

**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, 2004 and 2003. 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 audits 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 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 net assets of the Truckee Meadows Water Authority at June 30, 2004 and 2003, the changes in net assets and the cash flows 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-2I is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the 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 taken as a whole. The accompanying information listed as supplementary information in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Truckee Meadows Water Authority. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

The Introductory Section and the Statistical Section have not been subjected to the auditing procedures applied in the audit of the basic financial statements. Accordingly, we express no opinion on them.

*Kapoury, Armstrong & Co.*

Reno, Nevada  
September 13, 2004

## 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, 2004 and June 30, 2003. 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, 2004</u>	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Unrestricted Current and Other Assets	\$ 71.8	\$ 63.5	\$ 64.2
Restricted Current and Other Assets	62.0	59.7	57.1
Capital Assets	<u>402.1</u>	<u>374.0</u>	<u>357.8</u>
<b>Total Assets</b>	<u>535.9</u>	<u>497.2</u>	<u>479.1</u>
Long-Term Debt Outstanding	448.0	447.9	447.8
Other Liabilities	<u>23.0</u>	<u>18.9</u>	<u>19.3</u>
<b>Total Liabilities</b>	<u>471.0</u>	<u>466.8</u>	<u>467.1</u>
Invested in Capital Assets, Net of Related Debt	9.7	(16.5)	7.6
Restricted	7.5	5.2	2.5
Unrestricted	<u>47.7</u>	<u>41.7</u>	<u>1.9</u>
<b>Total Net Assets</b>	<u>\$ 64.9</u>	<u>\$ 30.4</u>	<u>\$ 12.0</u>

In the fiscal year ended June 30, 2004, TMWA's total net assets increased by approximately \$34.5 million, primarily the result of developer capital contributions, increased unrestricted cash from operations, and to a lesser extent water sales due to more water deliveries. In the fiscal year ended June 30, 2003, TMWA's total net assets increased by approximately \$18.4 million, primarily the result of capital contributions.

As reported on the Statement of Net Assets at June 30, 2004, the value of total unrestricted current assets increased by approximately \$9.2 million from June 30, 2003 caused primarily by a \$6.1 million increase in unrestricted cash and investments, a \$1.8 million increase in accounts receivable from water customers, \$0.8 million increase in amounts due from other governments, \$0.6 million increase in amounts due from others. These increases in unrestricted current assets were offset by decreases of \$0.1 million in interest receivable and prepaid assets. The value of total unrestricted current assets at June 30, 2003 decreased by approximately \$0.7 million from June 30, 2002, caused primarily by a \$4.0 million decrease in unrestricted cash and investments offset by a \$2.4 million increase in accounts receivable from water customers, \$0.5 million increase in amounts due from other governments, \$0.2 million increase in interest receivable and \$0.2 million increase in prepaid assets.

At June 30, 2004 total restricted current assets increased \$2.3 million from June 30, 2003 because of an increase in various restricted cash reserves. TMWA's operation and maintenance reserve fund, as well as the renewal and replacement fund, increased \$0.3 million and \$2.0 million, respectively, in compliance with the bond covenants. At June 30, 2003, total restricted current assets increased \$2.7 million from June 30, 2002 also because of an increase in various restricted cash reserves. The Water Meter Retrofit Fund (Public Law 101-068) increased \$0.3 million because of greater than expected water right sales. TMWA's operation and maintenance reserve fund, as well as the renewal and replacement fund, increased \$0.4 million and \$2.0 million, respectively, in compliance with the bond covenants.

At June 30, 2004, total non-current assets increased by \$27.2 million from June 30, 2003, the difference between an increase of \$28.0 million in net capital assets, a \$0.4 million decrease in amounts due from developers, a decrease of \$0.2 million in deferred charges and a decrease of \$0.2 million in long term prepaid expenses. At June 30, 2003, total non-current assets increased by \$16.1 million from June 30, 2002, the difference between an increase of \$16.3 million in net Capital Assets and a \$0.2 million decrease in deferred charges.

Gross capital assets increased \$41.3 million from June 30, 2003 to June 30, 2004, including developer contributions of \$5.9 million for a net addition due to capital spending of \$35.4 million. This overall increase was reduced by asset disposals valued at \$1.6 million. In addition, accumulated depreciation increased by \$13.3 million, which includes \$13.6 million in depreciation expense for fiscal year 2003-2004 reduced by \$0.3 million in accumulated depreciation from asset disposals. At June 30, 2003, gross capital assets increased \$28.8 million from June 30, 2002, including developer contributions of \$5.8 million for a net addition due to capital spending of \$23.0 million. In addition, accumulated depreciation increased by \$12.3 million.

At June 30, 2004, total current liabilities increased \$4.1 million from June 30, 2003, which was due to increases in contracts and retentions payable of \$1.7 million, an increase in accrued liabilities of \$0.6 million, an increase in amounts due to other governments of \$0.4 million, and a \$1.4 million increase in customer deposits and amounts due to developers. At June 30, 2003, total current liabilities decreased \$0.4 million from June 30, 2002 due to decreases in accounts payable and contracts payable of \$1.3 million offset by increases in accrued liabilities of \$0.4 million, an increase in amounts due to other governments of \$0.1 million, and a \$0.4 million increase in customer deposits and amounts due to developers.

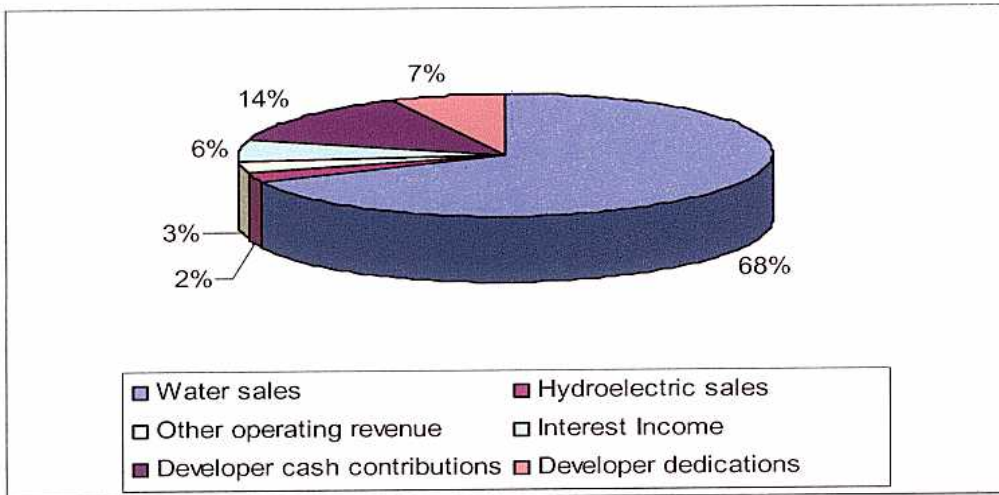
Current liabilities payable from restricted assets at June 30, 2004 is interest due on TMWA indebtedness. This amount was the same as June 30, 2003 and 2002, because no principal reductions were required during the years. Non-current liabilities are made up of TMWA's debt resulting from the purchase of the water assets from SPPCo. The change in total long-term debt from June 30, 2003 to 2004 and June 30, 2002 to 2003 was the result of the amortization of a bond discount of \$0.1 million and \$0.1 million, respectively.

**TMWA's Changes in Net Assets**

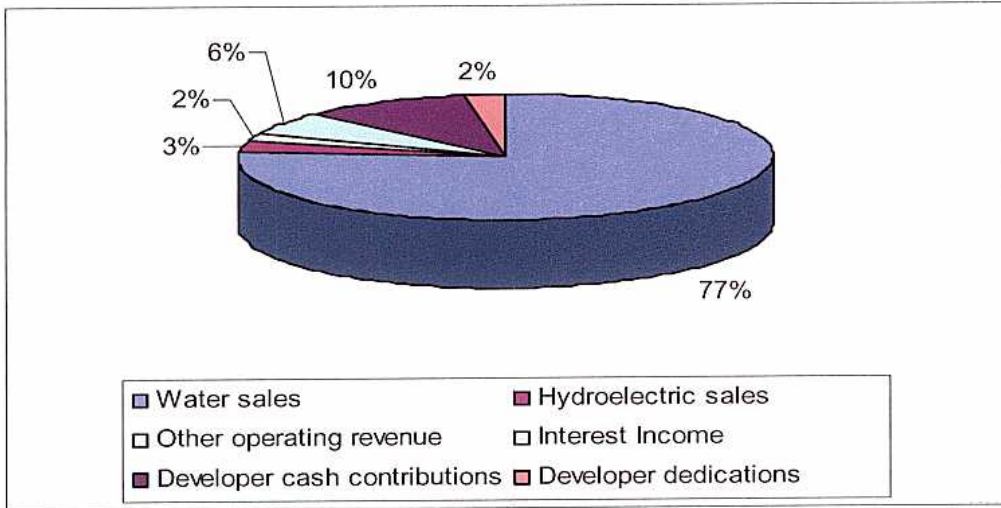
	<u>June 30, 2004</u>	<u>June 30, 2003</u>	<u>June 30, 2002</u>
<b>Revenues (in millions):</b>			
Operating Revenues:			
Water Sales	\$ 68.6	\$57.7	\$56.7
Hydroelectric Sales	2.0	1.8	2.3
Other Operating Revenues	<u>2.5</u>	<u>2.7</u>	<u>1.4</u>
	<u>73.1</u>	<u>62.2</u>	<u>60.4</u>
Nonoperating Revenues:			
Investment earnings	3.9	4.6	4.6
Other	<u>0.2</u>	<u>0.2</u>	<u>-</u>
	<u>4.1</u>	<u>4.8</u>	<u>4.6</u>
Capital Contributions	<u>26.0</u>	<u>17.4</u>	<u>9.3</u>
<b>Total Revenues</b>	<u>\$103.2</u>	<u>\$84.4</u>	<u>\$74.3</u>

The following graphs represent the makeup of TMWA's total revenues for fiscal years ended June 30, 2004, 2003 and 2002:

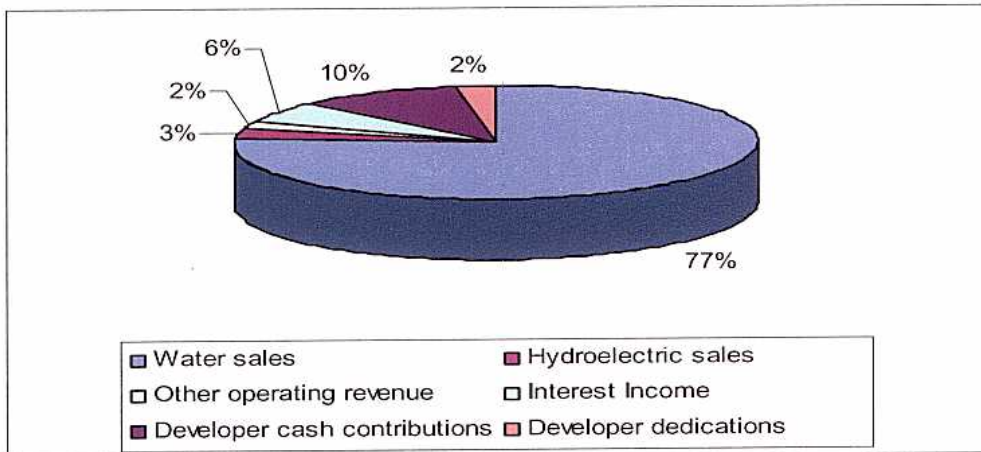
**Total Revenues for the Year Ended June 30, 2004**



**Total Revenues for the Year Ended June 30, 2003**



**Total Revenues for the Year Ended June 30, 2002**



Total revenues as reported in the Statement of Revenues, Expenses, and Changes in Net Assets for the year ended June 30, 2004 were \$103.2 million, which includes \$73.1 million in operating revenue, \$26.0 million in non-operating developer contributions, \$3.9 million in investment income and \$0.2 million in federal grants. Operating revenue consisted of \$68.6 million in charges for water sales, \$2.0 million in hydroelectric sales, and \$2.5 million in various fees, reimbursements, and late charges. Developer contributions consisted of \$5.2 million for the water meter retrofit program, \$5.9 million valuation for infrastructure resulting from permanent dedication of infrastructure built by developers, \$7.5 million for water right sales, \$4.1 million for feeder main and pump station oversizing fees, \$2.8 million in facility fees, and \$0.5 million in reimbursements from other governments. This is the first year of collecting facility fees.

Total revenues as reported in the Statement of Revenues, Expenses, and Changes in Net Assets for the fiscal year ended June 30, 2003 were \$84.4 million, which includes \$62.2 million in operating revenue, \$17.4 million in non-operating developer contributions, and \$4.6 million in investment income and \$0.2 million in federal grants. Operating revenue consisted of \$57.7 million in charges for water sales, \$1.8 million in hydroelectric sales, and \$2.7 million in various fees, reimbursements, and late charges. Developer contributions consisted of \$3.2 million for the water meter retrofit program, \$5.8 million valuation for infrastructure resulting from permanent dedication of infrastructure built by developers, \$4.7 million for water right sales, and \$3.7 million for feeder main and pump station oversizing fees.

For the year ended June 30, 2002 total revenues were \$74.3 million, which includes \$60.4 million in operating revenue, \$9.3 million in non-operating developer contributions, and \$4.6 million in investment income. Operating revenue consisted of \$56.7 million in charges for water sales, \$2.3 million in hydroelectric sales, and \$1.4 million in various fees, reimbursements, and late charges. Developer contributions consisted of \$2.2 million for the water meter retrofit program, \$1.9 million valuation for infrastructure resulting from permanent dedication of infrastructure built by developers, \$3.0 million for water right sales, and \$2.1 million for feeder main and pump station oversizing fees.

For fiscal year 2004, total operating revenues increased \$10.9 million from fiscal year 2003. Increased water sales of \$10.9 million, and increased hydroelectric revenue of \$0.2 million were offset by a \$0.2 million decrease in other operating sales. Increased water sales were primarily due to the water rate increase that was put into effect in October 2003, increased water sales related to additional customers and extended irrigation resulting from warmer than average weather patterns.

For fiscal year 2003, total operating revenues increased \$1.8 million from fiscal year 2002. Increased water sales of \$1.0 million, and increased other operating sales of \$1.3 were offset by a \$0.5 million decrease in hydroelectric revenue. Increased water sales were accomplished with flat year over year water production, the result of improved water account management. Increased fee revenue is the result of TMWA's increased collections for inspections services, miscellaneous water fees and increased reimbursement from the operation of the Remediation District. Hydroelectric sales decreased the result of less in-stream flows and temporary damage to one hydroelectric plant flume.

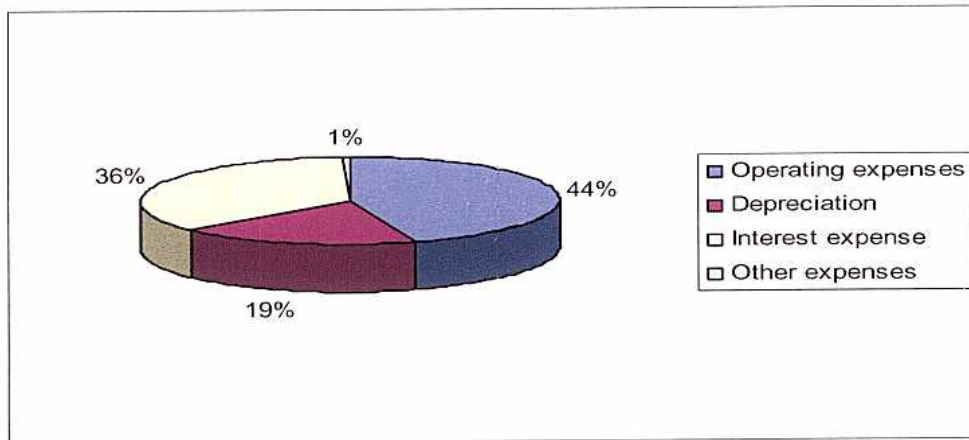
For fiscal year 2004, developer contributions increased \$8.6 million from fiscal year 2003 as the result of increased water right sales of \$2.8 million, the collection of newly adopted facility charges of \$2.8 million, increased contributions to the water meter retrofit fund of \$2.0 million, reimbursement from other governments of \$0.5 million, increased other developer contributions of \$0.4 million and increased non-cash infrastructure dedications of \$0.1 million. Increased developer contributions are reflective of a healthy construction environment.

For fiscal year 2003, developer contributions increased \$8.1 million as the result of increased infrastructure dedications of \$3.9 million, increased water right sales of \$1.7 million, increased contributions to the water meter retrofit fund of \$0.9 million, and increased other developer contributions of \$1.6 million. Increased developer contributions are reflective of a healthy construction environment.

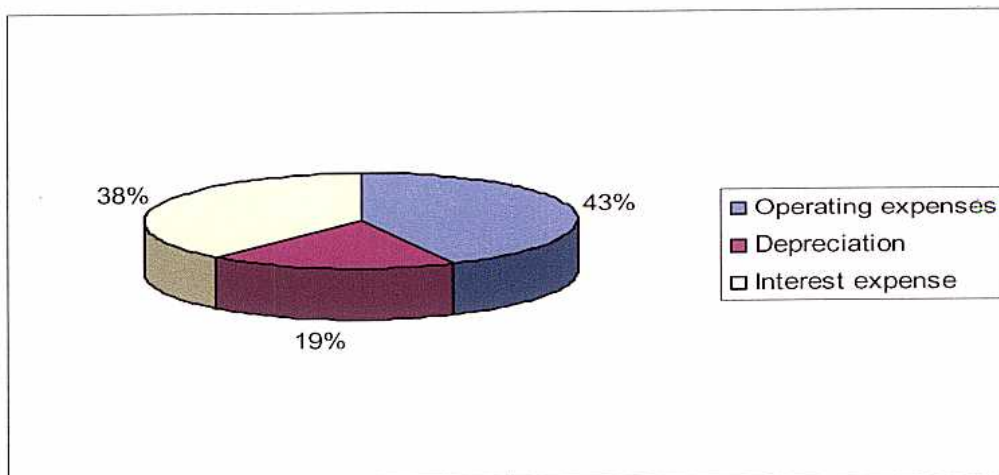
	<u>June 30, 2004</u>	<u>June 30, 2003</u>	<u>June 30, 2002</u>
<b>Expenses (in millions):</b>			
Operating Expenses	\$31.1	\$29.6	\$26.4
Depreciation	13.6	12.4	11.4
Interest Expense	23.1	23.6	23.5
Other Nonoperating Expenses	<u>0.9</u>	<u>0.4</u>	<u>0.1</u>
<b>Total Expenses</b>	<u>\$68.7</u>	<u>\$66.0</u>	<u>\$61.4</u>

The following graphs represent the makeup of total operating and non-operating expenses for the years ended June 30, 2004, 2003 and 2002:

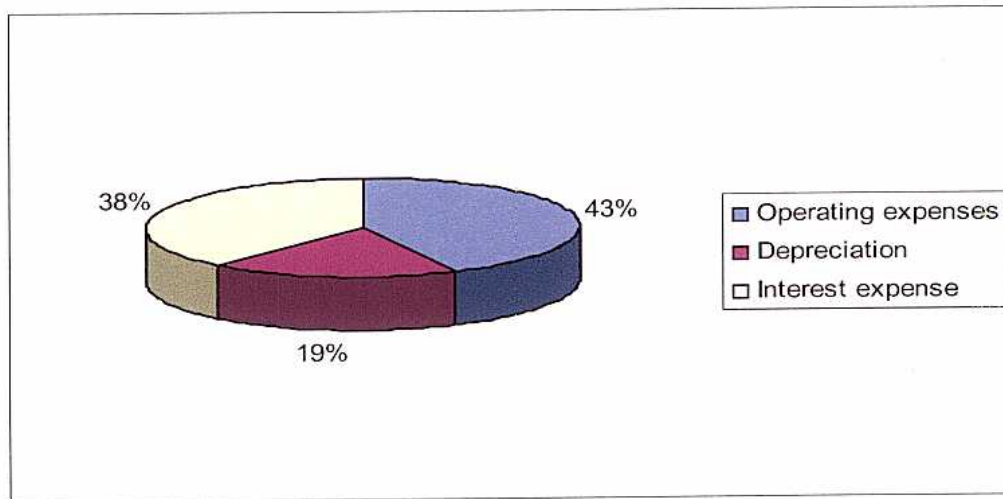
**Total Operating and Non-Operating Expenses for the Year Ended June 30, 2004**



**Total Operating and Non-Operating Expenses for the Year Ended June 30, 2003**



**Total Operating and Non-Operating Expenses for the Year Ended June 30, 2002**



Total TMWA operating and non-operating expenses for the year ended June 30, 2004 were \$68.8 million. Of this total, \$31.1 million were direct operating expenses incurred to produce water for sale or 44%, interest expense on the acquisition debt was \$23.2 million or 36%, depreciation expense was \$13.6 million or 19%, with other miscellaneous charges of \$0.9 million or 1% of TMWA's total expenses.

Total TMWA operating and non-operating expenses for the year ended June 30, 2003 were \$66.1 million. Of this total, \$29.7 million were direct operating expenses incurred to produce water for sale or 43%, interest expense on the acquisition debt was \$23.6 million or 38%, depreciation expense was \$12.4 million or 19%, with other miscellaneous charges of \$0.4 million or less than 1% of TMWA's total expenses.

Total TMWA operating and non-operating expenses for the year ended June 30, 2002 were \$61.5 million. Of this total, \$26.4 million were direct operating expenses incurred to produce water for sale or 43%, interest expense on the acquisition debt was \$23.5 million or 38%, depreciation expense was \$11.4 million or 19%, with other miscellaneous charges of \$0.2 million or less than 0.5% of TMWA's total expenses.

The increase in TMWA's fiscal year 2004 over 2003 operating expenses was due to \$0.5 million more salaries and wages, the result of hiring additional personnel related to meeting customer service needs. Related employee benefits increased \$0.5 million due to increases in health care expenses and additional hiring. Service and supplies increased \$0.5 million, which was not attributable to any one specific expense category.

The increase in TMWA's fiscal year 2003 over 2002 operating expenses was due to \$0.9 million more salaries and wages, the result of hiring additional personnel related to TMWA taking over customer care responsibilities from SPPCo in August of 2002. Related employee benefits increased \$0.2 million. Service and supplies increased \$2.2 million primarily because

of an increase in power costs of \$0.6 million and \$1.4 million due to the unbundling of billing, bill remittance and call center functions from SPPCo electric and gas operations to TMWA's new contract service provider ORCOM.

### **CAPITAL ASSETS**

At June 30, 2004, TMWA's total capital assets were \$439.7 million net of accumulated depreciation of \$37.6 million, for a net book value of \$402.1 million. Included in the total capital assets reported on the Statement of Net Assets was \$15.4 million in construction work in progress.

At June 30, 2003, TMWA's total capital assets were \$398.4 million net of accumulated depreciation of \$24.3 million, for a net book value of \$374.1 million. Included in the total capital assets reported on the Statement of Net Assets was \$8.0 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, 2004 and 2003, TMWA had \$448.0 million and \$447.9 million in outstanding indebtedness, respectively, comprised of two series of bonds. These bonds were issued to acquire the water assets and hydroelectric facilities of Sierra Pacific Resources, a publicly traded corporation. These bonds were assigned an A-/BBB+ bond rating. During the fiscal years ended June 30, 2004 and 2003, TMWA did not issue any additional debt. For the fiscal years ended June 30, 2004 and 2003, TMWA paid \$23.6 million in interest expense each year and no required principal payments. TMWA is in compliance with all bond covenants and reserve funding requirements.

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

### **CURRENTLY KNOWN FACTS**

TMWA's Board adopted new facility charges and raised customer water rates to insure TMWA's long-term financial stability. TMWA facility charges were adopted in June of 2003. These fees were designed to pay for the construction of new water infrastructure capacity. These facility charges are \$1,510 per gallon per minute (GPM) for treatment and supply capacity and \$1,122 per GPM for storage capacity. These charges were placed into effect on December 31, 2003 to take into account projects that were in various stages of review during the adoption of these fees. TMWA collected \$2.8 million of facility fees during fiscal year 2003-2004.

In September 2003 the TMWA Board adopted a new schedule of water rates that raised overall customer rates by approximately 18%. The rate increase by customer class varies dependent upon customer water demand profiles. The effective date of the newly adopted water rates was October 1, 2003. In addition to the new water rates, TMWA revised its rules of service and adjusted various fees that reimburse TMWA for services rendered outside of water sales. TMWA estimates that the rate increases generated approximately \$9.5 million in water sales revenue, while increased deliveries of water provided another \$1.4 million in water sales. Increased deliveries of water were due to customer growth and extended irrigation resulting from warmer than average weather patterns during the fiscal year.

### **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.

**TRUCKEE MEADOWS WATER AUTHORITY  
STATEMENTS OF NET ASSETS  
JUNE 30, 2004 AND 2003**

ASSETS	2004	2003
<b>CURRENT ASSETS</b>		
Cash and investments	\$ 50,809,845	\$ 44,697,845
Accounts receivable, net	10,492,281	8,732,918
Due from others	628,238	-
Due from other governments	1,764,492	937,461
Interest receivable	981,558	1,056,365
Prepaid assets	945,497	1,002,559
	<u>65,621,911</u>	<u>56,427,148</u>
<b>RESTRICTED CURRENT ASSETS</b>		
Cash and investments:		
Water meter retrofit program	865,809	837,706
Current bond debt service	11,797,164	11,797,164
Future bond debt service	30,119,430	30,119,430
Operations and maintenance	5,230,275	4,994,800
Renewal and replacement	5,478,000	3,486,000
Hydro asset purchase	8,000,000	8,000,000
Water rate stabilization	500,000	500,000
	<u>61,990,678</u>	<u>59,735,100</u>
<b>NONCURRENT ASSETS</b>		
Capital assets, net	402,076,545	374,062,065
Due from developers	65,657	490,961
Prepaid assets	1,046,931	1,221,419
Deferred charges	5,108,715	5,287,192
	<u>408,297,848</u>	<u>381,061,637</u>
<b>Total Assets</b>	<u>\$ 535,910,437</u>	<u>\$ 497,223,885</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES PAYABLE FROM UNRESTRICTED CURRENT ASSETS</b>		
Accounts payable	\$ 2,124,598	\$ 2,148,758
Contracts and retention payable	2,795,460	1,144,679
Accrued liabilities	3,392,767	2,736,403
Due to other governments	1,125,494	708,862
Customer deposits and amounts due to developers	1,770,484	407,495
	<u>11,208,803</u>	<u>7,146,197</u>
<b>CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b>		
Interest payable	11,797,164	11,797,164
<b>NONCURRENT LIABILITIES</b>		
Long-term debt, net	448,045,059	447,899,304
	<u>471,051,026</u>	<u>466,842,665</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	9,715,119	(16,502,825)
Restricted for water meter retrofit	865,809	837,706
Restricted for operations and maintenance reserve	630,275	394,800
Restricted for renewal and replacement reserve	5,478,000	3,486,000
Restricted for water rate stabilization	500,000	500,000
Unrestricted	47,670,208	41,665,539
	<u>64,859,411</u>	<u>30,381,220</u>
<b>Total Liabilities/Net Assets</b>	<u>\$ 535,910,437</u>	<u>\$ 497,223,885</u>

See accompanying notes.

**TRUCKEE MEADOWS WATER AUTHORITY  
STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
<b>OPERATING REVENUES</b>		
Charges for water sales	\$ 68,616,955	\$ 57,742,156
Hydroelectric sales	1,965,825	1,822,052
Other operating sales	<u>2,515,531</u>	<u>2,683,200</u>
Total Operating Revenues	<u>73,098,311</u>	<u>62,247,408</u>
<b>OPERATING EXPENSES</b>		
Salaries and wages	8,786,618	8,278,246
Employee benefits	3,452,864	2,992,281
Services and supplies	<u>18,878,922</u>	<u>18,392,597</u>
Total Operating Expenses before Depreciation	31,118,404	29,663,124
Depreciation	<u>13,605,735</u>	<u>12,364,097</u>
Total Operating Expenses	<u>44,724,139</u>	<u>42,027,221</u>
Operating Income	<u>28,374,172</u>	<u>20,220,187</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Federal grants	197,608	152,973
Investment earnings	3,938,551	4,597,774
Gain (Loss) on disposal of assets	(684,392)	3,357
Amortization of bond issuance costs	(178,477)	(178,477)
Interest expense	(23,163,457)	(23,552,125)
Other	<u>-</u>	<u>(263,240)</u>
Total Nonoperating Revenues (Expenses)	<u>(19,890,167)</u>	<u>(19,239,738)</u>
Income before Capital Contributions	<u>8,484,005</u>	<u>980,449</u>
<b>CAPITAL CONTRIBUTIONS</b>		
Water meter retrofit program	5,198,577	3,192,171
Developer infrastructure contributions	5,873,397	5,778,366
Developer water-right contributions	7,532,758	4,724,860
Developer capital contributions-other	4,113,181	3,702,669
Developer facility charges	2,748,668	-
Contributions from other governments	<u>527,605</u>	<u>-</u>
Net Capital Contributions	<u>25,994,186</u>	<u>17,398,066</u>
Change in Net Assets	34,478,191	18,378,515
<b>NET ASSETS , BEGINNING OF YEAR</b>	<u>30,381,220</u>	<u>12,002,705</u>
<b>NET ASSETS , END OF YEAR</b>	<u>\$ 64,859,411</u>	<u>\$ 30,381,220</u>

**TRUCKEE MEADOWS WATER AUTHORITY  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

	<b>2004</b>	<b>2003</b>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 72,563,980	\$ 59,740,662
Cash paid to employees	(11,583,118)	(10,865,463)
Cash paid to suppliers	(18,254,900)	(19,290,652)
Net Cash Provided by Operating Activities	42,725,962	29,584,547
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets	(35,312,156)	(23,358,909)
Interest paid on financing	(23,594,328)	(23,594,328)
Proceeds from capital asset disposal	25,000	10,036
Contributions for water meter retrofit program	5,198,577	3,192,172
Contributions from developers-water rights	7,532,758	4,724,860
Contributions from developers-other	4,538,485	3,702,669
Contributions from developers-facility charges	2,748,668	-
Contributions from other governments	5,613	-
Federal grants	30,523	152,973
Other	-	(263,240)
Net Cash (Used) by Capital and Related Financing Activities	(38,826,860)	(35,433,767)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	4,468,476	4,553,502
Net Increase (Decrease) in Cash and Cash Equivalents	8,367,578	(1,295,718)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b> (including \$59,735,100 and \$57,057,968 in restricted accounts for the years ended June 30, 2004 and 2003, respectively)	104,432,945	105,728,663
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b> (including \$61,990,678 and \$59,735,100 in restricted accounts for the years ended June 30, 2004 and 2003, respectively)	\$ 112,800,523	\$ 104,432,945
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income	\$ 28,374,172	\$ 20,220,187
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	13,605,735	12,364,097
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(1,759,363)	(2,385,534)
Due from other governments	(137,957)	(528,707)
Prepaid assets	231,550	(189,382)
Increase (decrease) in:		
Accounts payable	(24,160)	(823,183)
Accrued liabilities	656,364	405,064
Due to customers and developers	1,362,989	407,495
Due to other governments	416,632	114,510
Total Adjustments	14,351,790	9,364,360
Net Cash Provided by Operating Activities	\$ 42,725,962	\$ 29,584,547
<b>NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Developer infrastructure contributions	\$ 5,873,397	\$ 5,778,366
Capitalization of interest expense	576,625	187,957
Capitalization of investment earnings	455,118	164,898
Amortization of bond discounts and deferred charges	324,232	324,232

See accompanying notes.

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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.

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TMWA applies all applicable 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 the budgetary data, which is reflected in these financial statements:

- 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 Tax Commission 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 expenditures may not exceed budgeted appropriations.

The budget reflected in the financial statements has been amended from the original amounts in accordance with State statute.

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.

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Investments authorized by state statutes and TMWA's bond resolutions include, but are not limited to, 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, 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 amortized cost which approximates fair value.

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 amount 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.

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- 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 Statements of Net Assets because their use is limited to the future purchase of Hydro 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 expenses have been classified as current and long term.

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	Ditches	15-50
Plant	15-50	Reservoirs	20-75
Services	15-50	Vehicles	5-10
Booster pump stations	15-50	Leasehold improvements	3
Tanks	65-75	Furniture and fixtures	10
Wells	15-50	Computer hardware	
Pressure reducing valves	25	and software	3-5

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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 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. Developer facility charges, water right contributions and other contributions reflect payments for water service. Contributions from other governments reflect reimbursements for adding new capacity to serve wholesale customers. 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, 2003 financial statements have been reclassified for comparative purposes to conform with the presentation in the June 30, 2004 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, 2004</u>	<u>June 30, 2003</u>
Billed amounts	\$ 5,100,941	\$4,159,433
Earned, but unbilled amounts	<u>5,764,464</u>	<u>4,734,197</u>
	10,865,405	8,893,630
Allowance for uncollectibles	<u>(373,124)</u>	<u>(160,712)</u>
Accounts receivable, net	<u>\$10,492,281</u>	<u>\$8,732,918</u>

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NOTE 4 - CASH AND INVESTMENTS

Cash:

Cash held by TMWA consisted of the following:

	2004		2003	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Petty cash	\$ 4,300	\$ -	\$ 3,300	\$ -
Insured (FDIC)	200,000	200,000	100,000	100,000
Collateralized, collateral held by TMWA's agent in TMWA's name	<u>65,319,727</u>	<u>67,842,088</u>	<u>5,630,209</u>	<u>7,292,540</u>
	<u>\$65,524,027</u>	<u>\$68,042,088</u>	<u>\$5,733,509</u>	<u>\$7,392,540</u>

Investments:

Investments of governmental agencies are classified into three categories to give an indication of the custodial risk assumed by the entity. Category 1 includes investments that are insured or registered or for which the securities are held by TMWA or TMWA's custodial agent (which must be a different institution other than the party through which TMWA purchased the securities) in TMWA's name. Investments held "in TMWA's name" include securities held in a separate custodial or fiduciary account and identified as owned by TMWA in the custodian's internal accounting records. Category 2 includes uninsured and unregistered investments for which the securities are held by the dealer's agent in TMWA's name (or by the trust department of the dealer if the dealer was a financial institution and other department of the institution that purchased the security of TMWA). Category 3 includes uninsured and unregistered investments for which the securities are held by the dealer's agent, but not in TMWA's name. Category 3 also includes all securities held by the broker-dealer agent of TMWA regardless of whether or not the securities are being held in TMWA's name.