from the previous amount of \$3,236 and the storage fee was decreased to \$1,217 from the previous amount of \$1,240 per GPM. These fees are reviewed and adjusted periodically. These fees are currently under review.

**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, 2010 AND 2009**

**ASSETS**

	2010	2009 RESTATED
<b>CURRENT ASSETS</b>		
Cash and investments	\$ 49,022,359	\$ 61,807,760
Accounts receivable, net	10,957,578	10,604,092
Due from others	320,887	334,011
Due from other governments	1,148,933	288,936
Interest receivable	983,537	1,064,850
Prepaid assets	872,464	886,559
	63,305,758	74,986,208
<b>RESTRICTED CURRENT ASSETS</b>		
Cash and investments:		
Water meter retrofit program	1,129,297	1,634,092
Current bond debt service	20,326,357	20,377,663
	21,455,654	22,011,755
Total Current Assets	84,761,412	96,997,963
<b>RESTRICTED NONCURRENT ASSETS</b>		
Cash and investments:		
Future bond debt service	33,636,564	32,668,105
Operations and maintenance	6,670,839	7,078,024
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
	52,807,403	52,246,129
<b>NONCURRENT ASSETS</b>		
Capital assets, not depreciated	112,370,404	123,461,213
Capital assets, depreciated	577,373,230	559,545,697
Other assets	-	174,488
Deferred charges	4,102,548	4,269,444
	693,846,182	687,450,842
Total Noncurrent Assets	746,653,585	739,696,971
Total Assets	\$ 831,414,997	\$ 836,694,934

**LIABILITIES**

<b>CURRENT LIABILITIES PAYABLE FROM UNRESTRICTED</b>		
<b>CURRENT ASSETS</b>		
Accounts payable	\$ 1,801,567	\$ 1,970,188
Contracts and retention payable	1,631,621	3,077,956
Accrued liabilities	2,722,502	2,877,712
Due to other governments	1,223,222	1,094,646
Accrued interest payable	85,300	110,826
Current portion of long term debt	68,328,959	68,203,902
Customer deposits and amounts due to developers	1,519,031	1,564,061
	77,312,202	78,899,291
<b>CURRENT LIABILITIES PAYABLE FROM RESTRICTED</b>		
<b>CURRENT ASSETS</b>		
Current portion of long term debt	9,815,000	9,335,000
Interest payable	10,511,357	11,042,663
	20,326,357	20,377,663
Total Current Liabilities	97,638,559	99,276,954
<b>NONCURRENT LIABILITIES</b>		
Long-term debt, net of current portion	445,819,382	452,311,772
Total Liabilities	543,457,941	551,588,726
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	220,473,195	204,972,595
Restricted for water meter retrofit program	1,129,297	1,634,092
Restricted for debt service	9,815,000	9,335,000
Restricted for operations and maintenance reserve	2,070,839	2,478,024
Restricted for renewal and replacement reserve	10,000,000	10,000,000
Restricted for water rate stabilization	500,000	500,000
Unrestricted	43,968,725	56,186,497
Total Net Assets	287,957,056	285,106,208
Total Liabilities and Net Assets	\$ 831,414,997	\$ 836,694,934

**TRUCKEE MEADOWS WATER AUTHORITY  
STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009 RESTATED</u>
<b>OPERATING REVENUES</b>		
Charges for water sales	\$ 71,220,707	\$ 70,225,086
Hydroelectric sales	2,577,660	2,769,918
Other operating sales	1,869,481	2,018,822
Total Operating Revenues	<u>75,667,848</u>	<u>75,013,826</u>
<b>OPERATING EXPENSES</b>		
Salaries and wages	11,180,101	11,619,701
Employee benefits	4,378,347	4,429,266
Services and supplies	20,839,709	24,013,343
Total Operating Expenses before Depreciation	<u>36,398,157</u>	<u>40,062,310</u>
Depreciation	21,990,618	22,153,951
Total Operating Expenses	<u>58,388,775</u>	<u>62,216,261</u>
Operating Income	<u>17,279,073</u>	<u>12,797,565</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Grants	861,091	564,277
Investment earnings	1,894,518	3,635,126
Unrealized gain on investments	255,111	18,013
Gain (Loss) on disposal of assets	8,848	3,557
Amortization of bond/note issuance costs	(626,476)	(613,050)
Interest expense	(22,291,259)	(23,481,043)
Other non-operating revenue	327,659	-
Other non-operating expenses	(699,042)	-
Total Nonoperating Revenues (Expenses)	<u>(20,269,550)</u>	<u>(19,873,120)</u>
Income (Loss) before Capital Contributions	<u>(2,990,477)</u>	<u>(7,075,555)</u>
<b>CAPITAL CONTRIBUTIONS</b>		
Water meter retrofit program	248,618	359,297
Developer infrastructure contributions	4,088,095	6,905,953
Developer will-serve contributions (net of refunds)	133,305	(25,229)
Developer capital contributions-other	184,791	541,325
Developer facility charges (net of refunds)	437,933	773,955
Contributions from others	748,583	1,808,438
Contributions from other governments	-	179,242
Net Capital Contributions	<u>5,841,325</u>	<u>10,542,981</u>
Change in Net Assets	2,850,848	3,467,426
<b>NET ASSETS , BEGINNING OF YEAR</b>	<u>285,106,208</u>	<u>281,638,782</u>
<b>NET ASSETS , END OF YEAR</b>	<u>\$ 287,957,056</u>	<u>\$ 285,106,208</u>

**TRUCKEE MEADOWS WATER AUTHORITY  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009 RESTATED</u>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 75,099,153	\$ 75,433,697
Cash paid to employees	(15,713,658)	(18,518,476)
Cash paid to suppliers	(20,691,171)	(25,654,969)
Net Cash Provided by Operating Activities	<u>38,694,324</u>	<u>31,260,252</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Grants	-	93,730
Other	(699,042)	-
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(699,042)</u>	<u>93,730</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets	(24,666,618)	(45,031,663)
Interest paid on financing	(22,220,174)	(23,460,239)
Principal paid on financing	(9,538,902)	(9,117,511)
Proceeds from capital debt issuance	2,359,945	-
Proceeds from refunding bonds	31,815,676	-
Proceeds transferred to refunding escrow	(31,726,088)	-
Proceeds from capital asset disposal	9,706	3,668
Contributions for water meter retrofit program	248,618	359,297
Contributions from developers-will-serve letters	133,305	(25,229)
Contributions from developers-other	184,791	120,426
Contributions from developers-facility charges	437,933	773,955
Contributions from other governments	-	179,242
Grants	335,506	443,977
Bond/Note issuance costs	(753,828)	(300,980)
Net Cash (Used) by Capital and Related Financing Activities	<u>(53,380,130)</u>	<u>(76,055,057)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	<u>2,604,620</u>	<u>5,204,085</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(12,780,228)	(39,496,990)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b> (including \$74,257,884 and \$79,828,884 in restricted cash and investments for the years ended June 30, 2010 and 2009, respectively)		
	<u>136,065,644</u>	<u>175,562,634</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b> (including \$74,263,057 and \$74,257,884 in restricted cash and investments for the years ended June 30, 2010 and 2009, respectively)		
	<u>\$ 123,285,416</u>	<u>\$ 136,065,644</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income	\$ 17,279,073	\$ 12,797,565
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	21,990,618	22,153,951
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable, net	(353,486)	262,020
Due from others	13,124	(6,174)
Due from other governments	(183,302)	111,566
Prepaid assets	188,583	103,146
Increase (decrease) in:		
Accounts payable	(168,621)	(870,109)
Accrued liabilities	(155,210)	(2,469,509)
Due to customers and developers	(45,031)	52,459
Due to other governments	128,576	(874,663)
Total Adjustments	<u>21,415,251</u>	<u>18,462,687</u>
Net Cash Provided by Operating Activities	<u>\$ 38,694,324</u>	<u>\$ 31,260,252</u>
<b>NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Developer infrastructure contributions	\$ 4,088,095	\$ 6,905,953
Capitalization of interest expense	717,257	1,098,543
Capitalization of interest revenue	327,616	772,975
Amortization of bond discounts and deferred charges	331,908	312,067
Amortization of refunding allowances to interest expense	1,969,201	1,921,792
Other infrastructure contributions	748,583	1,808,438

See accompanying notes.

**TRUCKEE MEADOWS WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009**

**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 (JPA) 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 Sierra Pacific Power Company (SPPCo).

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

- Reno City Council (3 seats)
- Sparks City Council (2 seats)
- Washoe County (2 seats)

The cities and county representatives are not required to be elected officials. Modifications to the JPA were approved by the governing bodies in December 2009 which changed the at-large seat into a second seat for a Washoe County. In addition to the aforementioned change the Technical Advisory Committee (TAC) was dissolved since TMWA has become an experienced municipal water utility. The amendments to the JPA were approved by the Attorney General's Office of the State of Nevada effective February 3, 2010.

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.

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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.

When both restricted and unrestricted resources are available for use, it is TMWA's policy to use unrestricted resources first, and then restricted resources as they are needed.

TMWA applies all applicable Governmental Accounting Standards Board (GASB) pronouncements in accounting and reporting for proprietary activities, as well as private sector guidance under 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.

Change in Accounting Principles:

TMWA has changed its manner of accounting for certain intangible assets that do not have indefinite useful lives. During fiscal year 2010 TMWA adopted the provisions of GASB 51, *Accounting and Financial Reporting for Intangible Assets*. Under the provision of GASB 51, TMWA is capitalizing the expenses related to the Truckee River Operating Agreement, dated September 6, 2008, for expanding storage capacity in upstream federal reservoirs for the purposes of drought protection. TMWA has restated the fiscal year 2009 financial results for adoption of this pronouncement resulting in an increase of \$451,996 to capital assets with corresponding decrease of \$4,560 of salaries and wages and \$447,436 of service and supplies

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

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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, 2010.

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 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.

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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.

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 (formerly Sierra Pacific Power Company).

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.

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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.

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, grant revenues, and reimbursement for non-operating activities. 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.

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**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, 2010</u>	<u>June 30, 2009</u>
Billed amounts	\$ 4,595,993	\$ 4,814,606
Earned, but unbilled amounts	<u>6,874,001</u>	<u>6,147,010</u>
Allowance for uncollectibles	11,469,994 <u>(512,416)</u>	10,961,616 <u>(357,524)</u>
Accounts receivable, net	<u>\$10,957,578</u>	<u>\$10,604,092</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, 2010, the carrying amount of TMWA's deposits of \$9,860,297 was more than the respective bank balance of \$9,804,017 by \$56,280. 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. 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, 2010 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	\$ 35,857,450	\$ 17,157,265	\$ 18,700,185
U.S. Treasuries	7,560,169	7,560,169	-
Guaranteed Investment Contracts	34,355,718	34,355,718	-
LGIP	1,363,634	1,363,634	-
Money Market Mutual Funds	25,092,566	25,092,566	-
Coporate Notes (TLGP)	<u>9,191,282</u>	<u>6,499,830</u>	<u>2,691,452</u>
Total Investments	<u>\$113,420,819</u>	<u>\$ 92,029,182</u>	<u>\$ 21,391,637</u>

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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>
<b>INVESTMENTS:</b>			
U.S. Agencies	\$ 50,652,144	\$ 38,454,172	\$ 12,197,972
U.S. Treasuries	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	-
Coporate Notes (TLGP)	7,183,007	-	7,183,007
Commercial Paper	2,522,550	-	2,522,550
Total Investments	<u>\$127,761,346</u>	<u>\$105,857,817</u>	<u>\$ 21,903,529</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.

**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. TMWA follows state statute limits of 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

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investment pool and has an investment duration of 80 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, 2010 and 2009, the following investments exceeded 5% of TMWA's total investments:

	June 30, 2010	
Bank of America Guaranteed Investment Contract	\$29,755,718	26.23%
U.S. Treasuries	\$ 7,554,986	6.66%
Federal National Mortgage Association	\$11,169,440	9.85%
Federal Home Loan Bank	\$12,998,780	11.46%
Federal Home Loan Mortgage Corporation	\$11,799,555	10.40%
	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%

**TRUCKEE MEADOWS WATER AUTHORITY**  
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NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010 follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Capital Assets not Being Depreciated:</b>				
Construction in progress	\$ 20,482,964	\$ 4,559,866	\$ (15,816,906)	\$ 9,225,924
Land	10,863,596	166,231	-	11,029,827
Water rights	92,114,653	-	-	92,114,653
Total Capital Assets not Being Depreciated	<u>123,461,213</u>	<u>4,726,097</u>	<u>(15,816,906)</u>	<u>112,370,404</u>
<b>Capital Assets Being Depreciated:</b>				
Distribution mains	263,821,863	10,137,136	-	273,958,999
Plant	145,650,572	220,678	-	145,871,250
Services	104,532,714	1,830,839	-	106,363,553
Booster pump stations	35,115,481	1,464,159	-	36,579,640
Tanks	46,419,788	10,733,803	-	57,153,591
Wells	22,503,719	227,334	-	22,731,053
Pressure reducing valves	5,258,195	1,818	-	5,260,013
Canals	20,300,977	14,598,247	-	34,899,224
Reservoirs	11,897,134	-	-	11,897,134
Vehicles	4,187,616	-	(903,672)	3,283,944
Furniture and fixtures	654,773	32,348	(166)	686,955
Computer hardware and software	6,369,607	217,763	(1,540,648)	5,046,722
Lab equipment	33,593	25,606	-	59,199
Hydroelectric facilities	13,397,963	303,173	-	13,701,136
Corporate building	8,686,805	26,105	-	8,712,910
Total Capital Assets Being Depreciated	<u>688,830,800</u>	<u>39,819,009</u>	<u>(2,444,486)</u>	<u>726,205,323</u>

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	Beginning Balances	Increases	Decreases	Ending Balances
<b>Accumulated Depreciation:</b>				
Distribution mains	\$ (28,933,739)	\$ (4,926,705)	\$ -	\$ (33,860,444)
Plant	(34,268,150)	(4,987,774)	-	(39,255,924)
Services	(29,853,676)	(5,535,944)	-	(35,389,620)
Booster pump stations	(6,446,018)	(1,321,433)	-	(7,767,451)
Tanks	(6,140,167)	(1,117,569)	-	(7,257,736)
Wells	(6,867,129)	(1,376,586)	-	(8,243,715)
Pressure reducing valves	(1,809,063)	(328,075)	-	(2,137,138)
Canals	(2,541,404)	(547,719)	-	(3,089,123)
Reservoirs	(3,271,400)	(376,500)	-	(3,647,900)
Vehicles	(2,705,668)	(333,252)	902,865	(2,136,055)
Furniture and fixtures	(361,620)	(67,093)	115	(428,598)
Computer hardware and software	(5,028,055)	(578,171)	1,540,648	(4,065,578)
Lab equipment	(26,875)	(6,718)	-	(33,593)
Hydroelectric facilities	(470,308)	(310,841)	-	(781,149)
Corporate building	(561,831)	(176,238)	-	(738,069)
<b>Total Accumulated Depreciation</b>	<u>(129,285,103)</u>	<u>(21,990,618)</u>	<u>2,443,628</u>	<u>(148,832,093)</u>
<b>Total Capital Assets being Depreciated, Net</b>	<u>559,545,697</u>	<u>17,828,391</u>	<u>(858)</u>	<u>577,373,230</u>
<b>Total Capital Assets, Net</b>	<u>\$ 683,006,910</u>	<u>\$ 22,554,488</u>	<u>\$ (15,817,764)</u>	<u>\$ 689,743,634</u>

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

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Capital Assets not Being Depreciated:</b>				
Construction in progress	\$ 20,764,606	\$ 12,571,164	\$ (12,852,806)	\$ 20,482,964
Land	9,863,596	1,000,000	-	10,863,596
Water rights	92,114,653	-	-	92,114,653
<b>Total Capital Assets not Being Depreciated</b>	<u>122,742,855</u>	<u>13,571,164</u>	<u>(12,852,806)</u>	<u>123,461,213</u>

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	Beginning Balances	Increases	Decreases	Ending Balances
<b>Capital Assets Being Depreciated:</b>				
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	8,686,805	-	-	8,686,805
<b>Total Capital Assets Being Depreciated</b>	<b>636,368,989</b>	<b>52,648,367</b>	<b>(186,556)</b>	<b>688,830,800</b>
<b>Accumulated Depreciation:</b>				
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	(1,483,907)	(325,156)	-	(1,809,063)
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)

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	Beginning Balances	Increases	Decreases	Ending Balances
Hydroelectric facilities	\$ (226,926)	\$ (243,382)	\$ -	\$ (470,308)
Corporate building	(386,464)	(175,367)	-	(561,831)
Total Accumulated Depreciation	(107,317,597)	(22,153,951)	186,445	(129,285,103)
Total Capital Assets being Depreciated, Net	529,051,392	30,494,416	(111)	559,545,697
Total Capital Assets, Net	<u>\$ 651,794,247</u>	<u>\$ 44,065,580</u>	<u>\$ (12,852,917)</u>	<u>\$ 683,006,910</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.

On November 15, 2005 TMWA issued \$40,000,000 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.

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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 was 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 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, 2010 and 2009 was \$147,796,530 and \$148,187,485 respectively.

On August 15, 2006 TMWA began an inaugural Tax-Exempt Commercial Paper (TECP) program that authorized the issuance of up to \$160,000,000 in TECP notes. Of the total authorization, TMWA has issued \$68,000,000 as of June 30, 2010 and June 30, 2009. The first draw was on August 16, 2006 for \$30,000,000, a second draw was on December 5, 2006 for \$13,000,000 and third draw was made on February 15, 2008 for \$25,000,000 for a total issuance of \$68,000,000 which was outstanding as of June 30, 2010. 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 expired, was renegotiated and extended to August 16, 2012. The average interest rate on the outstanding balance of TECP as of June 30, 2010 and June 30, 2009 was 0.33% and 0.42% respectively. As of June 30, 2010 the total TECP notes outstanding were comprised of 5 tranches ranging in size from \$2.0 million to \$21.3 million and ranging in maturities from 71 to 92 days. As of June 30, 2009 the total TECP notes outstanding were composed of 10 tranches ranging in size from \$1.0 million to \$17.5 million and ranging in maturities from 61 to 169 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 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 was netted against the new

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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 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, 2010 and June 30, 2009 was \$216,185,541 and \$216,741,886 respectively.

On July 25, 2009 TMWA entered into a loan contract with the State of Nevada Drinking Water State Revolving Fund (DWSRF) to partially fund TMWA's Mogul Bypass Siphon Project. The loan was provided through the American Recovery and Reinvestment Act (ARRA) stimulus funding provided by the federal government. TMWA made draws on this contract as construction proceeded, totaling \$2,309,945. 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 senior lien 2001A Bonds, the 2005A Bonds, 2006 Refunding Bonds, the 2007 Refunding Bonds, and the 2010 Refunding Bonds, as well as future senior lien bonds.

On February 11, 2010 TMWA entered into a loan contract with the State of Nevada Drinking Water State Revolving Fund (DWSRF) to fund TMWA's Glendale Water Treatment Plant Diversion Project. TMWA is making draws on this contract as construction proceeds, with a total authorization of \$8,500,000. 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 senior lien 2001A Bonds, the 2005A Bonds, 2006 Refunding Bonds, 2007 Refunding Bonds, and the 2010 Refunding Bonds, as well as future senior lien bonds.

On January 28, 2010 TMWA issued \$28,240,000 in Series 2010 Refunding Bonds which constitute special limited obligations of TMWA. These bonds were sold to refund \$29,515,000 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 \$1,657,234. The unamortized balance has been netted against the new outstanding debt and is being amortized as a component of interest expense over the remaining life of the old and new debt, which have the same remaining life. This advance refunding was undertaken to reduce total debt service payments over

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approximately the next 3.5 years by \$2,332,160, and resulted in an economic gain of \$1,947,941. The total amount outstanding in the irrevocable trust for the defeased debt at June 30, 2010 was \$32,282,836.

The following schedules summarize the changes in long-term obligations as of June 30, 2010 and 2009.

June 30, 2010	Final Maturity Date	Authorized	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010	Due in 2010-2011
Supported by User Charges:							
2001A Water Revenue (Tax Exempt) Bonds 3.70%-5.5%	7/1/2016	\$ 448,810,000	\$ 66,035,000	\$ -	\$ 37,445,000	\$ 28,590,000	\$ 8,355,000
2005 Water Revenue DWSRF (Tax Exempt) Bonds 3.21%	1/1/2025	4,669,565	4,187,333	-	203,902	3,983,431	210,500
2005A Water Revenue (Tax Exempt) Bonds 4.25%-5.00%	7/1/2036	40,000,000	38,635,000	-	715,000	37,920,000	740,000
2006 Water Revenue (Tax Exempt) Refunding Bonds 3.50%-4.875%	7/1/2034	150,745,000	150,445,000	-	310,000	150,135,000	320,000
2007 Water Revenue (Tax Exempt) Refunding Bonds 4.00%-5.00%	7/1/2030	218,975,000	217,385,000	-	380,000	217,005,000	400,000
2009A Water Revenue DWSRF ARRA (Tax Exempt) Bonds 0%	7/1/2029	2,309,945	-	2,309,945	-	2,309,945	118,459
2010 Water Revenue (Tax Exempt) Refunding Bonds 5.00%	7/1/2015	28,240,000	-	28,240,000	-	28,240,000	-
2010A Water Revenue DWSRF (Tax Exempt) Bonds 3.25%	TBD	8,500,000	-	201,110	-	201,110	-
Subtotal		902,249,510	476,687,333	30,751,055	39,053,902	468,384,486	10,143,959
Less: Unamortized net bond discount (premium)			(2,267,963)	(3,575,676)	(1,472,129)	(4,371,510)	
Less: Unamortized losses on refundings			17,104,622	1,657,234	1,969,201	16,792,655	
Total Debt Before Tax Exempt Commercial Paper			461,850,674	32,669,497	38,556,830	455,963,341	
TMWA Tax-Exempt Commercial Paper		160,000,000	68,000,000	-	-	68,000,000	68,000,000
Total Debt		<u>\$ 1,062,249,510</u>	<u>\$ 529,850,674</u>	<u>\$ 32,669,497</u>	<u>\$ 38,556,830</u>	<u>\$ 523,963,341</u>	<u>\$ 78,143,959</u>

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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%	7/1/2016	\$ 448,810,000	\$ 73,600,000	\$ -	\$ 7,565,000	\$ 66,035,000	\$ 7,930,000
2005 Water Revenue DWSRF (Tax Exempt) Bonds 3.21%	1/1/2025	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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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:			
2011	\$ 78,143,959	\$ 21,070,509	\$ 99,214,468
2012	10,968,187	20,986,549	31,954,736
2013	11,530,303	20,412,935	31,943,238
2014	10,702,977	19,865,851	30,568,828
2015	12,826,228	19,303,651	32,129,879
2016-2020	73,806,429	86,736,246	160,542,675
2021-2025	91,500,743	68,966,752	160,467,495
2026-2030	111,056,928	47,235,579	158,292,507
2031-2035	139,352,622	18,692,070	158,044,692
2036	<u>4,795,000</u>	<u>242,625</u>	<u>5,037,625</u>
Subtotal	544,683,376	323,512,767	868,196,143
Less: amounts authorized but unissued	<u>8,298,890</u>	<u>-</u>	<u>8,298,890</u>
Total	<u>\$ 536,384,486</u>	<u>\$ 323,512,767</u>	<u>\$ 859,897,253</u>

Because commercial paper notes have a maturity of less than 270 days, they are presented as maturing in fiscal year 2011. 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 operations and maintenance, debt service, renewal and replacement, and water rate stabilization.

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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 has designated \$1,848,864 for the water rate stabilization. This designation 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, Inc. and TMWA seeking damages and enforcement of a 1943 agreement (the 1943 Operating Agreement) between TCID and TMWA (as successor to NV Energy, Inc.). 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 \$50,000,000.

TMWA answered TCID's complaint and 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. The court separated the claims for partition and declaratory relief, which are equitable claims, from the claims for damages and contribution for purposes of trial. The trial on TMWA's claim for partition of the Deeded Donner Lake Water Right and on TCID's claim for declaratory relief took place October, November, and December of 2009. In its Statement of Decision of March 22, 2010, the Court concluded that the Deeded Donner Lake Water Right should be partitioned. It also found that a provision of the 1943 Operating Agreement on which TCID's damage claims are based was unenforceable. On June 9, 2010, the court entered an Interlocutory Judgment portioning

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the Deeded Donner Lake Water Right in kind so that TCID and TMWA are now owners in kind of divided, equal one-half shares of that water right. TCID has filed a timely appeal from that Interlocutory Judgment.

The Court had scheduled a trial beginning November 3, 2010 on TCID's claim for damages and TMWA's claim for contribution. TMWA had filed for a motion for summary judgment in its favor with respect to TCID's claims for damages based upon the court's finding that a key provision of the 1943 Operating Agreement is unenforceable. That motion was scheduled to be heard on October 4, 2010. However, TCID filed a motion to stay all proceedings at the trial court level pending the outcome of its appeal of the Interlocutory Judgment of Partition. That motion was granted on August 30, 2010 and all proceedings at the trial court level are now stayed.

It is not possible at this time to predict the final outcome of the litigation. However, TMWA will continue to vigorously defend the matter and counsel for TMWA believes that TCID's allegations that damages are or exceed \$50 million are greatly exaggerated.

**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.

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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:

Fiscal Year	Contribution Rate		Total Contribution
	Employer Pay Plan	Employee-Employer Plan	
2009/2010	21.50%	11.25%	\$ 2,762,370
2008/2009	20.50%	10.50%	\$ 2,633,279
2007/2008	20.50%	10.50%	\$ 2,587,902

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):

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. 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, 2010, two from non-represented employees and two from represented employees. The Plan issues a financial report that includes the financial statements and required supplementary information. That report may be obtained by contacting TMWA in writing at P.O. Box 30013, Reno, NV 89520-3013.

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

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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 of represented employees will receive a subsidy as a percentage of the total health premium, dependent upon years of service and age of retirement, with a maximum subsidy of 85% with 20 years of credited 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 of represented employees will receive a total subsidy 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 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 participants and retirees as of March 1, 2010, the effective date of the OPEB valuation was 168, and six, respectively.

Funding Policy, Annual OPEB Cost and Net OPEB Obligation. Currently, the funding policy for retiree health benefit premiums is on a pay-as-you-go basis with an additional amount as determined by management to prefund benefits. For the years ended June 30, 2010 and 2009, TMWA paid \$44,853 and \$45,295, respectively 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 post retirement medical trust of NV Energy, Inc. transferred over \$1.4 million to TMWA's 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's assets.

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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
2010	\$ 191,950	\$ 191,950	100%	\$ -
2009	\$ 518,064	\$ 518,064	100%	\$ -
2008	\$ 518,064	\$ 2,679,871	517%	\$ -

The net OPEB obligation as of June 30, 2010 and 2009 was calculated as follows:

	2010	2009
Annual Required Contribution (ARC):		
Normal cost	\$ 3,346	\$ 304,045
Amortization of Unfunded Actuarial Accrued Liability (UAAL)	188,604	214,019
Annual Required Contribution (ARC)	<u>\$ 191,950</u>	<u>\$ 518,064</u>
Determination of Net OPEB Obligation		
Annual Required Contribution (ARC)	<u>\$ 191,950</u>	<u>\$ 518,064</u>
Annual OPEB Cost	\$ 191,950	\$ 518,064
Retiree Benefit Payments Paid	(44,853)	(45,295)
Contributions Made to Trust	<u>(147,097)</u>	<u>(472,769)</u>
Increase (decrease) in Net OPEB Obligation	-	-
Net OPEB Obligation, Beginning of Year	-	-
Net OPEB Obligation, End of Year	<u>\$ -</u>	<u>\$ -</u>

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Funded Status and Funding Progress. The funded status of the Plan as of the most recent actuarial valuation (March 1, 2010) was as follows:

Actuarial Accrued Liability (AAL) (a)	\$ 4,615,337
Actuarial Value of Plan Assets (b)	<u>4,967,671</u>
Unfunded Actuarial Accrued Liability (UAAL) (a) - (b)	<u>\$ (352,334)</u>
Funded Ratio (Actuarial Value of Plan Assets/AAL) (b) / (a)	<u>107.63%</u>
Covered Payroll (c)	<u>\$ 12,685,048</u>
UAAL as a Percentage of Covered Payroll [(a) - (b)] / (c)	<u>(2.78)%</u>

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 valuations 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	March 1, 2010
Actuarial cost method	Projected unit credit
Amortization method	Level dollar, closed
Remaining amortization period	29 years
Investment rate of return	8.00%
Projected salary increases	3.50%
Healthcare inflation rate	6.00%

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NOTE 11 – COMMITMENTS

At June 30, 2010, TMWA was committed under the Asset Purchase Agreement to expend \$8,000,000 for the purchase of Hydroelectric Assets. NV Energy, Inc. 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, 2010 TMWA had completed the purchase of three of the four run-of-river hydroelectric plants for \$6,000,000 or two 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 \$1,400,000 to further enhancement of the Truckee River as mitigation for operation of the Farad hydroelectric plant which has yet to be transferred.

TMWA has committed a maximum of 1.5% of its combined operating expense budget and total annual debt service in fiscal year 2011 as a contribution in fiscal year 2011 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.

NOTE 12 – NEW PRONOUNCEMENTS

In February 2009, the GASB issued statement No. 54 *Fund Balance Reporting and Governmental Type Definitions*. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2010. Management does not expect implementation of this statement during its fiscal year ending June 30, 2011, to have a material effect on the financial statements.

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