

**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, 2008 and 2007. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Truckee Meadows Water Authority at June 30, 2008 and 2007, 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.

Management's Discussion and Analysis on pages 2A through 2M and the Schedule of Funding Progress on page 30, are not required parts of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The accompanying introductory section, the schedules of revenues, expenses and changes in net assets - budget and actual, 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 have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly presented in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Kaplan, Armstrong & Co.*

Reno, Nevada  
November 26, 2008

## 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, 2008, June 30, 2007, and June 30, 2006. This section should be read in conjunction with the transmittal letter at the front of this report and TMWA's financial statements following this section.

### FINANCIAL HIGHLIGHTS

	<u>TMWA's Net Assets</u>		
	<i>(in millions)</i>		
	<u>June 30, 2008</u>	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Unrestricted Current Assets	\$ 110.0	\$ 110.8	\$ 95.2
Restricted Current Assets	27.7	29.2	23.1
Long-Term Restricted and Other Assets	57.0	56.8	57.9
Capital Assets	<u>651.8</u>	<u>605.4</u>	<u>534.0</u>
<b>Total Assets</b>	<u>846.5</u>	<u>802.2</u>	<u>710.2</u>
Long-Term Debt Outstanding	460.3	468.0	479.4
Other Liabilities	<u>104.6</u>	<u>78.8</u>	<u>29.7</u>
<b>Total Liabilities</b>	<u>564.9</u>	<u>546.8</u>	<u>509.1</u>
Invested in Capital Assets, Net of Related Debt	178.0	152.3	108.5
Restricted	16.3	15.7	12.6
Unrestricted	<u>87.3</u>	<u>87.4</u>	<u>80.0</u>
<b>Total Net Assets</b>	<u>\$281.6</u>	<u>\$ 255.4</u>	<u>\$ 201.1</u>

In fiscal year ended June 30, 2008, TMWA's total net assets increased by approximately \$26.2 million, primarily the result of capital spending, net of commercial paper note proceeds to fund capital outlays, developer contributions, and cash flow from operations. In the fiscal year ended June 30, 2007, TMWA's total net assets increased by approximately \$54.2 million, primarily the result of capital contributions from developers, cash flow from operations, and capital spending net of commercial paper note proceeds to fund capital outlays for acquisition of water rights.

As reported on the Statement of Net Assets, at June 30, 2008, total Unrestricted Current Assets decreased by approximately \$0.8 million from June 30, 2007. The overall decrease was due to a decrease of \$1.4 million in accounts receivable, and a decrease of \$0.1 million in prepaid assets. Offsetting these decreases were increases in unrestricted cash of \$0.1 million, and an increase in due from other government of \$0.3 million and an increase in interest receivable of \$0.3 million. The decrease in accounts receivable was due to less delivered but unbilled water as well as less billed revenue at year end. This was due to cooler summer weather than experienced in the previous years. Prepaid assets decreased because of a lower payment than the previous year for upstream storage. Due from other governments increased by \$0.3 million and was due to a year end bill for a new grant award. Interest receivable

increased because of longer accrual periods for most investments. Cash increased modestly because monies spent on capital projects were offset by issuance of \$25.0 million of tax-exempt commercial paper notes.

As reported on the Statements of Net Assets, at June 30, 2007, total Unrestricted Current Assets increased by approximately \$15.6 million from June 30, 2006. This was due to an increase of \$16.4 million in unrestricted cash, \$1.5 million increase in accounts receivable and \$0.4 million increase from due from others. The increase in accounts receivable was due to greater than expected delivered but unbilled water and billed revenue which is due to a comparatively warm spring. These increases in unrestricted current assets were offset by decreases of \$2.2 million in due from other governments namely the receipt of final loan draws on the Nevada State Drinking Water State Revolving Loan Fund (DWSRF), and a \$0.5 million decrease in interest receivable. Interest receivable decreased because of a greater amount of investments maturing prior to year-end when compared to the prior year. Unrestricted cash increased because of the issuance of \$43 million in tax-exempt commercial paper, delay of a number of construction projects until fiscal year 2008 and greater than budgeted cash contributions from developers.

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

As reported on the Statements of Net Assets, at June 30, 2007, total Restricted Current Assets increased by approximately \$6.1 million from June 30, 2006. This increase was primarily due to an increase in unrestricted cash for the water meter retrofit fund for \$2.3 million and current bond debt service of \$3.8 million. The increase in the water meter retrofit fund's restricted cash was due to the slow down in water meter retrofits because the water system is nearly completely metered. Current bond debt service increased \$3.8 million because of principal due on the 2005-A bonds and because in the prior year the Series 2006 Refunding Bond sale closed just prior to year end and temporarily reduced prior year interest payments significantly.

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

At June 30, 2007, total Long-Term Restricted and Other Assets decreased \$1.1 million from June 30, 2006 because of a decrease in the future bond debt service reserves by \$1.0 million,

which was offset by additional funding of the renewal and replacement reserve account for \$0.6 million, and the funding of the operations and maintenance account for \$0.2 million. Decreases in other assets and deferred charges were \$0.6 million and \$0.3 million respectively. The future bond debt service reserve decreased by \$1.0 million in fiscal year 2007. This was due to 2007 refunding activity and the Nevada State Treasurer returning \$0.6 million on deposit to secure future debt service because TMWA did not need to draw down the full authorization of the DWSRF loan. Other increases in restricted reserves are in compliance with the Series 2001-A bond indenture requirements. The renewal and replacement reserve was fully funded in October 2006.

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

Capital assets net of accumulated depreciation increased by \$71.4 million from June 30, 2006 to June 30, 2007. This significant increase included \$15.5 million in developer infrastructure contributions, \$37.2 million in water right acquisitions, and nearly \$37.9 million in capital spending on construction projects. The increase in gross capital assets is offset by \$19.2 million in depreciation expense.

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

At June 30, 2007, total current liabilities payable from unrestricted assets increased from June 30, 2006 and were mainly due to the issuance of \$43.0 million in tax-exempt commercial paper (TECP) during fiscal year 2007. The other major increase in current liabilities was accounts payable which increased by \$2.2 million. A number of expenses during the fiscal year, most notably power, were billed after fiscal year end. Contracts and retention payable decreased by \$0.9 million because of construction contracts being completed by year end. Accrued liabilities increased \$0.1 million and were due to increased accruals for post retirement health care expenses offset by a reduction in accruals for compensated absences.

Due to other governments increased by \$0.5 million because of payables owed to various governments for services and joint construction contracts. Accrued interest payable increased by \$0.2 million and was due to interest owed on the DWSRF loan and interest accrued on TECP maturing after fiscal year end. DWSRF loan payable increased \$0.2 million because principal payments were due in the upcoming fiscal year and no principal payments were due as of June 30, 2006.

Current liabilities payable from restricted assets at June 30, 2008 increased by \$0.6 million and is due is semi-annual interest due on TMWA senior lien indebtedness as well as the principal portion of the debt due in fiscal year 2008. The current portion of long term debt decreased by \$0.2 million while interest payable increased by \$0.8 million. These changes are due to prior years' refundings that have changed the schedule of principal and interest payments. Long term debt, net of current portion, decreased \$7.7 million as a result of reclassifying long term debt to short term debt. Amortization of bond discounts and premiums as well as refunding valuation allowances also affected this total reduction in long term debt. Non-current liabilities are made up of TMWA's long term debt, resulting from the purchase of the water assets from SPPCo, the outstanding long-term portion of the DWSRF loan, the long term portion of Series 2005A, \$40.0 million water revenue bonds to fund certain construction projects, the issuance of \$150.5 million in refunding bonds to refund \$146.0 million in Series 2001A bonds, and the issuance of \$218.9 million in 2007 Refunding bonds to refund \$212.3 million in Series 2001A bonds. Please refer to Note 6 of TMWA's Notes to the Financial Statements for additional information regarding these outstanding bonds.

Current liabilities payable from restricted assets at June 30, 2007 is semi-annual interest due on TMWA senior lien indebtedness as well as the principal portion of the debt due in fiscal year 2008. The net decrease in long-term debt of \$11.4 million from June 30, 2006 to June 30, 2007 was due to reclassification from long term debt to short term debt of \$3.8 million in principal payments of the Series 2001A bonds, the 2005 DWSRF Loan, the Series 2005A Bonds and Series 2007 Refunding bonds. In addition, TMWA increased the refunding valuation allowances as a result of refunding activity by a net amount of \$14.9 million. Offsetting these decreases were increases in total outstanding long term debt of approximately \$6.6 million and removal of \$6.2 million in original issue discounts resulting from the Series 2007 refunding.

#### **TMWA's Changes in Net Assets**

*(in millions)*

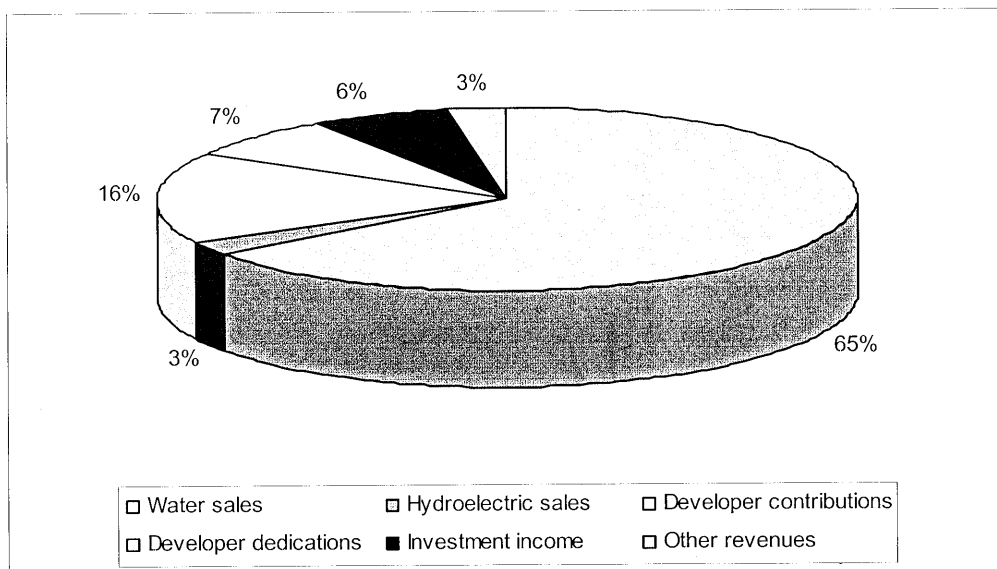
	<u>June 30, 2008</u>	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Operating Revenues	\$ 78.2	\$ 81.0	\$ 76.7
Operating Expenses	<u>60.6</u>	<u>55.6</u>	<u>52.3</u>
Operating Income	17.6	25.4	24.4
Nonoperating Revenues (Expenses) net	<u>(17.2)</u>	<u>(15.6)</u>	<u>(17.5)</u>
Income before Capital Contributions	0.4	9.8	6.9
Capital Contributions	<u>25.9</u>	<u>44.4</u>	<u>75.7</u>
Change in Net Assets	<u>\$ 26.3</u>	<u>\$ 54.2</u>	<u>\$ 82.6</u>

### TMWA's Revenues

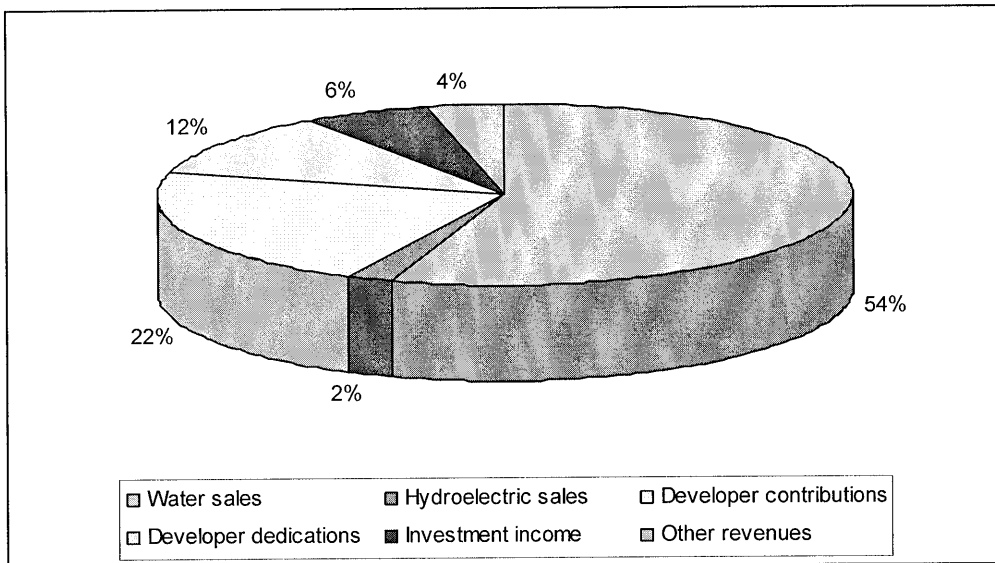
	June 30, 2008	June 30, 2007	June 30, 2006
<b>Revenues (in millions):</b>			
Operating Revenues:			
Water Sales	\$ 72.7	\$ 74.3	\$ 70.5
Hydroelectric Sales	2.8	3.1	2.4
Other Operating Revenues	<u>2.7</u>	<u>3.6</u>	<u>3.8</u>
	<u>78.2</u>	<u>81.0</u>	<u>76.7</u>
Nonoperating Revenues:			
Investment Earnings	7.1	7.6	6.1
Other	<u>0.5</u>	<u>1.3</u>	<u>0.2</u>
	<u>7.6</u>	<u>8.9</u>	<u>6.3</u>
Capital Contributions	<u>25.9</u>	<u>44.4</u>	<u>75.7</u>
<b>Total Revenues</b>	<u>\$ 111.7</u>	<u>\$ 134.3</u>	<u>\$ 158.7</u>

The table above and the graphs that follow represent the makeup of TMWA's total revenues for fiscal years ended June 30, 2008, 2007 and 2006:

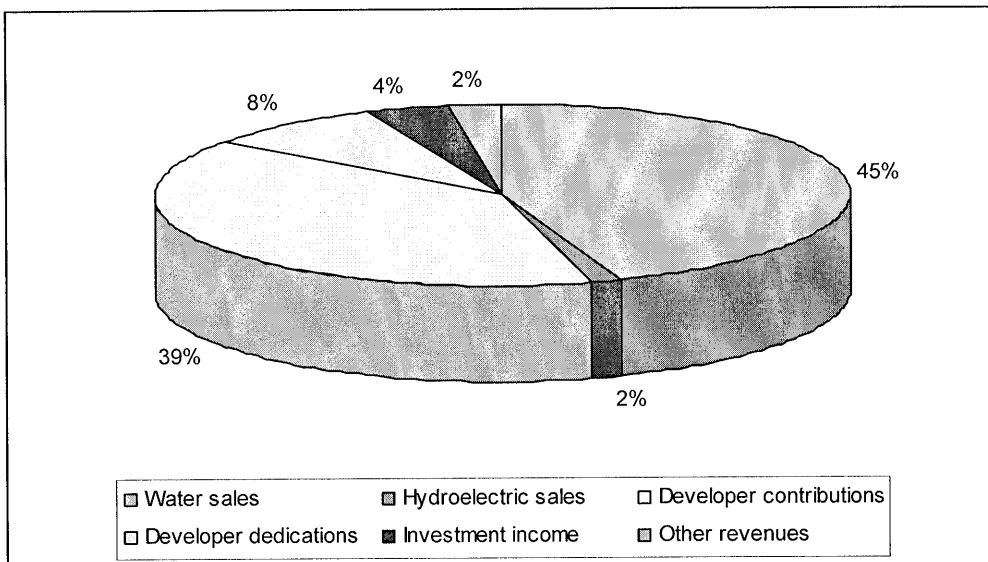
#### Total Revenues for the Year Ended June 30, 2008



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



**Total Revenues for the Year Ended June 30, 2006**



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

For fiscal year 2007, total operating revenues increased \$4.3 million from fiscal year 2006. Water sales in fiscal year 2007 were \$3.8 million greater than in fiscal year 2006 because of a much warmer spring in comparison to the prior year. Hydroelectric revenues were \$0.7 million greater in fiscal year 2007 than in fiscal year 2006. This was due primarily to greater plant availabilities than in the previous fiscal year. Other operating sales were \$0.2 million less than in the previous year due to less collection of inspection fees from new development.

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

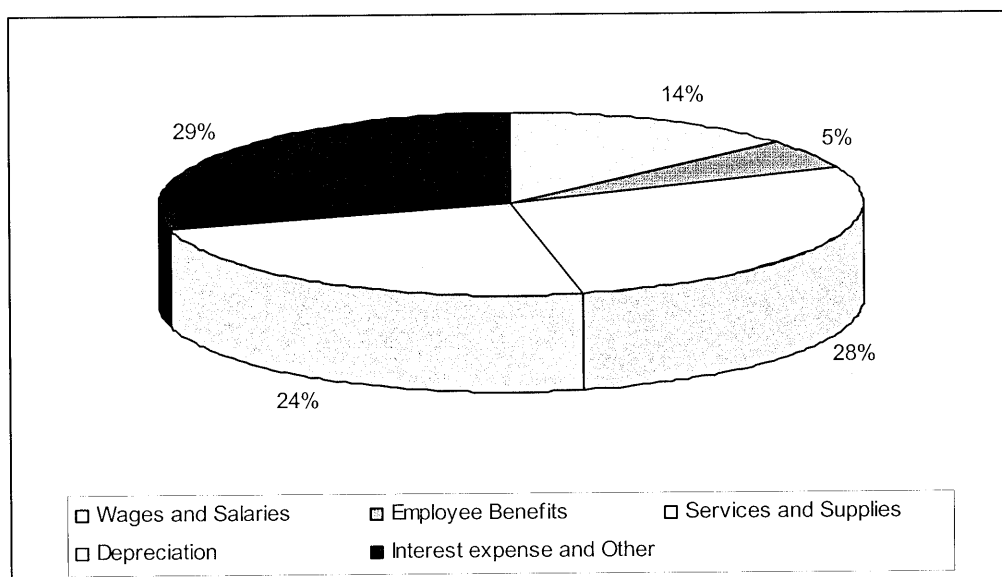
For fiscal year 2007, capital contributions decreased \$31.3 million from fiscal year 2006. The significant decrease can be attributed to lower sales of water service-will serve commitment to developers of \$31.2 million. Higher than expected developer infrastructure dedications of \$2.3 million were offset by a \$2.5 million decrease in collections of various developer fees for new capacity. The water meter retrofit fund received \$1.7 million less in cash contributions, than in fiscal year 2006. A contribution from another government was \$1.8 million due to reimbursement of facilities constructed to expand wholesale water service. Of the total \$44.4 million in developer capital contributions, \$28.9 million was in cash. TMWA witnessed a significant slowdown in residential construction activity towards the middle of fiscal year 2007.

## TMWA's Expenses

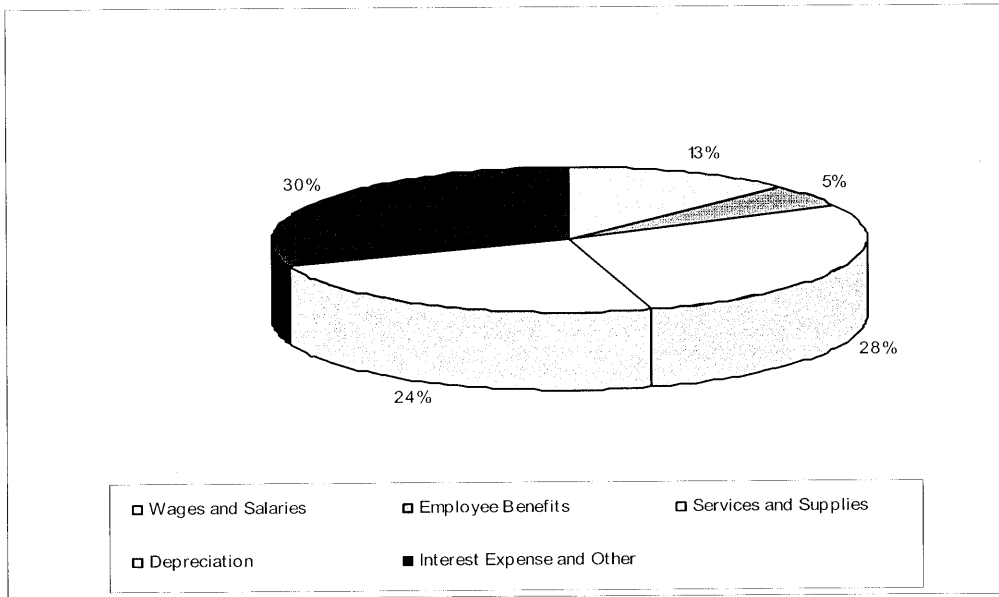
	June 30,2008	June 30,2007	June 30,2006
<b>Expenses (in millions):</b>			
Operating Expenses:			
Wages & Salaries	\$ 11.7	\$ 10.1	\$ 9.9
Employee Benefits	4.5	4.0	3.8
Services & Supplies	23.6	22.3	21.6
Depreciation	<u>20.8</u>	<u>19.2</u>	<u>16.9</u>
	<u>60.6</u>	<u>55.6</u>	<u>52.2</u>
Nonoperating Expenses:			
Interest Expense	24.1	23.9	23.7
Other Non-operating Expenses	<u>0.7</u>	<u>0.6</u>	<u>0.2</u>
	<u>24.8</u>	<u>24.5</u>	<u>23.9</u>
<b>Total Expenses</b>	<u>\$ 85.4</u>	<u>\$ 80.1</u>	<u>\$ 76.1</u>

The table above and the graphs that follow represent the makeup of total operating and non-operating expenses for the years ended June 30, 2008, 2007 and 2006:

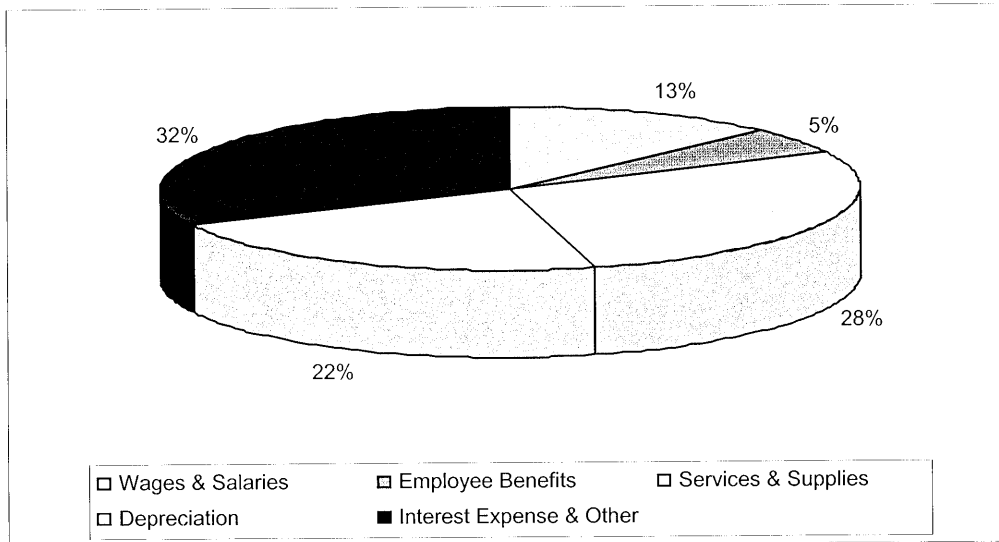
### Total Expenses for the Year Ended June 30, 2008



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



**Total Expenses for the Year Ended June 30, 2006**



The \$5 million increase or 6.7% in TMWA's operating expenses from fiscal year 2007 to 2008 is due to an increase of \$1.6 million in wages and salaries, employee benefits increasing by \$0.5 million, services and supplies expense increasing \$1.3 million, and a \$1.6 million increase in depreciation expense. The increase in operating wages and salaries was due to the addition of personnel, an increase in the accrual for compensated absences since personnel took less sick and vacation leave during the year, an increase in overtime, and a general wage

increase of approximately 3.8%. Employee benefits increased by \$0.5 million and were primarily due to increases in contributions to PERS retirement system and increases to health care costs. Service and supplies expenses increased a modest \$1.3 million or 5.8 % year over year. This increase was primarily due to \$0.9 million in one-time emergency expenses as a result of earthquake damage to the raw water delivery system for the Chalk Bluff Water Treatment Plant (CBWTP) and other related emergency expenditures. TMWA had to construct temporary raw water delivery points to the CBWTP to meet increasing summer water demands. Increases in power and chemical expenses speak to the remainder of the increase in services and supplies expenses. Depreciation expense increased considerably by \$1.6 million or 9% because TMWA has completed a number of major construction projects in fiscal year 2008, while developer infrastructure contributions, although less than in previous years, was still significant. Non-operating expenses increased a total \$0.3 million or 1.2% because of increased interest expenses.

The \$3.4 million increase or 6.5% in TMWA's operating expenses from fiscal year 2006 to 2007 is due to an increase of \$0.2 million in wages and salaries with employee benefits increasing by \$0.2 million. Services and supplies expense increased \$0.7 million from the preceding fiscal year, along with a \$2.3 million increase in depreciation expense. The increase in operating wages and salaries was due to the addition of personnel and a general wage increase of approximately 3.8% or \$0.2 million. The increase was muted because of managing personnel vacancies and assigning personnel to capital projects when necessary. Service and supplies expenses increased a modest \$0.7 million or 3.2 % year over year. This increase can be solely attributed to increased power demands which occurred because of higher deliveries of water during the warm spring months when compared to the previous year. Depreciation expense increased considerably by \$2.3 million or 13.6% because TMWA has completed a number of major construction projects in fiscal year 2007, while developer infrastructure contributions were higher than in the previous year. Non-operating expenses increased a total \$0.6 million or 2.5% because of increased interest expenses and note issuance expenses related to the inauguration of the tax-exempt commercial paper (TECP) program. Offsetting increased interest and note issuance expenses due to the TECP program, were overall interest expense savings due to a major refunding of Series 2001A bonds.

## **CAPITAL ASSETS**

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

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

At June 30, 2006, TMWA's total capital assets were \$603.8 million net of accumulated depreciation of \$69.8 million, for a net book value of \$534.0 million. Included in the total

capital assets reported on the Statements of Net Assets was \$15.5 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, 2008, TMWA had \$537.5 million in total reported debt outstanding. This amount reflects \$553.8 million in total principal outstanding 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. The total outstanding indebtedness was made up of five series of bonds one of which was the Series 2001-A bonds, issued for the acquisition of TMWA from Sierra Pacific Resources. The second indebtedness was a Series 2005 Drinking Water State Revolving Fund loan provided by the State of Nevada to fund the Arsenic Mitigation Project. In November 2005, TMWA sold \$40.0 million in water revenue bonds, the Series 2005-A Bonds, to fund construction projects over the next two to three years. In May 2006, TMWA issued \$150.7 million in refunding bonds to refinance \$146.0 million of outstanding maturities of the Series 2001-A bonds. In January 2007, TMWA issued \$219.0 million in refunding bonds to refinance \$212.3 million of outstanding maturities of the Series 2001-A bonds. TMWA inaugurated a Tax-Exempt Commercial Paper (TECP) program in August 2006. TMWA sold in two sales an aggregate of \$43.0 million in TECP notes in fiscal year 2007 and another \$25.0 million in fiscal year 2008. TMWA intends to re-market the commercial paper as maturities come due and all the TECP is classified as a short term indebtedness since the TECP notes mature equal to or less 270 days.

At June 30, 2007 TMWA had \$520.3 million in total reported debt outstanding. This amount reflects \$538.1 million in total principal outstanding indebtedness, \$3.0 million in net bond premium and \$20.8 million valuation adjustments due to refundings. Of the total \$520.3 million in reported debt outstanding, \$52.3 million was due in one year and is classified as short term indebtedness. The total outstanding indebtedness was made up of five series of bonds one of which was the Series 2001-A bonds, issued for the acquisition of TMWA from Sierra Pacific Resources. The second indebtedness was a Series 2005 Drinking Water State Revolving Fund loan provided by the State of Nevada to fund the Arsenic Mitigation Project. In November 2005, TMWA sold \$40.0 million in water revenue bonds, the Series 2005-A Bonds, to fund construction projects over the next two to three years. In May 2006, TMWA issued \$150.7 million in refunding bonds to refinance \$146.0 million of outstanding maturities of the Series 2001-A bonds. In January 2007, TMWA issued \$219.0 million in refunding bonds to refinance \$212.3 million of outstanding maturities of the Series 2001-A bonds. TMWA inaugurated a Tax-Exempt Commercial Paper (TECP) program in August 2006. TMWA sold in two sales an aggregate of \$43.0 million in TECP notes. TMWA intends to re-market the commercial paper as maturities come due and all the TECP is classified as a short term indebtedness since the TECP notes mature equal to or less 270 days.

At June 30, 2006 TMWA had \$ 486.3 million in total reported debt outstanding. This amount reflects \$495.3 million in total principal outstanding indebtedness \$3.0 million in net bond discount and \$6.0 million valuation adjustments due to refundings. Of the \$486.3 million in total reported debt outstanding, \$6.9 million was due in one year and is classified as short term indebtedness. The total outstanding indebtedness was made up of four series of bonds, one of which was the Series 2001-A bonds, issued for the acquisition of TMWA from Sierra Pacific Resources. The second indebtedness was a Series 2005 Drinking Water State Revolving Fund loan provided by the State of Nevada to fund the Arsenic Mitigation Project. TMWA drew down \$4.7 million of the \$9.3 million authorized loan and notified the State of Nevada that the project was completed. TMWA did not draw the remaining \$4.6 million of the \$9.3 million loan authorization. In November 2005, TMWA sold \$40.0 million in water revenue bonds, the Series 2005-A Bonds, to fund construction projects over the next two to three years. In May 2006, TMWA issued \$150.7 million in refunding bonds to refinance \$146.0 million of the outstanding maturities of the Series 2001-A bonds.

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

### **CURRENTLY KNOWN FACTS**

The TMWA Board at the October 2007 board meeting voted to not increase retail or wholesale water rates since TMWA has met or exceeded all financial performance measures established in August 2003. The most important performance measures are that senior lien bond coverage (net of developer charges and fees) is equal to or greater than 1.5X of senior lien debt service, and that the customer cost of service is adequately covered by total operating revenues and gross investment income.

TMWA's Board adopted new customer water rates in March 2005 to insure TMWA can increase senior lien bonding capacity, and progress with a planned \$40.0 million bond sale in the first half of fiscal year 2006. Also with improved credit ratings from A-/BBB+ to A+/A, TMWA established and inaugurated a tax-exempt commercial paper program in August 2006 to fund the acquisition of water rights. Will-serve commitments are issued against these water rights to developers for new and/or expanded water service and potentially future construction projects. This has freed up a substantial amount of unrestricted cash to fund future construction projects over the next two years.

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 \$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.

## **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.

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**TRUCKEE MEADOWS WATER AUTHORITY**  
**STATEMENTS OF NET ASSETS**  
**JUNE 30, 2008 AND 2007**

**ASSETS**

	<b>2008</b>	<b>2007</b>
<b>CURRENT ASSETS</b>		
Cash and investments	\$ 95,733,750	\$ 95,589,875
Accounts receivable, net	10,866,112	12,222,455
Due from others	327,837	343,510
Due from other governments	373,932	129,155
Interest receivable	1,842,821	1,548,206
Prepaid assets	815,216	929,386
	<u>109,959,668</u>	<u>110,762,587</u>
<b>RESTRICTED CURRENT ASSETS</b>		
Cash and investments:		
Water meter retrofit program	3,494,875	3,632,562
Current bond debt service	20,173,394	19,584,238
Hydro asset purchase	4,000,000	6,000,000
	<u>27,668,269</u>	<u>29,216,800</u>
Total Current Assets	<u>137,627,937</u>	<u>139,979,387</u>
<b>RESTRICTED NONCURRENT ASSETS</b>		
Cash and investments:		
Future bond debt service	32,668,105	32,668,105
Operations and maintenance	6,992,510	6,174,679
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
	<u>52,160,615</u>	<u>51,342,784</u>
<b>NONCURRENT ASSETS</b>		
Capital assets, net	651,794,247	605,435,107
Other assets	348,977	523,465
Deferred charges	4,581,511	4,893,579
	<u>656,724,735</u>	<u>610,852,151</u>
Total Noncurrent Assets	<u>708,885,350</u>	<u>662,194,935</u>
Total Assets	<u>\$ 846,513,287</u>	<u>\$ 802,174,322</u>

**LIABILITIES**

<b>CURRENT LIABILITIES PAYABLE FROM UNRESTRICTED</b>		
<b>CURRENT ASSETS</b>		
Accounts payable	\$ 2,840,297	\$ 5,281,255
Contracts and retention payable	3,782,852	2,779,108
Accrued liabilities	5,347,221	4,394,833
Due to other governments	1,969,309	1,954,013
Accrued interest payable	297,915	174,744
Current portion of long term debt	68,197,511	43,191,321
Customer deposits and amounts due to developers	1,932,500	1,412,620
	<u>84,367,605</u>	<u>59,187,894</u>
<b>CURRENT LIABILITIES PAYABLE FROM RESTRICTED</b>		
<b>CURRENT ASSETS</b>		
Current portion of long term debt	8,920,000	9,095,000
Interest payable	11,253,394	10,489,238
	<u>20,173,394</u>	<u>19,584,238</u>
Total Current Liabilities	<u>104,540,999</u>	<u>78,772,132</u>
<b>NONCURRENT LIABILITIES</b>		
Long-term debt, net of current portion	460,333,506	468,051,867
Total Liabilities	<u>564,874,505</u>	<u>546,823,999</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	177,972,803	152,295,208
Restricted for water meter retrofit program	3,494,875	3,632,562
Restricted for operations and maintenance reserve	2,392,510	1,574,679
Restricted for renewal and replacement reserve	10,000,000	10,000,000
Restricted for water rate stabilization	500,000	500,000
Unrestricted	87,278,594	87,347,874
Total Net Assets	<u>281,638,782</u>	<u>255,350,323</u>
Total Liabilities and Net Assets	<u>\$ 846,513,287</u>	<u>\$ 802,174,322</u>

**TRUCKEE MEADOWS WATER AUTHORITY  
STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
<b>OPERATING REVENUES</b>		
Charges for water sales	\$ 72,686,046	\$ 74,272,808
Hydroelectric sales	2,836,521	3,136,806
Other operating sales	<u>2,697,601</u>	<u>3,610,675</u>
Total Operating Revenues	<u>78,220,168</u>	<u>81,020,289</u>
<b>OPERATING EXPENSES</b>		
Salaries and wages	11,665,974	10,083,912
Employee benefits	4,528,891	3,967,687
Services and supplies	<u>23,579,404</u>	<u>22,260,038</u>
Total Operating Expenses before Depreciation	39,774,269	36,311,637
Depreciation	<u>20,817,485</u>	<u>19,241,869</u>
Total Operating Expenses	<u>60,591,754</u>	<u>55,553,506</u>
Operating Income	<u>17,628,414</u>	<u>25,466,783</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Grants	483,631	330,878
Investment earnings	6,841,981	7,558,263
Unrealized gain on investments	283,160	-
Gain (Loss) on disposal of assets	(91,170)	(83,894)
Amortization of bond issuance costs	(635,497)	(494,066)
Interest expense	(24,106,569)	(23,937,895)
Other	<u>-</u>	<u>1,000,297</u>
Total Nonoperating Revenues (Expenses)	<u>(17,224,464)</u>	<u>(15,626,417)</u>
Income before Capital Contributions	<u>403,950</u>	<u>9,840,366</u>
<b>CAPITAL CONTRIBUTIONS</b>		
Water meter retrofit program	1,408,879	2,539,844
Developer infrastructure contributions	8,092,373	15,489,637
Developer will-serve contributions	2,978,057	13,664,518
Developer capital contributions-other	2,401,248	5,199,992
Developer facility charges	3,412,118	5,683,715
Contributions from other governments	<u>7,591,834</u>	<u>1,823,671</u>
Net Capital Contributions	<u>25,884,509</u>	<u>44,401,377</u>
Change in Net Assets	26,288,459	54,241,743
<b>NET ASSETS , BEGINNING OF YEAR</b>	<u>255,350,323</u>	<u>201,108,580</u>
<b>NET ASSETS , END OF YEAR</b>	<u>\$ 281,638,782</u>	<u>\$ 255,350,323</u>

See accompanying notes.

**TRUCKEE MEADOWS WATER AUTHORITY  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

	<b>2008</b>	<b>2007</b>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 79,569,897	\$ 79,788,311
Cash paid to employees	(15,242,477)	(13,905,919)
Cash paid to suppliers	(25,716,408)	(19,425,387)
Other nonoperating revenues	-	1,000,297
Net Cash Provided by Operating Activities	38,611,012	47,457,302
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Grants	310,623	330,878
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets	(57,793,197)	(76,241,594)
Interest paid on financing	(23,179,492)	(22,594,027)
Principal paid on financing	(9,286,321)	(6,943,400)
Proceeds from capital debt issuance	-	2,201,863
Proceeds from commercial paper note issuances	25,000,000	43,000,000
Proceeds from refunding bonds	-	218,975,000
Proceeds transferred to refunding escrow	-	(218,858,264)
Proceeds from capital asset disposal	32,508	-
Contributions for water meter retrofit program	1,408,879	2,539,844
Contributions from developers-will-serve letters	2,978,057	13,664,518
Contributions from developers-other	2,375,528	5,199,992
Contributions from developers-facility charges	3,412,118	5,683,715
Contributions from other governments	7,591,834	1,823,671
Bond/Note issuance costs	(323,430)	(2,643,053)
Net Cash (Used) by Capital and Related Financing Activities	(47,783,516)	(34,191,735)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	8,275,056	8,780,046
Net Increase (Decrease) in Cash and Cash Equivalents	(586,825)	22,376,491
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b> (including \$80,559,584 and \$74,594,443 in restricted accounts for the years ended June 30, 2007 and 2006, respectively)	176,149,459	153,772,968
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b> (including \$79,828,884 and \$80,559,584 in restricted accounts for the years ended June 30, 2008 and 2007, respectively)	\$ 175,562,634	\$ 176,149,459
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income	\$ 17,628,414	\$ 25,466,783
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	20,817,485	19,241,869
Other non-operating revenues	-	1,000,297
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable, net	1,356,343	(1,432,273)
Due from others	15,673	98,211
Due from other governments	(71,768)	24,211
Prepaid assets	288,658	167,746
Increase (decrease) in:		
Accounts payable	(2,440,958)	2,165,493
Accrued liabilities	952,388	114,269
Due to customers and developers	49,481	109,284
Due to other governments	15,296	501,412
Total Adjustments	20,982,598	21,990,519
Net Cash Provided by Operating Activities	\$ 38,611,012	\$ 47,457,302
<b>NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Developer infrastructure contributions	\$ 8,092,373	\$ 15,489,637
Capitalization of interest expense	1,359,401	734,277
Capitalization of interest revenue	1,444,530	761,644
Amortization of bond discounts and deferred charges	312,067	389,695
Amortization of refunding allowances to interest expense	1,803,775	355,929

See accompanying notes.

**TRUCKEE MEADOWS WATER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008 AND 2007**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity and Purpose:

TMWA is a joint powers authority formed in November 2000 under the Joint Powers Legislation of the State of Nevada, pursuant to a Cooperative Agreement among the City of Reno, Nevada, the City of Sparks, Nevada, and Washoe County, Nevada. TMWA was formed to purchase water assets (the Water System), undertake the water utility operations and to develop, manage and maintain supplies of water for the benefit of the Truckee Meadows communities. TMWA purchased the existing water system operated by 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 (1 seat)
- At-Large (1 seat), appointed by above members

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

Basis of Accounting:

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

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

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

Budgets and Budgetary Accounting:

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

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

The budget reflected in the financial statements has been amended from the original amounts in accordance with State statute for the year ended June 30, 2008.

Cash and Investments:

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

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

**TRUCKEE MEADOWS WATER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008 AND 2007**

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

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

Cash Equivalents:

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

Accounts Receivable:

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

Restricted Assets:

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

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

**TRUCKEE MEADOWS WATER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008 AND 2007**

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 SPPCo.

Prepaid Items:

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

Capital Assets:

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

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

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

Compensated Absences:

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

**TRUCKEE MEADOWS WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 AND 2007**

Classification of Revenues:

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

Reclassification:

Certain accounts in June 30, 2007 financial statements have been reclassified for comparative purposes to conform with the presentation in the June 30, 2008 financial statements.

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

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

**NOTE 3 – ACCOUNTS RECEIVABLE, NET**

Accounts receivable, net consisted of the following:

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Billed amounts	\$ 4,806,055	\$ 5,307,123
Earned, but unbilled amounts	<u>6,418,857</u>	<u>7,127,763</u>
	11,224,912	12,434,886
Allowance for uncollectibles	<u>(358,800)</u>	<u>(212,431)</u>
Accounts receivable, net	<u>\$10,866,112</u>	<u>\$12,222,455</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, 2008, the carrying amount of TMWA's deposits (including a certificate of deposit) of \$16,912,805 was less than the respective bank balance of \$18,504,037 by \$1,591,232. At June 30, 2007, the carrying amount of TMWA's deposits

**TRUCKEE MEADOWS WATER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008 AND 2007**

of \$6,395,729 was less than the respective bank balance of \$7,334,142 by \$938,413. 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, 2008 TMWA had the following investments and maturities:

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

As of June 30, 2007 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	\$ 76,141,633	\$ 44,377,478	\$31,764,155
Guaranteed Investment Contracts	41,593,006	41,593,006	-
LGIP	341,375	341,375	-
Money Market Mutual Funds	48,634,650	48,634,650	
Commercial Paper	<u>3,043,066</u>	<u>3,043,066</u>	<u>-</u>
 Total Investments	 <u>\$169,753,730</u>	 <u>\$137,989,575</u>	 <u>\$31,764,155</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 durations of fixed rate investments held in the investment portfolio. As a

**TRUCKEE MEADOWS WATER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
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means of limiting TMWA's exposure to this risk, TMWA constantly monitors the bond futures market and ladders investments accordingly to maximize investment returns while balancing the investment maturities with spending requirements. State statute limits investment in obligations of an agency of the United States or a corporation sponsored by the United States government to those maturing within ten years from the date of purchase.

Credit Risk:

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations and is a function of the credit quality ratings of investments. TMWA follows state statute for reducing exposure to investment credit risk by investing in guaranteed investment contracts, U.S. Agency securities, "AAA" rated money market mutual funds that invest in securities issued by the U.S. Government or agencies of the U.S. Government, and the State of Nevada Local Government Pooled Investment Fund (LGIP). TMWA has a small debt reserve fund with LGIP, which is an unrated external investment pool and has an investment duration of 78 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+".

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, 2008 and 2007, the following investments exceeded 5% of TMWA's total investments:

	June 30, 2008	
Federal Home Loan Mortgage Corporation	\$51,561,344	32.50%
Bank of America Guaranteed Investment Contract	\$29,755,718	18.76%
Federal National Mortgage Association	\$21,136,222	13.32%
Corporate Commercial Paper A-1+/P-1+	\$22,885,365	14.43%
	June 30, 2007	
Federal Home Loan Mortgage Corporation	\$55,135,839	32.48%
Bank of America Guaranteed Investment Contract	\$29,905,596	17.62%
Federal National Mortgage Association	\$11,981,399	5.01%

**TRUCKEE MEADOWS WATER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008 AND 2007**

NOTE 5 – CAPITAL ASSETS

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

	Beginning Balances	Increases	Decreases	Ending Balances
Capital Assets not Being Depreciated:				
Construction in progress	\$ 24,107,186	\$ 14,623,941	\$ (17,966,521)	\$ 20,764,606
Land	9,866,847	-	(3,251)	9,863,596
Water rights	<u>91,206,229</u>	<u>908,424</u>	<u>-</u>	<u>92,114,653</u>
 Total Capital Assets not Being Depreciated	 <u>125,180,262</u>	 <u>15,532,365</u>	 <u>(17,969,772)</u>	 <u>122,742,855</u>
 Capital Assets Being Depreciated:				
Distribution mains	207,934,166	36,832,210	-	244,766,376
Plant	131,459,889	8,909,829	-	140,369,718
Services	96,448,889	4,043,534	-	100,492,423
Booster pump stations	23,591,039	2,479,332	(49,404)	26,020,967
Tanks	35,709,834	9,371,279	(214,550)	44,866,563
Wells	18,021,495	2,374,739	-	20,396,234
Pressure reducing valves	4,243,054	842,361	(74,615)	5,010,800
Canals/Ditches	14,272,665	1,022,823	-	15,295,488
Reservoirs	11,897,134	-	-	11,897,134
Vehicles	3,484,295	397,187	(39,459)	3,842,023
Leasehold improvements	244,049	-	(244,049)	-
Furniture and fixtures	633,829	20,420	-	654,249
Computer hardware and software	8,314,715	150,191	(2,121,362)	6,343,544
Lab equipment	33,593	-	-	33,593
Hydroelectric facilities	4,114,515	3,587,413	(8,856)	7,693,072
Corporate building	<u>8,620,977</u>	<u>65,828</u>	<u>-</u>	<u>8,686,805</u>
 Total Capital Assets Being Depreciated	 <u>569,024,138</u>	 <u>70,097,146</u>	 <u>(2,752,295)</u>	 <u>636,368,989</u>
 Accumulated Depreciation:				
Distribution mains	(19,949,756)	(4,281,073)	-	(24,230,829)
Plant	(24,920,911)	(4,510,916)	-	(29,431,827)
Services	(18,735,046)	(5,432,588)	-	(24,167,634)
Booster pump stations	(4,099,953)	(1,221,303)	-	(5,321,256)
Tanks	(4,106,816)	(996,465)	24,109	(5,079,172)
Wells	(4,227,965)	(1,237,855)	-	(5,465,820)
Pressure reducing valves	(1,219,049)	(297,006)	32,148	(1,483,907)
Canals/Ditches	(1,663,026)	(433,571)	-	(2,096,597)
Reservoirs	(2,518,400)	(376,500)	-	(2,894,900)
Vehicles	(1,928,200)	(456,749)	38,941	(2,346,008)
Leasehold improvements	(244,049)	-	244,049	-
Furniture and fixtures	(231,752)	(64,404)	-	(296,156)

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	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Computer hardware and software	\$ (4,588,892)	\$ (1,384,216)	\$ 2,103,163	\$ (3,869,945)
Lab equipment	(13,437)	(6,719)	-	(20,156)
Hydroelectric facilities	(110,286)	(116,640)	-	(226,926)
Corporate building	<u>(211,755)</u>	<u>(174,709)</u>	<u>-</u>	<u>(386,464)</u>
 Total Accumulated Depreciation	 <u>(88,769,293)</u>	 <u>(20,990,714)</u>	 <u>2,442,410</u>	 <u>(107,317,597)</u>
 Total Capital Assets being Depreciated, Net	 <u>480,254,845</u>	 <u>49,106,432</u>	 <u>(309,885)</u>	 <u>529,051,392</u>
 Total Capital Assets, Net	 <u>\$605,435,107</u>	 <u>\$64,638,797</u>	 <u>\$(18,279,657)</u>	 <u>\$651,794,247</u>

Capital asset activity for the year ended June 30, 2007 follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Capital Assets not Being Depreciated:				
Construction in progress	\$ 15,591,658	\$ 12,474,068	\$(3,958,540)	\$ 24,107,186
Land	9,866,847	-	-	9,866,847
Water rights	<u>54,016,765</u>	<u>37,189,464</u>	<u>-</u>	<u>91,206,229</u>
 Total Capital Assets not Being Depreciated	 <u>79,475,270</u>	 <u>49,663,532</u>	 <u>(3,958,540)</u>	 <u>125,180,262</u>
Capital Assets Being Depreciated:				
Distribution mains	192,142,615	15,957,614	(166,063)	207,934,166
Plant	124,770,714	6,689,175	-	131,459,889
Services	87,575,979	8,872,910	-	96,448,889
Booster pump stations	19,059,804	4,712,580	(181,345)	23,591,039
Tanks	32,280,907	3,610,270	(181,343)	35,709,834
Wells	17,496,607	526,108	(1,220)	18,021,495
Pressure reducing valves	4,083,957	159,097	-	4,243,054
Canals/Ditches	12,561,913	1,710,752	-	14,272,665
Reservoirs	11,897,134	-	-	11,897,134
Vehicles	3,192,758	349,116	(57,579)	3,484,295
Leasehold improvements	244,049	-	-	244,049
Furniture and fixtures	567,644	66,185	-	633,829
Computer hardware and software	7,104,436	1,210,279	-	8,314,715
Lab equipment	33,593	-	-	33,593
Hydroelectric facilities	2,827,428	1,287,087	-	4,114,515
Corporate building	<u>8,503,294</u>	<u>117,683</u>	<u>-</u>	<u>8,620,977</u>
 Total Capital Assets Being Depreciated	 <u>524,342,832</u>	 <u>45,268,856</u>	 <u>(587,550)</u>	 <u>569,024,138</u>

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	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Accumulated Depreciation:				
Distribution mains	\$ (15,931,152)	\$ (4,018,604)	\$ -	\$ (19,949,756)
Plant	(20,618,812)	(4,302,099)	-	(24,920,911)
Services	(13,793,568)	(4,941,478)	-	(18,735,046)
Booster pump stations	(3,392,009)	(913,351)	205,407	(4,099,953)
Tanks	(3,295,535)	(874,763)	63,482	(4,106,816)
Wells	(3,103,096)	(1,124,875)	6	(4,227,965)
Pressure reducing valves	(932,579)	(286,470)	-	(1,219,049)
Canals/Ditches	(1,258,120)	(404,906)	-	(1,663,026)
Reservoirs	(2,141,925)	(376,475)	-	(2,518,400)
Vehicles	(1,535,973)	(446,569)	54,342	(1,928,200)
Leasehold improvements	(244,049)	-	-	(244,049)
Furniture and fixtures	(172,121)	(59,631)	-	(231,752)
Computer hardware and software	(3,343,104)	(1,245,788)	-	(4,588,892)
Lab equipment	(6,719)	(6,718)	-	(13,437)
Hydroelectric facilities	(39,838)	(70,448)	-	(110,286)
Corporate building	(42,061)	(169,694)	-	(211,755)
	<u>(69,850,661)</u>	<u>(19,241,869)</u>	<u>323,237</u>	<u>(88,769,293)</u>
Total Capital Assets being Depreciated, Net	<u>454,492,170</u>	<u>26,026,987</u>	<u>(264,313)</u>	<u>480,254,845</u>
Total Capital Assets, Net	<u>\$533,967,440</u>	<u>\$ 75,690,519</u>	<u>\$ (4,222,853)</u>	<u>\$605,435,107</u>

**NOTE 6 – LONG-TERM DEBT**

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

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

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

On May 3, 2006 TMWA issued \$150,745,000 in Series 2006 Refunding Bonds which constitute special limited obligations of TMWA. These bonds were sold to refund \$145,970,000 in maturities of the Series 2001A Bonds. The proceeds of the refunding bond issue were used to purchase U.S. Government securities that were placed in an irrevocable trust for the purpose of generating financial resources for the future debt service payments of the refunded Series 2001A Bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from TMWA's Statements of Net Assets. The reacquisition price exceeded the net carrying amount of the old debt by \$5,901,299. The unamortized balance is being netted against the new outstanding debt and is being amortized as a component of interest expense over the remaining life of the newly issued debt, which has a shorter remaining life than the refunded debt. This advance refunding was undertaken to reduce total debt service payments over the next 27 years by \$10,016,065, and resulted in an economic gain of \$5,152,424. The total amount outstanding in the irrevocable trust for the defeased debt at June 30, 2008 and 2007 was \$148,559,865 and \$148,925,842 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 and \$43,000,000 as of June 30, 2008 and June 30, 2007 respectively. The first draw was on August 16, 2006 for \$30,000,000, and a second draw was on December 5, 2006 for \$13,000,000 for a total issuance of \$43,000,000 which was outstanding for the fiscal year ended June 30, 2007. A 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, 2008. The proceeds from the first two draws were used solely to purchase water rights for future sale of will serve commitments to developers. The third draw is to fund certain construction projects on an interim basis. The TECP program is facilitated by a direct pay letter of credit between TMWA and Lloyds TSB Bank PLC. The letter of credit expires on August 16, 2010. The average interest rate on the outstanding balance of TECP as of June 30, 2008 and June 30, 2007 was 1.52% and 3.71% respectively. As of June 30, 2008 the total TECP notes outstanding

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were composed of 11 tranches ranging in size from \$1.5 million to \$11 million and ranging in maturities from 89 to 251 days. As of June 30, 2007 the total TECP notes outstanding were composed of five tranches ranging in size from \$2.0 million to \$19.5 million and ranging in maturities from 67 to 121 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 is being netted against the new outstanding debt and is being amortized as a component of interest expense over the remaining life of the old debt, which has a shorter remaining life in comparison to the remaining life of the refunding bonds. This advance refunding was undertaken to reduce total debt service payments over the next 24 years by \$18,192,500, and resulted in an economic gain of \$10,439,350. The total amount outstanding in the irrevocable trust for the defeased debt at June 30, 2008 and June 30, 2007 was \$217,277,448 and \$218,857,188, respectively.

TMWA's senior lien bonds are insured by various municipal insurance companies. Financial Security Assurance Inc. (FSA) is TMWA's primary insurer and insures the 2001A Bonds, and the majority of the 2006 and 2007 Refunding Bonds. MBIA Inc. insures TMWA's 2005 Bonds, and XL Capital Assurance insures one maturity each of the 2006 and 2007 Refunding Bonds. Beginning in late January, 2008, TMWA started to receive notices of certain rating agency downgrades of the ratings assigned to certain insurers of TMWA bonds. XL Capital Assurance had its rating downgraded from "AAA" to "A" by Fitch Ratings. Subsequently, Moody's downgraded XL Capital Assurance from "Aaa" to "A3". In April 2008, TMWA received notice that Fitch downgraded MBIA Inc. from "AAA" to "AA". Prior to June 30, 2008, XL Capital Assurance was ultimately downgraded to "BBB-" while Fitch withdrew its rating of MBIA Inc. at MBIA's request. Moody's subsequently downgraded XL Capital, now known as Syncora Guarantee Inc., to "B2", and by late October, Moody's rating slipped to "Caal". In addition, subsequent to year end, FSA was downgraded from "Aaa" to "Aa3" by Moody's. At no time was the underlying rating of TMWA's bonds affected; and in each case, TMWA filed the appropriate material event disclosures in accordance with SEC rule 15c2-12.

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The following schedules summarize the changes in long-term obligations as of June 30, 2008 and 2007.

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

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June 30, 2007	Final Maturity Date	Authorized	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007	Due in 2007-2008
Supported by User Charges:							
2001 A Water Revenue (Tax Exempt) Bonds, 3.70%-5.5%	7/1/2034	\$ 448,810,000	\$299,920,000	\$ -	\$219,125,000	\$ 80,795,000	\$ 7,195,000
2005 Water Revenue DWSRF (Tax Exempt) Bonds 3.21%	7/1/2026	4,669,565	4,669,565	-	93,400	4,576,165	191,321
2005 A Water Revenue (Tax Exempt) Bonds 4.25%-5.00%	7/1/2036	40,000,000	40,000,000	-	-	40,000,000	670,000
2006 Water Revenue (Tax Exempt) Refunding Bonds 3.50%-4.875%	7/1/2034	150,745,000	150,745,000	-	-	150,745,000	-
2007 Water Revenue (Tax Exempt) Refunding Bonds 4.00%-5.00%	7/1/2030	218,975,000	-	218,975,000	-	218,975,000	1,230,000
Subtotal		863,199,565	495,334,565	218,975,000	219,218,400	495,091,165	9,286,321
Less: Unamortized net bond discount (premium)			3,042,065	236,670	(6,355,947)	(3,077,212)	-
Less: Unamortized losses on refundings			6,025,396	15,160,722	(355,929)	20,830,189	-
Total Debt Before Tax Exempt Commercial Paper			486,267,104	203,577,608	212,506,524	477,338,188	9,286,321
TMWA Tax-Exempt Commercial Paper		160,000,000	-	43,000,000	-	43,000,000	43,000,000
Total Debt		<u>\$ 1,023,199,565</u>	<u>\$486,267,104</u>	<u>\$246,577,608</u>	<u>\$212,506,524</u>	<u>\$ 520,338,188</u>	<u>\$52,286,321</u>

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

<u>Debt to Maturity</u>	<u>Principal Payment</u>	<u>Interest Payment</u>	<u>Total Debt Service</u>
June 30:			
2009	\$ 77,117,511	\$ 22,435,239	\$ 99,552,750
2010	9,538,902	21,972,895	31,511,797
2011	10,025,500	21,462,256	31,487,756
2012	10,542,311	20,923,781	31,466,092
2013	11,094,343	20,360,252	31,454,595
2014-2018	64,745,416	92,296,382	157,041,798
2019-2023	81,478,652	75,545,625	157,024,277
2024-2028	99,637,209	56,104,801	155,742,010
2029-2033	125,065,000	31,070,731	156,135,731
2034-2037	<u>64,560,000</u>	<u>3,675,900</u>	<u>68,235,900</u>
Total	<u>\$ 553,804,844</u>	<u>\$ 365,847,862</u>	<u>\$ 919,652,706</u>

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Because commercial paper notes have a maturity of less than 270 days, they are presented as maturing in fiscal year 2009. 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, renewal and replacement, and water rate stabilization.

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

Board Designation:

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

**NOTE 8 – CONTINGENT LIABILITIES**

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

On August 31, 2006, the Truckee-Carson Irrigation District (TCID) filed an action in California against SPPCo and TMWA seeking damages and enforcement of a 1943 agreement (the 1943 Operating Agreement) between TCID and TMWA (as successor to SPPCo). 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.

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

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

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

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<u>Fiscal Year</u>	<u>Contribution Rate</u>		<u>Total Contribution</u>
	<u>Employer Pay Plan</u>	<u>Employee-Employer Plan</u>	
2007/2008	20.50%	10.50%	\$ 2,587,902
2006/2007	19.75%	10.50%	\$ 2,250,446
2005/2006	19.75%	10.50%	\$ 2,258,950

Deferred Compensation Plans:

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

Other Post-Employment Benefit Plan (OPEB):

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

Plan Description. The Truckee Meadows Water Authority Post Retirement Medical Plan and Trust (Plan), a single-employer defined benefit OPEB plan was established to provide eligible TMWA employees with post employment health benefits. 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 who were yet to be appointed by the TMWA Board of Directors as of June 30, 2008.

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 requirement, benefit levels, employee contributions and employer contributions are amended through TMWA's collective bargaining agreements for its represented employees and by the TMWA Board of Directors with respect to MPAT employees.

Employees must have at least ten years of service to be eligible for benefits and must be at least 55 years of age. The pre-January 1, 1998 group is represented employees who will receive a benefit as a percentage of the total health premium, dependent upon years of service and age of retirement, with the exception of a 20 years of service employee electing risk would pay nothing towards health premiums. For this group dependents are also covered. The post-December 31, 1997 group is represented employees who will

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receive a total of \$1,250 times years of service towards health care premiums. This amount does not grow with interest and once exhausted a retiree may convert to COBRA, but only for the 18 month continuation period. For MPAT employees, the annual employer subsidy is \$235 times years of service, up to 30 years prorated for each month of retirement while under the age of 65. On or after the age of 65, the subsidy is \$105 times years of service prorated for each month of retirement while age 65 and older. If an MPAT employee retires before age 62 the subsidy is reduced by 5% for each full year retirement precedes 62. There is not 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 as of July 1, 2007, the effective date of the OPEB valuation was 167.

Funding Policy, Annual OPEB Cost and Net OPEB Obligation. Currently, the funding policy for retiree health benefits is on a pay-as-you-go basis. For the year ended June 30, 2008, TMWA paid approximately \$50,000 on behalf of five 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. TMWA anticipates an initial funding of the VEBA with approximately \$4.1 million during FY09; comprised of a \$1.4 million transfer from Sierra Pacific Power Company's VEBA for the post employment benefits accumulated prior to the purchase of the Water System by TMWA, and the \$2.7 million TWMA has accrued as its net OPEB obligation as of June 30, 2008. In accordance with State regulations, the future trustees will enter into an investment contract with the State of Nevada Retirement Benefit Insurance Fund to invest and manage the plan assets once in TMWA's VEBA.

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
2008	\$ 518,064	-	0%	\$ 2,679,871

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

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	2008
Annual Required Contribution (ARC):	
Normal cost	\$ 304,045
Amortization of Unfunded Actuarial Accrued Liability (UAAL)	214,019
Annual Required Contribution (ARC)	\$ 518,064
Determination of Net OPEB Obligation	
Annual Required Contribution (ARC)	\$ 518,064
Annual OPEB Cost	\$ 518,064
Retiree Benefit Payments Paid	-
Contributions Made to Trust	-
Increase (decrease) in Net OPEB Obligation	518,064
Net OPEB Obligation, Beginning of Year	2,161,807
Net OPEB Obligation, End of Year	\$ 2,679,871

Funded Status and Funding Progress. The funded status of the plan as of June 30, 2008 was as follows:

Actuarial Accrued Liability (AAL)	\$ 7,112,341
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	\$ 7,112,341
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0%
Covered Payroll	\$ 12,325,564
UAAL as a Percentage of Covered Payroll	57.70%

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

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and

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the plan members to that point in time. The actuarial methods and assumptions used include techniques that are designed to reduce the short-term volatility in actuarial liabilities and the actuarial value of assets, consistent with long-term perspective of the calculations. Significant methods and assumptions were as follows:

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

**NOTE 11 – COMMITMENTS**

At June 30, 2008, TMWA was committed under the Asset Purchase Agreement to expend \$8,000,000 for the purchase of Hydroelectric Assets. SPPCo 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, 2008 TMWA had completed the purchase of one of the four run-of-river hydroelectric plants for \$2,000,000. On July 25, 2008 TMWA purchased the second run-of-river hydroelectric facility for \$2.0 million. The purchase of the third run-of-river hydroelectric plant is expected before June 30, 2009 once all land surveys are finalized and the fourth will be purchased 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 1.5% of its combined operating expense budget and total annual debt service in fiscal year 2008 as a contribution to the Truckee River Fund of the Community Foundation of Western Nevada for the purposes of water shed protection and enhancements to the Truckee River that will benefit the water customers of TMWA.

**NOTE 12 – SUBSEQUENT EVENTS**

On September 6, 2008, the Truckee River Operating Agreement (TROA) was signed by the United States, the Pyramid Lake Paiute Tribe, the State of California, the State of Nevada, the Truckee Meadows Water Authority, the City of Reno, the City of Sparks, Washoe County, and other signatories. This agreement sets forth the framework by which the Truckee River water flows will be managed in the future. This agreement will allow for the storage of water in United States Bureau of Reclamation (USBOR) reservoirs located in California. Stored water will be used for preservation and

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enhancement of downstream fisheries and provide additional drought storage for the municipal supply. It is expected that implementation of this agreement may take several or more years.

TMWA had \$68 million in outstanding Tax-Exempt Commercial Paper (TCEP) notes as of June 30, 2008. Although credit markets have been unstable, subsequent to year end, TMWA's short-term dealers have been successful in remarketing the maturing tranches totaling \$58.8 million, with the remaining \$10.2 million to be remarketed upon maturity in March 2009. TMWA's has a direct pay letter of credit facility with Lloyds TSB Bank that supports TMWA's TECP program.

**NOTE 13 – OTHER MATTERS**

During the 2007 session of the State of Nevada Legislature, a Senate Bill 487 (SB 487) was enacted into law that mandates the creation of the Western Regional Water Commission (WRWC) by April 1, 2008. The commission will be governed by a nine member board comprised of the following appointed members: two members from the Reno City Council, two members from the Sparks City Council, two members from the Board of Washoe County Commissioners, one member representing the Truckee Meadows Water Reclamation Facility, one member from the Board of Trustees of the South Truckee Meadows General Improvement District (STMGID), and one member from the Board of Trustees of the Sun Valley General Improvement District (SVGID). The WRWC's charge includes carrying out provisions of the legislation to provide for a centralized system of decision-making regarding the full use of available water resources, facilitate effective land use and resource planning, facilitate effective and efficient planning, management and operation of facilities, establish policies for managing existing water resources, provide for the protection of watersheds, and provide for regional conservation efforts. A State of Nevada Legislative committee consisting of six members will provide oversight of the WRWC. Neither the Legislative Committee nor the WRWC will have the authority or interfere in the process to set user rates or fees of member agencies. The WRWC has been formed and is holding public meetings as of June 30, 2008. Currently, a study is underway to look at the feasibility of integration of water purveyors. It is difficult at this time to determine the outcome of this study.