

***Post-Retirement Medical Plan & Trust***

*a single employer plan sponsored by  
Truckee Meadows Water Authority*



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**TO:** Board of Trustees of the TMWA Post-Retirement Medical Plan and Trust  
**FROM:** Jeff Tissier, TMWA CFO and Chairman  
**DATE:** April 9, 2012  
**SUBJECT:** Approval of the Audited Financial Statements for the Calendar Year 2011

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**Recommendation**

The Board of Trustees approves the calendar year 2011 audited financial statements of the Post-Retirement Medical Plan and Trust (PRMT).

**Suggested Motion**

Move to approve the calendar year 2011 audited financial statements of the PRMT.

**Background**

The 2011 calendar year financial statements present fairly the financial status of the Truckee Meadows Water Authority (TMWA) PRMT. Total PRMT assets at the end of calendar year 2011 stood at \$6,023,634 which is reflective of an excellent funding status to meet the future needs of Trust beneficiaries.

The PRMT received contributions from TMWA and plan members of \$199,044 during the year. Net appreciation in fair value of investments net of investment expenses was \$105,969. Combined, total asset additions were \$305,013. Total Trust expenses were \$121,626 which included the payment of \$106,870 in plan participant benefits and \$14,756 in administrative expenses. At year end there were 19 TMWA retiree's eligible to receive benefits. Total trust assets increased from \$5,840,247 to \$6,023,634. Another actuarial valuation will be completed during the August/September 2012 timeframe to determine the Annual Required Contribution (ARC) from TMWA.



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

*Serving our clients since 1941.*

March 30, 2012

To the Board of Trustees of the  
Truckee Meadows Water Authority  
Post-Retirement Medical Plan and Trust  
1355 Capital Blvd  
Reno, NV 89502

We have audited the financial statements of the Truckee Meadows Water Authority Post-Retirement Medical Plan and Trust (the "Plan") as of December 31, 2011 and for the year then ended, and have issued our report thereon dated March 30, 2012. Professional standards require that we provide you with the following information related to our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated February 29, 2012. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Plan are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2011. We noted no transactions entered into by the Plan during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. In addition, certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure and accounting estimates affecting the financial statements were:

Management's estimate of the Plan's funded status and funding progress (see Note 3) is based on valuations performed by a third party actuary utilizing various assumptions for the calculations. We evaluated the key factors and assumptions used to develop the funded status and funding progress in determining that they are reasonable in relation to the financial statements taken as a whole.

ELKO

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RENO

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To the Board of Trustees of the  
Truckee Meadows Water Authority  
Post-Retirement Medical Plan and Trust  
March 30, 2012

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We did not identify any known or likely misstatements during the audit.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated March 30, 2012.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Plan's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

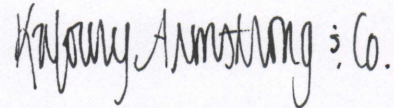
*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Plan's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

To the Board of Trustees of the  
Truckee Meadows Water Authority  
Post-Retirement Medical Plan and Trust  
March 30, 2012

This information is intended solely for the use of the Board of Trustees and management of Truckee Meadows Water Authority Post-Retirement Medical Plan and Trust and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script that reads "Kafoury, Armstrong & Co.".

Kafoury, Armstrong & Co.

CLASSIC CREST

**TRUCKEE MEADOWS WATER AUTHORITY**  
**POST-RETIREMENT MEDICAL PLAN AND TRUST**  
**DECEMBER 31, 2011 AND 2010**

**Truckee Meadows Water Authority  
Post-Retirement Medical Plan and Trust  
December 31, 2011 and 2010**

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### **Independent Auditor's Report**

To the Board of Trustees of the  
Truckee Meadows Water Authority  
Post-Retirement Medical Plan and Trust

We have audited the accompanying statements of plan net assets of the Truckee Meadows Water Authority Post-Retirement Medical Plan and Trust (the "Plan") as of December 31, 2011 and 2010, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Plan'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 general accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the Truckee Meadows Water Authority Post-Retirement Medical Plan and Trust as of December 31, 2011 and 2010, and the changes in its financial status for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Schedule of Funding Progress and the Schedule of Contributions from Employer and Other Contributing Entities on page 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operation, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Kafoury, Armstrong & Co.*

Reno, Nevada  
March 30, 2012

**Truckee Meadows Water Authority  
Post-Retirement Medical Plan and Trust  
Statements of Plan Net Assets  
December 31, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>Assets</b>		
Cash	\$ 64,089	\$ 84,122
Receivables		
Employer	92,625	-
Plan members	3,594	634
Total receivables	<u>96,219</u>	<u>634</u>
Investment, at fair value	<u>5,864,459</u>	<u>5,758,491</u>
Total Assets	<u>6,024,767</u>	<u>5,843,247</u>
<b>Liabilities</b>		
Accounts payable	<u>1,133</u>	<u>3,000</u>
<b>Net assets held in trust for other postemployment benefits</b>	<u><u>\$ 6,023,634</u></u>	<u><u>\$ 5,840,247</u></u>

See accompanying notes.

**Truckee Meadows Water Authority  
Post-Retirement Medical Plan and Trust  
Statements of Changes in Plan Net Assets  
For the Years Ended December 31, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>Additions</b>		
Contributions		
Employer	\$ 185,251	\$ 184,829
Plan members	13,793	3,770
Total contributions	<u>199,044</u>	<u>188,599</u>
Investment income		
Net appreciation in fair value of investment	108,814	578,272
Less investment expense	<u>2,845</u>	<u>5,229</u>
Net investment income	<u>105,969</u>	<u>573,043</u>
Total Additions	<u>305,013</u>	<u>761,642</u>
<b>Deductions</b>		
Benefits paid	106,870	47,528
Administrative expenses	<u>14,756</u>	<u>17,586</u>
Total Deductions	<u>121,626</u>	<u>65,114</u>
Net Increase	183,387	696,528
<b>Net assets held in trust for other postemployment benefits</b>		
Beginning of year	5,840,247	5,143,719
End of year	<u>\$ 6,023,634</u>	<u>\$ 5,840,247</u>

See accompanying notes.

**Truckee Meadows Water Authority  
Post-Retirement Medical Plan and Trust  
Notes to the Financial Statements  
December 31, 2011 and 2010**

**NOTE 1 – Summary of Significant Accounting Policies**

Reporting Entity

The Truckee Meadows Water Authority (TMWA) established a Voluntary Employee Benefit Association (VEBA) pursuant to Internal Revenue Service (IRS) Code 501(c) 9 which is referred to as the Truckee Meadows Water Authority Post-Retirement Benefit Plan and Trust (the Plan), a single-employer defined benefit other postemployment benefit (OPEB) Plan. Tax exempt status was granted by the IRS on May 25, 2007. This Plan provides TMWA retirees with post employment group health and life benefits, including medical, dental, vision, accidental death and dismemberment, and life benefits. The Plan's financial reporting period ends December 31 while TMWA's financial reporting period ends June 30.

Basis of Accounting

The Plan's financial statements are prepared using the accrual basis of accounting in accordance with Governmental Accounting Standards Board (GASB) Statement 43, *Financial Reporting for Postemployment Benefit Plans other Than Pension Plans*. Employer and Plan member contributions are recognized in the period when the contributions are due. Contributions are due when TMWA has made a formal commitment to provide the contributions and when the retiree plan members are obligated to make their participating contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Administrative expenses are recorded when incurred and payable by the Plan.

Method Used to Value Investment

The Plan invests its assets in the State of Nevada's Retirement Benefit Investment Fund (RBIF) as allowed by the Nevada Revised Statute (NRS) 287.107 and the Nevada Administrative Code (NAC). The RBIF was established pursuant to NRS 355.220 and is administered by the Retirement Benefits Investment Board as an unrated external investment pool. The RBIF is not registered with the Securities and Exchange Commission (SEC) as an investment company. Each participant acts as fiduciary for its particular share of the RBIF and is allocated earnings and expenses according to their proportional share in RBIF. Bank of New York Mellon determines the fair value of the RBIF monthly. The Plan's investment in RBIF is reported at fair value, which is determined by the fair value per share of RBIF's underlying portfolio as of December 31, 2011 and 2010. The RBIF primarily invests in a mix of domestic and foreign equity securities and fixed income investments. The RBIF engages only in foreign currency forward contracts to reduce foreign currency risk. No other derivatives are allowed. Fixed income securities are 38.15% of the RBIF portfolio. These securities have maturity dates ranging from March 2012 to April 2055. Complete financial information on RBIF as of

**Truckee Meadows Water Authority  
Post-Retirement Medical Plan and Trust  
Notes to the Financial Statements  
December 31, 2011 and 2010**

June 30, 2011 can be obtained by contacting Public Employees Retirement System (PERS) at 693 W. Nye Lane, Carson City, NV, 89703.

**NOTE 2 – Plan Description and Contribution Information**

Plan Description

The Plan, a single-employer defined benefit OPEB plan was established to provide eligible TMWA retirees with post-employment health and life benefits, including medical, dental, vision, accidental death and dismemberment, and life benefits. Pursuant to Nevada State Administrative Regulations, adopted in September 2008, the Plan will be governed by not less than three (3) but not more than five (5) Trustees. Four (4) trustees were appointed by the TMWA Board of Directors as of December 31, 2009, two members from non-represented positions and two members from represented positions were selected. The TMWA General Manager has been given authority to appoint the two non-represented employee trustees and accept the nomination of represented employee trustee's by the International Brotherhood of Electrical Workers (IBEW) Local 1245.

Eligibility requirements, benefit levels, retiree contributions and TMWA contributions are established and amended through TMWA's Collective Bargaining Agreement for its represented employees and by the TMWA Board of Directors with respect to non-represented (MPAT) employees.

Retiree Healthcare Plan Options

TMWA retirees have the option to enroll in a Preferred Provider Organization (PPO) or Employer Health Maintenance Organization (HMO) health plans provided by the City of Reno. These plans are cost sharing multi-employer plans that cover active and retired employees. These plans are the same health plans offered to active employees of TMWA. TMWA retirees may choose to participate in a health plan not provided by the City of Reno. The amount paid by the Plan for participation in health plans, other than those offered by the City of Reno, are limited to the amount otherwise payable had the participant selected one of the City of Reno Plans.

In order to be eligible for benefits, retirees must have at least ten years of credited service with TMWA, must be at least 55 years of age. When eligible, retirees must enroll in and pay the cost of Medicare Part B or Medicare Part C.

**Truckee Meadows Water Authority  
Post-Retirement Medical Plan and Trust  
Notes to the Financial Statements  
December 31, 2011 and 2010**

Membership of the Plan

As of December 31, 2011 and 2010, membership of the Plan consisted of the following:

	<u>2011</u>	<u>2010</u>
Retirees currently receiving benefits		
Retirees	<u>18</u>	<u>6</u>
Retirees entitled to, but not yet receiving benefits	<u>1</u>	<u>=</u>
Active Plan members		
IBEW members	81	91
MPAT members	<u>68</u>	<u>77</u>
	<u>149</u>	<u>168</u>

Contributions

TMWA: There are three classifications of TMWA employees eligible for post-employment benefits upon retirement from TMWA. TMWA is responsible for a subsidy towards the costs of retiree coverage; the amount of which is dependent on the classification of the employee at the time of retirement from TMWA. The classes of employees and related TMWA subsidies are as follows:

*Collective Bargaining Unit of the International Brotherhood of Electrical Workers (IBEW) group hired on or before January 1, 1998:*

Retirees in this classification receive a benefit as a percentage of the total group health premiums, dependent upon credited years of service and their age at retirement. The maximum subsidy is 85% of the health care premium with a minimum of 20 years of credited service. Retirees with 20 or more years of credited service electing the Medicare Risk Contract can receive a subsidy of 100%. Retirees may elect the employer-offered medical plan of their choice for themselves and qualified dependents.

*IBEW group hired after January 1, 1998:*

Retirees in this classification will receive a lifetime lump-sum subsidy toward their chosen health coverage and the coverage of qualified dependents. The subsidy is a total of \$1,250 multiplied by each year of service. This amount does not grow with interest and once exhausted a retiree is responsible for paying the full cost of health premiums.

**Truckee Meadows Water Authority  
Post-Retirement Medical Plan and Trust  
Notes to the Financial Statements  
December 31, 2011 and 2010**

Management, Professional, Administrative and Technical (MPAT) personnel, regardless of date of hire:

Retirees in this classification are eligible to receive an annual subsidy towards the cost of health premiums calculated at \$235 multiplied by credited years of service, up to 30 years for retirees age 55 through 64; and \$105 multiplied by credited years of service up to 35 years, for retirees age 65 and above. The subsidy is reduced by five (5) percent for each year or partial year that the individual is under age 62 as of his or her retirement date. There is no extra subsidy for spousal or dependent coverage.

TMWA shall annually contribute to the Plan an amount which TMWA determines is necessary to fund the benefits due pursuant to a qualified actuarial analysis. During the years ended December 31, 2011 and 2010, TMWA contributed approximately \$185,000 each year to the Plan, which equaled TMWA's annual required contributions (ARC).

Retirees: Contributions are required for the portion of the premiums and costs in excess of the subsidies provided by TMWA as discussed above. During the year ended December 31, 2011 and 2010 retirees' share of health premiums and costs ranged from \$75 to \$917 a month and \$91 to \$216 a month, respectively.

The Plan offers participants Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) continuation of coverage, subject to all conditions and limitations of COBRA. There were no participants utilizing COBRA continuation of coverage during the years ended December 31, 2011 and 2010.

**NOTE 3 – Funded Status and Funding Progress**

The funded status of the Plan as of the most recent actuarial valuation is as follows:

	( a )	( b )	( b-a )	( a/b )	( c )	[(b-a)/c]
	Actuarial	Actuarial	Unfunded			
	Valuation	Value of	Actuarial	Funded	Covered	UAAL as a
	Date	Assets	Liability (AAL)	Ratio	Pavroll	Percentage of
			Liability (UAAL)			Covered Pavroll
March 1, 2010	\$ 4,967,671	\$ 4,615,337	\$ (352,334)	107.63%	\$ 12,685,048	-2.78%

Actuarial valuations of ongoing plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, return on investments and healthcare cost trends. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as

**Truckee Meadows Water Authority  
Post-Retirement Medical Plan and Trust  
Notes to the Financial Statements  
December 31, 2011 and 2010**

required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of the Plan's assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. In addition, the schedule of contributions from the employer and other contributing entities, also presented as RSI, provides trend information about the amounts contributed to the Plan by TMWA in comparison to the annual required contribution (ARC), an amount that is actuarially determined in accordance with parameters of the GASB Statement 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Projections of benefits for financial reporting purposes are based on the Plan as understood by TMWA and the Plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between TMWA and Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Additional information as of the latest actuarial valuation is as follows:

Actuarial valuation date	March 1, 2010
Actuarial cost method	Projected unit credit
Amortization method	Level dollar
Remaining amortization period	28 years
Investment rate of return	8.00%
Healthcare inflation rate	6.00%

**NOTE 4 – Plan Termination**

In the event the Plan terminates, the Trustee shall apply all the assets remaining in the Plan in a uniform and non-discriminatory manner toward the provisions of benefits for participants.

**REQUIRED SUPPLEMENTARY INFORMATION**

**Truckee Meadows Water Authority  
Post-Retirement Medical Plan and Trust  
Required Supplementary Information  
For the Years Ended December 31, 2011 and 2010**

**Schedule of Funding Progress**

	( a )	( b )	( b-a )	( a/b )	( c )	[(b-a)/c]
<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded Actuarial Accrued Liability (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a Percentage of Covered Payroll</b>
March 1, 2010	\$ 4,967,671	\$ 4,615,337	\$ (352,334)	107.63%	\$ 12,685,048	-2.78%
July 1, 2007	\$ 1,462,762	\$ 7,112,341	\$ 5,649,579	20.6%	\$ 12,325,564	45.8%

The most significant change in actuarial assumptions from July 1, 2007 to March 1, 2010 is an expected eight percent return on investments which is the historical long term return on investments in the Public Employees Retirement System of Nevada (PERS). The Plan invests its assets with RBIF a fund that mirrors the investment strategy of PERS consequently the justification for using the eight percent return on assets in the most recent valuation.

**Schedule of Contributions from Employer and Other Contributing Entities**

<b>Employer Fiscal Year Ended</b>	<b>Annual Required Contribution</b>	<b>Percentage Contributed</b>
June 30, 2011	\$ 185,251	100.00%
June 30, 2010	\$ 191,950	96.29%
June 30, 2009	\$ 518,064	568.57%

During the year ended December 31, 2009, the Plan received a one-time contribution of \$1,520,091 transferred from the VEBA of NV Energy, Inc. related to post-retirement benefit obligations assigned to TMWA in connection with the sale of the water assets to TMWA in 2001. This amount represents 100% of NV Energy's total required contribution to the Plan.