

**TRUCKEE MEADOWS WATER AUTHORITY
POST-RETIREMENT MEDICAL PLAN AND TRUST
DECEMBER 31, 2013 AND 2012**

**Truckee Meadows Water Authority
Post-Retirement Medical Plan and Trust
December 31, 2013 and 2012**

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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 financial statements of the Truckee Meadows Water Authority Post-Retirement Medical Plan and Trust (the "Plan"), which comprise the statements of plan net position as of December 31, 2013 and 2012, and the related statements of changes in plan net position for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Plan management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Plan's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net position of the Truckee Meadows Water Authority Post-Retirement Medical Plan and Trust as of December 31, 2013 and 2012, and the changes in its net position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other MattersRequired Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of Funding Progress and the Schedule of Contributions from Employer on page 10 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 operational, 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 audits 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
June 10, 2014

**Truckee Meadows Water Authority
Post-Retirement Medical Plan and Trust
Statements of Plan Net Position
As of December 31, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
Assets		
Cash	\$ 168,186	\$ 97,705
Receivables		
Employer	108,478	108,478
Plan members	8,123	3,352
Total receivables	<u>116,601</u>	<u>111,830</u>
Investment, at fair value	<u>7,797,822</u>	<u>6,550,210</u>
Total Assets	<u>8,082,609</u>	<u>6,759,745</u>
Liabilities		
Accounts payable	<u>2,370</u>	<u>3,437</u>
Net position restricted for other postemployment benefits	<u>\$ 8,080,239</u>	<u>\$ 6,756,308</u>

See accompanying notes.

**Truckee Meadows Water Authority
Post-Retirement Medical Plan and Trust
Statements of Changes in Plan Net Position
For the Years Ended December 31, 2013 and 2012**

	2013	2012
Additions		
Contributions		
Employer	\$ 216,956	\$ 201,104
Plan members	46,871	39,194
Total contributions	263,827	240,298
Investment income		
Net appreciation in fair value of investment	1,250,702	688,323
Less investment expense	3,089	2,572
Net investment income	1,247,613	685,751
Total Additions	1,511,440	926,049
Deductions		
Benefits paid	175,142	181,725
Administrative expenses	12,367	11,650
Total Deductions	187,509	193,375
Net Increase	1,323,931	732,674
Net position restricted for other postemployment benefits		
Beginning of year	6,756,308	6,023,634
End of year	\$ 8,080,239	\$ 6,756,308

See accompanying notes.

**Truckee Meadows Water Authority
Post-Retirement Medical Plan and Trust
Notes to the Financial Statements
December 31, 2013 and 2012**

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 post-employment 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 (ADD), 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) Statements 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 Investments

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, 2013 and 2012. 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 translation risk. No other derivatives are allowed. Fixed income securities are 28.51% of the RBIF portfolio. These securities have maturity dates ranging from November 2014 to May 2068. Complete financial

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information on RBIF as of June 30, 2013 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, AD&D 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, two members from non-represented positions and two members from represented employees. The TMWA General Manager has been given authority to appoint the two non-represented employee trustees and accept the nomination of represented employee trustees 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 (IBEW) 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 and 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. Once some participants exhaust their medical benefits they will continue to be eligible for life benefits under the Plan.

Life Benefits

TMWA retiree coverage continues at the same coverage amount in force at the time of retirement (one times based salary) until age 70, at which time coverage reduces to one-half of that amount. At age 75, coverage is reduced to \$2,000. The retiree bears no cost

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of the premiums for this coverage amount. However, retirees do have the opportunity to purchase optional life insurance, the cost of which is paid by the retiree.

Membership of the Plan

As of December 31, 2013 and 2012, membership of the Plan consisted of the following:

Retirees currently receiving Medical benefits	<u>2013</u> <u>21</u>	<u>2012</u> <u>20</u>
Retirees currently receiving Life benefits	<u>22</u>	<u>20</u>
Retirees entitled to, but not yet receiving benefits	<u>-</u>	<u>-</u>
Active Plan members		
IBEW members	78	82
MPAT members	<u>72</u>	<u>70</u>
	<u>150</u>	<u>152</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.

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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, 2013 and 2012, TMWA contributed approximately \$216,956 and \$201,104, respectively, to the Plan. Such amounts were equal to or in excess of TMWA's annual required contribution (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, 2013 and 2012 retirees' share of health premiums and costs ranged from \$65 to \$917 a month and \$86 to \$917 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, 2013 and 2012.

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]
			Unfunded			
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2012	\$ 6,181,506	\$ 6,228,631	\$ 47,125	99.2%	\$ 11,618,408	0.41%

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

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required supplementary information (RSI) following the notes to the financial statements, presents 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, 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	July 1, 2012
Actuarial cost method	Projected unit credit
Amortization method	Level dollar, closed
Remaining amortization period	26 years
Investment rate of return	6.50%
Healthcare inflation rate	5.00%

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 the participants.

NOTE 5 – Subsequent Events

The TMWA Board and the Washoe County Board of Commissioners unanimously agreed to move forward with implementing the consolidation plan for Washoe County Community Services Division Water Utility and the South Truckee Meadows General Improvement District (STMGID) into TMWA, with TMWA as the surviving entity. The impact to the Plan has yet to be determined.

REQUIRED SUPPLEMENTARY INFORMATION

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**Truckee Meadows Water Authority
Post-Retirement Medical Plan and Trust
Required Supplementary Information
For the Years Ended December 31, 2013 and 2012**

Schedule of Funding Progress

	(a)	(b)	(b-a)	(a/b)	(c)	[(b-a)/c]
			Unfunded			
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2012	\$ 6,181,506	\$ 6,228,631	\$ 47,125	99.2% \$	11,618,408	0.41%
March 1, 2010	\$ 4,967,671	\$ 4,615,337	\$ (352,334)	107.6% \$	12,685,048	-2.78%
July 1, 2007	\$ 1,462,762	\$ 7,112,341	\$ 5,649,579	20.6% \$	12,325,564	45.8%

As of the July 1, 2012 Actuarial Valuation, the Plan reduced the discount rate assumption from 8% to 6.5% which is the primary reason for the increase in the Actuarial Accrued Liability (AAL) from the March 1, 2010 valuation. As of March 1, 2010 Actuarial Valuation, assets were deposited into the Retirement Benefits Investment Fund (RBIF). The RBIF portfolio is designed to generate an 8% annual return over the long-term time frames. Accordingly, for purposes of the March 1, 2010 Actuarial Valuation, the discount rate was increased to 8% from 4.25% materially reducing the actuarial accrued liability from the July 1, 2007 valuation.

Schedule of Contributions from Employer

Employer Fiscal Year Ended	Annual Required Contribution	Percentage Contributed
June 30, 2013	\$ 216,956	100.00%
June 30, 2012	\$ 185,251	108.56%
June 30, 2011	\$ 185,251	100.00%