

**TRUCKEE MEADOWS WATER AUTHORITY  
NEVADA**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**June 30, 2003 and 2002**

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To the Board of Directors, Our Customers, and Bondholders:

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) for the Truckee Meadows Water Authority (TMWA) for the Fiscal Year ended June 30, 2003. The purpose of the report is to provide the Board of Directors, our customers, and bondholders as well as other interested parties with reliable financial information about TMWA. TMWA's Finance Department has prepared the CAFR in accordance with generally accepted accounting principles, generally accepted in the United States of America. We believe the report presented is accurate in all material respects, and the results of operations of TMWA and all necessary disclosures enable the reader to gain the maximum understanding of TMWA's financial activity.

The CAFR consists of four sections:

**Introduction Section-** This section comprises the letter of transmittal which contains information relative to TMWA's background, a listing of TMWA's principal officers, organizational chart and other relevant information to assist the reader in understanding TMWA's operations, financial condition, and accomplishments.

**Financial Section-** This section consists of TMWA's combined financial statements, Management's Discussion and Analysis, supplementary financial information and independent auditor's report on the combined financial statements. The financial statements presented in this section were prepared in accordance with generally accepted accounting principles.

**Statistical Section-** This section comprises selected financial, operational and demographic information generally presented on an annual basis since the creation of TMWA.

**Compliance Section-** This section consists of information regarding TMWA's compliance with state statutes, in particular conformance with the Local Government Budget and Finance Act.

## **REPORTING ENTITY**

TMWA's financial activities are reported 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 a specific activity. The activities of enterprise funds closely resemble those of an ongoing business in which the purpose is to preserve and add to financial resources and pay for operating expenses and certain capital expenses from operating revenues and capital contributions.

Enterprise funds account for operations that provide services on a continuous basis and are financed by revenues derived from user charges. Revenues are recognized when earned and expenses are recognized as incurred. TMWA has no component units associated with its financial reporting entity.

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

Nevada Revised Statutes requires that an independent certified public accounting firm selected by the Board of Directors audit TMWA's financial statements on an annual basis. The independent auditor's report for the fiscal years ended June 30, 2003 and 2002 are presented in the Financial Section of this report. TMWA complies with the Local Government Budget and Finance Act as embodied in Chapter 354 of the Nevada Revised Statutes.

### **FORMATION AND ORGANIZATION**

TMWA was formed as a Joint Powers Authority pursuant to chapter 277 of the Nevada Revised Statutes and is a political subdivision of the State of Nevada. TMWA is separate from its member agencies: City of Reno, City of Sparks and Washoe County. TMWA was formed in November 2000 for the purpose of acquiring the water division of Sierra Pacific Power Co. (SPPCo), a subsidiary of Sierra Pacific Resources ("SRP"), with the goal of retaining local control over the water resources of the area.

TMWA successfully participated in a blind competitive bid for the net assets of the SRP's water utility after the members submitted a joint "Proposal to Purchase the Water Utility Assets of Sierra Pacific Resources". These assets included four run of river hydroelectric plants along the Truckee River. These hydro facilities are not essential for the operation of the water business but were part of the complete asset purchase. TMWA operates in a prescribed retail service area as described in the agreement between SPPCo and Washoe County dated June 25, 1996 as amended and the retail service territory can be modified from time to time pursuant to such agreement.

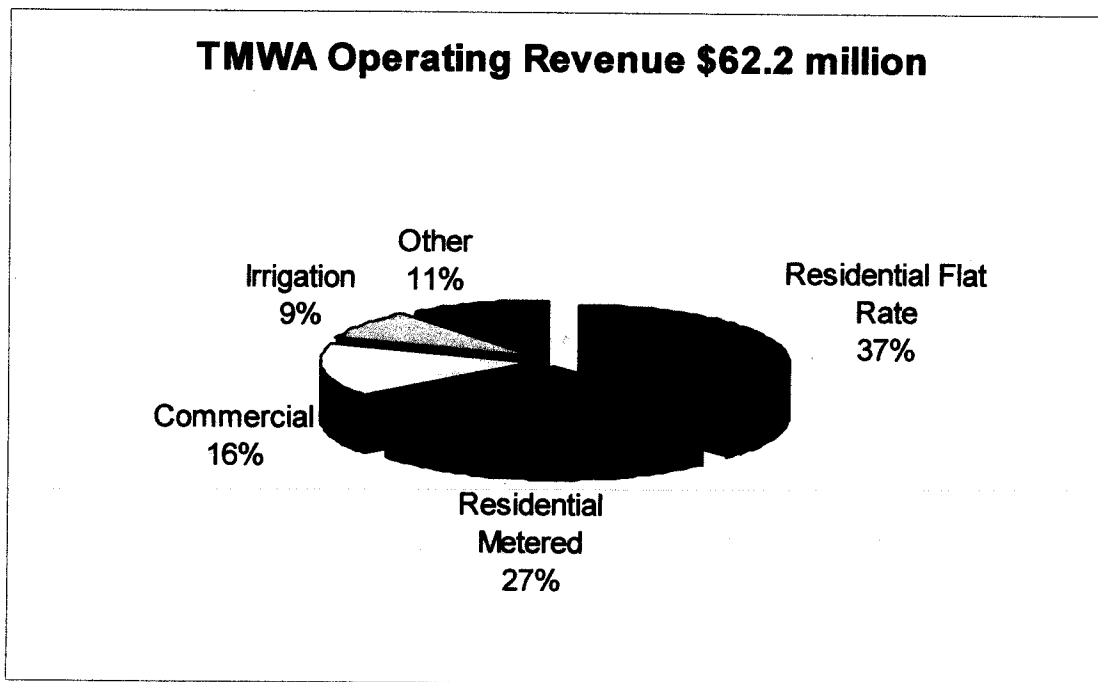
TMWA has no financial interdependence with its member agencies other than TMWA charges water customers Right of Way Toll Fees and remits these fees to the Cities of Reno and Sparks. Currently these fees for both cities are 2% of billed water revenues in each jurisdiction. TMWA also charges water customers a 1.5% fee for funding of the Regional Water Planning Commission (RWPC) activities. These fees are not considered TMWA revenues and TMWA only serves as a pass through entity for collecting and remitting these fees to the cities and RWPC.

TMWA has broad powers to finance, construct and operate the water system, for the diversion, treatment, distribution, and retail sale of treated water to retail and wholesale customers. TMWA has full authority to set water rates for services subject to approval by the

TMWA Board of Directors, without approval by any other entities. TMWA is a tax-exempt entity for purposes of federal taxes and State of Nevada property, sales and use taxes, as well as other state taxes. TMWA pays property taxes in Nevada and Sierra Counties, California for the privilege of storing water in private and federal reservoirs. TMWA has no taxing authority.

TMWA provides treated water to two wholesale customers and over 80,000 residential commercial and irrigation services in the Reno-Sparks metropolitan areas. The two wholesale customers are the Sun Valley General Improvement District SVGID and the Washoe County Department of Water Resources (WCDWR). SVGID, located north of Reno-Sparks is served on a firm delivery basis and is wholly dependent upon TMWA water deliveries since this district has no source of water supply. The WCDWR purchases water from TMWA on a firm standby partial requirements basis since WCDWR can provide a significant portion of its own water demands with its groundwater resources.

The following graph depicts the proportion of billed revenues by customer class:



The TMWA was created in November 2000 to accomplish the goal of purchasing the water assets of Sierra Pacific Power Co (SPPCo). In the two years since TMWA began operations (June 11, 2001), the utility has successfully matured from a startup organization with certain customer care functions performed on a contractual basis by SPPCo. On August 4, 2002, TMWA took over all customer care responsibilities from SPPCo with the exception of a majority of meter reading tasks.

TMWA's financial position has remained relatively stable over the first two years of operation. Liquidity levels remain relatively constant year over year with sufficient resources to finance operating expenses and near term capital spending requirements. In June 2003, TMWA's Board of Directors adopted facility charges, collected from new developments, to pay for the

construction of new storage and treatment facilities. In September 2003, TMWA's Board of Directors adopted revised customer rate schedules designed to increase water sales revenues annually by \$10 to \$11 million, with the rate increase effective October 1, 2003.

These board actions were taken in response to results of a five-year financial forecast, which indicated the need for adopting these new fees and customer rates. The goal of TMWA is to maintain a minimum coverage ratio of 1.5x, excluding developer contributions, sufficient to meet minimum debt service coverage requirements and fund rehabilitative capital projects on a pay-as-you-go basis. These measures were deemed necessary to maintain system infrastructure in a prudent manner and insure that TMWA's bondholders are adequately protected. There are no other restrictions, commitments, or other limitations that would restrict the unrestricted cash assets for use in meeting TMWA's obligations.

TMWA is governed by a seven-member board comprised of three Directors appointed by the City of Reno, two Directors appointed by the City of Sparks, one Director appointed by Washoe County, and one-at-large Director who shall be an elected official from the governing body of a Member, nominated by the appointed Directors and approved by the governing body of each of the Members. A Director who is not an elected official and the at-large Director shall be appointed for a term of two years. No Director who is an elected official may serve beyond his or her term of office. A Director may not receive compensation from TMWA for services as a Director but can be reimbursed for reasonable expenses in conducting TMWA business. No payments have been made to any Director.

The General Manager of TMWA is the chief administrative officer who is appointed and serves at will and at the pleasure of the TMWA Board. The general manager is responsible to the Board for the proper and efficient administration of TMWA with the power to plan, organize, and direct all TMWA activities, appoint and remove employees, authorize expenses within the approved budget and enter into contracts as authorized by the Board. Two managing directors and six managers are responsible for implementing and coordinating departmental activities. All operational, customer service, new business, financial and administrative functions of TMWA are highly integrated.

The Water Operations and Maintenance function is headed by the Director of Water Operations and supported by four managers. These managers direct water treatment and distribution activities, hydroelectric and system maintenance activities, water quality and special project activities, system planning, engineering and construction responsibilities.

The Customer Relations function is headed by the Director of Customer Relations who oversees the bundled customer services provided by outside contractors, new service processes, inspection services, community relations, water conservation activities and other community efforts.

The Water Planning and Resource function is under the supervisory responsibility of the Manager of Water Resources, who oversees the development of surface and groundwater resources, and administers the purchase and sale of land and water rights. This department also oversees GIS and Information Technology activities.

The Finance and Administration function, headed by the Manager of Finance and Administrative Services is responsible for centralized services and support to operating functions. Accounting, human resource and purchasing activities are provided under contract by the City of Reno but these responsibilities are under the direct supervision of this area, which is responsible for the financial reporting, budgeting, and strategic financial planning of TMWA.

## **ECONOMIC OUTLOOK AND WATER RESOURCES**

TMWA operates in a service territory that has exhibited steady customer/premise growth. The Reno-Sparks Metropolitan area is a very desirable location due to its favorable climate, numerous outdoor recreational activities, and minimal taxes, in addition to gaming opportunities. The Reno-Sparks metropolitan area is also centrally located in the Pacific region affording efficient distribution of goods throughout this region of the United States. Nevada's favorable business tax environment provides opportunities for certain industries to locate in Northern Nevada. Presently, the Reno-Sparks metropolitan and adjacent areas are experiencing steady residential growth coupled with growth in medium sized manufacturing and distribution businesses.

To meet the demands of regional growth, TMWA prepared a very detailed Water Resource Plan for the years 2005-2025 that was adopted by the Board in March 2003. This extensive plan addresses current water resources, future water resources, and water rights availability as well as defined drought standards. The focal point of the Water Resource Plan is the population and water demand forecasts for the TMWA service territory. These forecasts rely upon the results of TMWA's Population and Employment Econometric Model for Washoe County. This time series model simultaneously forecasts population and employment in Washoe County using historical employment and population data from 1969 to 2000.

For the year 2000 the total population of Washoe County was determined to be approximately 339,000 citizens of whom 251,000, or 74%, reside in TMWA's retail service territory. By the year 2025 TMWA predicts Washoe County to have approximately 488,000 citizens of which 360,000, or again 74%, reside in TMWA's retail service territory. Based upon these population forecasts, water demands are expected to be 110,000 acre-feet in the year 2025, a 34% increase over the 81,950-acre feet of water produced in the year 2000. This increase in water demand assumes the full metering of the TMWA water system by the year 2010. TMWA can accelerate this effort but further business and rate analysis will need to be completed. Refer to the Water Meter Retrofit discussion under the Water Conservation heading for further discussion of this conservation effort.

Total residential water use is forecast to increase from 52,200 acre-feet in the year 2000 to 59,300 acre-feet in the year 2025. Of this increase 79% is by single-family residences and 21% by multi family residences. Total commercial water demand is forecast to increase from 15,000 acre-feet to 22,000 acre-feet by the year 2025, an increase of 7,000 acre-feet. Total irrigation usage is forecast to grow from 6,200 acre-feet to 13,100 acre-feet. This growth in irrigation water demands may occur to a lesser extent because of programs focused at sanitary treatment plant effluent reuse and the use of other non-potable resources. The remainder of the increase demand may result from growth in wholesale water deliveries.

TMWA's current water resources consist of 129,000 acre-feet of decreed, storage, and irrigation rights sufficient to generate water supplies for customer demands. TMWA does not have to rely upon its privately owned stored water (POSW) held in upstream reservoirs or all its groundwater resources for demands in average or above average precipitation years since these rights are held in reserve for drought years. TMWA relies primarily on the Truckee River and will resort only to POSW and ground water in years with less than average precipitation.

TMWA's future water resources will be the product of a number of efforts, which include expanded drought storage, acquisition of additional rights from agricultural users and/or the acquisition of the Tahoe Carson Irrigation District's interest in Donner Lake. TMWA is a very active supporter and participant in the Truckee River Operating Agreement (TROA) process. TROA is intended to provide TMWA customers with certainty regarding the operation of the system and additional drought supplies for existing as well as new customers. TMWA will continue toward TROA implementation because of the numerous benefits it provides through expanded drought storage, water quality benefits, expanded recreation, protection of endangered species, interstate allocation of Tahoe and Truckee rights, and litigation resolution.

The availability of water rights is integral to securing additional supplies of water for municipal and industrial use. A review of available Truckee River water rights show sufficient water rights exist to meet future water service commitments through the water-planning horizon, 2005-2025. However acquiring and transferring these water rights, which can be fractionated, have title problems, will require investments of time and money before they can be transferred for TMWA use.

TMWA continues to work closely with the cities of Reno, Sparks and with Washoe County and the Pyramid Lake Paiute Tribe to explore opportunities that satisfy TMWA operating requirements, and to enhance Truckee River water flows in the Lower Truckee River, and improve Lower Truckee River water quality. Since the number of Truckee Meadows water rights is limited, close coordination of the various water interests must occur to avoid undue stress to the water rights market.

### **TMWA MILESTONES**

As of June 30, 2003 TMWA has successfully completed a little over two years of operations. During this time numerous operational challenges faced TMWA in accomplishing a seamless transition of water service from Sierra Pacific Resources (SPPCo). At the time of the acquisition, TMWA had only weeks to find a location to set up its operating headquarters and then moving distribution maintenance, certain customer service, water planning, engineering and new business functions from SPPCo facilities. As a result of these time constraints, ~~TMWA leased a building on a short-term basis, recognizing that it would need to consider alternative facilities to meet longer-term needs.~~

On August 4, 2002 TMWA successfully took over customer billing, bill remittance, call center, and accounts collections from SPPCo. TMWA signed a seven-year contract with ORCOM, a third party provider, to perform these functions. TMWA contracted these functions with an outside vendor because a cost-benefit analysis indicated that these functions

could be performed at a lower cost than with internal staff, and the present leased building did not have adequate space for billing, bill remittance, call center and collections staffing.

The Joint Powers Agreement required TMWA to complete a 20-year Facility Plan and a 20-year Water Resource Plan within the first two years of its existence. The Facility Plan prepared by TMWA staff and approved by TMWA's Board identifies infrastructure to meet the demands for new capacity driven by additional water demands related to growth. The Water Resource Plan was prepared to determine the availability of water supplies to TMWA from all sources, demand within TMWA's retail service territory, the peaking capacity required for delivery of water supplies by TMWA, and the means by which such requirements would be met.

After the completion of the Facility Plan and the Water Resource Plan, TMWA prepared an initial five-year operating and capital financial plan to gauge future financial health. This plan determined that a combination of new facility charges and customer rate increases would be necessary to insure the long-term financial integrity of the Authority.

The first five-year financial plan was presented to the TMWA Board in October of 2002. In May 2003, TMWA refined its five-year financial plan after the annual budget cycle. The planning horizon was very important because TMWA will begin paying the principal component of its acquisition debt on July 1, 2005. The first principal payment will be \$6.5 million in addition to current annual interest payments of \$23.6 million. Funding of this payment must begin in July 2004 with monthly deposits to the bond trustee at \$543,000 per month. Based upon financial projections, TMWA determined that revenues in fiscal year 2005-2006 would be insufficient to cover projected operating expenses of \$35.6 million, annual debt service payments averaging \$30.1 million, and fund rehabilitative capital reinvestments in the water system approximating \$15.0 million per year. The total revenue deficiency was projected to be about \$20.0 million.

Based upon recent financial projections, TMWA management proposed, and the TWMA Board adopted in June of 2003 new facility charges to finance new capital projects for growth driven water system capacity. The twenty-year Facility Plan provided the information for new infrastructure requirements and was the basis of calculating proposed future facility charges. TMWA began collecting facility charges in September of 2003 on new applications for service. The new rates became effective December 31, 2003 for pending projects at the time the new charges were adopted.

Concurrent with the adoption of facility charge discussions, TMWA began a cost of service study to revise customer rates. TMWA had kept the commitment to customers that water rates would not be adjusted for two years after the startup of business on June 11, 2001. The water rates inherited from SPPCo were based on investor owned utility methodologies and did not completely reflect the cost of service. The cost allocation method chosen by TMWA was the commodity-demand approach, one of the more common cost allocation methodologies.

The reason for selecting this method of cost allocation was to design rates that would preserve water resources consistent with other TMWA water conservation programs, control peak demands on water system infrastructure, and utilize existing plant capacities as efficiently as possible. The overall average rate increase over the three years beginning in fiscal year 2003-

2004 was calculated at 39%. In September 2003, the TMWA Board adopted a three-year rate implementation plan and approved phase one of a proposed three-year rate increase.

The first year of the water rate increase, about one half of the overall proposed 39% three year increase, will initially boost annual billed waters sales revenues between \$10 to \$11 million. This initial increase will raise billed water revenues to over \$70 million per year. Different customer classes will experience different rate increases based upon their water demand profiles. The theory behind the rate structure was to allocate costs to customers that put the greatest peak demands on the water system and therefore the greatest costs of plant. Future year two and year three rate increases will be contingent upon additional financial analyses, review of water demands by class, additional input from the community, rate reviews, and Board approval.

The TMWA Board agreed in August 2003 that a minimum debt coverage ratio of a 1.5x will meet annual debt service requirements and will fund the majority of rehabilitative capital projects on a pay-as-you-go basis. TMWA's commitment to system rehabilitation was outlined in the Engineers Report prepared by CH2M Hill, an engineering consulting firm, as part of TMWA's acquisition process. This report was an essential part of the 2001 Series A and B Bond Offering Memorandum.

This report recommended expanded water system rehabilitation efforts in the form of increased water main replacements, increased polybutylene and galvanized service replacements, storage improvements, upstream dam and spillway improvements, armoring of the Highland Ditch that feeds raw water into the Chalk Bluff Water Treatment Plant, with increased emphasis on rebuilding pump stations and other pressure enhancements. The Engineers Report emphasized the need to increase water main replacements from the original rate of two miles per year to eight miles per year. All these initiatives have been formally incorporated into TMWA's Capital Improvement Plans.

TMWA has followed through on the rehabilitative projects by replacing over 30,000 linear feet of water mains encompassing six projects during fiscal year 2002-2003. For fiscal year 2003-2004, TMWA will proceed with this level of main replacement. All water main replacement efforts are closely coordinated with sewer main replacement programs, as well as street repaving efforts, thereby minimizing expenses to TMWA and the community.

TMWA also embarked upon a systematic polybutylene and galvanized service replacement program. TMWA has identified areas that have a high frequency of service leaks. Rather than replace these leaking services on a one by one basis, areas of frequent service leaks are systematically replaced, reducing the unit cost of replacement.

In fiscal year 2002-2003, TMWA directed financial and operational resources to the replacement of over 3,000 slow reading or non-registering meters. Meters that were identified as over 15 years old were slated for replacement. The meter replacement program is designed to preserve revenue streams and to insure that water rate studies are calculated with the best consumption data possible.

Beginning in fiscal year 2003-2004, TMWA will initiate a ten-year planning horizon for future capital improvement programs. To begin this process, the 20-year Facility Plan will be

revised and TMWA operations and finance personnel will conduct a detailed analysis of areas for system improvements. Also, updated costs will be presented. This detailed analysis will be documented in the upcoming Capital Improvement Plan.

On June 11, 2003 the labor contract with the International Brotherhood of Electrical Workers (IBEW) Local 1245 was set to expire. TMWA entered into contract negotiations in March of 2003. The bargaining unit and TMWA agreed to negotiate the new contract on a mutual gains basis. Contract negotiations were completed by May 2003 and a contract-extension was put into effect. TMWA and Local 1245 completed a three-year agreement that was adopted by the Board that extends through June 11, 2006, which allows annual raises for all bargaining unit job classes of 3.5% per year. The new contract also implements increases to shift differentials and some minor changes to job classifications. TMWA and IBEW Local 1245 work to maintain a productive working relationship.

### **WATER QUALITY**

TMWA's highest priority is the protection of public health through modern water treatment techniques and water quality monitoring efforts. TMWA's primary source of water is the Truckee River, which sources at Lake Tahoe and other tributaries to the Truckee River, travels into Nevada through the Reno-Sparks Metropolitan area with the terminus of the river at Pyramid Lake, approximately a 120-mile distance. The river's water quality is excellent but additional steps are taken to purify the water to meet safe drinking water standards that were set forth by the United States Department of Environmental Protection in the early 90's. To meet new water quality regulations TMWA's predecessor built the 69 million gallons per day (MGD) Chalk Bluff treatment plant and modernized the existing 25 MGD Glendale treatment plant in the 1994-1996 timeframe.

TMWA spends nearly \$0.9 million per year on monitoring water quality by analyzing nearly 10,000 samples per year at 150 locations throughout the TMWA water system. TMWA lab specialists perform water quality tests for nearly 100 different chemical, physical, and biological attributes. Test results are published each year in the Annual Water Quality Report, which is mailed to every TMWA customer. TMWA adheres strictly to every standard set by the United States Environmental Protection Agency. These standards are administered and enforced by Nevada State Division of Health.

TMWA is also subject to the new arsenic regulation, as promulgated by the United States Environmental Protection Agency. The Nevada State Division of Health enforces these federal rules. Under present standards, TMWA will be required to be in compliance with the new arsenic standards by January 1, 2006. The drinking water standard for arsenic compliance has been reduced from 50 parts per billion, (ppb) to 10 ppb, making six of TMWA's wells subject to the new regulations. The arsenic levels in these wells range from 11ppb to 25 ppb. At this time, it is difficult to estimate the financial impact to TMWA. Refer to Note 10 accompanying TMWA financial statements for more information.

### **WATER CONSERVATION**

Water conservation is a high priority at TMWA. Prudent use of the area's water resources extends this vital resource to periods of dry weather patterns and reduces or defers further

investments in new plant and system capacities. The purpose of water conservation at TMWA is to promote wise use of water through a number of initiatives. TMWA's current conservation programs are designed to achieve 10% annual water savings as part of the conservation goal agreed to in the 1996 Water Conservation Agreement between the Regional Water Planning Commission, TMWA's predecessor SPPCo, the Pyramid Lake Paiute Tribe, and the United States. The backbone of water conservation in the Truckee Meadows is the Water Meter Retrofit Program.

### **The Water Meter Retrofit Program**

In 1995, the conversion of TMWA's 44,651 flat rate services to metered services began. As of July 1, 2002, the beginning of TMWA's fiscal year, 26,771 metering facilities had been installed, leaving 17,880 residential metering facilities to be installed. Since 1995, 7,469 customers converted from flat rate to metered billing. Retrofit facilities installed by TMWA's predecessor included meter boxes but did not include the meter. TMWA now installs the meter with the metering facilities and drops in meters in previously installed facilities as resources permit. The estimated cost to complete this endeavor is estimated to be about \$20.0 million.

The complete metering of the TMWA water system is expected to achieve at least a 10% reduction in water demands annually. Developers, through a charge of \$1,830 for every acre-foot of new water demand, provide funding of this endeavor. These funds are considered restricted cash assets as represented on TMWA's balance sheet.

Complete metering of TMWA's system will also allow for determination of system losses and focus financial resources to service areas requiring system rehabilitation.

### **Twice a Week Watering**

TMWA's predecessor, SPPCo, initiated this voluntary program in the late 1980's in an effort to avoid investment in new facilities brought on by growing demands. During the 1987 to 1994 period, twice a week watering became mandatory and has remained in place since. This program was continued even though more productive weather patterns relieved the drought pattern. The main purpose of this program is to more evenly distribute the peak demands for water during a summer week, which translates to less peaking demand on system capacities. Consequently more efficient use of plant capacities can be realized, minimizing further investment in plant.

### **Landscape Efficiency Program**

This program promotes the use of attractive drought tolerant plants for the high desert climate experienced in Western Nevada. The use of xeriscape and reduction in turf while maintaining the attractiveness of the yard is the primary focus of this program.

The program is augmented by certain irrigation customers, such as common area turf, road median landscapes, as well as certain commercial customers participating in an irrigation program based on data supplied by evaporation-transpiration sensing equipment. This equipment controls the amount of irrigation based upon moisture levels in turf areas. Also

during periods of wet weather patterns, irrigation is deferred until such time as turf moisture levels indicate irrigation must be applied. Results on a limited group of participants indicate irrigation reduction of at least 10%, resulting in lower water bills and again less demand on plant facilities.

### **Water Audit Program**

This program assists residential customer in the evaluation of both indoor and outdoor water use. TMWA water conservation consultants visit residents and businesses to measure the amount of water applied to lawns and landscape. After evaluation of information, recommendations are made to the customer on how to adjust consumption without damaging landscape. This program also looks for leaks within the home and promotes efficient water use indoors.

### **Classroom Education**

TMWA participates in a number of community events that promote conservation and wise water use education. TMWA works with various schools by presenting information about the area's water resources, how these resources are used, and the benefits of water conservation.

### **Residential Water Efficiency Check**

TMWA responds to high bill complaints to assist customers with identifying the source of potential water leaks. Water leaks are often found to exist in the service line from the meter to the house, which is the responsibility of the homeowner. Sometimes homeowners are unaware of the amount of water loss that can occur from a leaking plumbing fixture inside the home. TMWA also furnishes water saving fixtures to interested homeowners.

## **WATER RESOURCE AND PLANNING**

TMWA's water planning department undertakes a number of water resource planning activities. In addition to this water planning activity, TMWA also maintains water rights for present service needs, issues will-serve commitment letters to developers, requires and accepts permanent dedication of water rights from developers to obtain water service, and manages the Water Meter Retrofit Fund. This department also is an active purchaser of water rights on the open market from which will-serve commitment letters are sold to new applicants for service.

TMWA's water planning activities are driven by Article 5 of the Joint Power's Authority which required that within the first two years of TMWA's existence a Water Resource Plan and water be formulated. The primary purpose of water resource planning for the Truckee Meadows is to determine how to supply the water needs of current and future customers with current and future water resources during drought and non-drought years. Water resource planning is a dynamic process utilizing the most recent water usage, snow pack, river flow, and population data available.

TMWA's recently published water plan was developed with the purpose of establishing a water budget and resource plan for the Authority, reflect water supplies available to TMWA,

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the peaking capacity required for delivery of water supplies, and the means by which such requirements will be met. TMWA also prepares, updates, and oversees the implementation of a water conservation plan for the use of municipal, industrial, and domestic water supplies within the retail service area of TMWA.

A critical subject in the greater Truckee Meadows is the establishment of a drought-planning standard for the region. This topic, of much debate, was discussed with TMWA's Member Agencies and many interested parties over the course of several months. The outcome of these discussions was presented to the TMWA board. The TMWA Board passed a resolution to adopt a nine-year drought standard for future water planning and budgeting purposes. This standard is one year greater than the longest drought experienced in the last century. A nine-year drought could be expected to occur once in 375 years.

## **FINANCIAL INFORMATION**

### **Internal controls**

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

### **Budgetary Controls**

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

TMWA is also required to prepare a Capital Improvement Plan for review and formal acceptance by the TMWA Board. This plan is a comprehensive compilation of all capital projects and capital outlays expected during the ensuing fiscal year. TMWA's Board is kept informed of TMWA's financial performance throughout the fiscal year at scheduled Board meetings. The General Manager, as the chief administrative officer, is authorized to approve all expenses that are within the budget. This authority is conferred upon the General Manager by virtue of the co-operative agreement between the City of Reno, City of Sparks, and the County of Washoe. This arrangement allows for the efficient operation of TMWA.

In fiscal year 2003, TMWA approved a Capital Improvement Plan with a five year spending level of \$163.0 million. Much of this spending will be directed towards increasing system

capacity funded with developer facility charges and major system rehabilitation programs funded through customer water rates. TMWA has provided for mitigation of arsenic in this Capital Improvement Plan. It is difficult to quantify the cost of arsenic mitigation until such time the State of Nevada Environmental Protection Agency adopts rules to implement the new standard.

### **BUDGET ANALYSIS AND VARIANCES**

Actual operating water revenues were \$0.5 million under budget for fiscal year ended June 30, 2003. Total budgeted revenues were \$62.8 million as compared to \$62.3 million in actual revenue. Charges for water sales were \$2.0 million under budget and hydroelectric sales were \$0.3 million under budget. Offsetting lower than anticipated water sales and hydroelectric revenues, was \$1.7 million over budget in other operating sales in the form of inspection fees, remediation district reimbursements, construction water sales, and late fees.

Total operating expenses of \$42.0 million were \$0.9 million, or 2.1%, less than total budgeted operating expenses of \$42.9 million. Greater than anticipated spending on service and supplies of \$0.4 million was offset by lower actual spending on operating salaries and wages of \$0.3 million, lower employee benefit spending of \$0.5 million, and lower than anticipated depreciation expense of \$0.5 million. Lower operating wages and salaries were due to field personnel being assigned to capital projects during the winter season. Lower employee benefit spending was due to higher budgeted health care expenses and higher budgeted employer matching on deferred compensation plans. Services and supplies spending was higher due to greater than anticipated repairs.

Non-operating revenues, essentially investment income, was \$1.6 million greater than budgeted. The primary reason for greater investment income was delay in capital spending. Many tank projects were delayed because of delays in land or easement acquisitions. Also, the Chalk Bluff Phase III expansion was delayed to see if water system demands would justify moving forward with the plant expansion. Interest expense was essentially the same as budgeted. Variations in capitalizing interest expense to construction projects will create minor variances between budgeted and actual interest expense.

Capital contribution revenues were significantly over budget. Contributions to the meter retrofit program were \$1.2 million over budget because these contributions are directly related to water right/will-serve sales. Consequently, contributions for water right/will serve sales were greater by \$0.7 million though disproportionate with respect to water meter retrofit contributions. This is due to surface water dedications in the Washoe County service territory that require payment of water meter retrofit contributions to TMWA even though the service is in the Washoe County service territory.

Developer on-site infrastructure contributions were \$1.8 million greater than budget because of numerous completions of the dedication process for subdivision water mains, water services, and one pump station. Other capital contributions, such as feeder main and other infrastructure oversizing, were \$0.3 million greater than budget, indicative of a healthy construction environment.

Other non-operating expenses included payments of \$100,000 to the City of Reno for engineering of the new kayak course in downtown Reno, and a \$164,000 payment to Washoe County for participation in the new 800-megahertz emergency radio system. TMWA does not have any title or economic interest in either project.

Total Capital Improvement Plan expenditures were originally budgeted for \$31.8 million in fiscal year 2002-2003 and were reduced by \$5.5 million to a spending level of \$26.3 million during the fiscal year. Delays in construction of two tanks for \$2.3 million, delays in construction of three pump stations for \$2.0 million, and the delay in construction of a \$1.0 million water main to serve a wholesale area were the primary reasons for the reduction in capital spending. As reflected in the Statement of Cash Flows, TMWA spent \$23.4 million on construction projects and capital outlays.

As reflected in the Statement of Cash Flows, TMWA financed the operating budget, and revised capital improvement plans from operating cash flow, developer cash contributions, and investment income. TMWA also relied on draws from the capital reserve fund originally funded from the \$452.8 million 2001 Series A and Series B bond issues. From these bond issues, TMWA set aside \$40.1 million for future capital improvements, enough to fund at least two years of capital improvements and capital spending outlays. As of June 30, 2003, TMWA has approximately \$37.0 million of financial resources to fund future capital projects, which is a combination of financial resources from the aforementioned bond issue, operating cash flow and developer contributions to fund expansion of system capacity.

TMWA continued funding of required cash reserves as prescribed by TMWA's bond covenants. TMWA funded the operations and maintenance reserve with an additional \$0.4 million. TMWA is required to contribute to this reserve fund and maintain a reserve balance equal to one-sixth of TMWA's revised final cash operating budget. TMWA also contributed \$2.0 million to the renewal and replacement reserve account to bring the balance in this account to \$3.9 million. TMWA is required to fund this account at the rate of \$2.0 million annually until such time the balance in this reserve account reaches \$10.0 million.

### **Cash Management**

Presently, TMWA has approximately \$104.4 million in unrestricted and restricted cash (refer to Note 3 to the financial statements). Ninety four percent (94%) of the total cash is invested in various investment contracts with major banks. The weighted average return on investments for the fiscal year 2002-2003 was 4.6%, generating nearly \$4.8 million in investment income before capitalization of investment income pursuant to FASB 62. One investment contract with a balance of \$51.7 million will expire on July 1, 2004. This investment contract includes the capital reserve account originally established from the 2001 Series A and Series B bond issues. During fiscal year 2003-2004, TMWA expects to make significant demands on this capital reserve account to finance a number of major capital projects that were deferred from fiscal year 2002-2003. The remaining cash balance is made up of TMWA's general operating account and is invested in overnight investments.

## **Risk Management**

TMWA's approach to risk management extends beyond utilizing insurance arrangements and purchasing insurance policies. Integral to overall risk management is an effective safety program that trains all TMWA personnel on techniques to work safely and injury free, as well as to insure safe working conditions. In addition to safety of TMWA employees, the safety program extends to protecting third parties for premise, operational, and automobile liability. TMWA utilizes the City of Reno's Risk Manager for the efficient handling of claims. The Risk Manager has the authority to investigate and settle liability claims quickly and fairly.

Risk management also extends to prudent investment practices that emphasize investments, which preserve principal and minimize risk of loss. TMWA's cash resources are integral to the financial stability of TMWA.

To protect against risk of loss, TMWA has purchased various insurance policies. These policies include Property, General Liability, Auto Liability, Public Officials Liability, Employment Practices Liability and Commercial Pollution Legal Liability coverage. Unfortunately, since September 11, 2001 the insurance industry has changed considerably with insurance premiums for all lines of insurance coverage increasing substantially over the last two years. Although the property insurance premiums have begun to stabilize, premiums on the other lines of insurance have increased substantially. Insurance carriers are limiting their exposure to risk. This environment has created policy renewal challenges because certain insurance carriers no longer provide coverage for "special districts" such as TMWA, or have suffered rating downgrades to the extent TMWA will not insure with these carriers. TMWA has continued to insure with only "A" rated carriers.

TMWA's major treatment plants, two reservoirs, and operations center are all covered under a policy underwritten by Affiliated FM Insurance Company. This policy provides for a blanket limit of \$175,000,000 of all risk insurance coverage, subject to standard exclusions. Coverage also provided for are \$25.0 million for Earthquake with the exclusion of assets in California; \$25.0 million in Flood with the Glendale Treatment Plant specifically excluded; and \$9.0 million for Loss of Earnings. The loss of earnings coverage allows TMWA to avoid the use of the bond reserves established pursuant to bond covenants as provided for in the 2001 Series A and Series B bond issues in the event an insured loss occurs. The deductible for Earthquake and Flood coverage is \$100,000 per location. The deductible for all other covered perils is \$25,000.

Granite States Insurance Company (an AIG Company) provides General Liability and Automobile Liability coverage for the first \$1,000,000 in limits. The General Liability policy is subject to a \$25,000 per occurrence Self Insured Retention. The Auto Liability coverage is subject to a \$10,000 deductible per accident. TMWA has purchased another \$10.0 million liability policy in excess of the primary \$1,000,000 in coverage. The excess Umbrella Liability Policy is written with the New Hampshire Insurance Company (an AIG Company). These policies exclude coverage for dams, flumes and hydroelectric plants.

The Employer's Insurance Company of Nevada (EICON) provides worker's compensation insurance for TMWA employees. This is a fully insured program with no deductible and coverage has been issued for statutory limits as required by the State of Nevada. The policy also provides \$1,000,000 in limits for Employers Liability coverage. TMWA participates in the health insurance programs of the City of Reno.

The Gulf Insurance Group provides Crime coverage for \$250,000, subject to a \$10,000 deductible. The policy includes coverage for Employee Dishonesty, Forgery or Alteration, and various theft conditions.

The American International Specialty Lines Insurance Company provides Commercial Pollution Liability coverage. This policy was placed when TMWA purchased the water assets from SPPCo. The policy was written for \$50,000 in limits and is subject to a \$100,000 deductible for each incident. The Products Pollution coverage is limited to \$35,000,000. The policy extended from June 11, 2001 to June 11, 2011.

#### **PENSION AND DEFERRED COMPENSATION PLANS**

The Truckee Meadows Water Authority participates in the Nevada Public Employees Retirement System (PERS), a multiple-employer-defined-benefit pension plan. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. PERS is the common investment and administrative agent for participating public entities within the State of Nevada. Benefits levels and all administrative requirements are established by statute. TMWA has elected to make contributions on behalf of its employees, but all employees are allowed to choose between two funding options.

Under the first option, TMWA funds all contributions to PERS, the second option is a 50/50 option whereby the employee funds one-half of the contributions and TMWA funds the other one-half of the contributions. Under the first option the employees are not entitled to reimbursement of their contributions if they leave the employ of TMWA prior to vesting. An employee vests with PERS after five years of cumulative employment with the PERS system. Under option two the employee can be reimbursed for the employee's contributions only, but have no rights to any investment earnings. Contribution requirements are established by state statute.

In addition, TMWA provides deferred compensation plans in accordance with Sections 401(a) and 457 of the Internal Revenue Code. TMWA's eligible employees can elect to defer a portion of their salary until future years. The employees are not liable for income taxes on amounts deferred until funds are withdrawn. All plan assets are held for the exclusive benefit of the plan participants and their beneficiaries. Because plan assets are for the benefit of TMWA employees and beneficiaries, the plan assets and corresponding liability to pay participants are not recognized in the accompanying financial statements.

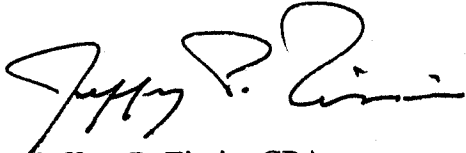
## ACKNOWLEDGEMENTS

The timely preparation of this report could not be done without the assistance of TMWA finance personnel, finance consultants, and the management and employees of TMWA. We would like to thank the Board of Directors, TMWA customers, and the development community, for their commitment to the long-term financial stewardship of TMWA.

Respectfully submitted,



Lori Williams  
General Manager



Jeffrey P. Tissier CPA  
Manager of Financial and Administrative Services

November 1, 2003

TRUCKEE MEADOWS WATER AUTHORITY  
LIST OF PRINCIPAL OFFICIALS

**TMWA Board of Directors**

Tony Armstrong, Mayor, City of Sparks, Chair of the Board

David Aiazzi, Councilperson, City of Reno, Vice Chair of the Board

Bob Cashell, Mayor, City of Reno, Board Member

Mike Carrigan, Councilperson, City of Sparks, Board Member

Carlo Panicari, Retired Businessperson, Board Member

Peter Sferazza, Washoe County Commissioner, Board Member

**Management**

Lori Williams, General Manager

Sylvia Harrison, General Counsel

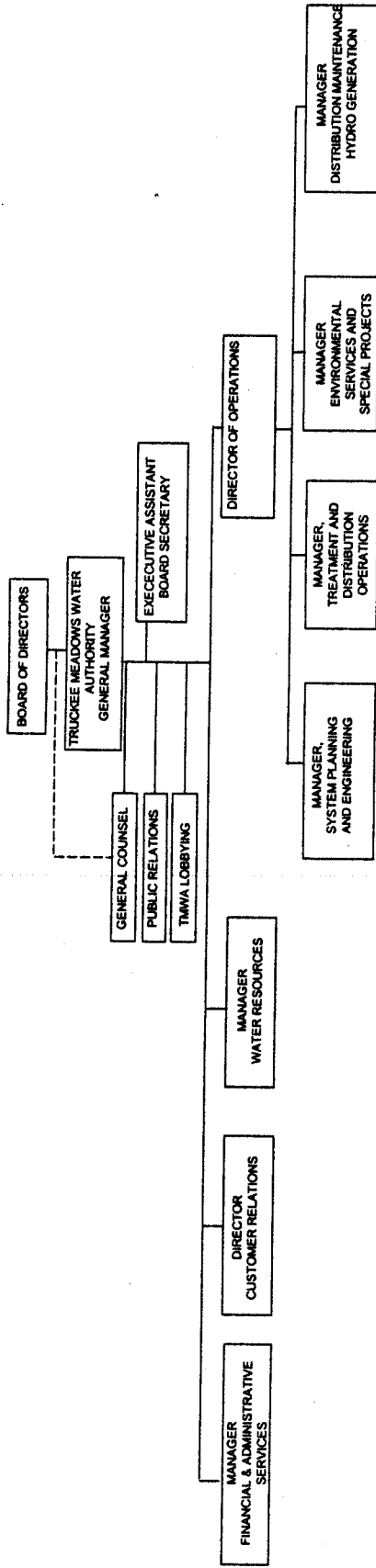
Kim Mazeris, Director of Customer Service

Mark Foree, PE Director of Operations

John Erwin, Manager of Water Resources and Planning

Jeffrey Tissier, CPA, Manager of Financial & Administrative Services

TRUCKEE MEADOWS WATER AUTHORITY





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

Independent Auditor's Report

To the Board of Directors of the  
Truckee Meadows Water Authority

We have audited the basic financial statements of Truckee Meadows Water Authority, a Joint Powers Authority (TMWA) as listed in the table of contents as of and for the years ended June 30, 2003 and 2002. 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, 2003 and 2002, 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-2G 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.

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.

*Kafoury, Armstrong & Co.*

Reno, Nevada  
October 7, 2003

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Governmental Accounting Standards Board has recently issued a new accounting standard referred to as GASB Number 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. GASB No. 34 establishes financial reporting standards for state and local governments, including states, cities, villages and special purpose governments such as school districts and public utilities. This new standard has minor impacts upon the financial reporting and accounting performed by the Truckee Meadows Water Authority (TMWA). As a result, GASB No. 34 required changes are included in this year's Financial Statement presentation. Prior year financial results were presented in a comparable format to allow for meaningful comparative analysis.

- The format and the title of the basic "Balance Sheet" have been changed to "Statement of Net Assets." The format of information has been changed from a listing of the Assets, Liabilities, and Equity to a listing of the Total Assets less Total Liabilities arriving at the Total Net Assets. The category "Equity" has been changed to "Net Assets." However, it retains the same categorization of balances.

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, 2003 and June 30, 2002. 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. Comparison of fiscal years ended June 30, 2002 to June 30, 2001 is not possible because the June 30, 2001 financial information only covered nineteen days of operations. Comparison of these fiscal years ended June 30, 2002 and June 30, 2001 would not provide meaningful comparative information.

### FINANCIAL HIGHLIGHTS

<u>TMWA's Net Assets</u>		
<i>(in millions)</i>		
	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Unrestricted Current and Other Assets	\$ 63.5	\$ 64.2
Restricted Current and Other Assets	59.7	57.1
Capital Assets	<u>374.0</u>	<u>357.8</u>
<b>Total Assets</b>	<b><u>497.2</u></b>	<b><u>479.1</u></b>
Long-Term Debt Outstanding	447.9	447.8
Other Liabilities	<u>18.9</u>	<u>19.3</u>
<b>Total Liabilities</b>	<b><u>466.8</u></b>	<b><u>467.1</u></b>
Invested in Capital Assets, Net of Related Debt	21.8	7.6
Restricted	5.2	2.5
Unrestricted	<u>3.4</u>	<u>1.9</u>
<b>Total Net Assets</b>	<b><u>\$ 30.4</u></b>	<b><u>\$ 12.0</u></b>

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, the value of total unrestricted current assets decreased by approximately \$0.7 million, 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.

Total restricted current assets increased \$2.7 million 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.

Total non-current assets increased by \$16.1 million, 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 \$28.8 million including developer contributions of \$5.8 million for a net addition due to capital spending of \$23.0 million. Accumulated depreciation increased by \$12.3 million.

Total current liabilities decreased \$0.4 million 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 is interest due on TMWA indebtedness. This amount was the same as in the prior fiscal year because no principal reductions were required during the year ended June 30, 2003. 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 was the result of the amortization of a bond discount of \$0.1 million.

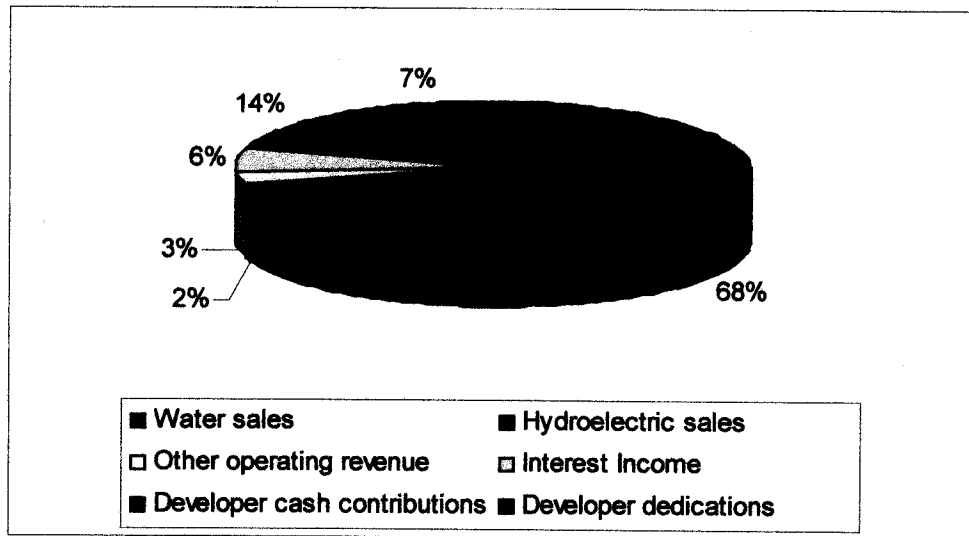
**TMWA's Changes in Net Assets**

*(in millions)*

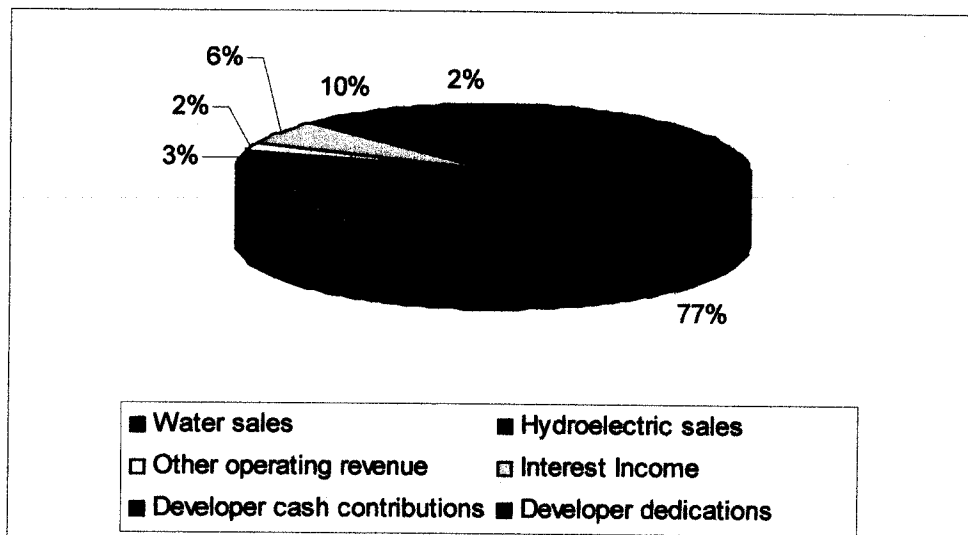
	<b><u>June 30, 2003</u></b>	<b><u>June 30, 2002</u></b>
Operating Revenues	\$ 62.2	\$ 60.4
Operating Expenses	<u>42.0</u>	<u>37.7</u>
Operating Income	20.2	22.7
Nonoperating Revenues (Expenses)	(19.2)	(19.1)
Capital Contributions	<u>17.4</u>	<u>9.3</u>
Change in Net Assets	<b><u>\$ 18.4</u></b>	<b><u>\$ 12.9</u></b>

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

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



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



Total revenues as reported in the Statement of Revenues, Expenses, and Changes in Net Assets for 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, \$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.

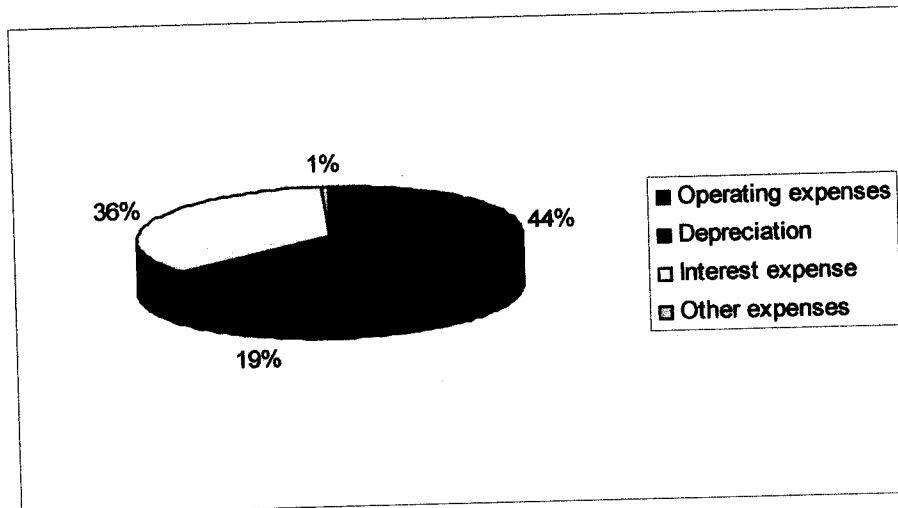
Total revenues as reported in the Statement of Revenues, Expenses, and Changes in Net Assets for fiscal year ended June 30, 2002 were \$74.3 million, which includes \$60.4 million in operating revenue, \$9.3 million in non-operating developer contributions, and \$4.6 million in investment income. Operating 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.

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 million were offset by \$0.5 million less 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 increased collection 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.

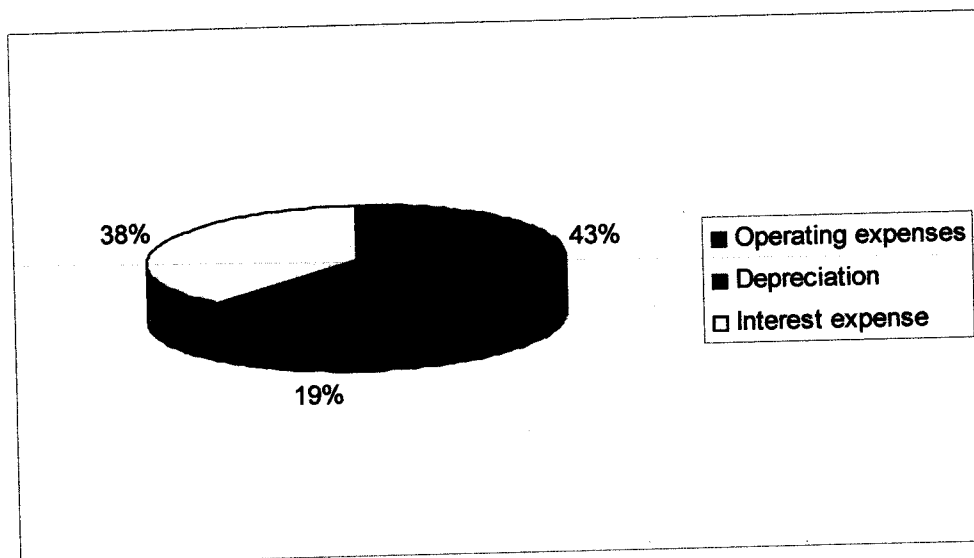
Developer contributions increased \$8.1 million as the result of increased infrastructure dedications of \$3.9 million, increased water right sales of \$1.7 million, increased contributions to the water meter retrofit fund of \$0.9 million, and increased other developer contributions of \$1.6 million.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

The following graphs represent the makeup of total operating and non-operating expenses for the Fiscal Years Ended June 30, 2003 and June 30, 2002:

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



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



Total TMWA operating and non-operating expenses for the fiscal 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 44%, interest expense on the acquisition debt was \$23.6 million or 36%, depreciation expense was 12.4 million or 19%, with other miscellaneous charges of \$0.4 million or 1% of TMWA's total expenses.

Total TMWA operating and non-operating expenses for the fiscal 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 year over year operating expenses is 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, 2003, TMWA's total capital assets are \$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 is \$8.0 million in construction work in progress. Detailed information about TMWA's capital assets can be found in Note 4 to TMWA's financial statements.

### **LONG-TERM DEBT**

At fiscal year end, TMWA had \$447.9 million in outstanding indebtedness comprised of two series of bonds. These bonds were issued to acquire the water assets and hydroelectric facilities of SPPCo, a publicly traded corporation. These bonds were assigned an A-/BBB+ bond rating. Detailed information about TMWA's indebtedness can be found in Note 5 to TMWA's financial statements. As of June 30, 2003, TMWA did not issue any additional debt. For the fiscal year ended June 30, 2003, TMWA paid \$23.6 million in interest expense and no principal as presented on the Statement of Cash Flows. TMWA is in compliance with all bond covenants and reserve funding requirements.

## **SIGNIFICANT FINANCIAL DECISIONS**

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 are designed to pay for the construction of new water infrastructure capacity. These facility charges are \$1,510 per gallon per minute (GPM) for supply and treatment capacity and \$1,122 per GPM for storage capacity. These charges are completely in effect on December 31, 2003 to take into account projects that were in various stages of review during the adoption of these fees. The first of these fees were collected in September of 2003.

In September 2003 the TMWA board adopted a new schedule of water rates that would raise overall customer rates by approximately 20%. The rate increase by customer class will vary 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 service rendered outside of water sales.

## **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, 2003 AND 2002**

**ASSETS**

	<b>2003</b>	<b>2002</b>
<b>CURRENT ASSETS</b>		
Cash and investments	\$ 44,697,845	\$ 48,670,695
Accounts receivable, net	8,732,918	6,347,384
Due from other governments	937,461	408,754
Interest receivable	1,056,365	847,195
Prepaid assets	2,223,978	2,034,596
	<u>57,648,567</u>	<u>58,308,624</u>
<b>TOTAL Current Assets</b>		
<b>RESTRICTED CURRENT ASSETS</b>		
Cash and investments:		
Water meter retrofit program	837,706	547,374
Current bond debt service	11,797,164	11,797,164
Future bond debt service	30,119,430	30,119,430
Operations and maintenance	4,994,800	4,600,000
Renewal and replacement	3,486,000	1,494,000
Hydro asset purchase	8,000,000	8,000,000
Water rate stabilization	500,000	500,000
	<u>59,735,100</u>	<u>57,057,968</u>
<b>TOTAL Restricted Current Assets</b>		
<b>NONCURRENT ASSETS</b>		
Capital assets, net	374,062,065	357,769,436
Due from developers	490,961	490,961
Deferred charges	5,287,192	5,465,670
	<u>379,840,218</u>	<u>363,726,067</u>
<b>TOTAL Noncurrent Assets</b>		
<b>Total Assets</b>	<u>\$ 497,223,885</u>	<u>\$ 479,092,659</u>

**LIABILITIES**

**CURRENT LIABILITIES PAYABLE FROM UNRESTRICTED**

**CURRENT ASSETS**

Accounts payable	\$ 2,148,758	\$ 2,971,941
Contracts and retention payable	1,144,679	1,641,608
Accrued liabilities	2,736,403	2,331,339
Due to other governments	708,862	594,352
Customer deposits and amounts due to developers	407,495	-
	<u>7,146,197</u>	<u>7,539,240</u>
<b>Total Current Liabilities Payable from Unrestricted Current Assets</b>		

**CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS**

Interest payable	11,797,164	11,797,164
------------------	------------	------------

**NONCURRENT LIABILITIES**

Long-term debt, net	447,899,304	447,753,550
	<u>466,842,665</u>	<u>467,089,954</u>
<b>Total Liabilities</b>		

**NET ASSETS**

Invested in capital assets, net of related debt	21,801,078	7,563,536
Restricted for water meter retrofit	837,706	547,374
Restricted for operations and maintenance reserve	394,800	-
Restricted for renewal and replacement reserve	3,486,000	1,494,000
Restricted for water rate stabilization	500,000	500,000
Unrestricted	3,361,636	1,897,795
	<u>30,381,220</u>	<u>12,002,705</u>
<b>Total Net Assets</b>		
<b>Total Liabilities/Net Assets</b>	<u>\$ 497,223,885</u>	<u>\$ 479,092,659</u>

See accompanying notes.

**TRUCKEE MEADOWS WATER AUTHORITY  
STATEMENT OF REVENUES, EXPENSES AND CHANGES  
IN NET ASSETS - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2003**

	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
<b>OPERATING REVENUES</b>			
Charges for water sales	\$ 59,719,900	\$ 57,742,156	\$ (1,977,744)
Hydroelectric sales	2,102,005	1,822,052	(279,953)
Other operating sales	967,878	2,683,200	1,715,322
Total Operating Revenues	<u>62,789,783</u>	<u>62,247,408</u>	<u>(542,375)</u>
<b>OPERATING EXPENSES</b>			
Salaries and wages	8,533,830	8,278,246	255,584
Employee benefits	3,538,333	2,992,281	546,052
Services and supplies	18,011,639	18,392,597	(380,958)
Total Operating Expenses before Depreciation	<u>30,083,802</u>	<u>29,663,124</u>	<u>420,678</u>
Depreciation	<u>12,865,000</u>	<u>12,364,097</u>	<u>500,903</u>
Total Operating Expenses	<u>42,948,802</u>	<u>42,027,221</u>	<u>921,581</u>
Operating Income	<u>19,840,981</u>	<u>20,220,187</u>	<u>379,206</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Federal grants	115,000	152,973	37,973
Investment earnings	3,028,162	4,597,774	1,569,612
Gain on disposal of assets	-	3,357	3,357
Amortization of bond issuance costs	(324,000)	(178,477)	145,523
Interest expense	(23,594,328)	(23,552,125)	42,203
Other	(165,000)	(263,240)	(98,240)
Total Nonoperating Revenues (Expenses)	<u>(20,940,166)</u>	<u>(19,239,738)</u>	<u>1,700,428</u>
Income (Loss) before Capital Contributions	<u>(1,099,185)</u>	<u>980,449</u>	<u>2,079,634</u>
<b>CAPITAL CONTRIBUTIONS</b>			
Water meter retrofit program	2,000,000	3,192,172	1,192,172
Developer infrastructure contributions	4,000,000	5,778,366	1,778,366
Developer water-right contributions	4,000,000	4,724,860	724,860
Developer capital contributions-other	3,394,179	3,702,669	308,490
Contributions from other governments	987,200	-	(987,200)
Net Capital Contributions	<u>14,381,379</u>	<u>17,398,066</u>	<u>3,016,687</u>
Change in Net Assets	<u>\$ 13,282,194</u>	<u>18,378,515</u>	<u>\$ 5,096,321</u>
<b>NET ASSETS , BEGINNING OF YEAR</b>		<u>12,002,705</u>	
<b>NET ASSETS , END OF YEAR</b>		<u>\$ 30,381,220</u>	

See accompanying notes.

**TRUCKEE MEADOWS WATER AUTHORITY  
STATEMENT OF REVENUES, EXPENSES AND CHANGES  
IN NET ASSETS (DEFICIT) - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2002**

	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
<b>OPERATING REVENUES</b>			
Charges for sales and services	\$ 57,336,238	\$ 56,749,847	\$ (586,391)
Hydroelectric sales	2,260,000	2,336,863	76,863
Other operating sales	900,019	1,351,588	451,569
	<u>60,496,257</u>	<u>60,438,298</u>	<u>(57,959)</u>
<b>OPERATING EXPENSES</b>			
Salaries and wages	7,636,179	7,371,557	264,622
Employee benefits	2,968,146	2,790,226	177,920
Services and supplies	16,896,835	16,203,341	693,494
	<u>27,501,160</u>	<u>26,365,124</u>	<u>1,136,036</u>
Total Operating Expenses before Depreciation	27,501,160	26,365,124	1,136,036
Depreciation	<u>13,452,605</u>	<u>11,354,485</u>	<u>2,098,120</u>
	<u>40,953,765</u>	<u>37,719,609</u>	<u>3,234,156</u>
Total Operating Expenses	40,953,765	37,719,609	3,234,156
Operating Income	<u>19,542,492</u>	<u>22,718,689</u>	<u>3,176,197</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Investment earnings	4,409,500	4,572,853	163,353
Gain (loss) on asset disposal	-	4,526	4,526
Amortization of bond issuance costs	(324,000)	(178,674)	145,326
Interest expense	<u>(23,594,330)</u>	<u>(23,525,010)</u>	<u>69,320</u>
	<u>(19,508,830)</u>	<u>(19,126,305)</u>	<u>382,525</u>
Total Nonoperating Revenues (Expenses)	(19,508,830)	(19,126,305)	382,525
Income before Capital Contributions	<u>33,662</u>	<u>3,592,384</u>	<u>3,558,722</u>
<b>CAPITAL CONTRIBUTIONS</b>			
Water meter retrofit program	2,000,000	2,244,992	244,992
Developer infrastructure contributions	-	1,882,008	1,882,008
Developer contributions for water-rights	3,000,000	3,047,602	47,602
Developer capital contributions - other	<u>-</u>	<u>2,137,489</u>	<u>2,137,489</u>
	<u>5,000,000</u>	<u>9,312,091</u>	<u>4,312,091</u>
Total Capital Contributions	5,000,000	9,312,091	4,312,091
Change in Net Assets	<u>\$ 5,033,662</u>	<u>12,904,475</u>	<u>\$ 7,870,813</u>
<b>NET ASSETS (DEFICIT), BEGINNING OF YEAR</b>		<u>(901,770)</u>	
<b>NET ASSETS, END OF YEAR</b>		<u>\$ 12,002,705</u>	

See accompanying notes.

**TRUCKEE MEADOWS WATER AUTHORITY  
STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002**

	<b>2003</b>	<b>2002</b>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 59,740,662	\$ 57,249,580
Cash paid to employees	(10,865,463)	(9,197,677)
Cash paid to suppliers	(19,290,652)	(17,040,848)
	<u>29,584,547</u>	<u>31,011,055</u>
Net Cash Provided by Operating Activities		
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets	(23,358,909)	(25,471,029)
Interest paid on financing	(23,594,328)	(13,763,555)
Proceeds from capital asset disposal	10,036	11,871
Contributions for water meter retrofit program	3,192,172	2,733,289
Contributions from developers-water rights	4,724,860	3,047,602
Contributions from developers-other	3,702,669	2,137,489
Federal grants	152,973	-
Other	(263,240)	-
	<u>(35,433,767)</u>	<u>(31,304,333)</u>
Net Cash (Used) by Capital and Related Financing Activities		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	4,553,502	3,725,658
	<u>4,553,502</u>	<u>3,725,658</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(1,295,718)	3,432,380
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>105,728,663</u>	<u>102,296,283</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 104,432,945</u>	<u>\$ 105,728,663</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income	\$ 20,220,187	\$ 22,718,689
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	12,364,097	11,354,485
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(2,385,534)	(2,888,193)
Due from other governments	(528,707)	(300,525)
Prepaid assets	(189,382)	(2,017,141)
Increase (decrease) in:		
Accounts payable	(823,183)	1,908,969
Accrued liabilities	405,064	964,106
Due to customers and developers	407,495	(40,000)
Due to other governments	114,510	(689,335)
	<u>9,364,360</u>	<u>8,292,366</u>
Total Adjustments		
Net Cash Provided by Operating Activities	<u>\$ 29,584,547</u>	<u>\$ 31,011,055</u>
<b>NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Developer infrastructure contributions	\$ 5,778,366	\$ 1,882,008
Reclassification of amount due from developers to capital assets	-	473,614
Capitalization of interest expense	187,957	215,072
Capitalization of interest revenue	164,898	-
Amortization of bond discounts and deferred charges	324,232	324,232
See accompanying notes.		

TRUCKEE MEADOWS WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003 AND 2002

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 general purpose 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.

TRUCKEE MEADOWS WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003 AND 2002

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 Tuesday 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.

TRUCKEE MEADOWS WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003 AND 2002

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. Prior to August 4, 2002 SPPCo was contracted with to provide customer billing services to TMWA on a transitional basis (see Note 10). Under the terms of the agreement, SPPCo remitted to TMWA 99.75% of amounts billed to Water System customers, regardless of actual collections. As of August 4, 2002 TMWA assumed all customer care responsibilities with the exception of most meter reading services. TMWA reserves 0.25% of billed water revenues as a bad debt reserve and will continue this practice until collection experience warrants revising the reserve.

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.

TRUCKEE MEADOWS WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
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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 balance sheet 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 balance sheet 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.

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. Depreciation is computed using the straight-line method over the assets' estimated useful lives, ranging from 3 to 75 years.

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, 2003 AND 2002

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. Capital contributions consist of contributed assets from developers and from other governments for new capacity improvements. Developer on-site contributions is an estimation of the value of infrastructure built by developers and permanently dedicated to TMWA.

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 - CASH AND INVESTMENTS

Cash:

Cash held by TMWA consisted of the following:

	2003		2002	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Petty cash	\$ 3,300	\$ -	\$ 1,000	\$ -
Insured (FDIC)	100,000	100,000	100,000	100,000
Collateralized, collateral held by TMWA's agent in TMWA's name	<u>5,630,209</u>	<u>7,292,540</u>	<u>4,548,546</u>	<u>6,649,548</u>
	<u>\$5,733,509</u>	<u>\$7,392,540</u>	<u>\$4,649,546</u>	<u>\$6,749,548</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

TRUCKEE MEADOWS WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
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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 the Authority (the party that purchased the security of TMWA) regardless of whether or not the securities are being held in TMWA's name.

Investments are categorized as follows at June 30, 2003:

<u>Form of Investment</u>	<u>Category</u>			<u>Reported Amount</u>	<u>Fair Value</u>
	1	2	3		
Federal agency securities	<u>\$42,580,861</u>	\$ -	\$ -	\$42,580,861	\$43,615,128

Investments not subject to categorization:

Guaranteed investment contract	51,748,140	51,748,140
Money Market Funds	<u>4,370,435</u>	<u>4,370,435</u>
	<u>\$98,699,436</u>	<u>\$99,733,703</u>

Investments were categorized as follows at June 30, 2002:

<u>Form of Investment</u>	<u>Category</u>			<u>Reported Amount</u>	<u>Fair Value</u>
	1	2	3		
Federal agency securities	<u>\$38,649,190</u>	\$ -	\$ -	\$ 38,649,190	\$ 38,649,190

Investments not subject to categorization:

Guaranteed investment contract	53,449,245	53,449,245
Money Market Funds	<u>8,980,682</u>	<u>8,980,682</u>
	<u>\$101,079,117</u>	<u>\$101,926,123</u>

TRUCKEE MEADOWS WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003 AND 2002

The carrying amount of cash and investments is represented on the accompanying  
Statements of Net Assets as follows:

	2003	2002
Cash and investments, unrestricted	\$ 44,697,845	\$ 48,670,695
Cash and investments, restricted	59,735,100	57,057,968
	\$104,432,945	\$105,728,663

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2003 follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Capital Assets not Being Depreciated:</b>				
Construction in progress	\$ 7,525,407	\$ 23,310,844	\$(22,808,681)	\$ 8,027,570
Land	7,672,469	-	-	7,672,469
Water rights	1,822,755	1,232,240	-	3,054,995
<b>Total Capital Assets not Being Depreciated</b>	<b>17,020,631</b>	<b>24,543,084</b>	<b>(22,808,681)</b>	<b>18,755,034</b>
<b>Capital Assets Being Depreciated:</b>				
Distribution mains	130,736,693	10,452,809	-	141,189,502
Plant	116,724,014	170,653	-	116,894,667
Services	42,822,981	8,623,535	-	51,446,516
Booster pump stations	9,319,057	1,770,058	-	11,089,115
Tanks	23,177,350	380,143	-	23,557,493
Wells	9,874,402	1,397,726	-	11,272,128
Pressure reducing valves	2,158,958	372,383	-	2,531,341
Ditches	5,272,449	2,355,905	-	7,628,354
Reservoirs	9,181,015	-	-	9,181,015
Vehicles	1,733,418	439,858	(27,605)	2,145,671
Leasehold improvement	161,604	82,445	-	244,049
Furniture and fixtures	324,505	30,604	-	355,109
Computer hardware and software	1,226,144	852,883	-	2,079,027
<b>Total Capital Assets Being Depreciated</b>	<b>352,712,590</b>	<b>26,929,002</b>	<b>(27,605)</b>	<b>379,613,987</b>
<b>Accumulated Depreciation:</b>				
Distribution mains	(2,996,263)	(2,920,458)	-	(5,916,721)
Plant	(4,256,695)	(4,038,140)	-	(8,294,835)
Services	(1,646,908)	(2,113,465)	-	(3,760,373)

TRUCKEE MEADOWS WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003 AND 2002

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Booster pump stations	\$ (925,012)	\$ (566,719)	\$ -	\$ (1,491,731)
Tanks	(599,416)	(616,461)	-	(1,215,877)
Wells	(460,585)	(487,912)	-	(948,497)
Pressure reducing valves	(156,106)	(163,355)	-	(319,461)
Ditches	(122,104)	(165,497)	-	(287,601)
Reservoirs	(466,504)	(441,575)	-	(908,079)
Vehicles	(200,813)	(270,741)	20,926	(450,627)
Leasehold improvement	(28,985)	(74,135)	-	(103,121)
Furniture and fixtures	(19,891)	(33,375)	-	(53,266)
Computer hardware and software	(84,503)	(472,264)	-	(556,767)
<b>Total Accumulated Depreciation</b>	<u>(11,963,785)</u>	<u>(12,364,097)</u>	<u>20,926</u>	<u>(24,306,956)</u>
<b>Total Capital Assets, Net</b>	<u>\$357,769,436</u>	<u>\$ 39,107,989</u>	<u>\$(22,815,360)</u>	<u>\$374,062,065</u>

Capital asset activity for the year ended June 30, 2002 follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<b>Capital Assets not Being Depreciated:</b>				
Construction in progress	\$ 3,027,751	\$21,118,668	\$(16,621,012)	\$ 7,525,407
Land	7,672,469	-	-	7,672,469
Water rights	-	1,822,755	-	1,822,755
<b>Total Capital Assets not Being Depreciated</b>	<u>10,700,220</u>	<u>22,941,423</u>	<u>(16,621,012)</u>	<u>17,020,631</u>
<b>Capital Assets Being Depreciated:</b>				
Distribution mains	128,325,621	2,411,072	-	130,736,693
Plant	116,161,560	562,454	-	116,724,014
Services	37,878,082	4,944,899	-	42,822,981
Booster pump stations	9,313,689	5,368	-	9,319,057
Tanks	16,806,640	6,370,710	-	23,177,350
Wells	9,803,592	70,810	-	9,874,402
Pressure reducing valves	2,158,958	-	-	2,158,958
Ditches	3,016,750	2,255,699	-	5,272,449
Reservoirs	9,181,015	-	-	9,181,015
Vehicles	621,855	1,137,098	(25,535)	1,733,418
Leasehold improvement	-	161,604	-	161,604
Furniture and fixtures	-	324,505	-	324,505
Computer hardware and software	-	1,226,144	-	1,226,144
<b>Total Capital Assets Being Depreciated</b>	<u>333,267,762</u>	<u>19,470,363</u>	<u>(25,535)</u>	<u>352,712,590</u>

**TRUCKEE MEADOWS WATER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2003 AND 2002**

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<b>Accumulated Depreciation:</b>				
Distribution mains	\$ (148,923)	\$ (2,847,340)	\$ -	\$ (2,996,263)
Plant	(229,901)	(4,026,794)	-	(4,256,695)
Services	(88,105)	(1,558,803)	-	(1,646,908)
Booster pump stations	(54,672)	(870,340)	-	(925,012)
Tanks	(32,724)	(566,692)	-	(599,416)
Wells	(23,638)	(436,947)	-	(460,585)
Pressure reducing valves	(8,461)	(147,645)	-	(156,106)
Ditches	(6,420)	(115,684)	-	(122,104)
Reservoirs	(24,929)	(441,575)	-	(466,504)
Vehicles	(9,717)	(209,286)	18,190	(200,813)
Leasehold improvement	-	(28,985)	-	(28,985)
Furniture and fixtures	-	(19,891)	-	(19,891)
Computer hardware and software	-	(84,503)	-	(84,503)
<b>Total Accumulated Depreciation</b>	<u>(627,490)</u>	<u>(11,354,485)</u>	<u>18,190</u>	<u>(11,963,785)</u>
<b>Total Capital Assets, Net</b>	<u>\$343,340,492</u>	<u>\$ 31,057,301</u>	<u>\$(16,628,357)</u>	<u>\$357,769,436</u>

**NOTE 5 - LONG-TERM OBLIGATIONS**

The 2001A and the 2001B 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.

Supported by User Charges:	Final Maturity Date	Authorized	Outstanding at 6/30/02	Outstanding at 6/30/03	<u>2003-2004 Requirements</u>	
					<u>Principal</u>	<u>Interest</u>
2001A Water Revenue (Tax-Exempt) Bonds, 3.70%-5.50%	7/01/34	\$448,810,000	\$448,810,000	\$448,810,000	\$ -	\$23,387,328
2001B Water Revenue (Taxable) Bonds, 5.75%	7/01/05	<u>3,600,000</u>	<u>3,600,000</u>	<u>3,600,000</u>	-	<u>207,000</u>
Subtotal		<u>\$452,410,000</u>	452,410,000	452,410,000	<u>\$ -</u>	<u>\$23,594,328</u>
Less: Unamortized bond discount			<u>4,656,450</u>	<u>4,510,696</u>		
Total			<u>\$447,753,550</u>	<u>\$447,899,304</u>		

TRUCKEE MEADOWS WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003 AND 2002

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

<u>Debt to Maturity</u>	<u>Principal Payment</u>	<u>Interest Payment</u>	<u>Total Debt Service</u>
June 30:			
2004	\$ -	\$ 23,594,328	\$ 23,594,328
2005	-	23,594,328	23,594,328
2006	6,520,000	23,594,328	30,114,328
2007	6,850,000	23,266,027	30,116,027
2008	7,195,000	22,924,377	30,119,377
2009-2014	51,740,000	128,958,997	180,698,997
2015-2019	57,615,000	92,972,740	150,587,740
2020-2024	74,900,000	75,683,774	150,583,774
2025-2029	95,870,000	54,713,196	150,583,196
2030-2034	123,105,000	27,472,282	150,577,282
2035	<u>28,615,000</u>	<u>1,503,090</u>	<u>30,118,090</u>
	<u>\$452,410,000</u>	<u>\$498,277,467</u>	<u>\$950,687,467</u>

NOTE 6 - 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 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.

NOTE 7 - CONTINGENT LIABILITIES

Two complaints were filed with the Public Utilities Commission of Nevada ("PUCN") on behalf of private developers alleging that SPPCo's calculation of the water rights required to be dedicated by such developers to serve their proposed developments was in error. Pursuant to SPPCo tariffs, approved by PUCN, each developer is required to provide SPPCo with sufficient water rights to serve its proposed development, including certain "gross-up" amounts required to be provided to ensure reliable water service in drought years. One complaint originally requested the return (from rights owned by SPPCo and subsequently purchased by TMWA) of approximately 1,700 acre-feet of water allegedly dedicated to SPPCo between 1988 and 1992; the other complaint requested the return of approximately 430 acre-feet allegedly dedicated to SPPCo between 1987 and 1993. The PUCN dismissed a portion of the first claim; however, the developers and SPPCo disagreed as to the amount of water rights

TRUCKEE MEADOWS WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003 AND 2002

actually in dispute in both complaints. The PUCN has indicated its intent to consolidate these cases for decision after the second complaint is processed through the PUCN notice system. Presently, it is not possible to predict the outcome of these complaints. SPPCo has agreed in the Asset Purchase Agreement to indemnify TMWA for 50% of the costs incurred (up to \$2.5 million) if TMWA is required to return the water rights identified in the first complaint. The second claim and any future claims are not covered by the Asset Purchase Agreement. It is not possible to determine the magnitude of water rights that could be subject to question; however, if TMWA is required to return water rights to developers, it may be required to obtain sufficient water rights (at a cost which cannot be determined at this time) to continue servicing its customers.

TMWA is a defendant in lawsuits with the United States, California and Nevada Governments and the Pyramid Lake Paiute Tribe. Presently, it is not possible to predict the outcome of these cases, as they are dependent upon finalization of a water settlement agreement stemming from Public Law 101-618.

TMWA has six wells which currently exceed the proposed federal drinking water standard for naturally occurring arsenic concentrations. TMWA and the State Health Department are currently developing options to assure that TMWA is prepared to meet the new arsenic standards. Depending upon interpretation of the regulations, TMWA may incur between \$7 and \$75 million in costs by 2006 to meet the new standards.

#### NOTE 8 - 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 since inception.

#### NOTE 9 - PENSIONS AND OTHER EMPLOYEE BENEFITS

##### Defined Benefit Plan:

Plan Description. TMWA contributes to the Public Employees Retirement System of the State of Nevada (PERS), a cost sharing, multiple employer, defined benefit plan administered by the Public Employees Retirement System of the State of Nevada. PERS 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. The Public Employees Retirement System of the State of Nevada issues a publicly available financial report that

TRUCKEE MEADOWS WATER AUTHORITY  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2003 AND 2002

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:

<u>Fiscal Year</u>	<u>Contribution Rate</u>		<u>Total Contribution</u>
	<u>Employer Pay Plan</u>	<u>Employer-Employee Plan</u>	
2000/2001	18.75%	9.75%	\$ 22,886
2001/2002	18.75%	9.75%	1,495,347
2002/2003	18.75%	9.75%	1,622,695

Deferred Compensation Plans:

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.

Post-Retirement Insurance Benefits:

By contract, employees who retire under PERS as discussed under the Defined Benefit Plan described above, are eligible for post-retirement medical benefits. The percentage of coverage by TMWA for the retired employees is based upon years of service and age upon retirement. Currently, no eligible employees have retired from service.

The prior union contract employer, SPPCo, currently holds the assets available for post-retirement benefits accumulated prior to the purchase of the Water System by TMWA in a post-retirement health care trust. The transfer of the assets held in trust by SPPCo to a trust established by TMWA had not occurred as of June 30 2003.

TRUCKEE MEADOWS WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003 AND 2002

TMWA obtained an actuarial valuation for June 30, 2002 and recorded service cost of \$233,202 for June 30, 2002 based on significant assumptions including a 6.75% discount rate and an 8.5% return on asset assumption. Based upon the valuation at June 30, 2002, assets available for benefits and the unfunded liability were \$1,292,977 and \$1,169,776, respectively. TMWA has not had a subsequent actuarial valuation and, thus, at June 30, 2003 it recorded an estimated service cost of \$233,000 and the assets available for benefits and the unfunded liability were not determinable.

NOTE 10 - COMMITMENTS

At June 30, 2003, TMWA was committed under the Asset Purchase Agreement to expend \$8,000,000 for the purchase of Hydro Assets at a future date yet to be determined.

TMWA has committed \$1,250,000 to the City of Reno for water-main realignment related to the RETRAC project. As of June 30, 2003 TMWA has spent \$119,856 towards this commitment. Of the \$1,250,000, TMWA has committed \$1,000,000 during the fiscal year ending June 30, 2004 and \$130,144 during the fiscal year ending June 30, 2005.

Upon formation of TMWA, certain contracts with SPPCo were entered into, stipulating that SPPCo would provide a variety of Water System services on a transitional basis. TMWA assumed responsibility for bundled customer service on August 4, 2002, leaving SPPCo to continue providing only certain meter reading services.

NOTE 11 - RELATED PARTY TRANSACTIONS

TMWA has entered into a cancelable administrative services agreement with the City of Reno expiring June 30, 2004. Under the agreement, the City of Reno will provide a variety of services including, but not limited to, accounting, purchasing, investing and other financial services, budgeting, human resources, administration of payroll and employee benefits, development and maintenance of information systems, and property management. The fee for such services is \$48,922 per month, increasing 4% annually.

Included in amounts due to other governments at June 30, 2003 are right-of-way toll fees due the City of Sparks and the City of Reno in the amounts of \$100,876 and \$233,256 respectively, in addition to a regional water management fee due to Washoe County in the amount of \$267,241. At June 30, 2002 the amounts were \$68,876, \$28,089 and \$249,365 for the City of Sparks, the City of Reno and Washoe County, respectively. These fees are collected for the benefit of the local governments from TMWA customers.

TRUCKEE MEADOWS WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003 AND 2002

NOTE 12 - SUBSEQUENT EVENTS

On August 20, 2003, TMWA completed the purchase of a seven acre parcel of land for \$1.4 million for the future location of TMWA operations.

On September 17, 2003, TMWA management recommended a general water rate increase for all classes of TMWA customers. The Board heard the justification for the general water rate increase at the scheduled public hearing. The TMWA Board approved the \$11.0 million annual rate increase. This first increase was part of a proposed three phase increase to occur over the next three years. The purpose of the increase is to create sufficient cash flow to pay for TMWA operating expenses, fund TMWA annual debt service of approximately \$30.1 million per year, and provide for water system reconstruction efforts of approximately \$15.0 million annually.

TRUCKEE MEADOWS WATER AUTHORITY  
 OPERATING REVENUES BY CUSTOMER CLASS  
 FOR FISCAL YEARS ENDED JUNE 30, 2003 AND 2002

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Charges for water sales		
Residential unmetered water sales	\$ 23,403,951	\$ 24,253,164
Residential metered water sales	16,739,327	14,850,902
Commercial metered water sales	9,826,890	9,950,116
Irrigation metered	5,563,524	5,447,990
Public/private fire protection	219,898	504,234
Wholesale water sales	1,988,566	1,743,441
	<u>57,742,156</u>	<u>56,749,847</u>
Hydroelectric sales	1,822,052	2,336,863
Other operating revenues	<u>2,683,200</u>	<u>1,351,588</u>
 Total Operating Revenues	 <u><u>\$ 62,247,408</u></u>	 <u><u>\$ 60,438,298</u></u>

TRUCKEE MEADOWS WATER AUTHORITY  
OPERATING EXPENSES  
FOR FISCAL YEARS ENDED JUNE 30, 2003 AND 2002

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Salaries and wages	\$ 8,278,246	\$ 7,371,557
Employee benefits	2,992,281	2,790,226
Contract services	5,952,053	3,873,710
Power	5,525,292	4,937,396
Professional services	1,049,773	1,806,866
Supplies	947,413	1,339,689
Chemicals	883,589	740,827
Insurance	637,276	495,788
Leases and rentals	464,010	735,899
Other expenses	2,933,191	2,273,166
	<u>\$ 29,663,124</u>	<u>\$ 26,365,124</u>

TRUCKEE MEADOWS WATER AUTHORITY  
DEBT SERVICE COVERAGE  
JUNE 30, 2003

	Debt Service Coverage (In Thousands)		
	Short Period Results(1)	Fiscal Year Results	Fiscal Year Results
	<u>2001</u>	<u>2002</u>	<u>2003</u>
Operating revenues (2)	\$ 3,931	\$ 56,750	\$ 57,742
Non-operating revenues (3)	2,490	8,062	11,112
Gross Revenues	<u>6,421</u>	<u>64,812</u>	<u>68,854</u>
Operation and maintenance expenses (4)	3,555	23,756	27,510
Taxes other than income taxes (5)	-	272	331
Total Expenses	<u>3,555</u>	<u>24,028</u>	<u>27,841</u>
Net Revenues	<u>\$ 2,866</u>	<u>\$ 40,784</u>	<u>\$ 41,013</u>
Annual debt service (6)	\$ 1,967	\$ 13,763	\$ 23,594
Coverage	1.46	2.96	1.74

- (1) The financial information covers the financial reporting period between June 11, 2001 and June 30, 2001. This period covers the first nineteen days of operation between the acquisition date and the end of the fiscal reporting year. Revenues reflect actual billed revenue and an estimate of earned but unbilled revenue for water delivered in June but billed in July. Operations and Maintenance Expenses include \$1.711 million in expenses related to the acquisition of TMWA that are non-recurring in nature.
- (2) Includes retail residential, commercial, irrigation water sales, and wholesale water sales. Hydroelectric sales are netted against operating expenses.
- (3) Represents \$4,572,853 in investment income, \$1,351,588 other miscellaneous operating income and \$2,137,489 in System Development Charges (SDC) for the fiscal year ended 6/30/2002. Represents \$4,597,774 in investment income, \$2,836,173 other miscellaneous operating income and \$3,702,669 in System Development Charges (SDC) for the fiscal year ended 6/30/2003. Other revenues do not include water meter retrofit payments and sales of water rights/will serves since these projects are earmarked expenses.
- (4) Includes Supply, Treatment & Distribution, (including labor costs and purchased power costs net of hydroelectric output), Customer Service, Administration and inspection services. Salaries and wages, employee benefits and services and supplies comprise these expenses.
- (5) The Authority is required to pay property taxes on water rights and storage facilities located in California. During the fiscal year ended June 30, 2002, TMWA paid various counties in California \$271,701 for hydroelectric facilities and water storage rights in California.
- (6) Debt service has been interest only. On July 1, 2005 TMWA will pay its first principal payment of \$6,520,000.

TRUCKEE MEADOWS WATER AUTHORITY  
CUSTOMERS BY CATEGORY  
JUNE 30, 2003

<u>Category</u>	<u>Average Number of Accounts</u>	<u>% of Total Accounts</u>	<u>Charges for Water Sales (1)</u>	<u>% of Total Revenues</u>
Residential unmetered	30,975	38.2%	\$ 23,403,951	40.5%
Residential metered	40,585	50.1%	16,739,327	29.0%
Commercial	4,960	6.1%	9,826,890	17.0%
Other (2)	4,489	5.5%	5,783,422	10.0%
Wholesale	4	0.0%	1,988,566	3.4%
Total	<u>81,013</u>	<u>100.0%</u>	<u>\$ 57,742,156</u>	<u>100.0%</u>

(1) Water revenues are the revenues billed and estimated for the period between July 1, 2002 and June 30, 2003. Estimated revenue is revenue that is earned but unbilled as of June 30, 2003. TMWA's financial statements are reported on a fiscal year basis.

(2) Includes private fire protection/sprinkler systems located on the premises of residential and commercial customers. Totals include irrigation customers and construction water.

**TRUCKEE MEADOWS WATER AUTHORITY**  
**GALLONS OF WATER SOLD AND REVENUES BY CATEGORY**  
**JUNE 30, 2003**

Category	Short Period Fiscal Year 2001		Fiscal Year Ended June 30,2002		Fiscal Year Ended June 30,2003	
	Gallons Sold (000)	Revenue	Gallons Sold (000)	Revenue	Gallons Sold (000)	Revenue
Residential unmetered (1)	--(1)	\$ 1,290,669	--(1)	\$ 24,253,164	--(1)	\$ 23,403,951
Residential metered	777,812	1,219,876	5,439,891	14,850,902	6,014,347	16,739,327
Commercial	768,544	645,148	4,163,228	9,950,116	4,634,532	9,826,890
Other (2)	--(1)	592,929	2,119,840	5,952,224	1,933,611	5,783,422
Wholesale	-	182,310	1,259,208	1,743,441	1,361,691	1,988,566
<b>Total</b>	<b>1,546,356</b>	<b>\$ 3,930,932</b>	<b>12,982,167</b>	<b>\$ 56,749,847</b>	<b>13,944,181</b>	<b>\$ 57,742,156</b>

(1) The Truckee Meadows Water Authority (TMWA) was wholly dependent upon Sierra Pacific Resources for account meter reading, billing of water accounts, and remittance processing in fiscal year 2001-2002. During fiscal year 2001-2002 Sierra Pacific Resources was responsible for reporting revenue and consumption data to TMWA. Consumption information was not available for unmetered customers. Consumption information was estimated from water rates and reported revenues submitted to TMWA for residential metered, commercial metered, and large volume service accounts.

TMWA assumed responsibilities for billing water accounts, and remittance processing on August 4, 2002. Sierra Pacific Resources continues to provide meter reading services to TMWA.

(2) These accounts include irrigation and fire protection/sprinkler systems located on the premises of the residential and commercial customers.

TRUCKEE MEADOWS WATER AUTHORITY  
LARGEST CUSTOMERS  
JUNE 30, 2003

	<u>Customer Name</u>	<u>Water Used (x1,000gal)</u>	<u>Total Revenue</u>
1	SUN VALLEY GID	761,512	\$ 919,237
2	WASHOE CTY. DEPT. OF WATER RESOURCES	542,942	902,815
3	UNIVERSITY OF NEVADA	321,467	746,713
4	WASHOE COUNTY SCHOOL DISTRICT	355,723	665,401
5	RENO HILTON	287,177	594,606
6	CITY OF RENO	181,069	360,830
7	JOHN ASCUAGA'S NUGGET	147,926	288,504
8	SILVER LEGACY	128,664	239,420
9	HARRAH'S-RENO	98,284	187,111
10	CITY OF SPARKS	87,983	177,752
			<u>\$ 5,082,389</u>



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

Independent Accountant's Report on  
Nevada Revised Statute 354.6241

To the Board of Directors of the  
Truckee Meadows Water Authority

We have reviewed the assertion provided by management in accordance with Nevada Revised Statute 354.624 (5) (a):

- The identified fund is being used expressly for the purpose for which it was created,
- The fund is administered in accordance with accounting principles generally accepted in the United States of America,
- The restricted net assets in the fund were reasonable and necessary to carry out the purposes of the fund at June 30, 2003 (based on the interpretation of reasonable and necessary provided by the Legislative Counsel Bureau),
- The sources of revenues available for the fund are as noted in the financial statements,
- The fund conforms to significant statutory and regulatory constraints on its financial administration during the year ended June 30, 2003,
- The net assets of the funds are as noted in the financial statements.

This assertion is the responsibility of the management of the Truckee Meadows Water Authority.

Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on the assertion. Accordingly, we do not express such an opinion.

Based on our review, nothing came to our attention that caused us to believe that the assertion provided by management referred to above is not fairly stated in all material respects.

*Kafoury, Armstrong & Co.*

Reno, Nevada  
October 7, 2003

## AUDITOR'S COMMENTS

### STATUTE COMPLIANCE

The required disclosure on compliance with Nevada Revised Statutes and the Nevada Administrative Code is contained in Note 2 to the financial statements.

### PROGRESS ON PRIOR YEAR STATUTE COMPLIANCE

There were no potential violations reported in the financial statements for the period ended June 30, 2002.

### PRIOR YEAR RECOMMENDATIONS

There were no recommendations made in the audit report for the period ended June 30, 2002.

### CURRENT YEAR RECOMMENDATIONS

We did not find any financial weaknesses of a magnitude to justify inclusion within this audit report. Our audit did identify recommendations to improve procedures and accountability that have been communicated by us to management.